

MAZARS & GUÉRARD

TELECOM ITALIA S.p.A.

Plan for the merger by incorporation of  
Telecom Italia Mobile S.p.A.  
into  
Telecom Italia S.p.A.

Auditors' report  
relating to the exchange ratio of shares pursuant to  
Article 2501-sexies of the Italian Civil Code (\*)

This is an English translation of the original Italian document

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(\*) *With respect to the CONSOB Communication N. 73063 of October 5, 2000 the above mentioned report, whose translation is attached, does not express an opinion on the fairness of the transaction, the value of the security, or the adequacy of consideration to shareholders, and therefore the issuance of this report would not impair the independence of Mazars & Guérard SpA under the U.S. independence requirements*

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**Plan for the merger by incorporation of  
Telecom Italia Mobile S.p.A.  
into  
Telecom Italia S.p.A.**

**Auditors' report relating to the exchange ratio of shares  
pursuant to Article 2501-*sexies* of the Italian Civil Code <sup>(1)</sup>**

To the Shareholders of  
**Telecom Italia S.p.A.**

**1. Objective, subject and scope of the engagement**

We have been requested by Telecom Italia S.p.A., as appointed by the Milan Court on January 18, 2005, to issue a report on the exchange ratio of shares of Telecom Italia S.p.A. (hereinafter "Telecom Italia" or the "absorbing company") and Telecom Italia Mobile S.p.A. (hereinafter "TIM" or the "company to be absorbed" and, together with Telecom Italia, the "Companies"), in accordance with Article 2501-*sexies* of the Italian Civil Code. For this purpose, we have been provided by Telecom Italia with the plan for the merger, accompanied by the Directors' Report, which identifies, explains and justifies, pursuant to Article 2501-*quinquies* of the Italian Civil Code, the exchange ratio, as well as the Balance Sheet as of September 30, 2004 provided by Article 2501-*quater* of the Italian Civil Code.

The proposed merger plan will be subject to approval at the Extraordinary General Meeting of the ordinary shareholders of Telecom Italia to be held on April 5, 2005, first call, or on April 6, 2005, second call, or on April 7, 2005, third call.

Similarly, the ordinary shareholders of TIM will be required to approve the merger plan at the Extraordinary General Meeting to be held on April 5, 2003, first call, or on April 6, second call if required, as will the savings shareholders of TIM on April 6, 7 or 8, 2005 at first, second or third call, pursuant to Article 146, paragraph 1, letter b) of the Finance Consolidation Act (TUF).

Reconta Ernst & Young S.p.A. was appointed by the President of the Turin Court on December 28, 2004 to issue a similar report on the exchange ratio.

In order to provide the shareholders with adequate information regarding the exchange ratio, this report illustrates the methods adopted by the Directors in determining the exchange ratio and the difficulties encountered by them; in addition, this report also includes our assessment whether, under the circumstances, such methods are reasonable and not arbitrary, whether the Directors have considered the respective importance of such methods and whether the methods have been correctly applied.

In our examination of the valuation methods adopted by the Directors, also based on indications from their Advisors, we have not carried out any valuation of the Companies taking part into the merger. The valuation was carried out solely by the Directors and the Advisors appointed by them.

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(1) *With respect to CONSOB Communication No. 73063 of October 5, 2000 the above mentioned report, whose translation is attached, does not express an opinion on the fairness of the transaction, the value of the security, or the adequacy of consideration to shareholders, and therefore the issuance of this report would not impair the independence of Mazars & Guerard SpA under U.S. independence requirements.*

## 2. Summary of the transaction

The Boards of Directors of Telecom Italia and TIM, in their meetings on December 7, 2004, developed a plan to reorganize the Telecom Italia Group (hereafter “the Plan”), which satisfies “a series of industrial needs arising from the progressive integration of the platforms that govern the fixed and mobile communications activities” and which “aims to benefit the Group by simplifying the ownership structure and optimizing the capital and financial structure of the company that will result from the merger”.

As indicated in the report of the Board of Directors of Telecom Italia, the proposed transaction provides for the merger of TIM into Telecom Italia, pursuant to Articles 2501 and seq. of the Italian Civil Code.

On January 23, 2005, the Boards of Directors of Telecom Italia and TIM approved the plan for the merger of TIM into Telecom Italia, confirming the exchange ratio preliminarily indicated by the Board of Directors on December 7, 2004.

The merger will be effected on the basis of the balance sheets of Telecom Italia and TIM as of September 30, 2004, adopted by the Companies’ Boards of Directors as the balance sheets required by Article 2501-*quater* of the Italian Civil Code.

As a result of the merger, Article 5 of the absorbing company’s by-laws, relating to share capital, will be amended to take account of the shares issued to service the exchange ratios and the stock option plans approved by the company to be absorbed.

Within the context of the Plan, the Boards of Directors of the “Companies” that met on December 7, 2004 approved and communicated to the public the guidelines of the plan to reorganize the group headed up by Telecom Italia, which also includes:

- a voluntary partial tender offer for the ordinary shares and a voluntary tender offer for all the savings shares issued by TIM (jointly, the “Tender Offer”), as well as
- the spin-off (“Spin-off”), prior to the merger and before it is completed, of the mobile communications business in Italy, currently operated by TIM, into a company wholly-owned by TIM, called TIM Italia S.p.A. (“TIM Italia” or the “Transferee Company”).

As part of the Plan, Telecom Italia has launched: (i) a voluntary partial tender offer for 2,456,534,241 ordinary shares of TIM, equal, as of December 20, 2004, to 29.12% of TIM’s ordinary share capital and 28.67% of TIM’s total share capital; (ii) a voluntary total tender offer for 132,069,163 savings shares of TIM, equal to 100% of TIM’s savings share capital and 1.54% of TIM’s total share capital (jointly, the “Offer”). The Offer, launched at a price of 5.60 euro for each ordinary and savings share of TIM, depended on reaching 2/3 of the quantity of both categories of shares subject to the Offer.

The Offer commenced on January 3 and ended on January 21, 2005.

At the end of the Tender Offer acceptance period, on January 21, 2005, shareholders had tendered 2,639,154,665 ordinary shares (equal to 31.2% of TIM’s ordinary share capital and approximately 107.4% of the shares subject to the Offer) and 8,463,127 savings shares (equal to approximately 6.4% of TIM’s savings share capital and of the shares subject to the Offer).

Telecom Italia’s Board of Directors has favorably assessed the results of the Offer, especially in view of the fact that acceptances by TIM ordinary shareholders exceeded the number of shares subject to the Offer, confirming the effectiveness of the Offer.

Based on the results of the Tender Offer, the total outlay on the part of Telecom Italia for the TIM shares tendered in acceptance of the Tender Offer comes to around 13.8 billion euro.

The merger will involve cancelling the TIM shares held by Telecom Italia, without receiving any shares in exchange, thereby reducing the amount of equity to be issued in exchange. The holders of TIM ordinary or savings shares, other than Telecom Italia, on the other hand, will be allocated newly issued ordinary or savings shares of Telecom Italia on the basis of the related exchange ratios.

At the time of the exchange, Telecom Italia will allocate to the TIM savings shareholders new savings shares with the same characteristics as those currently issued by TIM.

In light of the different level of preference given to the Telecom Italia savings shares compared with the TIM savings shares, to the shareholders of TIM who do not vote in favor of the Merger in the special meeting of their category will be granted a right of withdrawal pursuant to Article 2437, paragraph 1, letter g) of the Italian Civil Code, as the share exchange will result in a change in their participation rights.

Pursuant to Article 2504 *bis*, second paragraph of the Italian Civil Code, the effects of the merger will run from the last filing of the merger deed, as required by Article 2504 of the Italian Civil Code, or from such subsequent date provided for by the merger deed.

The transactions of the company to be absorbed, also for income tax purposes, will be recorded in the books of the absorbing company from January 1 of the year in which the merger becomes effective.

The Merger is technically subject to a Government veto in accordance with the Golden Share provision contained in Article 2 of Decree Law 332/1994, ratified by Law 474/1994, and Article 22, paragraph b) of Telecom Italia's by-laws.

At the end of the meeting of Telecom Italia's Board of Directors on December 7, 2004, in accordance with Article 22, paragraph b) of the Absorbing Company's by-laws and Article 2 of Decree Law 332/1994, ratified by Law 474/1994, Telecom Italia notified the Minister for Economy and Finance of the commencement of the plan for the reorganization of the Group. The Minister for Economy and Finance, in agreement with the Minister for Productive Activities, has notified Telecom Italia that, in his opinion, the conditions do not exist for its exercise of the veto right with respect to the adoption of the merger resolution by Telecom Italia's shareholders' meeting.

In any case, the Absorbing Company's ordinary and savings shares are - and after the Merger will continue to be - listed, among others, on the *Mercato Telematico Azionario* operated by Borsa Italiana S.p.A.

In addition, after the Merger, Telecom Italia's ordinary and savings shares will continue to be listed on the New York Stock Exchange in the form of ADSs (American Depositary Shares, each of which represents 10 ordinary or savings shares). As regards the listing of Telecom Italia's ordinary shares on the Frankfurt Stock Exchange, in light of the decisions adopted by its Board of Admission, the shares will be delisted by the effective date of the Merger.

### 3. Documentation utilized

In performing our work, we obtained from Telecom Italia and TIM, such documentation and information as was considered useful in the circumstances. We analyzed such documentation and, in particular:

- a) the plan for the merger and the reports of the Boards of Directors of the two Companies addressed to the respective Extraordinary General Meetings which, on the basis of the Balance Sheet as at September 30, 2004, propose an exchange ratio as follows:
  - **1.73 Telecom Italia ordinary shares with a par value of Euro 0.55 each for each TIM ordinary share with a par value of Euro 0.06 each;**
  - **2.36 Telecom Italia savings shares with a par value of Euro 0.55 each for each TIM savings share with a par value of Euro 0.06 each.**

The ratio for the exchange of shares has been determined by the Directors also taking into account the valuation reports of the Advisors indicated in points b), c), d) and e) below. The report of the Board of Directors sets out in detail the valuation criteria adopted, the reasons for their choice, the values resulting from their application and the related comments;

- b) the "Opinion on the fairness of the share exchange ratio used for the merger" prepared by JPMorgan Chase Bank, N.A. (hereafter "JPMorgan"), acting as the Directors' Lead Advisor; this report, dated December 7, 2004, and prepared at the request of Telecom Italia, sets out the valuation criteria adopted, the reason for which they were chosen and the results of their application;

- c) the appraisal report of the exchange ratio prepared by MCC SpA, acting as the Directors' Lead Advisor; this report, dated December 7, 2004, and prepared at the request of Telecom Italia, sets out the valuation criteria adopted, the reason for which they were chosen and the results of their application.
- d) the "Fairness Opinion on the Exchange Ratio" issued by Mediobanca – Banca di Credito Finanziario S.p.A. (hereafter "Mediobanca"), acting as the Directors's Lead Advisor; this report, dated December 7, 2004, and prepared at the request of Telecom Italia, sets out the valuation criteria adopted, the reason for which they were chosen and the results of their application;
- e) the "Fairness Opinion", dated December 7, 2004, prepared by Goldman Sachs International (hereafter "Goldman Sachs") on the express request of Telecom Italia's Internal Control and Corporate Governance Committee (consisting exclusively of independent directors);
- f) confirmations of the Fairness Opinions issued, dated January 23, 2005, by the Advisors mentioned in points b), c), d) and e) above.
- g) the following documentation, used by the Advisors to prepare their appraisal reports and, subsequently used also by us within the scope of our engagement:
  - the statutory and consolidated financial statements of Telecom Italia and TIM and their subsidiaries as of December 31, 2003 accompanied by the related Reports of the Board of Directors, the Reports of the Board of Statutory Auditors and the Independent Auditors' Reports;
  - the balance sheets of Telecom Italia and of TIM as of September 30, 2004, adopted by the Companies' Boards of Directors as required by Article 2501-*quater* of the Italian Civil Code;
  - the preliminary economic and financial forecast "2005-2007 plan – Preliminary 03/12/2004", being an updated version of the economic and financial plans for the period 2004-2007, approved and communicated to the market in March 2004, as prepared by management, in accordance with the strategic, operational and financial objectives of the Group Telecom Italia.
  - historical market prices and trading volumes of ordinary and savings shares of the "Companies";
  - publicly available information about companies operating in the same sector;
  - financial research and analyses published by specialist institutes and investment banks;
- h) The following additional documentation has been utilized by us:
  - data and information obtained from the Advisors and used by them for the determination of the exchange ratio;
  - regulations governing Telecom Italia's convertible bonds;
  - the appraisal reports of the exchange ratio issued on December 7, 2004 by Lazard & Co. S.r.l., Credit Suisse First Boston (Europe) Limited, Merrill Lynch International (Milan Office) and by Studio Casò acting as Professional Advisor to TIM, as well as the related confirmations dated January 22 (Studio Casò) and January 23, 2005;
  - by-laws of the companies taking part in the merger;
  - the reports of the independent auditors Reconta Ernst & Young S.p.A. relating to their limited audit of the Companies's half-year reports as of June 30, 2004;
  - review of the main conclusions reached by the independent auditors Reconta Ernst & Young SpA and discussions with them on the Companies' 2003 financial statements, 2004 half-year report and discussions with them on the audit currently underway on the 2004 financial statements;
  - draft of the 2004 financial statements of the Companies approved by the boards on February 24, 2005;
  - accounting elements and other information as deemed necessary for this report.

We have also obtained a representation letter stating that, to Telecom Italia management's best knowledge, no significant changes in the data and information considered in our analyses have taken place in the meantime. A similar representation letter has been obtained by Reconta Ernst & Young S.p.A. from TIM management.

#### 4. Valuation methods adopted by the Boards of Directors for the determination of the exchange ratio

The Directors, also supported by their Advisors, considering the importance and complexity of the merger transaction, deemed it appropriate to identify the valuation methods which, in addition to be in accordance with current best practice, would enable the two companies to be valued on a homogeneous basis.

##### 4.1. Selection of the methods and valuation criteria

The Board of Directors of Telecom Italia determined the exchange ratio by selecting, among a number of valuation methods, those deemed more appropriate to express the value of the entities involved in the merger, considering the activities carried out by the absorbing company and by the company to be absorbed.

In addition, as suggested by corporate doctrine and professional practice, the Directors compared the values attributed to the companies participating in the merger process under the assumption that they will continue as a going concern. These values cannot be considered representative of a valuation in absolute terms of the two companies taking part in the merger, nor can they be compared with any acquisition or sale prices (which normally reflect majority premiums or minority discounts).

The Directors of Telecom Italia, supported by their Advisors, selected the valuation methods and principles to be adopted taking into account:

- the specific objectives attributed to the valuations with reference to the underlying transaction;
- the nature of the activities carried out by each company taking part in the merger.

In connection with the first aspect, in the selection of the valuation principles the Directors referred to the purpose of the valuation and to the relevant factors that make it possible to estimate the value of the entities concerned. As the objective is to express comparable values in order to determine the exchange ratio, the Directors adopted valuation methods based on similar criteria for both of the companies involved in the merger. This did not necessarily mean that identical valuation methods were used for all of the businesses directly or indirectly involved in the merger, especially if operating in different sectors, but it did mean adopting the same logical approach to the valuation.

As regards this second aspect, the Directors took into consideration Telecom Italia's various areas of operations, as well as the fact that Telecom Italia's controlling interest in TIM is a significant portion of its total assets.

In light of the above, for the purpose of determining the values of Telecom Italia and TIM, given that both are equally important in the valuation process, the Directors used as their principal method the Discounted Cash Flow for TIM and the Sum-of-the-Parts for Telecom Italia, and Stock-Market Price as control method.

*Discounted Cash Flow or "DCF" method:* under this method, the economic value of an enterprise is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital, which represents the weighted average cost of the types of financing used (risk capital and debt capital, net of the tax effects);
- an estimate of the net financial position and minority interests, which, in this case, were referred as of December 31, 2004.

In applying the DCF method, the Directors made reference to the above mentioned preliminary economic and financial forecast 2005-2007.

*Sum-of-the Parts method:* under this method, the value of a company is determined as the sum of the values of each of its businesses (understood as economic entities which can be individually evaluated), adjusted to take into account the financial position of the company, minority interests and, where significant, other effects such as those relating to any off-balance sheet items and potential tax benefits.

Under this method, the main businesses (Telecom Italia and TIM) valuation was based on the to the Discounted Cash Flow method. In particular, TIM was valued based on the range of values identified by using this method.



The other activities were valued using the market price method, the market multiples method, the financial statement values method, the discounted cash flow method and/or the values published in analysts' research reports on such companies, where available.

In order to test the accuracy of the exchange ratio obtained in this way, the Directors made a further test using the stock market price method.

*Stock-Market price method* : when the companies involved in the merger have shares listed on regulated markets, doctrine and professional practice suggest to consider the results deriving from the stock prices of the respective shares, averaged over an adequate period of time. In this case, the Directors deemed the stock prices particularly significant and, on the basis of the stock-market prices at December 3, 2004 (last date of stock trading prior to the announcement of the transaction by the Boards of Directors), they note that both companies show high levels of volumes exchanged, high capitalization and a high liquidity of their respective shares.

#### *4.1.1 Sum-of-the-Parts method – Telecom Italia*

According to the Sum-of-the-Parts method, the value of Telecom Italia is determined as the sum of the values of the individual businesses of the company, considered as an economic entity which can be individually evaluated. Taking into account the complexity of the company's structure and the various areas of operations of the Telecom Italia Group, the core businesses (Telecom Italia and TIM) were evaluated on the basis of the Discounted Cash Flow method. The other activities were valued either at book or market value, and/or at the values published in analysts' research reports on such companies, where available.

This sum, for each of the companies taking part in the merger, has been suitably adjusted to reflect the estimated financial position as of December 31, 2004, adjusted to take into account the proportional net debt and minority interests and, where significant, other effects such as those relating to any off-balance sheet items and potential tax benefits.

For Telecom Italia, the Directors have also taken into consideration the pro-forma effect of converting the convertible bonds in accordance with the fully-diluted method, which assumes their conversion into ordinary shares.

#### *4.1.2 Discounted Cash Flow – TIM*

The DCF method has been applied by determining the present value of operating cash flows, gross of any component of a financial nature ("Free Cash Flows" or "FCF"). Under this method, the economic value of an enterprise is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing its weighted average cost of capital;
- an estimate of the net financial position and minority interests, which, in this case, were as of December 31, 2004.

In applying the DCF method, the Directors made reference to the operating cash flows connected to the main activities, as shown in the economic and financial forecasts.

To this final figure was then added an estimate of the net financial position as of December 31, 2004. The Directors also took into account minority interests, the effects of the planned disposal of Corporacion Digitel (Venezuela), certain tax benefits and the possible exercise of financial instruments giving rise to the subscription of TIM shares (i.e. stock options) exclusively to the extent that their exercise was reasonably based on the economic and financial benefits.

#### *4.1.3 Stock-Market price method – Telecom Italia / TIM*

The exchange ratios resulting from application of the above methods were then tested by the Directors by using the stock-market price method. The stock-market price method estimates the value of a company's equity on the basis of stock-market prices measured over a significant period of time, ending up on a date close to the one of the valuation.



In order to mitigate short-term fluctuations that typically characterize financial markets, the Directors extended their analysis of stock-market prices to the average prices expressed by the market over sufficiently long periods of time.

Since both Telecom Italia and TIM are listed on the *Mercato Telematico Italiano* (MTA) operated by Borsa Italiana Spa and are two of the largest Italian companies in terms of market capitalization, the Directors felt that the market prices of their stock constituted a reliable benchmark.

## 5. Valuation problems encountered by the Directors

Telecom Italia's Board of Directors did not encounter any particular difficulties in carrying out the valuations for the purposes of calculating the exchange ratio.

## 6. Results of the valuation performed by the Directors

### 6.1. Telecom Italia

As regards the Sum-of-the Parts method, Telecom Italia's Directors, with the help of their Advisors, identified the following per-share values for the ordinary shares prior to the dividend distribution expected to take place in April 2005, and therefore before the completion of the merger:

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value per Telecom Italia ordinary share (€)</b> .....	2.99	3.22	3.44

As regards the savings shares, the Directors calculated the following values, considering the average market discounts for the last month, three months and six months prior to December 3, 2004, as well as the discount on the last day that Telecom Italia and TIM shares were priced by the market before the merger was announced (on December 3, 2004), which gave a discount of between 26 and 27%.

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value per Telecom Italia savings share (€)</b> .....	2.21	2.37	2.52

As regards the corresponding values of the Telecom Italian shares, adjusted for the effect of the dividend distribution expected to take place in April 2005, the result is:

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value per Telecom Italia ordinary share (€)</b> .....	2.89	3.12	3.34
<b>Value per Telecom Italia savings share (€)</b> .....	2.09	2.25	2.41

### 6.2. TIM

As regards the *Discounted Cash Flow* method and using also as a test method the multiples of comparable operations and the values identified by research analysts, where available, and taking account of the estimated net financial position as of December 31, 2004 and of minority interests, as well as the effects of the planned disposal of Corporacion Digitel (Venezuela) and certain tax benefits, the Directors identified the following values, prior to the dividend distribution expected to take place in April 2005:

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value per TIM ordinary share (€)</b> .....	5.32	5.58	5.84

As regards the savings shares, the Directors calculated the following values, considering the average market discounts for the last month, three months and six months prior to December 3, 2004, as well as the discount on the last day that Telecom Italia and TIM shares were priced by the market before the merger was announced (on December 3, 2004), which gave a discount of around zero.

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value for each TIM savings share (€)</b> .....	5.31	5.58	5.84

As regards the corresponding values of the TIM shares, adjusted for the effect of the dividend distribution expected to take place in April 2005, the result is:

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Value per TIM ordinary share (€)</b> .....	5.07	5.33	5.58
<b>Value per TIM savings share (€)</b> .....	5.05	5.31	5.57

### 6.3. Calculation of the exchange ratio

Based on the valuations carried out with the help of their respective Advisors, the Directors defined the values of the companies taking part in the merger for the purpose of calculating the exchange ratio.

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
<b>Telecom Italia ordinary shares for each TIM ordinary share</b> .....	1.67	1.71	1.75
<b>Telecom Italia savings shares for each TIM savings share</b> .....	2.31	2.36	2.42

Based on these valuation methods and a comparison between the various valuations carried out, the Boards of Directors of Telecom Italia and TIM obtained the following exchange ratio:

- **1.73 Telecom Italia ordinary shares of par value Euro 0.55 each per TIM ordinary share of par value Euro 0.06 each;**
- **2.36 Telecom Italia savings shares of par value Euro 0.55 each per TIM savings share of par value Euro 0.06 each;**

### 6.4. Stock-Market price method, used as a test method

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

This method was applied taking account of the mean exchange ratios (Telecom Italia ordinary shares per TIM ordinary share and Telecom Italia savings shares per TIM savings share) expressed by the market during different time periods prior to the day that Borsa Italiana S.p.A. suspended trading in Telecom Italia and TIM shares as the Merger was about to be announced (based on closing prices on December 3, 2004; the mean based on closing prices for the previous 1, 3, 6 and 12 months), adjusted for the dividend distribution planned by Telecom Italia and TIM for April 2005, prior to the Merger.

On the other hand, the Directors did not take account of the market prices of TIM and Telecom Italia's stock after the Merger was announced, as these prices were not deemed to be relevant, being influenced by the announcement.

The following table shows the mean exchange ratios obtained by the Directors in the various time periods mentioned above.

	<u>12/3/04</u>	<u>1 month</u>	<u>3 months</u>	<u>6 months</u>	<u>12 months</u>	<u>12 months*</u>
Telecom Italia ordinary shares per TIM ordinary share .....	1.72	1.69	1.71	1.74	1.75	1.74
Telecom Italia savings shares per TIM savings share .....	2.47	2.41	2.36	2.39	2.44	2.45

\* Mean exchange ratios calculated by adjusting closing prices prior to May 24, 2004 for the distribution of dividends paid out on that date.

The next table shows the minimum, mean and maximum exchange ratios (number of Telecom Italia ordinary shares per TIM ordinary share and the number of Telecom Italia savings share per TIM savings share) expressed by the stock market during the periods under consideration.

	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>
Telecom Italia ordinary shares per TIM ordinary share .....	1.69	1.72	1.75
Telecom Italia savings share per TIM savings share .....	2.36	2.42	2.47

The Directors were reassured by the fact that these values are in line with the exchange ratios based on the fundamentals as shown in the previous paragraph.

#### 6.5. Procedures for assigning the shares and carrying out the share exchange

Telecom Italia will increase its share capital by up to a maximum par value of €1,420,690,865.55 by issuing up to maximum 2,291,344,587 ordinary shares and up to maximum 291,729,714 savings shares in accordance with the above exchange ratio, without taking into consideration the TIM ordinary and savings shares held by Telecom Italia and the TIM shares held by TIM itself, which will be cancelled without receiving any Telecom Italia shares in exchange.

The Directors have foreseen that:

- the newly issued shares earmarked for the exchange will be assigned to the persons entitled to such shares, through their authorized intermediaries who are participants of the Monte Titoli S.p.A. central securities depository, at the effective date of the Merger;
- non-dematerialized TIM shares may only be exchanged upon delivery of such shares to an authorized intermediary for deposit with the central securities depository on a dematerialized basis;
- as part of the procedure for the assignment of Telecom Italia shares, the authorized intermediaries will provide TIM minority shareholders with a service to handle any fractions of shares, at market price and at no cost in terms of expenses, stamp duty or commissions, that will permit the number of newly-issued shares to which the shareholders are entitled on the basis of the exchange ratios to be rounded up or down to the nearest whole number.

### 7. Work performed

#### 7.1. Work performed on the “documentation utilized” as mentioned at point 3.

The valuation methods used by the Directors, also based on the indications given by their Advisors, take as a basis of reference in accordance with Article 2501-*quater* of the Italian Civil Code, the Company’s Balance Sheet as of September 30, 2004. We have carried out a limited audit to identify the accounting principles used in preparing this Balance Sheet and any significant changes that have taken place since the half-year reports of Telecom Italia and TIM as of June 30, 2004, which were subjected to limited audits by Reconta Ernst & Young. Note that the statutory and consolidated financial statements of TIM and Telecom Italia as of December 31, 2003 were audited by Reconta Ernst & Young S.p.A.

We have also performed the following procedures :

- we have met with the Telecom Italia and TIM management to obtain information on the subsequent events with respect to the financial statements mentioned above that could have a significant effect on the amounts being examined here;
- with respect to the above mentioned preliminary economic and financial forecast 2005-2007 of the Telecom Italia Group, while considering the inherent uncertainty and limits of any type of forecast, we have discussed with the management of Telecom Italia and TIM the main characteristics of the forecasting process and the criteria used for their compilation.

The above activities have been performed to the extent necessary for the purpose of our engagement, indicated in paragraph 1 above.

#### 7.2. Work done on the methods used to determine the exchange ratio

We have examined the methods followed by the Directors, also based on the indications given by their Advisors, for the determination of the relative value of the Companies and, thus, of the Exchange Ratio, ascertaining their technical suitability under the circumstances.

We have also performed the following procedures:

- analysis of the Directors’ report relating to the proposed merger and of the Advisors reports to verify the completeness and consistency of the processes followed by the Directors in the determination of the exchange ratio, as well as the homogeneity in the application of the valuation methods;

- sensitivity analyses on the valuation methods used to verify to what extent the exchange ratio would be affected by changes in significant assumptions and parameters applied in the Advisors' reports;
- verification of the consistency of data utilized, with respect to the reference sources and with the "Documentation utilized", described in paragraph 3 above;
- verification of the mathematical correctness of the computation of the exchange ratio, by applying the valuation methods adopted by the Directors, also based on the indications given by their Advisors;
- meetings with the Advisors of Telecom Italia, to discuss the activities performed, the problems encountered and the solutions adopted.

We have also obtained representation that, with reference to each single business unit considered on a stand alone basis, to Telecom Italia management's best knowledge, no changes in the data and information considered in our analyses have taken place in the meantime.

#### **8. Comments on the suitability of the methods used and the accuracy of the estimates**

With reference to this engagement, we believe it is worth noting that the principal purpose of the decision-making process used by the Directors was to make an estimate of the relative values of the Companies involved in the merger, by applying homogeneous criteria, in order to obtain the exchange ratio. In fact, the main objective of valuations for mergers is to identify comparable values in order to determine the exchange ratio, rather than to determine absolute values for the Companies concerned. As such, valuations for merger transactions have a meaning solely in respect of their relative profile and cannot be regarded as estimates of the absolute values of the Companies involved, for transactions different from the merger and for which they were not made.

In connection with the valuation methods adopted, we note that:

- they are widely used in Italian and international practice, they have solid doctrinal bases and are based on parameters determined according to a generally accepted methodology;
- they appear adequate in the circumstances, in light of the characteristics of the companies involved in the merger;
- in conformity with the valuation context required for a merger, the methods have been developed on a stand-alone basis;
- the approach adopted by the Directors complies with the requirement to use homogeneous valuation methods, thereby achieving comparable values;
- the use of a principal and a control method has, in any case, made it possible to enlarge the valuation process and test the results obtained.

We have the following comments on the ways in which the Directors developed the valuation methods:

- the Sum-of-the Parts method is generally applied in professional practice to value complex enterprises made up of various areas of business. In this specific case, using the DCF method made it possible to appreciate the operational characteristics of the Companies taking part in the Merger.
- choosing the DCF method for the main business areas of TIM is justified by the activity carried on, for which both the balance sheet and the economic and financial aspects are significant elements for the valuation process;
- the Stock-Market Price method, adopted by the Directors for control purposes, is particularly suitable in the case of companies with a high market capitalization, a large and widespread float, and high trading volumes. Lastly, the results obtained are supported by analysts' consensus in the three months preceding the announcement of the transaction;
- the method of calculating the exchange ratio for the TIM savings shares involved in the merger is appropriate under the circumstances and in any case objective, also considering the limits of the empirical approach used.

## 9. Specific limitations encountered by the auditors in carrying out the engagement

During our engagement, we did not encounter any limitations or difficulties worthy of mention in this section of the report.

## 10. Conclusion

Based on the documentation examined and the procedures described above, and considering the nature and extent of our work as explained in this report, we are of the opinion that the valuation methods used by the Directors, also based on indications from their Advisors, are reasonable and not arbitrary under the circumstances, and that they have been correctly applied in calculating the following exchange ratio contained in the merger plan, namely:

- **1.73 Telecom Italia ordinary shares with a par value of €0.55 per share for each TIM ordinary share with a par value of €0.06**
- **2.36 Telecom Italia savings shares with a par value of €0.55 per share for each TIM savings share with a par value of €0.06**

Milan, February 28, 2005

Mazars & Guérard S.p.A.

*signed* Riccardo Vogliotti  
Partner

*signed* Vincenzo Miceli  
Partner

PLAN FOR THE MERGER BY INCORPORATION OF  
TELECOM ITALIA MOBILE S.P.A.  
INTO  
TELECOM ITALIA S.P.A.

AUDITORS' REPORT  
relating to the exchange ratio of shares  
pursuant to Article 2501 *sexies* of the Italian Civil Code (\*)

(Translation from the original Italian text)

*(\*) With respect to the CONSOB Communication N. 73063 of October 5, 2000, this report, whose translation is attached, does not express an opinion on the fairness of the transaction, the value of the security, or the adequacy of consideration to shareholders and therefore the issuance of the report would not impair the independence of Reconta Ernst & Young S.p.A. under the U.S. independence requirements.*

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PLAN FOR THE MERGER BY INCORPORATION OF  
TELECOM ITALIA MOBILE S.P.A.  
INTO TELECOM ITALIA S.P.A.

AUDITORS' REPORT  
relating to the exchange ratio of shares  
pursuant to Article 2501 *sexies* of the Italian Civil Code.

(Translation from the original Italian text)

To the Shareholders of  
Telecom Italia Mobile S.p.A.

**1. OBJECTIVE, SUBJECT AND SCOPE OF THE ENGAGEMENT**

In connection with the planned incorporation of Telecom Italia Mobile S.p.A. (hereinafter "TIM" or the "Company to be Absorbed") into Telecom Italia S.p.A. (hereinafter "Telecom Italia" or the "Absorbing Company" and, together with TIM, the "Companies"), on December 28, 2004 we were appointed as experts by the President of the Turin Court, based on a request presented by TIM, to prepare our report on the exchange ratio of the shares of the Absorbing Company with those of the Company to be Absorbed (hereinafter the "Exchange Ratio"), in accordance with Article 2501 *sexies* of the Italian Civil Code.

To this end, TIM has provided us with the plan for the merger (hereinafter the "Merger" or "Plan for the Merger"), accompanied by the Directors' Report, which identifies, explains and justifies, pursuant to Article 2501 *quinquies* of the Italian Civil Code, the Exchange Ratio, as well as the Balance Sheet as of September 30, 2004 required by Article 2501 *quater* of the Italian Civil Code.

The Plan for the Merger will be subject to approval at the Extraordinary General Meeting of the shareholders of TIM to be held on April 5, 2005, first call and second call on April 6, 2005. In addition, the Plan for the Merger will be subject to approval at the Special General Meeting of TIM savings shareholders, in accordance with Article 146, first paragraph, subparagraph b), of the Italian Unified Text for Finance ("TUF").

Similarly, the shareholders of Telecom Italia will be required to approve the Merger at the Extraordinary General Meeting to be held on April 5, 2005, first call and, if required, second call on April 6, 2005 or, third call on April 7, 2005.

Mazars & Guerard S.p.A. was appointed by the President of the Milan Court, based on a request presented by Telecom Italia to prepare a similar report on the Exchange Ratio.

In order to provide the shareholders with adequate information regarding the Exchange Ratio, this report illustrates the methods adopted by the Directors in determining the Exchange Ratio and the difficulties encountered by them. In addition, this report also indicates whether, under the circumstances, such methods are reasonable and not arbitrary, whether the Directors have considered the respective importance of such methods and whether the methods have been correctly applied.

In our examination of the valuation methods adopted by the Directors, also based on indications from their advisors, we have not carried out a valuation of the Companies participating in the Merger. This was done solely by the Directors and the advisors appointed by them.

**2. SUMMARY OF THE TRANSACTION**

The Boards of Directors of TIM and Telecom Italia held on December 7, 2004 have developed a plan, for a comprehensive reorganization of the activities of the Telecom Italia Group (the "Reorganization Plan"). The goal, both for TIM and Telecom Italia, is to improve their competitive position, given the greater operational and financial synergies and efficiencies that will arise.

As indicated in the report of the Board of Directors of TIM, the proposed transaction provides for the Merger of TIM into Telecom Italia, pursuant to Articles 2501 and following of the Italian Civil Code.

On January 23, 2005, the Board of Directors of TIM approved the Plan for the Merger of TIM into Telecom Italia, confirming the Exchange Ratio preliminarily indicated by the Board of Directors on December 7, 2004.

The Merger will be effected on the basis of the balance sheets of TIM and Telecom Italia as of September 30, 2004, adopted by the Boards of Directors of the Companies as the Balance Sheets required by Article 2501 *quater* of the Italian Civil Code.

In order to implement the Reorganization Plan, prior to the Merger and to its effectiveness, TIM is expected to spin off its mobile communications business in Italy (the “Spin-off”) to a company wholly owned by TIM, to be known as Tim Italia S.p.A.

As part of the Reorganization Plan, Telecom Italia made: (i) a voluntary partial tender offer for 2,456,534,241 TIM ordinary shares, representing 29.12% of TIM’s ordinary share capital at December 20, 2004 and 28.67% of TIM’s total share capital at the same date; (ii) a voluntary tender offer for all 132,069,163 TIM savings shares, representing 100% of TIM’s savings share capital and approximately 1.54% of its total share capital (hereinafter referred to, jointly, as the “Offer”). The Offer price was €5.6 for each TIM ordinary and savings share and its effectiveness was subject to the condition, for both classes of shares, that two thirds of the number of shares subject of the Offer be tendered.

The Offer commenced on January 3, 2005 and terminated on January 21, 2005. Telecom Italia’s Board of Directors has favorably assessed the results of the Offer, particularly given that the TIM ordinary shares tendered exceeded the number of TIM ordinary shares subject to the Offer and thus confirmed the effectiveness of the Offer.

The Absorbing Company will succeed to all TIM’s legal rights and obligations in force at the effective date of the Merger, including those arising in connection with TIM’s stock option plans (to this end, the Absorbing Company will make the necessary capital increases to service such plans).

The Merger is technically subject to the veto right of the Italian Government pursuant to the Golden Share provisions under Article 2 of Law Decree 332/1994, ratified by Law 474/1994, and Article 22, paragraph b) of Telecom Italia’s bylaws.

At the end of the meeting of Telecom Italia’s Board of Directors on December 7, 2004, in accordance with Article 22, paragraph b) of the Absorbing Company’s bylaws and Article 2 of Law Decree 332/1994, ratified by Law 474/1994, Telecom Italia notified the Minister for the Economy and Finance of the commencement of the Reorganization Plan of the Group. The Minister for 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’.

The Absorbing Company’s ordinary and savings shares are and, following the Merger, will continue to be, listed on the Mercato Telematico operated by Borsa Italiana S.p.A..

In addition, following the Merger, Telecom Italia’s ordinary and savings shares will continue to be listed on the New York Stock Exchange in the form of ADS (American Depositary Shares, each of which represents ten ordinary or savings shares).

In implementing the Merger, the Absorbing Company will cancel the TIM ordinary and savings shares owned by the Absorbing Company, cancel own shares held by TIM and will issue new ordinary and savings shares to be exchanged for the existing shares.

The newly-issued shares of the company resulting from the Merger will have normal entitlement to all the pertinent rights.

The Merger will be effective from the date of the last filing of the Merger deed, or from such later date as may be specified in the Merger deed itself, while for accounting and tax purposes, the transactions of the incorporated company will be included in the financial statements of the Absorbing Company as of January 1 of the year in which the transaction becomes effective.

### 3. DOCUMENTATION UTILIZED

In performing our work, we obtained from TIM and Telecom Italia, such documentation and information as was considered necessary in the circumstances. We analyzed such documentation and, in particular:

- a) the Plan for the Merger and the reports of the Boards of Directors of the two Companies, addressed to the respective Extraordinary General Meetings, proposing an Exchange Ratio as follows:
  - **1.73 Telecom Italia ordinary shares with a par value of €0.55 per share for each TIM ordinary share with a par value of €0.06;**

- **2.36 Telecom Italia savings shares with a par value of €0.55 per share for each TIM savings share with a par value of €0.06.**

The Exchange Ratio has been determined by the Board of Directors also taking into account the reports of the advisors (“Advisors”) indicated in points b) and c) below. The report of the Board of Directors of TIM sets out in detail the valuation criteria adopted, the reasons for their choice, the values resulting from their application and the related comments;

- b) the valuation reports of the Exchange Ratio prepared by Lazard & Co. S.r.l. and Credit Suisse First Boston as advisors of the Directors; these reports set out the valuation criteria adopted, and the results of their application;
- c) the fairness opinions prepared by Merrill Lynch International, Milan Branch and by Studio Casò, Dr. Angelo Casò in person, as advisors designated upon indication of the independent Directors, members of the Internal Control Committee of TIM;
- d) the following documentation, used by the Advisors to prepare their reports and, subsequently, within the scope of our engagement, also utilized by us:
  - the financial statements and the consolidated financial statements of TIM and Telecom Italia and of their significant subsidiaries as of and for the year ended December 31, 2003, accompanied by the Reports of the Boards of Directors, the Reports of the Boards of Statutory Auditors and the Independent Auditors’ Reports;
  - the balance sheets of TIM and Telecom Italia as of September 30, 2004 accompanied by the Directors’ reports;
  - the draft financial statements of TIM and Telecom Italia as of and for the year ended December 31, 2004, approved by the Board of Directors on February 23, 2005 and February 24, 2005, respectively.
  - Telecom Italia Group’s “Preliminary economic and financial plan - 2005-2007 Plan-Preliminary December 3, 2004” prepared by management;
  - historical market prices and trading volumes of ordinary and savings shares of TIM and Telecom Italia;
  - publicly available information about companies operating in the same sector;
  - financial research and analyses, published by specialized institutions and investment banks;
- e) additional documentation, as follows, has been utilized by us:
  - data and information obtained from the Advisors and used by them for the determination of the Exchange Ratio;
  - by-laws of the Companies participating in the Merger;
  - reports on the Plan for the Merger of the Boards of Directors of TIM and Telecom Italia of December 7, 2004;
  - interim financial statements of TIM and Telecom Italia as of June 30, 2004 and for the six month period then ended, accompanied by the auditors’ review reports;
  - accounting elements and other information as deemed necessary for this report.

Finally, we obtained representation from TIM, based on management’s best knowledge and belief, that no significant changes occurred in the data and information used in our analysis. The same representation has been obtained by Mazars & Guerard S.p.A. from the management of Telecom Italia.

#### **4. VALUATION METHODS ADOPTED BY THE BOARD OF DIRECTORS FOR THE DETERMINATION OF THE EXCHANGE RATIO**

The Directors of TIM, also in view of information provided by the Advisors, determined the Exchange Ratio on the basis of a number of valuation methods, selected among those more appropriate to reflect the value of the entities involved in the Merger, considering the activities carried-out by the Absorbing Company and by the Company to be Absorbed.

#### **4.1. Selection of the methods and valuation criteria**

The Directors of TIM, supported by their Advisors, selected the valuation methods and criteria to be applied taking into account:

- a) the specific objectives of the valuations in connection with the Merger;
- b) the nature of the activities performed by each of the Companies participating in the Merger.

Concerning these aspects, in selecting the valuation principles and criteria, the Directors made reference to the purpose of the exercise and to elements of significance allowing the value of the businesses to be calculated.

Given the objective of obtaining comparable values for the determination of the Exchange Ratio, the Directors adopted valuation methods based on uniform criteria for both Companies participating in the Merger.

These values were obtained on a going-concern basis and can be neither considered as representative of stand-alone valuations of the two Companies participating in the Merger, nor compared with any potential acquisition or disposal prices (which normally take into account potential majority premiums and minority discounts). Nor do these values reflect the strategic, operational and financial synergies expected from the Merger.

Based on this premise, the Directors of TIM and Telecom Italia adopted two methods: the stock-market price method and the sum-of-parts method, the latter primarily through the application of the discounted cash flow or DCF methodology to the various business units.

The valuation process of the Directors was further supported by considering financial analysts' target prices for the TIM and Telecom Italia shares, and making reference to market multiples for comparable companies.

Finally, the Directors considered, on one hand, the various areas of operations of TIM and Telecom Italia, and, on the other hand, the fact that the controlling investment of Telecom Italia in TIM represents a significant component of the total assets of Telecom Italia.

##### **4.1.1. Description of Methodologies Used**

The following methodologies were used:

*Stock-market prices method:* where companies participating in a merger have shares listed on regulated securities exchanges, theory and professional practice suggest that account be taken of the results deriving from the market prices of the respective shares, averaged over appropriate periods of time. In this case, the Directors considered the market prices to be particularly significant, taking into account the high capitalization and market liquidity of TIM and Telecom Italia; the extensive coverage the two companies receive in analysts' research reports; and the existence among their shareholders of numerous international institutional investors.

*Sum-of-parts method:* under this method, a company's value is calculated as the sum of the values of its separate units (meaning economic entities that can be valued independently) adjusted to take into account the company's financial position and minority interests.

##### **4.1.2. Stock-Market Prices**

The stock-market prices method estimates the value of the equity on the basis of stock-market prices during a relevant period that expires at a date close to that on which the valuation is carried out.

The Directors considered the market prices over various periods prior to the announcement of the Merger (December 3, 2004) and prior to the date when press articles began to refer to the potential reorganization (the week of November 16-19, 2004), in order to focus on the values of the two companies before possible announcement effects.

In order to mitigate the short-term fluctuations that are typical of the financial markets, the Directors extended the analysis of the share prices to the average market prices over appropriately long periods.

To this end, in applying the stock-market prices method the Directors analyzed historical volume-weighted average prices within the 12 months prior to November 16, 2004.

The Directors identified the averages for 1, 2, 3, 6 and 12 months as those within a range of constant ratios.

The Directors considered more relevant the stock-market prices for various periods before the week of November 16-19, 2004, although the differences between these values and those of the date of the announcement of the Merger are not significant.

#### **4.1.3. Sum-of-Parts method**

According to the sum-of-parts method, the value of TIM and Telecom Italia is determined as the sum of the values of the individual units of each company, considered as economic entities that can be valued independently. Such sum is suitably adjusted to take account of the financial position and minority interests for each of the Companies Participating in the Merger.

For the valuation of the individual units, the Discounted Cash Flow or DCF methodology was primarily used, as applied to the principal assets of TIM and Telecom Italia: the Italian wireline and mobile services and the major subsidiaries abroad.

For the valuation of the remaining assets of TIM and Telecom Italia, reference was made to their stock-market value, where available and appropriate, and for those less important or not consolidated, to their book value or to the estimates of financial analysts in research reports.

The DCF methodology was applied by discounting operating cash flows gross of any component of a financial nature (Free Cash Flows or "FCF"). Under this methodology, the value of a company is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital;
- net financial position and minority interests;
- surplus assets, if any.

In applying the DCF methodology, the Directors made reference to the cash flows of the main activities as shown by the "Preliminary economic and financial plan - 2005-2007 Plan-Preliminary December 3, 2004", which is the update of the business and financial plans approved and announced to the market in March 2004. The plans were developed by management in conformity with Telecom Group's strategic, operational and financial objectives.

In the valuation, the Directors estimated the net financial position at December 31, 2004 and the value of minority interests; these were determined primarily, depending on the circumstances, with reference to their book or market value, in view of their limited importance in relation to the overall valuation of the two companies.

In order to divide the results obtained for the equity value of the two companies between their ordinary and savings shares, the Directors made reference to the average discounts implied by the 1, 2, 3, 6 and 12 month averages of the prices of TIM and Telecom Italia savings shares compared to those of their ordinary shares.

The Directors believe that the consensus view is that other methods of dividing the equity value between ordinary and savings shares would introduce discretionary factors into the valuation, unsupported by objective factors.

#### **5. VALUATION DIFFICULTIES ENCOUNTERED BY THE DIRECTORS**

In carrying out the valuations for the purpose of determining the Exchange Ratio, the Board of Directors of TIM has not encountered difficulties.

#### **6. RESULT OF THE VALUATION PERFORMED BY THE DIRECTORS**

The Directors have applied the valuation methods described above, both taking into account and excluding the effects of the distribution of dividends in April 2005 (assumed to be equal to those distributed in 2004).

## 6.1. Stock-Market Prices

Based on the results of the valuations made in accordance with the stock-market prices method, the Directors of TIM identified the following valuations and ratios:

<u>Market prices (ordinary shares)</u>	<u>Stock market value not adjusted for dividend</u>			<u>Stock market value adjusted for dividend</u>		
	<u>Telecom Italia (€)</u>	<u>TIM (€)</u>	<u>Ratio</u>	<u>Telecom Italia (€)</u>	<u>TIM (€)</u>	<u>Ratio</u>
<b>Weighted averages</b>						
November 16, 2004 .....	2.82	4.81	1.71	2.71	4.55	1.68
1 month average .....	2.70	4.68	1.73	2.59	4.42	1.71
2 month average .....	2.63	4.56	1.73	2.52	4.30	1.70
3 month average .....	2.58	4.50	1.74	2.48	4.25	1.71
6 month average .....	2.55	4.51	1.77	2.45	4.25	1.74
12 month average .....	2.54	4.52	1.78	2.44	4.27	1.75

<u>Market prices (savings shares)</u>	<u>Stock market value not adjusted for dividend</u>			<u>Stock market value adjusted for dividend</u>		
	<u>Telecom Italia (€)</u>	<u>TIM (€)</u>	<u>Ratio</u>	<u>Telecom Italia (€)</u>	<u>TIM (€)</u>	<u>Ratio</u>
<b>Weighted averages</b>						
November 16, 2004 .....	2.05	4.78	2.33	1.94	4.51	2.33
1 month average .....	2.01	4.62	2.30	1.89	4.35	2.30
2 month average .....	1.95	4.53	2.32	1.84	4.26	2.32
3 month average .....	1.92	4.48	2.34	1.80	4.22	2.34
6 month average .....	1.86	4.45	2.39	1.75	4.18	2.39
12 month average .....	1.84	4.45	2.42	1.72	4.18	2.43

## 6.2. Sum-of-Parts

With respect to the sum-of-parts method, the Directors of TIM identified the following ranges for the values and the ratios of the ordinary and savings shares.

### SUM-OF-PARTS

<u>Euro</u>	<u>Values per share not adjusted for dividend</u>			<u>Values per share adjusted for dividend</u>		
	<u>Telecom Italia</u>	<u>TIM</u>	<u>Ratio</u>	<u>Telecom Italia</u>	<u>TIM</u>	<u>Ratio</u>
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)



### 6.3. Determination of the Exchange Ratio

Taking into account the valuations prepared by the Advisors, the Board of Directors has established the relative values of the Companies Participating in the Merger for the purpose of determining the Exchange Ratio.

The ratios derived by applying the foregoing methods by the Directors of TIM are summarized below:

<b>METHOD (ORDINARY SHARES)</b>	<b>EXCHANGE RATIO NOT ADJUSTED FOR DIVIDEND</b>	<b>EXCHANGE RATIO ADJUSTED FOR DIVIDEND</b>
<b>Market Price method</b>		
- November 16, 2004 .....	1.71	1.68
<b>Weighted averages:</b>		
- 1 month average .....	1.73	1.71
- 2 month average .....	1.73	1.70
- 3 month average .....	1.74	1.71
- 6 month average .....	1.77	1.74
- 12 month average .....	1.78	1.75
<b>Sum-of-Parts method</b> .....	(1.68-1.77)	(1.65-1.75)

<b>METHOD (SAVINGS SHARES)</b>	<b>EXCHANGE RATIO NOT ADJUSTED FOR DIVIDEND</b>	<b>EXCHANGE RATIO ADJUSTED FOR DIVIDEND</b>
<b>Market Price method</b>		
- November 16, 2004 .....	2.33	2.33
<b>Weighted averages:</b>		
- 1 month average .....	2.30	2.30
- 2 month average .....	2.32	2.32
- 3 month average .....	2.34	2.34
- 6 month average .....	2.39	2.39
- 12 month average .....	2.42	2.43
<b>Sum-of-Parts method</b> .....	(2.29-2.41)	(2.29-2.42)

The Directors, on the basis of the valuations of the Companies participating in the Merger, determined the following Exchange Ratio:

- **1.73 Telecom Italia ordinary shares with a par value of €0.55 per share for each TIM ordinary share with a par value of €0.06;**
- **2.36 Telecom Italia savings shares with a par value of €0.55 per share for each TIM savings share with a par value of €0.06.**

The Directors indicate that the effects of the Offer for TIM ordinary and savings shares, initiated by Telecom Italia, that commenced on January 3, 2005 and terminated on January 21, 2005, do not require the Exchange Ratio to be altered since the Offer was made on economic terms consistent with the valuations used to determine the Exchange Ratio.

In determining the Exchange Ratio, the Directors made an analysis of the reasonably foreseeable effects of the possible exercise of the right of withdrawal by holders of TIM savings shares. It was deemed, considering also the prices of the shares in the relevant period, that the result of such withdrawals would not require the Exchange Ratio to be modified, since it was reasonable to presume that the withdrawal price would be lower than the value attributed to TIM shares for the purposes of the Merger on the basis of the valuation methods applied.

### 6.4. Procedures for assigning the shares and carrying out the share exchange

The Absorbing Company will carry out the exchange by increasing its share capital by up to a maximum of €1,420,690,865.55, through the issuance of up to a maximum of 2,291,344,587 ordinary shares and up to a maximum of 291,729,714 savings shares, all with a par value of €0.55 per share. The increase in Telecom Italia's share capital for purposes of the share exchange has been calculated without taking into consideration the TIM ordinary and savings shares held by Telecom Italia or TIM's treasury shares, which will be cancelled in the Merger and will not participate in the share exchange.



## **7. WORK DONE**

### **7.1. Work done on the “documentation utilized” as mentioned at point 3.**

Taking into consideration that the Plan for the Merger, in accordance with Article 2501 *quater* of the Italian Civil Code, takes, as a reference basis, the Balance Sheets of the Companies as at September 30, 2004, we have performed limited procedures in order to identify the accounting principles utilized for the preparation of the above mentioned Balance Sheets and the major changes in the financial conditions with respect to the semi-annual report as of June 30, 2004 and for the six month period then ended of TIM and Telecom Italia, on which we have performed a limited review. The statutory and consolidated financial statements of TIM and Telecom Italia as of December 31, 2003 and for the year then ended were audited by us.

In addition, we have performed the following activities:

- we met and discussed with the management of TIM and Telecom Italia to obtain information on the subsequent events with respect to the balance sheets mentioned above that could have a significant effect on the values being examined here;
- with respect to the “Preliminary economic and financial plan - 2005–2007 Plan-Preliminary December 3, 2004” of the Telecom Italia Group, while considering the inherent uncertainty and limits of any type of forecast, we have discussed with the management of TIM and Telecom Italia the main characteristics of the forecasting process and the criteria used for their compilation.

The above activities have been performed to the extent necessary for the purpose of our engagement, indicated in paragraph 1 above.

### **7.2. Work done on the methods used to determine the Exchange Ratio**

We have examined the methods followed by the Directors, also based on the indications given by their Advisors, for the determination of the relative value of the Companies and, thus, of the Exchange Ratio, ascertaining their technical suitability under the circumstances.

We have also performed the following procedures:

- analysis of the report prepared by the Directors’ of TIM on the Plan for the Merger and of the reports of the Advisors to verify the completeness and consistency of the processes to determine the Exchange Ratio, as well as the homogeneity in the application of valuation methods;
- sensitivity analyses within the valuation methods adopted, with the aim to verify to what extent the Exchange Ratio would be affected by changes in the assumptions and parameters, considered to be significant, utilized in the reports of the Advisors;
- verification of the consistency of data utilized, with respect to the reference sources and with the “Documentation used”, described in paragraph 3 above;
- verification of the mathematical correctness of the calculation of the ratios, derived from the application of the valuation methods used by the Directors;
- meetings with the Advisors of TIM, to discuss the activities performed, the issues encountered and the solutions adopted.

## **8. COMMENTS ON THE SUITABILITY OF THE METHODS USED AND THE VALIDITY OF THE ESTIMATES**

With reference to this engagement, we note that the principal purpose of the process used by the Directors was to establish an estimate of relative values of the companies involved in the Merger, by applying homogeneous criteria, in order to obtain comparable values. In fact, the main objective of valuations for mergers is to identify comparable values in order to determine the Exchange Ratio, rather than to determine absolute values of the companies involved. As such, valuations for merger transactions have a meaning solely in respect of their relative profile and cannot be regarded as estimates of the absolute values of the companies involved, for transactions different from the merger for which they were carried out.

In connection with the valuation methods adopted, we note that:

- they are widely used in Italian and international professional practice, they are based on accepted valuation doctrine and on parameters determined according to a generally accepted methodology;
- they appear adequate in the circumstances, in light of the characteristics of the Companies involved in the Merger;

- in conformity with the valuation framework required by the Merger, the methods have been developed on a stand alone basis;
- the methodology adopted by the Board of Directors ensures that the valuation methods are homogeneous and thus that the values are comparable;
- the application of more than one method broadened the valuation process and allows substantial verification of the results obtained.

With reference to the application of the valuation methodologies made by the Directors, we note that:

- the stock-market prices method is particularly suitable in connection with companies with a high capitalization, a large and widespread float and high volumes of exchange. In this case, the adoption of averages over a sufficiently long period of time mitigates the effect of share fluctuations, connected with the general situation of the stock markets;
- the sum-of-parts method is generally applied by professional practice in the valuation of complex enterprises, characterized by numerous areas of business. In this case, the utilization of the DCF method allows appropriate consideration to be given to the operational characteristics of the companies participating in the Merger. The selection of the DCF method for the main business areas of TIM and Telecom Italia is justified by the activity of the businesses which gives significance to both the economic and financial aspects for the purpose of the valuation;
- the results obtained with the stock-market prices method and the sum-of-parts method are supported by an analysis of the “consensus” of financial analysts on target prices of TIM and Telecom Italia, as well as, by the analysis of comparable market multiples.

#### 9. SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITORS IN CARRYING OUT THE ENGAGEMENT

During our engagement, we did not encounter limitations or difficulties that merit mention in this section of the report.

#### 10. CONCLUSION

Based on the documentation we have examined and on the procedures described above, and considering the nature and extent of our work as described in this report, we believe that the valuation methods adopted by the Directors, also based upon the advice of their Advisors are, under the circumstances, reasonable and not arbitrary and they have been correctly applied by them in their determination of the Exchange Ratio of shares indicated in the Plan for the Merger, as follows:

- **1.73 Telecom Italia ordinary shares with a par value of €0.55 per share for each TIM ordinary share with a par value of €0.06;**
- **2.36 Telecom Italia savings shares with a par value of €0.55 per share for each TIM savings share with a par value of €0.06.**

Milan, February 28, 2005

Reconta Ernst & Young S.p.A.

Signed by Felice Persico, partner

***TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.***

Dottor Marco Tronchetti Provera  
Chairman  
Telecom Italia S.p.A.  
Piazza Affari, 2  
Milan  
Italy

Milan, December 7 2004

**1. INTRODUCTION**

On December 6 2004, Telecom Italia S.p.A. (“Telecom Italia”) engaged JPMorgan Chase Bank N.A. (“JPMorgan”) to act as its financial adviser (the “Engagement”) in connection with the acquisition of Telecom Italia Mobile S.p.A. (“TIM”) ordinary and savings shares (the “Acquisition”) and the merger between Telecom Italia and TIM (the “Merger”) (the Acquisition and the Merger together, the “Transaction”).

As part of the Engagement, Telecom Italia has requested that JPMorgan provide an opinion (the “Opinion”) as to the fairness of the share exchange ratio with respect to the Merger. Telecom Italia has not requested that JPMorgan express its opinion on the underlying business decision to proceed with and/or to execute the Transaction, nor does the Opinion provided by JPMorgan have regard to that decision. Likewise, Telecom Italia has not requested that JPMorgan provide, nor has JPMorgan provided, any legal, accounting or tax advice in connection with the Transaction.

This letter represents the final report of JPMorgan (the “Final Report”) with regards to the Opinion requested.

The Final Report has been prepared for the internal and exclusive use of the Board of Directors of Telecom Italia (the “Board of Directors”) in support of the decisions to be taken by it. Therefore, the Final Report may not be disclosed, in whole or in part, to any third party or used for any purpose whatsoever other than those indicated in the Engagement and in the Final Report itself, provided that the Final Report may be transmitted to the experts appointed in compliance with the law and its content may be disclosed publicly where required by regulations of the Italian and/or U.S. stock exchange authorities. Any other use, in whole or in part, of the Final Report will have to be previously agreed and authorised in writing by JPMorgan.

In preparing the Final Report, JPMorgan has relied upon and assumed, without independent verification, the truthfulness, accuracy and completeness of the information and the financial data provided by Telecom Italia. Publicly available information deemed relevant for the purpose of the analyses contained in the Final Report has also been used. JPMorgan has therefore relied upon all specific information as received and declines any responsibility should the results presented be affected by the lack of completeness or truthfulness of such information. Therefore the Final Report is based on: (i) our interpretation of the information which Telecom Italia, as well as its representatives and advisers, have supplied to us to date; (ii) our understanding of the terms upon which Telecom Italia intends to consummate the Transaction and upon which Telecom Italia intends to execute the Acquisition; (iii) the assumption that the Transaction will be consummated in accordance with the expected terms and within the expected time periods.

In the execution of the Engagement, JPMorgan has elaborated its own analyses based on the methodologies illustrated below, reaching the conclusions contained in the final paragraph of this Final Report.

The conclusions described in the Final Report have been prepared with the sole purpose of analysing the relative values and the share exchange ratio for the purpose of the Merger and, therefore, the values contained in this Final Report have no relevance for purposes other than those related to the Merger. The Final Report and the Opinion concern exclusively the share exchange ratio in connection with the Merger and do not express any valuation by JPMorgan as to the absolute value of the shares of Telecom Italia and TIM.

The conclusions contained in this Final Report are based on the whole of the valuations contained herein and therefore no part of the Final Report may be used in isolation from the document in its entirety.

The Final Report and the Opinion are necessarily based on economic, market and other conditions as of the date hereof, and the written and oral information made available to us until December 7 2004. It should be understood that subsequent developments may affect the conclusions of the Final Report and of the Opinion and that, in addition, JPMorgan has no obligation to update, revise, or reaffirm the Opinion.

In addition, JPMorgan is expressing no opinion as to the price at which any securities of Telecom Italia or TIM will trade on the stock market at any time. Other factors after the date hereof may affect the value of the businesses of Telecom Italia or TIM either before or after completion of the Acquisition and/or the Merger, including but not limited to: (i) the total or partial disposal of the shares of Telecom Italia or TIM by their respective shareholders within a short period of time after the date of announcement or completion of the Acquisition or the Merger, (ii) changes in prevailing interest rates and other factors which generally influence the price of securities, (iii) adverse changes in the current capital markets, (iv) the occurrence of adverse changes in the financial condition, the businesses, certain extraordinary transactions or the prospects of Telecom Italia or TIM, (v) any actions taken or restrictions imposed by any state or governmental agencies or regulatory authorities, and (vi) the execution of the Transaction in accordance with the expected terms and within the expected time periods. No opinion is expressed by JPMorgan whether any alternative transaction might have been more beneficial to Telecom Italia or the probability that the Merger will be completed.

JPMorgan has acted as financial advisor to Telecom Italia with respect to the proposed Transaction and will receive a fee from Telecom Italia for the services provided, as well as an additional fee upon completion of the Transaction or in certain other circumstances.

It is understood that JPMorgan or certain JPMorgan affiliates, in the ordinary course of their activities, may actively trade in the equity and debt securities of Telecom Italia or TIM or companies directly or indirectly controlling, controlled, affiliated or participated by Telecom Italia and/or TIM for their own account or for the account of customers, and, accordingly, may at any time hold long or short positions in such securities. It also remains understood that JPMorgan or certain JPMorgan affiliates may have and may in the future have commercial banking, investment banking, trust and other relationships and/or engagements with counterparties which may have interests with respect to Telecom Italia, TIM or companies directly or indirectly controlling, controlled, associated or participated in by Telecom Italia and/or TIM. Finally, it remains understood that JPMorgan or certain JPMorgan affiliates may have fiduciary or other relationships and engagements whereby JPMorgan or certain JPMorgan affiliates may exercise voting power over securities of various persons, which securities may from time to time include securities of Telecom Italia, TIM, or companies directly or indirectly controlling, controlled, affiliated or participated in by Telecom Italia and/or TIM, or other parties with an interest with respect to the Transaction.

## **2. PURPOSES OF THE ASSESSMENT OF THE EXCHANGE RATIO**

This Final Report is intended to:

- Provide the Board of Directors with useful elements, data and references in order to assess the fairness of the Merger exchange ratio and, if appropriate, propose it for approval to the Shareholders' Meeting
- Provide the same elements to the auditing firm appointed to express its own opinion as required by law

This Final Report is provided solely for the benefit of the Board of Directors of Telecom Italia. Therefore, no one, with the exception of members of the Board of Directors of Telecom Italia, is authorised to rely upon this opinion. The shareholders of Telecom Italia, to whom this Final Report does not confer any rights, shall use their own financial advisers if they deem it necessary.

## **3. SOURCES OF INFORMATION USED FOR THE VALUATION**

In the execution of the Engagement, JPMorgan has collected and analysed certain publicly available data and information and other documentation provided by Telecom Italia (the "Information").

In particular:

- Consolidated and statutory 2002 and 2003 accounts of Telecom Italia, TIM, Telecom Italia Media
- Half-yearly and quarterly reports for the years 2002, 2003 and 2004 of Telecom Italia, TIM, Telecom Italia Media
- The preliminary Plan 2005-2007 of the Telecom Italia Group prepared by the management of the Telecom Italia Group (December 3 2004 version)

- Table of the Telecom Italia Group with the estimated net financial position at 31/12/2004
- Summary table of Telecom Italia with the holdings of the Telecom Italia Group
- Note of Telecom Italia regarding the debt “ex legge 58/1992”
- Summary note on the stock option plans of Telecom Italia and TIM
- Summary table of Telecom Italia on outstanding convertible bonds and warrants
- Summary table of the treasury shares owned by Telecom Italia and TIM
- Note of Telecom Italia on certain fiscal aspects

In addition, JPMorgan has analysed publicly available information, including:

- Financial research and analysis published by brokers and investment banks;
- Research and analysis concerning competitors or companies with similar operating characteristics;
- Share price performance

JPMorgan has not been requested to conduct, nor JPMorgan has conducted, any independent evaluation or appraisal of any assets or liabilities of Telecom Italia or TIM.

The Final Report is necessarily based on financial, economic and market information available for evaluation as of the date hereof. The accuracy, truthfulness, and completeness of the Information have not been independently verified by JPMorgan.

#### **4. DESCRIPTION OF THE TRANSACTION**

The Transaction is part of a unified project aimed at the simplification of the structure of the Telecom Italia Group, described below in its key terms:

- Voluntary public tender offer (“PTO”) for the Acquisition of (i) 29.1% of TIM ordinary shares, equivalent to two thirds of the free float, and (ii) 100% of TIM savings shares. The PTO price will be equal to Euro 5.6 for each TIM ordinary and savings share, equivalent to a total amount of about Euro 14.5 billion. The PTO will be subject to the achievement of a minimum level of acceptance equivalent to two thirds of the shares subject to the offer for each category
- Merger by incorporation of TIM into Telecom Italia with an exchange ratio of 1.73 Telecom Italia ordinary shares for each TIM ordinary share and 2.36 Telecom Italia savings shares for each TIM savings share
- Expected distribution of a dividend per ordinary and savings share by Telecom Italia and TIM in May 2005 (prior to the completion of the Merger) in line with those respectively distributed in May 2004
- Preliminary timetable envisaging the completion of the Acquisition through the PTO by the end of January 2005 and the completion of the Merger by July 2005

#### **5. VALUATION METHODOLOGIES USED FOR THE ASSESSMENT OF THE EXCHANGE RATIO**

In the assessment of the exchange ratio, we have used the valuation methodologies that are commonly used, also in an international context, for transactions of a similar nature and for companies operating in this sector.

In particular, the exchange ratio has been assessed by looking at the relative valuation of the companies considered, giving priority to the consistency and comparability of the criteria adopted compared to the simple assessment of the absolute value of the economic capital of the companies considered as individual entities.

As a consequence, the results indicated in this document refer to the assessment of the relative values of the economic capital of Telecom Italia and TIM. From such perspective, the valuations have been performed by considering the two companies as independent entities from an operating standpoint. Hence, they do not include any considerations concerning strategic, operating and financial synergies expected from the Merger.

The valuation of TIM has been primarily performed using the Discounted Cash Flow fundamental methodology.

The valuation of Telecom Italia has been performed using the Sum-of-the-Parts fundamental methodology, which it is market practice to employ to assess the value of a group operating in various business sectors, and the main businesses have been primarily valued with the Discounted Cash Flow methodology.

The estimated range for the exchange ratio has therefore been calculated as the ratio between the estimated value of a TIM share and the estimated value of a Telecom Italia share based on the minimum and maximum values of the respective ranges.

In order to verify the accuracy of the assessment of the exchange ratio determined using the criterion mentioned above, we have also performed an additional check based on the average exchange ratio expressed by the stock market over different time periods.

## 6. VALUATION OF TIM

The valuation of TIM has been primarily performed using the Discounted Cash Flow fundamental methodology, with use also made for testing and control purpose of the method of market multiples, the method of comparable transaction multiples and the values identified by research analysts, where available.

To the value calculated using the criteria indicated above was added up algebraically the value of the estimated net financial position at 31 December 2004, adjusted to take account of minority interests, where material, and the net value of other adjustments including the effects of the expected sale of Corporacion Digitel (Venezuela) and certain tax benefits.

The table below shows the minimum, mid-point and maximum values for each TIM ordinary share, identified using the fundamental method described above, before adjustment for the distribution of dividends expected for the month of May 2005 (and hence prior to completion of the Merger).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM ordinary share (Euro)</b> .....	5.28	5.58	5.87

Note: the figures in this table have been rounded up

The table below shows the minimum, mid-point and maximum values of the TIM savings share calculated based on the TIM ordinary share with no discount applied. The zero discount is substantially in line with the average market discount during the last three months, and takes into account the small average market premium and the small average market discount during the last six months.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM savings share (Euro)</b> .....	5.28	5.58	5.87

Note: the figures in this table have been rounded up

The table below shows the minimum, mid-point and maximum values of the TIM ordinary and savings shares, obtained using the fundamental method described above, and adjusted for the distribution of their respective dividends expected for the month of May 2005 (assumed to be in line with their respective dividends per share paid in May 2004).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM ordinary share (Euro)</b> .....	5.02	5.32	5.61
<b>Values per TIM savings share (Euro)</b> .....	5.01	5.31	5.60

Note: the figures in this table have been rounded up

## 7. VALUATION OF TELECOM ITALIA

The valuation of Telecom Italia has been performed using the Sum-of-the-Parts fundamental methodology, in which the main activities (Telecom Italia S.p.A. and TIM) have been valued primarily with the Discounted Cash Flow method. In particular, TIM was valued based on the range of values obtained using this method, adjusted for the distribution of dividends expected to be paid in May 2005. The other residual activities have been valued using the criterion of market values, where listed on regulated stock markets, and/or the market multiples method, also using book values and values identified by research analysts for such businesses, where available, as a verification criterion.

To the sum of the values of the activities calculated in the manner described above, we have added up algebraically the value of the estimated net financial position at 31/12/2004, adjusted to take into account the effects of the proportional net debts and minority interests, where relevant, the effect of the TIM shares dividend



expected to be paid in May 2005 and the net value of other adjustments including the value of certain off-balance sheet items and certain tax benefits; furthermore it was adjusted to take account of the pro-forma effect of the conversion of the 1.5% 2001-2010 convertible bonds, consistently with the fully-diluted method, which assumes their conversion into ordinary shares.

The following table shows the minimum, mid-point and maximum values for each Telecom Italia ordinary share identified using the Sum-of-the-Parts fundamental methodology consistently with the fully-diluted method, before adjustment for the dividend payment expected for the month of May 2005 (and hence prior to completion of the Merger).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia ordinary share (Euro)</b> .....	<b>2.95</b>	<b>3.20</b>	<b>3.45</b>

Note: the figures in this table have been rounded up

The following table shows the minimum, mid-point and maximum values for each Telecom Italia savings share calculated based on a discount of 27%, which is substantially in line with the average market discount during the last month, the last 6 months, and the discount of the last day of trading (December 3).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia savings share (Euro)</b> .....	<b>2.15</b>	<b>2.34</b>	<b>2.52</b>

Note: the figures in this table have been rounded up

The following table shows the minimum, mid-point and maximum values of the Telecom Italia ordinary and savings shares, identified using the Sum-of-the-Parts fundamental method, and adjusted for the distribution of their respective dividends expected for the month of May 2005 (assumed to be in line with their respective dividends per share paid in May 2004).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia ordinary share (Euro)</b> .....	<b>2.84</b>	<b>3.10</b>	<b>3.35</b>
<b>Values per Telecom Italia savings share (Euro)</b> .....	<b>2.04</b>	<b>2.22</b>	<b>2.41</b>

Note: the figures in this table have been rounded up

## 8. CONCLUSIONS OF THE ASSESSMENT AND VERIFICATION OF THE EXCHANGE RATIO

The following table summarises the estimated range for the exchange ratio calculated as a ratio between the estimated value for each TIM share and the estimated value for each Telecom Italia share based on the minimum and the maximum of their respective ranges previously identified for ordinary and savings shares.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Telecom Italia ordinary shares for each TIM ordinary share</b> .....	<b>1.68</b>	<b>1.72</b>	<b>1.77</b>
<b>Telecom Italia savings shares for each TIM savings share</b> .....	<b>2.33</b>	<b>2.39</b>	<b>2.46</b>

Note: the figures in this table have been rounded up

In order to verify the accuracy of the estimated exchange ratio determined with the criterion mentioned above, we have also performed an additional control based on the exchange ratios (Telecom Italia ordinary shares for each TIM ordinary share and Telecom Italia savings shares for each TIM savings share) expressed by the stock market over different time periods (data as of December 3, 1-month, 3-month, 6-month and 12-month averages) adjusted to take into account the effect of the payment of the respective dividends expected for the month of May 2005 (prior to the Merger) assumed to be in line with the respective dividends per share paid in May 2004.

	<u>3/12/04</u>	<u>1 month</u>	<u>3 months</u>	<u>6 months</u>	<u>12 months</u>
<b>Telecom Italia ordinary shares for each TIM</b>					
<b>ordinary share</b> .....	<b>1.72</b>	<b>1.69</b>	<b>1.71</b>	<b>1.74</b>	<b>1.74</b>
<b>Telecom Italia savings shares for each TIM</b>					
<b>savings share</b> .....	<b>2.47</b>	<b>2.41</b>	<b>2.36</b>	<b>2.39</b>	<b>2.45</b>

Note: the figures in this table have been rounded up. The 12-month average exchange ratio has also been adjusted to take into account the effect of the distribution of dividends in May 2004



The results of the valuation carried out using the main methodology, further verified in light of the control methodology based on the average exchange ratio expressed by the stock market, show that the exchange ratios of 1.73 Telecom Italia ordinary shares for each TIM ordinary share and of 2.36 Telecom Italia savings shares for each TIM savings share are fair, from a financial point of view, to Telecom Italia.

Best regards,

/s/ FEDERICO IMBERT

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Federico Imbert  
Managing Director – Chairman Italy  
JPMorgan Chase Bank N.A.

/s/ FRANCESCO ROSSI FERRINI

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Francesco Rossi Ferrini  
Managing Director  
JPMorgan Chase Bank N.A.

/s/ GUIDO TUGNOLI

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Guido Tugnoli  
Managing Director  
JPMorgan Chase Bank N.A.

**ORIGINAL DOCUMENT ISSUED ON JPMORGAN CHASE BANK N.A. HEADED PAPER.**

**TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.**

Milan, January 23 2005

Telecom Italia S.p.A.  
Piazza Affari, 2  
Milano  
Italia

To the kind attention of Dott. Marco Tronchetti Provera, Chairman

Dear Sirs,

With reference to our fairness opinion dated 7 December 2004 on the exchange ratios for the ordinary shares and the savings shares regarding the merger of Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A. provided pursuant to our engagement letter dated 6 December 2004 (the "Fairness Opinion"), using the same criteria upon which the Fairness Opinion was given as well as the same premises, qualifications and assumptions set out therein, we hereby confirm, as of the date hereof, the conclusions set out in the Fairness Opinion.

Please note that in providing this confirmation we have not taken into account the share prices of either Telecom Italia S.p.A. or Telecom Italia Mobile S.p.A. subsequent to the announcement of the proposed merger between these two companies.

Best regards,

/s/ FEDERICO IMBERT

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Federico Imbert  
Managing Director – Chairman Italy  
JPMorgan Chase Bank N.A.

/s/ FRANCESCO ROSSI FERRINI

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Francesco Rossi Ferrini  
Managing Director  
JPMorgan Chase Bank N.A.

/s/ GUIDO TUGNOLI

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Guido Tugnoli  
Managing Director  
JPMorgan Chase Bank N.A.

**Summary description of the analyses carries out by JPMorgan Chase Bank, as Telecom Italia's financial advisor, with reference to its Fairness Opinion**

Telecom Italia retained JPMorgan Chase Bank N.A. ("JPMorgan") to advise it in connection with the proposed Merger and related transactions, including as to the fairness, from a financial point of view, to Telecom Italia of the exchange ratio with respect to the Merger.

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

On December 7, 2004, at a meeting of the Telecom Italia board of directors held to consider the Merger and related transactions, JPMorgan delivered a written opinion to the Telecom Italia board to the effect that, as of that date, based on the procedures followed, and subject to the premises, qualifications and assumptions on the scope of review undertaken described in the opinion, the Merger exchange ratios of 1.73 Telecom Italia ordinary shares for each TIM ordinary share and of 2.36 Telecom Italia savings shares for each TIM savings share were fair, from a financial point of view, to Telecom Italia.

On January 23, 2005, JPMorgan confirmed to the board of directors of Telecom Italia in writing the conclusion of its December 7, 2004 opinion, taking into account the same criteria used, as well as the premises, qualifications and assumptions set out therein. In providing this confirmation, JPMorgan did not take into account the prices of the shares of Telecom Italia or TIM subsequent to the announcement of the proposed Merger.

JPMorgan's December 7, 2004 opinion and its January 23, 2005 letter (the JPMorgan reports) were directed to the Telecom Italia board of directors and addressed only the fairness, from a financial point of view, to Telecom Italia of the Merger exchange ratios for both the ordinary and the savings shares, which were arrived at by the boards of directors of Telecom Italia and TIM after considering the advice of their respective financial advisors. JPMorgan provided the reports to inform and assist the Telecom Italia board of directors in connection with its consideration of the Merger and related transactions. This summary of the JPMorgan reports is included only for informational purposes, and neither this summary nor the JPMorgan reports constitute a recommendation to any securityholder of Telecom Italia or TIM as to whether they should take any action with respect to the Merger and related transactions. The JPMorgan reports did not address the underlying decision of the Telecom Italia board or the TIM board to approve the Merger and related transactions, or whether any alternative transaction might have been more beneficial.

**The full text of JPMorgan's December 7, 2004 opinion, which sets forth the assumptions made, procedures followed, matters considered, documents reviewed and limitations on the review undertaken by JPMorgan in connection with the opinion, as well as the full text of JPMorgan's January 23, 2005 confirmation letter, are attached as Annex VIII (a) and Annex VIII (b) and are incorporated by reference into this document. You are urged to read the opinion and confirmation letter carefully and in their entirety.**

In the course of performing its review and analyses for the purpose of rendering its December 7, 2004 opinion, JPMorgan, among other things:

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

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

JPMorgan did not prepare any independent evaluation or appraisal of the assets or liabilities of, nor did JPMorgan conduct a physical inspection of any of the assets of, Telecom Italia or TIM or any of their subsidiaries. With respect to the projections provided to JPMorgan, JPMorgan notes that projecting future results is inherently subject to substantial uncertainty. Although those projections constituted one of many items that JPMorgan employed in the formation of its reports, changes to the projections could affect JPMorgan's conclusion. JPMorgan's reports were based on economic, industry, regulatory, market, political and other conditions existing at the date of its reports, including in the case of its December 7, 2004 opinion, market prices of Telecom Italia's and TIM's securities. These conditions are generally beyond Telecom Italia's or TIM's control and are subject to rapid and unpredictable changes, which changes could affect the conclusion JPMorgan expressed. JPMorgan made no independent investigation of any legal matters affecting Telecom Italia or TIM and assumed the correctness of legal, tax and accounting advice given to each of Telecom Italia and TIM. JPMorgan assumed that the Merger and related transactions will be consummated in accordance with the expected terms and within the expected time periods.

The following is a brief summary of the material financial analyses performed by JPMorgan in connection with rendering its December 7, 2004 opinion. The summary is not a complete description of the analyses performed by JPMorgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. The order of the analyses described, and the results of those analyses, do not necessarily represent the relative importance or weight given to the analyses by JPMorgan. Selecting portions of this summary without considering the analyses as a whole could create an incomplete view of the processes underlying JPMorgan's analyses and opinion. The analyses JPMorgan performed are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by the analyses. Additionally, the analyses relating to the value of businesses do not purport to be prices realizable in a transaction or to reflect actual or future market valuations or trading ranges.

JPMorgan expressed no opinion as to the prices at which the ordinary shares or savings shares of Telecom Italia will trade following completion of the Merger, or as to the prices at which the ordinary shares and savings shares of Telecom Italia or TIM will trade prior to completion of the Merger.

JPMorgan did not use the values resulting from its analyses for any purpose other than that of evaluating the fairness to Telecom Italia of the Merger exchange ratios for the ordinary and savings shares and those values should not be used for any other purpose. In accordance with customary investment banking practice, JPMorgan employed generally accepted valuation methods in preparing its December 7, 2004 opinion. In particular, in evaluating the Merger exchange ratio, JPMorgan focused on the relative valuations of Telecom Italia and TIM, giving priority to the consistency and comparability of the criteria adopted, rather than the absolute value of those companies. JPMorgan carried out its analyses considering the two companies as separate entities and therefore ignored any strategic, operational or financial synergies that may result from the Merger, as well as any control premiums and minority discounts. The valuation of TIM has been primarily performed by JPMorgan using the Discounted Cash Flow as fundamental methodology. JPMorgan adopted a "sum-of-the-parts" approach with respect to Telecom Italia because Telecom Italia's businesses operate in different operational, industrial and strategic environments and because of the differing importance and materiality of those businesses in relation to Telecom Italia as a whole.

Lastly, JPMorgan compared the range of exchange ratios calculated using the above criteria with the exchange ratios derived from the relative historical trading prices of the ordinary and savings shares of Telecom Italia and TIM over selected time periods prior to the announcement of the transaction.

*Valuation of TIM.* The valuation of TIM has been primarily performed by JPMorgan using the Discounted Cash Flow as fundamental methodology, based on operating and financial assumptions, forecasts and other information prepared by the management for the years 2005 through 2007, which were extended through 2014, and for the calculation of terminal values, as described below. The weighted average cost of capital (WACC) reflects assumptions which are consistent with market benchmarks relating to the cost of debt capital and the cost of equity capital, as well as with the capital structure of the activity to be valued. The growth rates used by

JPMorgan for the projections from the years 2008 through 2014 and for the terminal value are consistent with relevant market benchmarks. A 2007-2014 revenue CAGR of 3.3% and an average EBITDA margin of 46.1% were assumed for the 2008-2014 financial projections, and a terminal value growth rate of 2.0% and a WACC of 8.9% were used in the discounted cash flow valuation.

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

The values derived from the foregoing analyses were adjusted to take into account net debt as of 31 December 2004, minority interests, where material, and the net value of other adjustments, including the effects of the expected sale of Corporacion Digitel (Venezuela) and certain tax benefits.

The following table shows the minimum, mid-point and maximum values per TIM ordinary share before adjustment for the dividend expected to be paid in May 2005.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM ordinary share (Euro)</b> .....	<b>5.28</b>	<b>5.58</b>	<b>5.87</b>

Note: the figures in this table have been rounded up

The table below shows the minimum, mid-point and maximum values for each TIM savings share, calculated based on the value of the TIM ordinary share with no discount applied. The zero discount is substantially in line with the average market discount during the last three months before the last day of trading prior to the announcement of the transaction (December 3, 2004), and takes into account the small average market premium and the small average market discount during the last six months.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM savings share (Euro)</b> .....	<b>5.28</b>	<b>5.58</b>	<b>5.87</b>

Note: the figures in this table have been rounded up

The table below shows the minimum, mid-point and maximum values of the TIM ordinary and savings shares, adjusted to take into account the effect of the distribution of dividends expected to be paid in May 2005 (assumed to be in line with the respective dividends per share paid in May 2004).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per TIM ordinary share (Euro)</b> .....	<b>5.02</b>	<b>5.32</b>	<b>5.61</b>
<b>Values per TIM savings share (Euro)</b> .....	<b>5.01</b>	<b>5.31</b>	<b>5.60</b>

Note: the figures in this table have been rounded up

*Valuation of Telecom Italia.* JPMorgan analyzed the two main businesses of Telecom Italia, Telecom Italia S.p.A. and TIM, primarily using the discounted cash flow method. In particular, TIM was valued based on the range of values obtained using this method, adjusted for the distribution of the dividends expected to be paid in May 2005. The remaining Telecom Italia businesses, which are minor in relation to Telecom Italia as a whole, were analyzed using their market value, where their securities are publicly traded, and on various other criteria depending on the nature of the business, including market multiples and book value. In addition, JPMorgan compared the values derived by the foregoing analyses with values identified by research analysts for such businesses, where available.

With regards to Telecom Italia S.p.A. activities, JPMorgan performed a discounted cash flow analysis based on operating and financial assumptions, forecasts and other information prepared by the management for the years 2005 through 2007, which were extended through 2014, and for the calculation of terminal value, as described below. The weighted average cost of capital (WACC) reflects assumptions which are consistent with market benchmarks relating to the cost of debt capital and the cost of equity capital, as well as with the capital structure of the activity to be valued. The growth rates used by JPMorgan for the projections from the years 2008 through 2014 and for the terminal value are consistent with relevant market benchmarks. A 2007-2014 revenue compound annual growth rate (CAGR) of 0.2% and an average earnings before interest, taxes, depreciation and amortization (EBITDA) margin of 44.6% were assumed for the 2008-2014 financial projections, and a terminal value growth rate of 0.0% and a WACC of 7.3% were used in the discounted cash flow valuation.

To the values calculated in the manner described above was added the estimated net financial position of Telecom Italia at 31/12/2004, the effects of the proportional net debts and minority interests, where material, the effect of the TIM shares dividend expected to be paid in May 2005 and the net value of other adjustments including the value of certain off-balance sheet items and certain tax benefits; furthermore it was adjusted to take account of the pro-forma effect of the conversion of the Telecom Italia 1.5% 2010 convertible bonds, consistently with the fully-diluted method.

The following table shows the minimum, mid-point and maximum values for each Telecom Italia ordinary share consistently with the fully-diluted method, before adjustment for the dividend expected to be paid in May 2005.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia ordinary share (Euro)</b> .....	<b>2.95</b>	<b>3.20</b>	<b>3.45</b>

Note: the figures in this table have been rounded up

The following table shows the minimum, mid-point and maximum values for each Telecom Italia savings share calculated based on a discount of 27%, which is substantially in line with the average market discount during the last month, the last 6 months, and the discount of the last day of trading prior to the announcement of the transaction, December 3, 2004.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia savings share (Euro)</b> .....	<b>2.15</b>	<b>2.34</b>	<b>2.52</b>

Note: the figures in this table have been rounded up

The table below shows the minimum, mid-point and maximum values of the Telecom Italia ordinary and savings shares, adjusted to take into account the effect of the distribution of dividends expected to be paid in May 2005 (assumed to be in line with the respective dividends per share paid in May 2004).

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Values per Telecom Italia ordinary share (Euro)</b> .....	<b>2.84</b>	<b>3.10</b>	<b>3.35</b>
<b>Values per Telecom Italia savings share (Euro)</b> .....	<b>2.04</b>	<b>2.22</b>	<b>2.41</b>

Note: the figures in this table have been rounded up

*Analysis of the Exchange Ratio.* JPMorgan compared the results derived from the application of the above valuation methods for TIM and Telecom Italia, obtaining the following ranges of implied Merger exchange ratios.

	<u>Minimum</u>	<u>Mid-point</u>	<u>Maximum</u>
<b>Telecom Italia ordinary shares for each TIM ordinary share</b> .....	<b>1.68</b>	<b>1.72</b>	<b>1.77</b>
<b>Telecom Italia savings shares for each TIM savings share</b> .....	<b>2.33</b>	<b>2.39</b>	<b>2.46</b>

Note: the figures in this table have been rounded up

JPMorgan also compared the ranges of Merger exchange ratios set forth above against the Merger exchange ratios derived from the relative historical trading prices of the ordinary and savings shares of the two companies over selected time periods prior to the announcement of the transaction, adjusted to take into account the effect of the distribution of dividends expected to be paid in May 2005, assumed to be in line with the respective dividends per share paid in May 2004.

		<u>Average of 1 month Ending 3/12/04</u>	<u>Average of 3 months Ending 3/12/04</u>	<u>Average of 6 months Ending 3/12/04</u>	<u>Average of 12 months Ending 3/12/04</u>
<b>Telecom Italia ordinary shares for each TIM ordinary share</b> .....	<b>1.72</b>	<b>1.69</b>	<b>1.71</b>	<b>1.74</b>	<b>1.74</b>
<b>Telecom Italia savings shares for each TIM savings share</b> .....	<b>2.47</b>	<b>2.41</b>	<b>2.36</b>	<b>2.39</b>	<b>2.45</b>

Note: the figures in this table have been rounded up. The 12-month average exchange ratio has also been adjusted to take into account the effect of distribution of dividends paid in May 2004.

On 22 November 2004, JPMorgan was retained by Telecom Italia initially to assist in considering the feasibility of, and, upon Telecom Italia's decision to proceed, to act as its financial advisor with respect to, the Merger and related transactions, which engagement was formalized in an engagement letter dated 6 December 2004. JPMorgan and its affiliates will receive from Telecom Italia maximum total fees of approximately euro 45 million upon completion of the Merger in consideration for rendering advisory services and acting as global coordinator, bookrunner and mandated lead arranger of the euro 12 billion term loan facility entered into in connection with the Merger and related transactions. Telecom Italia has also agreed to reimburse JPMorgan for its reasonable expenses incurred in connection with its services, including the fees and disbursements of outside counsel, and will indemnify JPMorgan against certain liabilities. JPMorgan and its affiliates, in the ordinary course of their activities, may actively trade for their own account or for the accounts of customers the equity and debt securities of Telecom Italia or TIM or companies directly or indirectly controlling, controlled by, affiliated with Telecom Italia or TIM or in which Telecom Italia or TIM holds securities or companies having interests in Telecom Italia or TIM, and, accordingly, JPMorgan and its affiliates may at any time hold long or short positions in such securities. JPMorgan and its affiliates have in the past represented Telecom Italia and TIM or companies directly or indirectly controlling, controlled by, affiliated with Telecom Italia or TIM or in which Telecom Italia or TIM holds securities or companies having interests in Telecom Italia or TIM in connection with a variety of commercial banking, investment banking, capital markets, and other transactions. JPMorgan and its affiliates may currently have and may in the future have commercial banking, investment banking, trust or other relationships or engagements with counterparties that may have interests with respect to Telecom Italia, TIM or companies directly or indirectly controlling, controlled by, associated with Telecom Italia or TIM or in which Telecom Italia or TIM holds securities, which interests may in some cases be contrary to the interests of any of those companies. JPMorgan and its affiliates may have fiduciary or other relationships or engagements in which JPMorgan or its affiliates may exercise voting power over securities of various persons, which securities may from time to time include securities of Telecom Italia, TIM, or companies directly or indirectly controlling, controlled by, affiliated with Telecom Italia or TIM or in which Telecom Italia or TIM holds securities, or other parties with an interest with respect to Telecom Italia, TIM or the Merger and related transactions.



**Original document drawn up on Mediobanca letterhead**

*The Fairness Opinion has been prepared by Mediobanca in Italian only. Accordingly, in the event of any discrepancies between the original and the English translation attached hereunder, the Italian version shall prevail*

**Telecom Italia S.p.A. - TIM S.p.A.**

***Fairness opinion  
on merger exchange ratio***

7 December 2004

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## **1. FOREWORD**

### **1.1. Nature of mandate and purpose of document**

Telecom Italia S.p.A. (“Telecom Italia”) has launched a corporate restructuring programme (the “Programme”) aimed at creating an integrated fixed line and mobile telephony operator. The Programme includes, *inter alia*, Telecom Italia launching a public tender offer (the “PTO”) for Telecom Italia Mobile S.p.A. (“TIM”) and the latter being merged into Telecom Italia.

Regarding the proposed merger, at a meeting held on 7 December 2004, the Board of Directors of Telecom Italia decided on the exchange ratio (the “Exchange Ratio”) for shares in Telecom Italia and TIM (jointly, the “Companies”), which it set at:

#### **1.73 ordinary Telecom Italia shares for every 1 ordinary TIM share**

#### **2.36 Telecom Italia savings shares for every 1 TIM savings share**

In this connection, Telecom Italia has asked Mediobanca – Banca di Credito Finanziario S.p.A. (“Mediobanca”) to express its professional opinion regarding the fairness or otherwise of the Exchange Ratio thus chosen.

Telecom Italia has not asked Mediobanca to give a valuation of the underlying business rationale for implementing the Programme, neither has Mediobanca given such a valuation herein, nor does it intend to. Telecom Italia has not asked Mediobanca to provide, and Mediobanca has not provided, services regarding the legal, accounting and tax issues raised by the Programme.

This document (the “Document”) is intended solely to furnish the Board of Directors of Telecom Italia with the professional opinion of Mediobanca in respect of the fairness or otherwise of the Exchange Ratio chosen.

This opinion may be viewed by the Board of Directors of Telecom Italia as one factor in assessing the fairness of the Exchange Ratio it has set, which, without prejudice to the foregoing, it may change, at its own absolute discretion in respect of judgement and decision-making, on the basis of other considerations and contingent and subjective factors. Indeed, the Boards of Directors of Telecom Italia and TIM retain absolute sovereignty with regard to the terms on which and the methods according to which the proposed merger should take place, and to the drawing up of the relevant illustrative reports, irrespective of whether they choose to avail themselves of the services of financial advisors, as they have done in this case.

Assessment of the fairness of the Exchange Ratio, and of the estimates of the Companies’ economic capital in relative terms used in determining the Exchange Ratio, have been carried out solely in view of the specific objectives indicated. They may therefore not be used for any other purpose, or viewed in isolation from the context in which they were formulated, or treated as representative in absolute terms of a valuation for either of the Companies or their subsidiaries or used as a benchmark for comparing theoretical or effective disposal prices which are necessarily the result of a negotiating process, or for comparison of any other kind. In particular, such estimates may not in any way be viewed as indicative of the market values at which Telecom Italia and TIM shares may be traded on regulated markets at any time.

This Document is being issued solely for the benefit of the Board of Directors of Telecom Italia, and its content may not be disclosed or divulged to third parties without prior authorization in writing from Mediobanca. Mediobanca does not authorize third parties to rely on the analysis and conclusions contained herein, and expressly declines all liability for any damages arising from use of the Document for any purposes or ends other than those indicated herein. Shareholders in Telecom Italia and TIM and any other third parties who may be interested should therefore consult their own financial advisors, if they deem appropriate. Without prejudice to the foregoing, Mediobanca hereby authorizes the Board of Directors of Telecom Italia to disclose the Document to the Board of Directors of TIM, and to include it among the company deeds required by law and Consob regulations in connection with the merger process.

The conclusions set forth herein are based on the sum of analyses described hereunder. Accordingly, no part of the Document may be considered separately from the Document as a whole.

## **1.2. Transaction description**

The merger referred to herein forms part of the wider Programme, which may be summarized as follows:

- Telecom Italia will launch a PTO for the 66.7% of TIM it does not already own and for all TIM savings shares, which offer being conditional *inter alia* upon an acceptance rate of at least 66.7% of the ordinary and savings shares being bid for, at a price of 5.6 per share irrespective of category;
- a syndicate of Italian and international banks will grant Telecom Italia a credit line worth a total of € 12bn in order to fund the transaction;
- upon completion of the PTO, TIM will be merged into Telecom Italia after TIM has spun off its mobile telephony business assets to a wholly-owned subsidiary.

## **1.3. Date of reference**

The date of reference for the work contained herein has been conventionally set at 31 December 2004.

## **1.4. Documents used**

In carrying out its mandate, Mediobanca has used mostly the following documentation:

- Telecom Italia and TIM Articles of Association currently in force;
- Telecom Italia and TIM statutory and consolidated accounts for the 2002-2003 two-year period, including accompanying schedules, reviews of operations, statutory audit committee reports and external auditors' reports;
- Telecom Italia and TIM interim and quarterly accounts for 2002, 2003 and 2004;
- estimates for Telecom Italia and TIM accounts for the twelve months to December 2004;
- the Telecom Italia group 2005-2007 business plan as updated by management to 3 December 2004 but not yet approved by Telecom Italia's Board of Directors;
- other documents and information provided by Telecom Italia and TIM themselves, or otherwise obtained in the course of meetings with management;
- stock market information, sector reports issued by independent analysts, and other information in the public domain.

## **1.5. Assumptions and limitations**

The Document has been drawn up based on the following assumptions and limitations:

- a) in the course of executing the mandate conferred upon us, we have relied on the truthfulness, accuracy and completeness of the information provided, and have made no independent assessment or verification thereof;
- b) our analysis of the fairness or otherwise of the Exchange Ratio is based on the assumption that the Companies constitute going concerns, and takes no account of the possibility of events of an extraordinary and unpredictable nature, for example (such instances not to be construed restrictively) changes to economic, financial, monetary, political or market conditions, or action taken by state or government entities or regulatory authorities in the Companies' sector of activity, such as might influence evaluation of the fairness or otherwise of the Exchange Ratio. Mediobanca is under no obligation to update or amend the Document on the basis of information, circumstances or events subsequent to the date on which it was drawn up;
- c) our analysis has not involved identifying or quantifying any potential liabilities (or lower than expected assets), but does take into account situations reflected in the accounts of Telecom Italia and TIM and situations which the management of the Telecom Italia group has brought to the attention of Mediobanca. Furthermore, Mediobanca has not carried out any independent valuation of the individual assets and liabilities of the Telecom Italia group, including off-balance sheet assets and liabilities;
- d) the value of the Companies used for purposes of assessing the fairness of the Exchange Ratio, where and to the extent to which it is based on figures that are provisional in nature, depends on the assumptions used in preparation of the aforementioned estimates proving to be correct. The analysis carried out by Mediobanca is based *inter alia* on the delivery of earnings and financial targets set forth in the operating plans drawn up by the Companies' management. Critical review of such plans would require more indepth analysis from industrial and business stand-points than has been carried out for the purposes hereof, and would require capabilities other than those typically provided by an investment bank;

- e) use of the Document is restricted to the Board of Directors of Telecom Italia with reference to the aims stated under the foregoing section 1.1;
- f) the Fairness Opinion is advisory in nature and may not be considered as binding or obligatory; it does not constitute a valuation or an estimate report as defined under regulations currently in force.

## **2. COMPANY INFORMATION**

### **2.1. TELECOM ITALIA S.p.A.**

Telecom Italia is listed on the screen-based market or MTA operated by Borsa Italiana S.p.A. and has as its purpose:

- the installation and operation, via any technique, means or system, of fixed and mobile telecommunications equipment and machinery, including space systems via artificial satellite equipment, radioelectric stations *inter alia* on board ships, and connections for maritime mobile radio communications, and the installation and operation of dedicated and/or integrated networks to provide and manage telecommunications services under concession without territorial restrictions for general use on the free market (including such services as result from technological developments), for example planning, development, operation, maintenance and sale of telecommunications, IT, telematic and electronic products, services and systems;
- the execution of activities connected with, or otherwise useful to, pursuit of the company's objects, including publishing, advertising, IT, telecommunications and multimedia activities and more generally commercial, financial, real estate, research, training and advisory activities;
- acquisition – as a secondary activity – of holdings in companies or enterprises whose business falls within the corporate object of Telecom Italia as defined above or is otherwise connected therewith or complementary or analogous thereto, including companies operating in the electronic manufacturing and the insurance businesses;
- control, strategic, technical, administrative and financial co-ordination, and direction and management of the financial activities of the companies and their subsidiaries, including the execution of any transaction or activity connected thereto.

The share capital of Telecom Italia is EUR 8,861,181,281.15 fully paid up, made up of 16,111,238,693 par value EUR 0.55 shares, 10,315,317,624 of which are ordinary shares and 5,795,921,069 are non-convertible savings shares.

Telecom Italia owns 56.3% of the ordinary capital and 55.4% of the share capital of TIM, itself and via subsidiaries.

### **2.2. TIM S.p.A.**

TIM is listed on the screen-based market or MTA operated by Borsa Italiana S.p.A., and has as its object the installation and operation of systems to provide and manage telecommunications services without territorial restrictions, in particular mobile telecommunications services under concession on the free market, or otherwise to carry out services connected therewith, including, for example, the planning, development, operation, maintenance and sale of telecommunications, IT, telematic and electronic products, services and systems, with the exception of those activities restricted to individuals registered with relevant professional bodies.

The share capital of TIM amounts to EUR 513,964,432.74 fully paid up, comprising 8,566,073,879 par value 0.06 shares, 8,434,004,716 of which are ordinary shares and 132,069,163 non-convertible savings shares.

## **3. VALUATION METHODS USED**

### **3.1. Basic principles**

Generally accepted valuation principles have been adopted in execution of the mandate, with special emphasis having been given to those principles most widely used on a national and international basis in terms of estimates carried out in connection with mergers, which are summarized as follows:

- in view of the rationale for such valuations – to determine a share exchange ratio for the purpose of such transactions – priority has been given to applying largely uniform criteria which are compatible with the features of the companies being valued;
- the valuations have been carried out on a stand-alone basis, and for this reason take no account of any synergies possibly deriving from the merger or any other extraordinary transaction which could influence the value of the company post-merger;

- it should also be made clear that the aim of the valuation is not so much to estimate the respective economic capital of the companies concerned as to obtain substantially comparable values in order to enable a share exchange ratio to be determined. Accordingly the results yielded by this analysis may not be used for reasons other than that of determining a range for the Exchange Ratio;
- where the merger involves listed companies, stock market price is normally a useful indicator. However, such data must be employed with due care rather than used as the only factor to be taken into consideration, especially when the two companies are already related through shareholdings as is the case in this instance, and should be complemented by other valuation methodologies.

### **3.2. Methods used**

Bearing in mind the characteristics of the two Companies, it was deemed appropriate to use fundamentals-based methods as well as stock market price methods.

#### *Methods based on fundamentals*

For the purpose of valuing groups, theory and professional practice both advocate two alternative procedures:

- estimating the value of the group in its entirety on a consolidated basis (the “consolidation” method) using consolidated accounts;
- a separate valuation of the parent company and subsidiaries (the “traditional” or “cascade” method) based on their statutory accounts.

The first procedure involves use of consolidated accounts, while the second involves the so-called “cascade” method which means analysing the value of the parent company and subsidiaries separately based on their statutory accounts. The consolidation method enables earnings or financial duplications resulting from intra-group transactions to be eliminated, and means no account has to be taken of the group’s company structure. However, in the case of parent companies which engage in dissimilar activities with divergent profiles and trends, the use of consolidated accounts does not fully reflect the diversity existing between the various sectors of business which would be provided by applying different valuation criteria. Hence, in the event of parent companies carrying out different operational activities, the application of consolidation-based valuation methods may give rise to misleading results. To correct this problem, the most frequently adopted solution involves subdividing groups into units carrying out similar activities, in each case using valuation criteria that are appropriate to the activities concerned.

In the case under review, the consolidation-based method has been deemed to be appropriate. However, in view of the different features of the Companies involved, it has been applied using different approaches, i.e. consolidated accounts for TIM and sum-of-the-parts for Telecom Italia.

For the purpose of determining the fairness of the Exchange Ratio, the value of TIM’s economic capital has been estimated using the discounted cash flow or DCF method, in view of the more focused nature of its business. This method is based on the general concept whereby the value of a company is equal to the discounted value of all cash flows which the said company is able to generate in the future. Out of the various alternative methods developed theoretically and in line with practice broadly adopted, unlevered discounted cash flow has been used, whereby the value of a company is equal to the sum of the operating cash flows generated in the years taken as the time horizon of an analytical forecast contained in its business plan and discounted at a rate equal to the average weighted cost of capital, and the terminal value, i.e. the discounted value of operating cash flows which the company will continue to generate in the periods subsequent to that covered by explicit forecasts, plus the value of all assets and liabilities not included in the operating cash flows for methodological reasons, less the current value of its net financial commitments.

The relative value of Telecom Italia’s economic capital for the purpose of determining the fairness or otherwise of the Exchange Ratio has been estimated as the sum of the economic values of its individual areas of activity, i.e. wireline, mobile, internet & media, etc., which are obtained by applying appropriately differentiated valuation methodologies. In particular, for its core businesses, i.e. fixed telephony and TIM, the DCF method as described above has been used, whereas for the other activities which are less significant vis-a-vis the group as a whole, methods based on the market multiples of comparable listed companies, on market prices and balance sheet indicators, have been used on a case-by-case basis.

As far as regards the determination of value per share, for Telecom Italia, in line with national and international valuation practice, the economic capital value obtained by applying the methods described above has been



divided on the assumption that the ratio between the values of the different classes of shares may be derived from those actually recorded in the respective stock market prices of such shares over a sufficiently meaningful period of time. To this end, the average of stock market prices recorded in the three months prior to 4 December 2004 has been used for reference purposes. For TIM, given the limited percentage accounted for out of the total number of shares comprising its share capital by savings shares, and given also the terms of the public tender offer, whereunder both categories of shares receive equal treatment, it has been decided to assign the same value to both ordinary and savings shares.

#### *Stock market price methods*

The stock market price method is one of the so-called “direct” valuation methods, i.e. those which, in order to identify the value of listed companies, use actual prices recorded by the market in transactions involving shares in the capital of the company being valued. Such methods, although they may not be adopted unconditionally in calculating absolute values of economic capital, nonetheless constitute useful benchmarks to enable the ratio between the economic capital of two listed companies to be expressed in relative terms. The results provided by direct methods derive from a logical process which is different from analytical-type valuation methods, the latter being based on explicit assumptions formulated by the person carrying out the valuation. The market expresses prices which ought to summarize investors’ expectations with regard to the multiple factors involved in making the stocks and companies being valued attractive or otherwise, e.g. profitability, risk, growth, liquidity, etc. If markets were perfectly efficient, i.e. long-term oriented, large quantities traded, perfectly transparent, investors fully economically rational, etc., the valuation process ought to be exhausted by such price indications as may be derived from the market. For this reason, when certain conditions subsist, such as listing on regulated markets featuring a high level of efficiency, large free float, high quantities traded, business prospects being appreciated by an appropriate number of financial analysts on an ongoing basis, in such a way as to contribute to the dissemination of information which is useful with a view to ensuring market prices reflect earnings forecasts and risk profiles more accurately, stock market prices represent an extremely useful factor in the valuation process, providing summary benchmarks whereby to calculate the appreciation or otherwise of the value of the company being valued. In view of the foregoing and the features of the Company involved, we have used the stock market price method in order to complete the valuation framework. To strike an accurate balance between the need to use recent data reflecting the stock’s current market value, and the need to mitigate the volatility effect of daily stock market prices via observations recorded over a sufficiently extended time horizon, we have analysed the trend in stock market prices over differing time horizons, i.e. the one month, three months, six months and twelve months prior to 4 December 2004.

## **4. RESULTS AND CONCLUSIONS**

### **4.1. Methods based on fundamentals**

By applying the method described above, and also taking into account dividend payouts assumed to be in line with those of the previous financial year and which are scheduled to take place before the merger is consummated, the values per share of Telecom Italia and TIM from a relative viewpoint and the respective exchange ratios expressed in terms of the number of Telecom Italia shares to be received for every 1 TIM share held, are comprised within the following ranges:

	<u>Ordinary</u>	<u>Non-conv. sav.</u>
Telecom Italia per share (EUR) .....	2.85 – 3.38	2.08 – 2.47
TIM per share (EUR) .....	5.04 – 5.67	5.04 – 5.67
<b>Exchange ratio</b> .....	<b><u>1.68 – 1.77</u></b>	<b><u>2.30 – 2.42</u></b>

#### 4.2. Stock market price methods

By applying the methodology described above, and also taking into account dividend payouts assumed to be in line with those of the previous financial year and which are scheduled to take place before the merger is consummated, the values per share of Telecom Italia and TIM from a relative viewpoint and the respective exchange ratios expressed in terms of the number of Telecom Italia shares to be received for every 1 TIM share held, are comprised within the following ranges:

<b>Ordinary shares</b>	<b>Avg. 1 month</b>	<b>Avg. 3 months</b>	<b>Avg. 6 months</b>	<b>Avg. 12 months</b>
TIM price (EUR) .....	4.65	4.37	4.29	4.30
Telecom Italia price (EUR) .....	2.75	2.55	2.47	2.45
<b>Exchange ratio</b> .....	<b>1.69</b>	<b>1.71</b>	<b>1.74</b>	<b>1.75</b>

  

<b>Non-conv. sav.</b>	<b>Avg. 1 month</b>	<b>Avg. 3 months</b>	<b>Avg. 6 months</b>	<b>Avg. 12 months</b>
TIM price (EUR) .....	4.72	4.34	4.22	4.21
Telecom Italia price (EUR) .....	1.96	1.84	1.76	1.72
<b>Exchange ratio</b> .....	<b>2.41</b>	<b>2.36</b>	<b>2.39</b>	<b>2.44</b>

#### 4.3. Conclusions

To sum up, the exchange ratios determined by applying the methods described above vary within the following ranges:

	<b>Fundamental methods</b>	<b>Stock market methods</b>
Ordinary shares .....	1.68 – 1.77	1.69 – 1.75
Non-convertible savings shares .....	2.30 – 2.42	2.36 – 2.44

In view of and within the limitations of the mandate conferred upon us as described above, it is our opinion that, as at the date hereof, the Exchange Ratio set by the Board of Directors of Telecom Italia at:

**1.73 ordinary Telecom Italia shares  
for every 1 ordinary TIM share**

**2.36 Telecom Italia savings shares  
for every 1 TIM savings share**

is within the value ranges listed above, and is therefore to be seen as fair for Telecom Italia.

M E D I O B A N C A

Signed by Clemente Rebecchini and Francesco Coatti

To: Telecom Italia S.p.A.  
Piazza degli Affari, 2  
20123 Milan  
Italy

For the attention of: The Board of Directors

**Original document drawn up on Mediobanca letterhead**

*This letter has been prepared by Mediobanca in Italian only. Accordingly, in the event of any discrepancies between the original and the English translation attached hereunder, the Italian version shall prevail*

23 January 2005

Dear Sirs,

We refer to our fairness opinion dated 7 December 2004 (the "Fairness Opinion"), in which we expressed our professional opinion regarding the fairness of the share exchange ratio set in respect of the proposed merger between TIM and Telecom Italia.

You have informed us that since 7 December 2004, no event has occurred which has significantly influenced or might significantly influence any of the documents, information, data, projections or assumptions furnished by you to us and referred to in the Fairness Opinion, nor the financial or earnings situation, business, assets or liabilities or prospects of Telecom Italia S.p.A., TIM S.p.A. and/or the companies controlled by them.

Based on, and subject to, the foregoing, and taking into account the same criteria, assumptions, aims and limitations laid down in the Fairness Opinion, we hereby confirm the conclusions set forth therein as at the date hereof.

This letter may not be viewed in isolation from the context in which it was formulated, nor separately from the Fairness Opinion and the documents with which you have furnished us, nor may it be disclosed, transferred, reproduced, quoted in part or in full, or referred to, without prior authorization from Mediobanca. Without prejudice to the foregoing, Mediobanca hereby authorizes the Board of Directors of Telecom Italia to disclose the document to the Board of Directors of TIM, and to include it among the company deeds required by law and by Consob regulations in relation to the merger process.

Yours very truly,

M E D I O B A N C A

Signed by Clemente Rebecchini and Francesco Coatti

To: Telecom Italia S.p.A.  
Piazza degli Affari, 2  
20123 Milan  
Italy

*For the attn of: The Board of Directors*

*This document has been prepared by Mediobanca in Italian only. Accordingly, in the event of any discrepancies between the original and the English translation attached hereunder, the Italian version shall prevail*

***Summary of analysis carried out by Mediobanca in connection with the issue of a fairness opinion under the terms of its engagement as financial advisor to Telecom Italia***

Under the terms of a mandate conferred by Telecom Italia S.p.A. (“Telecom Italia”) on Mediobanca – Banca di Credito Finanziario S.p.A. (“Mediobanca”) with regard to the merger of Telecom Italia Mobile S.p.A. (“TIM”) into Telecom Italia, Telecom Italia requested Mediobanca to furnish it with its professional opinion regarding the fairness or otherwise of the exchange ratio (the “Exchange Ratio”) Telecom Italia had set in respect of Telecom Italia and TIM shares.

On 7 December 2004, Mediobanca duly furnished the Board of Directors of Telecom Italia with its fairness opinion (the “Fairness Opinion”), in which it stated that as at the date thereof, and having taken into account the criteria, assumptions, aims, and limitations set forth therein, the Exchange Ratio set by the Board of Directors of Telecom Italia at 1.73 ordinary Telecom Italia shares for every ordinary TIM share held, and 2.36 Telecom Italia savings shares for every TIM share held, should be seen as fair for Telecom Italia.

Subsequent to that date, in a letter dated 23 January 2005 (the “Letter of Confirmation”), based on and subject to the recitals to and the restrictions contained in the Letter of Confirmation and the Fairness Opinion, Mediobanca confirmed the conclusions set forth in the Fairness Opinion issued on 7 December 2004 to the Board of Directors of Telecom Italia as at the date of the Letter of Confirmation.

The Fairness Opinion issued by Mediobanca on 7 December 2004, and the Letter of Confirmation issued by Mediobanca on 23 January 2005 were drawn up for the sole purpose of furnishing the Board of Directors of Telecom Italia with the professional opinion of Mediobanca in respect of the fairness or otherwise of the Exchange Ratio.

Assessment of the fairness of the Exchange Ratio, and of the estimates of the economic capital of Telecom Italia and TIM used in the determining of the Exchange Ratio, may not be used for any other purpose, or viewed in isolation from the context in which they were formulated, nor seen as representative of a valuation in absolute terms for either of the companies and their respective subsidiaries, nor used as a benchmark for comparison with theoretical or effective disposal prices, which are necessarily an expression of a negotiation process, or for comparison of any other kind. In particular, such estimates may not in any way be viewed as indicative of the market prices at which Telecom Italia and TIM shares may be traded on regulated markets at any time.

The Fairness Opinion is advisory in nature, and is neither binding nor mandatory, nor does it constitute a valuation or an estimate report as defined under current regulations.

The full Fairness Opinion issued by Mediobanca on 7 December 2004, which sets forth the criteria, assumptions, purposes and limitations of the analysis carried out by Mediobanca in connection with the Fairness Opinion, and the full Letter of Confirmation issued by Mediobanca on 23 January 2005 are attached to the Information Document, and are to be viewed as an integral part thereof.

In carrying out its mandate, Mediobanca has mostly used the following documentation:

- Telecom Italia and TIM Articles of Association currently in force;
- Telecom Italia and TIM statutory and consolidated accounts for the 2002-2003 period, including accompanying schedules, reviews of operations, statutory audit committee reports and external auditors’ reports;
- Telecom Italia and TIM interim and quarterly reports for 2002, 2003 and 2004;
- estimates for Telecom Italia and TIM statutory and consolidated accounts for the twelve months to 31 December 2004;
- the Telecom Italia group 2005-2007 business plan as updated by management to 3 December 2004, but not yet approved by Telecom Italia’s Board of Directors;
- other documents and information furnished by Telecom Italia and TIM themselves, or otherwise obtained in the course of meetings with management;
- stock market information, sector reports issued by independent analysts, and other information in the public domain.

In the course of the analyses it has carried out in relation to the Fairness Opinion, Mediobanca has relied on the truthfulness, accuracy and completeness of the information provided, and has made no independent assessment or verification thereof. Mediobanca's analysis of the fairness or otherwise of the Exchange Ratio is based on the assumption that the companies involved constitute going concerns, and takes no account of the possibility of events of an extraordinary and unpredictable nature, for example (such instances not to be construed restrictively) changes to economic, financial, monetary, political or market conditions, or action taken by state or government entities or regulatory authorities in the companies' sectors of activity, such as might influence appraisal of the fairness or otherwise of the Exchange Ratio. The analysis has not involved identifying or quantifying any potential liabilities (or lower than expected assets), but does take into account situations reflected in the accounts of Telecom Italia and TIM, and situations which the management of the Telecom Italia group has brought to the attention of Mediobanca. Furthermore, Mediobanca has not carried out any independent valuation of the individual assets and liabilities of the Telecom Italia group, including off-balance sheet assets and liabilities. Finally, it should be pointed out that the value of Telecom Italia and TIM used for purposes of assessing the fairness or otherwise of the Exchange Ratio, where and to the extent to which it is based on figures that are provisional in nature, depends on the assumptions used in preparation of the aforementioned estimates proving to be correct. The analysis carried out by Mediobanca is based *inter alia* on the delivery of the earnings and financial targets set forth in the operating plans drawn up by the companies' management. Critical analysis of such plans would require more indepth analysis from the industrial and business standpoints than has been carried out for the purposes hereof, and would require capabilities other than those typically provided by an investment bank.

The Fairness Opinion and the analyses carried out by Mediobanca do not constitute the only aspects to be taken into consideration by the Board of Directors of Telecom Italia in respect of the merger approval, and for this reason should not be deemed to be determining in the decision of the Board of Directors of Telecom Italia.

A brief summary of the financial analysis carried out by Mediobanca in relation to the Fairness Opinion issued on 7 December 2004 is given below. This summary is not intended to be an exhaustive description of the work carried out by Mediobanca. It should be noted above all that valuation in fact consists of a series of analyses and includes estimates. These should be considered as a whole, and cannot be described in a summary document.

The date of reference for the Fairness Opinion was conventionally set at 31 December 2004.

In executing its mandate Mediobanca employed generally accepted valuation principles, with special emphasis being given to those principles most widely used in respect of merger transactions on a national and international basis. In particular, given the rationale for such valuations, namely to determine a share exchange ratio with a view to such transactions, priority was given to applying broadly uniform criteria which are compatible with the characteristics of the companies being valued. In addition, the valuations were carried out on a stand-alone basis, and for this reason took no account of any synergies possibly deriving from the merger, or of any other extraordinary transaction that could influence the value of the companies post-merger.

Bearing in mind the characteristics of Telecom Italia and TIM, Mediobanca deemed it appropriate to adopt fundamentals-based methods as well as stock market price methods.

#### *Methods based on fundamentals*

The value of TIM's economic capital was estimated by using the discounted cash flow or DCF method. In particular the unlevered discounted cash flow method was used whereby the value of a company is deemed to be equal to the sum of the operating cash flows generated in the years taken as the time horizon of an analytical estimate contained in its business plan and discounted at a rate equal to the average weighted cost of capital, and the terminal value, i.e. the discounted value of operating cash flows which the company will continue to generate in the periods subsequent to that covered by explicit estimates, plus the value of all assets and liabilities not included in the operating cash flows for methodological reasons, less the current value of its net financial commitments.

In applying this method, Mediobanca has used provisional data compiled by Telecom Italia management for the 2005-2007 period, extending the explicit projection period to 2010. For 2008-2010, an annual revenue growth rate of 3-5.5% and operating margins consistent with the 2005-2007 business plan forecasts were assumed. Cash flows have been discounted at a rate of around 9.1%, which is representative of the average weighted cost of capital calculated on the basis of a capital structure in line with the one currently in place. Regarding the estimated terminal value a growth rate of approx. 2.5% has been used, in line with the relevant market

benchmarks. To complete the procedure thus illustrated, a sensitivity analysis was then carried out with reference both to the weighted average cost of capital used to discount the cash flows, and to the growth rate used in order to estimate the terminal value.

The value of Telecom Italia's economic capital was estimated using the sum-of-the-parts method, that is to say, as the sum of the economic values of its individual areas of activity, i.e. wireline, mobile, Internet and media, etc., which are obtained by applying appropriately differentiated valuation methodologies. In particular, for its core businesses, i.e. fixed line telephony and TIM, the DCF method as described above has been used, whereas for the other activities which are less significant in terms of the group as a whole, methods based on the market multiples of comparable listed companies, market prices and balance sheet indicators have been used as appropriate, on a case-by-case basis.

In applying DCF methodology to Telecom Italia's fixed line telephony operations, Mediobanca has used provisional data compiled by Telecom Italia management for the 2005-2007 period, extending the explicit projection period until 2010. For 2008-2010, an annual revenue growth rate of 0.0% and operating margins consistent with the 2005-2007 business plan have been assumed. Cash flows have been discounted at a rate of around 6.8%, which is representative of the average weighted cost of capital calculated on the basis of a capital structure which is in line with that currently in place. Regarding the estimated terminal value, a growth rate of approx. 0.0% has been used, in line with the relevant market benchmarks. As with the procedure outlined above for TIM, a sensitivity analysis was also carried out with reference both to the weighted average cost of capital used to discount the cash flows, and to the growth rate used in order to estimate the terminal value.

To complete the analysis carried out, the multiples implied in the values thus obtained were compared with the market multiples of comparable listed companies.

As far as regards the determination of value per share, for Telecom Italia, in line with national and international valuation theory and practice, the value of the economic capital obtained by applying the methods described above has been divided on the assumption that the ratio between the values of the different classes of share may be derived from those actually recorded in their respective stock market prices over a sufficiently meaningful period of time. To this end, average market prices in the three months prior to 4 December 2004 were used. For TIM, given the limited percentage of savings shares out of the total number of shares comprising its share capital, and given also the terms of the public tender offer, whereunder both categories of share were treated equally, it was decided to assign the same value to both ordinary and savings shares.

By applying the methods described above, and also taking into account dividend payouts by Telecom Italia and TIM scheduled to take place before the merger is consummated and assumed to be in line with those distributed in the previous financial year, the following ranges of values for Telecom Italia and TIM shares and the relative exchange ratios are obtained:

	<u>Ordinary</u>	<u>Non-conv. sav.</u>
Telecom Italia price per share (EUR)	2.85 – 3.38	2.08 – 2.47
TIM price per share (EUR)	5.04 – 5.67	5.04 – 5.67
<b>Exchange ratio</b>	<b>1.68 – 1.77</b>	<b>2.30 – 2.42</b>

#### *Stock market price methods*

When certain conditions subsist, such as listing on regulated markets featuring a high level of efficiency, large free float, high quantities traded, business prospects being appreciated by an appropriate number of financial analysts on an ongoing basis, in such a way as to contribute to the dissemination of information which is useful with a view to ensuring market prices reflect earnings forecasts and risk profiles more accurately, stock market prices represent an extremely useful factor in the valuation process, providing summary benchmarks whereby to calculate the appreciation or otherwise of the value of the company being valued. In view of the foregoing and the features of the companies concerned, we have used the stock market price method in order to complete the valuation framework. To strike an accurate balance between the need to use recent data reflecting the stock's current market price, and the need to mitigate the volatility effect of daily stock market prices via observations recorded over sufficiently extensive time horizons, we have analysed the trend in stock market prices over differing time horizons, i.e. the one month, three months, six months and twelve months prior to 4 December 2004.

By applying the methods described above, and also taking into account dividend payouts by Telecom Italia and TIM scheduled to take place before the merger is consummated and assumed to be in line with those distributed in the previous financial year, the following ranges of values for Telecom Italia and TIM shares and the relative exchange ratios are obtained:

<b><u>Ordinary shares</u></b>	<b><u>Avg. 1 month</u></b>	<b><u>Avg. 3 months</u></b>	<b><u>Avg. 6 months</u></b>	<b><u>Avg. 12 months</u></b>
TIM price (EUR) .....	4.65	4.37	4.29	4.30
Telecom Italia price (EUR) .....	2.75	2.55	2.47	2.45
<b>Exchange ratio</b> .....	<b>1.69</b>	<b>1.71</b>	<b>1.74</b>	<b>1.75</b>

  

<b><u>Non-conv. savings shares</u></b>	<b><u>Avg. 1 month</u></b>	<b><u>Avg. 3 months</u></b>	<b><u>Avg. 6 months</u></b>	<b><u>Avg. 12 months</u></b>
TIM price (EUR) .....	4.72	4.34	4.22	4.21
Telecom Italia price (EUR) .....	1.96	1.84	1.76	1.72
<b>Exchange ratio</b> .....	<b>2.41</b>	<b>2.36</b>	<b>2.39</b>	<b>2.44</b>

Mediobanca, as part of its own corporate advisory and investment banking activities, regularly carries out valuations of enterprises, companies and/or groups of companies in relation to public tender offers, mergers and acquisitions and subscriptions and placements of equities. Mediobanca was selected by the Board of Directors of Telecom Italia to act as its financial advisor in view of its experience and reputation on the market. In the past, Mediobanca has provided Telecom Italia with a variety of financial services, in respect of which it has received compensation in line with market standards.

Mediobanca and its subsidiaries might in the course of their everyday business carry out transactions or hold positions involving Telecom Italia or TIM shares or shares in companies directly or indirectly controlled by these companies, on their own behalf or on behalf of their clients.

In pursuance of the mandate executed on 7 December 2004, Mediobanca is acting as financial advisor to Telecom Italia. Based on the terms of the said mandate, Telecom Italia has agreed to pay Mediobanca a fee of up to € 20m. Telecom Italia has also agreed to reimburse Mediobanca for out-of-pocket expenses incurred in the course of executing its mandate, and to indemnify Mediobanca against any liabilities which might arise in relation thereto. Lastly, Mediobanca also took part in the EUR 12bn syndicated loan granted to Telecom Italia, executed in the form of a multi-tranche term loan facility, in the capacity of mandated lead arranger, in respect of which it received a fee of approx. € 4.2m.



**ORIGINAL DOCUMENT ISSUED ON MCC HEADED PAPER. TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.**

## **1. Introduction**

### **1.1. Summary**

MCC S.p.A. – Capitalia Gruppo Bancario (“MCC”) was appointed by Telecom Italia S.p.A. (“Telecom Italia”, and, together with its subsidiary and affiliated companies, the “Telecom Italia Group” or the “Group”) as financial advisor in connection with the proposed merger of T.I.M. S.p.A. (“TIM” and together with Telecom Italia the “Companies”) into Telecom Italia (the “Merger”).

As part of the engagement, Telecom Italia has requested MCC to provide, to the Board of Directors of Telecom Italia S.p.A. (the “BoD”), an opinion as to the fairness of the exchange ratios between the ordinary and savings shares of TIM and the ordinary and savings shares of Telecom Italia with respect to the Merger (the “Exchange Ratios”).

This document (the “Opinion”) summarizes the main valuation analyses performed by MCC as a part of the engagement and it is intended to provide the BoD with all the useful information, data and references needed to assess to the Shareholders’ Meeting the fairness of the Exchange Ratios to the Telecom Italia’s shareholders from a financial standpoint.

The content of this Opinion, which is exclusively addressed to the BoD for its exclusive use, is confidential and may not be used for any purpose other than those set forth herein; moreover, this Opinion may not be disclosed, in whole or in part, to any third parties. The Telecom Italia shareholders and/or any other third parties shall use their own financial advisers if they deem it necessary. MCC does not assume any liability with respect to any damage related to any incorrect use of the information contained in this Opinion.

MCC authorizes the BoD of Telecom Italia (*i*) to include this Opinion into the corporate documents as provided for by the applicable law, regulations and (*ii*) to provide the auditing firm appointed to express its own opinion as required by the law, in order to verify the fairness of the Exchange Ratios. Any other use, in whole or in part, of this Opinion shall have to be previously agreed and authorized in writing by MCC.

The conclusions contained in this Opinion are based on the whole of the valuations contained herein and therefore no part of this Opinion may be used apart from the document in its entirety.

Capitalia Gruppo Bancario, to which MCC belongs, grants financings, in the course of its ordinary business, to Telecom Italia. Moreover Telecom Italia holds 3% of MCC share capital.

### **1.2. Rationale of the Opinion**

The Exchange Ratios reported in this Opinion and the corresponding valuation of the Companies were prepared with the sole purpose of determining relative values and identifying appropriate exchange ratios as to assure an equal treatment to the shareholders of Telecom Italia. The relative values contained in this Opinion have no relevance for purposes other than those related to the Merger. This Opinion only addresses the share exchange ratio in connection with the Merger and does not constitute an opinion as to the absolute value of the Telecom Italia and TIM shares nor as to the strategic/industrial rationale of the Merger.

## **2. The Transaction**

Companies involved in the Merger:

- Telecom Italia S.p.A., surviving company, registered at the Registry of Companies of Milan, with legal office in Milan, Piazza degli Affari 2, wholly paid-up capital equal to € 8.861.181.281,15 made up of No. 10.315.317.624 ordinary shares and No. 5.795.921.069 non convertible saving shares (book value of € 0,55 each for both ordinary and saving shares);
- T.I.M S.p.A., target company, registered at the Registry of Companies of Turin, with legal office in Turin, Via Giannone 4, wholly paid-up capital equal to € 513.964.432,74 made up of No. 8.434.004.716 ordinary shares and No. 132.069.163 non convertible saving shares (book value of € 0,06 each for both ordinary and saving shares).

As of the date hereof, Telecom Italia holds:

- No. 4.734.081.519 ordinary shares of TIM, corresponding to 56,13% of the outstanding ordinary shares and to 55,27% of the total outstanding shares (direct shareholding);
- No. 14.224.000 ordinary shares of TIM, corresponding to 0,169% of the outstanding ordinary shares and to 0,166% of the total outstanding shares (through Telecom Italia Finance).

Telecom Italia holds treasury shares corresponding approximately to 0,98% of the outstanding ordinary shares, while TIM holds treasury shares corresponding approximately to 0,01% of the outstanding ordinary shares.

The transaction described (the “Transaction”) is part of an integrated project:

1. Partial Voluntary Public Tender Offer launched by Telecom Italia for 66,7% of the outstanding ordinary shares of TIM not held by Telecom Italia and Public Voluntary Tender Offer launched by Telecom Italia for 100% of the outstanding saving shares of TIM (“PTO”); the success of the PTO is subject to an acceptance threshold equal to 66,7% of the shares tendered for both categories of shares;
2. issue of up to € 12 billion financing facility to Telecom Italia to meet the financial requirements deriving from the PTO (the “Financing”);
3. merger of TIM into Telecom Italia upon success of the PTO. As per the non tendered shares, the merger assumes that the holders of TIM ordinary shares will receive newly-issued Telecom Italia ordinary shares and the holders of TIM savings shares will receive newly-issued Telecom Italia savings shares.

### **3. Important Notice and Documents Considered**

The valuation of the Companies described in this Opinion refers to January 1, 2005.

The analyses and the conclusions described in this Opinion are to be interpreted on the basis of the following main considerations and limitations:

1. the Companies were valued on a going-concern basis, assuming no significant changes in management and operations;
2. the valuation was carried out on the basis of projections which were considered reasonable at the date of the valuation; extraordinary and non predictable events were not taken into account;
3. the valuations were performed considering the Companies as independent entities from an operating standpoint; hence, the valuations do not include any strategic, operating and financial synergies that may result from the Merger;
4. when dealing with financial and operating forecasts delivered by Telecom Italia and TIM, MCC assumed that the forecasts were performed reasonably and were based on the best estimates and valuations that Telecom Italia and TIM management could rely on at the date in which they were disclosed;
5. the Exchange Ratios contained in this Opinion were based on Telecom Italia and TIM share values “ex-dividend” accrued in 2004. The dividend amount estimate was based on the information and the guidelines provided by the Companies. We assumed that the dividend accrued in 2004 would be paid between January 1, 2005 and the date of the closing of the Transaction;
6. This Opinion did not involve the carrying out by MCC of any due diligence activity nor independent audit on the accounts of the Companies, nor the check of the existence of any fiscal, contractual and social securities liabilities or related to environmental issues not reported in the balance sheets of the Companies (Telecom Italia and TIM balance sheets are audited by Reconta Ernst & Young S.p.A.);
7. MCC relied upon and assumed, without independent analysis, the truthfulness, accuracy and completeness of the information and the financial data provided by Telecom Italia. MCC relied upon all specific information as received; therefore, MCC declines any liability should the collected and analyzed data be affected by the lack of completeness or truthfulness of such information.

This Opinion is also based on:

- MCC’s understanding of the information provided by Telecom Italia, as well as its representatives and advisers, to date;
- the assumption that the Transaction will be carried out within the expected terms, conditions and time frame.

In the execution of the engagement, MCC has collected and analyzed information and other documentation provided by Telecom Italia and certain publicly available data.

- Telecom Italia and TIM corporate bylaws;
- Telecom Italia, TIM and Telecom Italia Media S.p.A. consolidated and statutory accounts, for the year 2003;
- Telecom Italia, TIM and Telecom Italia Media S.p.A. half-yearly and quarterly reports as of as June 30, 2004 and September 30, 2004;
- an updated version of the updated Group Business Plan of Telecom Italia (the Group Business Plan was approved in March, 2004): “2005-2007 Plan – Preliminary 03/12/2004”. The Telecom Italia BoD has not approved yet the “2005-2007 Plan – Preliminary 03/12/2004”. MCC received an updated version of the Business Plan on December 3, 2004;
- Standard & Poor’s and Moody’s letters addressed to Telecom Italia respectively on December 2, 2004 and December 3, 2004;
- publicly available information such as press releases, financial research and analysis published by brokers and investment banks;
- market information (share price performance, volumes, estimates on revenues, margins, net income etc.), collected through publicly available sources such as Reuters, Bloomberg, Thomson Research, II Sole-24 Ore;
- other data, written and oral information / documents supplied by Telecom Italia and its management.

This Opinion is based on economic, market and other conditions as of the date hereof, and the written and oral information made available to MCC until December 6, 2004. Subsequent developments may affect the conclusions of this Opinion and, in addition, MCC has no obligation to update, revise, or modify this Opinion.

In addition, MCC expressed no opinion as to the price at which any securities of Telecom Italia and TIM would trade on the stock market at any time. Other events occurred after the date hereof may affect the value of the business of Telecom Italia and/or TIM either before or after completion of the PTO and/or the Merger, including but not limited to:

- the total or partial disposal of the shares of Telecom Italia or TIM by their respective shareholders within a short period of time after the date of announcement or completion of the PTO or the Merger;
- changes in prevailing interest rates and other factors which generally affect the price of securities;
- adverse changes in the current capital markets;
- adverse changes in the financial condition, the business, certain extraordinary transactions of Telecom Italia or TIM;
- any actions taken or restrictions imposed by any State or governmental agencies or regulatory authorities; and
- the execution of the Transaction in accordance with the expected terms and within the expected time frame.

No opinion is expressed by MCC whether any alternative transaction might have been more beneficial to Telecom Italia.

MCC acted as financial advisor to Telecom Italia with respect to the Transaction. MCC will receive a fee from Telecom Italia for the services provided, as well as an additional fee for the services provided as *Mandated Lead Arranger* in relation to the Financing.

#### **4. Valuation Methodologies**

MCC selected commonly used criteria for transactions of a similar nature in an international context and for companies operating in the telecommunication sector, and in connection with the purposes of the valuation. In particular, MCC gave priority to the consistency and comparability of the criteria adopted. The main driver for valuations, as far as mergers are concerned, is the adoption of the same valuation criteria for the companies involved in the merger. The above mentioned driver foresees the selection of the most appropriate criteria for the companies being valued aimed at providing valuations which can be comparable for the calculation of the Exchange Ratios.

The methodologies adopted should be considered part of an integrated valuation process. Each methodology leads to results that should be interpreted in connection with the overall process. Results arising from one methodology might prove to be misleading.

The conclusions of the valuations might be affected by changes in the current capital market conditions, extremely volatile, changes in the economic and financial environment, and/or in the outlook of Telecom Italia, TIM or the comparable companies. The aforementioned changes might significantly affect the results reported in this Opinion.

The Sum-of-the-Parts (or “SOP”) approach was used as the fundamental methodology and an additional methodology based on the average market values of Telecom Italia and TIM shares expressed by the stock market over different time periods was used as a further check.

In order to value the Telecom Italia and TIM saving shares, MCC took into account: (i) for Telecom Italia the last three months average discount over the ordinary shares, equal to 26,2%; (ii) a non-meaningful discount of TIM saving shares over TIM ordinary shares in the last month, resulting in the same per-share value for both category of shares.

#### ***4.1. The Sum of the Parts***

The SOP methodology assesses the value of a company operating in different and non-comparable business sectors.

On the basis of the SOP criterion, the value of Telecom Italia was determined as the sum of the values of the different business units.

In particular, within the SOP valuation of Telecom Italia, we performed the valuation of TIM shares fair value.

#### **Telecom Italia Group–Valuation Methodologies of business units**

- **Wireline Activities** (fixed telephony, ADSL and VAS): Discounted Cash Flow (“DCF”) methodology.
- **Wireless Activities (TIM)**: Discounted Cash Flow (“DCF”) methodology.
- **Internet & Media Activities**: SOP methodology (the main business units - Internet, broadcasting and business office - were valued with the DCF methodology and with the trading comps methodology).
- **Activities in Latin America**: DCF methodology (Chile and Bolivia).
- **Other Activities**: either market value, book value or market consensus.

#### ***4.2. Market Value***

Both Telecom Italia and TIM are listed companies with a significant market capitalization and a relevant free float: MCC performed an additional valuation based on the share prices traded on the stock market.

In particular, in order to mitigate the fluctuations that typically characterize the financial markets, and in compliance with the best market practice, MCC extended the analysis of the market prices over a sufficiently broad time period. The results obtained employing the Market Value methodology were compared with the current share market prices.

### **5. Key Results**

#### ***5.1. The Sum of the Parts***

As already explained, a SOP approach was used as the main valuation methodology of the Telecom Italia Group.

In particular, the firm values of the main business units were calculated using the criteria indicated above. We then added up algebraically the estimated value of the consolidated net financial position of Telecom Italia as at December 31, 2004. The consolidated net financial position was adjusted for the minorities of the estimated consolidated net financial position of TIM as at December 31, 2004 and for the estimated consolidated net financial position of Telecom Italia Media S.p.A. as at December 31, 2004.

The following table shows the lower and upper value for each Telecom Italia and TIM share identified by the SOP methodology.

### Sum of the Parts – Telecom Italia Group and TIM

<u>Telecom Italia</u>	<u>Lower End</u>	<u>Upper End</u>
Ordinary share .....	€2,99	€3,44
Saving share .....	€2,21	€2,54
<u>TIM</u>	<u>Lower End</u>	<u>Upper End</u>
Ordinary share .....	€5,29	€5,84
Saving share .....	€5,29	€5,84

Source: MCC.

The valuation performed using the SOP identifies a range of values consistent:

- with the average market multiples of Telecom Italia and TIM comparable companies (in terms of *business*, market positioning and geographical presence);
- with the DCF valuation of Telecom Italia and TIM based on the business plan prepared by MCC and compliant to the market analysts' *consensus*;
- with the analysis of the target prices expressed by research analysts.

### 5.2. Market Values

In order to check the accuracy of the assessment of the Exchange Ratios determined using the SOP criterion, MCC also performed an additional check based on the average exchange ratios expressed by the stock market over different time periods.

### Telecom Italia and TIM – Market Values

	<u>3-dec-04</u>	<u>Last month</u>	<u>Last 3 months</u>	<u>Last 6 months</u>	<u>Last 12 months</u>
<b>Telecom Italia</b>					
Ordinary Shares .....	€2,97	€2,85	€2,65	€2,57	€2,55
Saving Shares .....	€2,18	€2,07	€1,95	€1,88	€1,84
<b>TIM</b>					
Ordinary Shares .....	€5,19	€4,90	€4,62	€4,55	€4,56
Saving Shares .....	€5,37	€4,99	€4,60	€4,49	€4,48

Source: MCC on DataStream data ("PZ" prices).

### 5.3. Valuation Results

The following table shows the values for each Telecom Italia and TIM share identified using the different aforementioned methodologies.

### Telecom Italia and TIM – Valuation Results

<u>Sum of the Parts</u>	<u>Telecom Italia</u>	<u>TIM</u>
Ordinary share .....	€2,99 - €3,44	€5,29 - €5,84
Saving share .....	€2,21 - €2,54	€5,29 - €5,84
<u>Market Values</u>	<u>Telecom Italia</u>	<u>TIM</u>
Ordinary share .....	€2,55 - €2,97	€4,55 - €5,19
Saving share .....	€1,84 - €2,18	€4,48 - €5,37

Source: MCC.

## 6. Conclusions

The following table shows the Exchange Ratios resulting from the analyses described in this Opinion.

The Exchange Ratios “ex-dividend” include the adjustments for the dividend payment accrued in 2004 and expected for the month of May 2005. We assumed a dividend per Telecom Italia ordinary share equal to € 0,1041 and per TIM ordinary share equal to € 0,2567 and dividend per Telecom Italia saving share equal to € 0,1151 and per TIM saving share equal to € 0,2687.

### Telecom Italia Group – Exchange Ratios

	<u>Sum of the Parts</u>		<u>Market Values</u>	
	<u>Lower End</u>	<u>Upper End</u>	<u>Lower End<sup>(1)</sup></u>	<u>Upper End<sup>(2)</sup></u>
<b>Exchange Ratios cum dividend</b>				
Ordinary Shares.....	1,70	1,77	1,72	1,78
Saving Shares.....	2,30	2,40	2,36	2,46
<b>Exchange Ratios ex dividend</b>				
Ordinary Shares.....	1,67	1,74	1,69	1,75
Saving Shares.....	2,30	2,40	2,36	2,47

(1) Minimum implied Exchange Ratio on market values over the analyzed time periods.

(2) Minimum implied Exchange Ratio on market values over the analyzed time periods.

Based on and subject to the analyses described and the main methodologies used, MCC believes that the Exchange Ratios illustrated below are fair from a financial point of view to the Telecom Italia shareholders:

- 1,73 Telecom Italia ordinary shares for each TIM ordinary shares; and
- 2,36 Telecom Italia saving shares for each TIM saving shares.

The Exchange Ratios shown above fall within the ranges identified by MCC.

Piergiorgio Peluso

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**MCC S.p.A.**

**ORIGINAL DOCUMENT ISSUED ON MCC HEADED PAPER. TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.**

Rome, January 23, 2005

**To:**

Telecom Italia S.p.A.  
Piazza degli Affari, 2  
20123 – Milano

**Attn:**

Dott. Marco Tronchetti Provera, Chairman

Dear Sirs,

we refer to our fairness opinion dated December 7, 2004 with respect to the exchange ratio concerning the merger of TIM S.p.A. into Telecom Italia S.p.A (the “Fairness Opinion”). The Fairness Opinion was provided pursuant to our engagement letter dated December 7, 2004.

We hereby refer to your letter dated January 21, 2004 in which you informed us that, from December 7, 2004 to the date hereof, no event affected or could affect in any material respect any of the documents, information, data, projections or assumptions referred to in the Fairness Opinion or the economic-financial condition, the business, the assets or liabilities or prospects of Telecom Italia S.p.A., or its subsidiaries, TIM S.p.A. or its subsidiaries.

We hereby confirm that, to our knowledge,—taking into account the same criteria as well as the same assumptions identified in the Fairness Opinion – no material event occurred since the date of the Fairness Opinion that would lead us to change the conclusions stated in the Fairness Opinion itself, as of the date hereof.

Please note that this confirmation does not take into account the market share prices of either Telecom Italia S.p.A. or TIM S.p.A. subsequent to the announcement of the merger between these two companies.

Best regards,

Piergiorgio Peluso

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**MCC S.p.A.**



**ENGLISH TRANSLATION OF THE DESCRIPTION OF THE ANALYSES PERFORMED BY MCC AS FINANCIAL ADVISOR TO TELECOM ITALIA IN CONNECTION WITH THE FAIRNESS OPINION DATED DECEMBER 7, 2004. TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.**

MCC S.p.A. – Capitalia Gruppo Bancario (“MCC”) was appointed by Telecom Italia S.p.A. (“Telecom Italia”, and, together with its subsidiary and affiliated companies, “Telecom Italia Group” or the “Group”) as financial advisor in connection with the merger of TIM S.p.A. (“TIM” and, together with Telecom Italia, the “Companies”) into Telecom Italia (the “Merger”) and, more broadly, with the restructuring of the Telecom Italia Group (the “Transaction”), including, but not limited to, the Public Tender Offer by Telecom Italia on n. 2.456.534.241 ordinary shares and n. 132.069.163 saving shares of TIM (the “PTO”) and the Merger itself.

In choosing MCC as financial advisor, Telecom Italia took into account MCC’s knowledge of the Telecom Italia Group and its business, and MCC’s high standing and strong expertise in transactions similar to the Transaction. MCC, as part of its investment banking business, is often involved in the valuation of corporates and their stocks with respect to mergers and acquisitions, stocks subscriptions, secondary offerings of listed and non listed stocks, private placements and other valuations.

MCC presented an assessment (the “Fairness Opinion”) during the Telecom Italia Board of Directors of December 7, 2004, which examined the Transaction. The Fairness Opinion provided to the Board of Directors of Telecom Italia (the “BoD”) an opinion, from a financial standpoint, as to the fairness to Telecom Italia’s shareholders of the following exchange ratios in connection with the Merger: 1,73 Telecom Italia ordinary shares for each TIM ordinary share and 2,36 Telecom Italia saving shares for each TIM saving share.

On January 23, 2005, MCC confirmed in written form, through a confirmation letter (the “Confirmation Letter”) addressed to the BoD that no material event occurred since the date of the Fairness Opinion that would lead MCC to change the conclusions stated in the Fairness Opinion itself, as of the date thereof. The Confirmation Letter was based on MCC’s knowledge, taking into account the same criteria as well as the same assumptions identified in the Fairness Opinion. In releasing such confirmation, MCC did not take into account the share market prices of either Telecom Italia or TIM subsequent to the announcement of the Transaction.

The Fairness Opinion delivered by MCC on December 7, 2004, and the Confirmation Letter delivered by MCC on January 23, 2005, (the “Opinions”), both addressed to the BoD, only assessed the fairness to Telecom Italia, from a financial standpoint, of the exchange ratios established by Telecom Italia and TIM Boards of Directors in connection with the Merger. MCC released the Opinions in order to inform and support the BoD with respect to its valuation of the Merger.

This document, which summarises the content of the Opinions, is delivered only for information purposes. Consequently, neither this document nor the Opinions can be considered as a recommendation to Telecom Italia or TIM shareholders to undertake any kind of action with respect to the Transaction. The Opinions are not intended to influence the decisions of either Telecom Italia or TIM Board of Directors in connection with the Transaction. Moreover, the Opinions did not examine the possibility that alternative deals could prove to be more beneficial, from an economic and/or financial point of view, to the Telecom Italia Group after the Merger. MCC declines any direct or indirect liability for potential damages caused by an incorrect use of the information contained in this document.

The Fairness Opinion delivered by MCC on December 7, 2004, and the Confirmation Letter delivered by MCC on January 23, 2005, are attached in Appendix x (a) and Appendix x (b) of the Merger-related documentation and form an integral part hereof. The Fairness Opinion summarizes the assumptions made, the methods used, the problems faced, the documents examined and the main limitations in connection with the analyses performed by MCC. We invite the recipients of this document to carefully examine the Opinions in their entirety.

During the analyses performed in order to release the Fairness Opinion of December 7, 2004, MCC, *inter alia*:

- examined the documentation on the Transaction;
- examined financial data, public and other information delivered to MCC by Telecom Italia, including financial analyses, budgets and business forecasts of Telecom Italia and TIM performed by the Companies’ management teams. In particular, MCC examined an updated version of the Business Plan of the Group, approved in March 2004 (“2005-2007 Plan Preliminary 03/12/2004”);

- interviewed Telecom Italia and TIM senior management members, representatives and consultants;
- examined historical market price performance and market trend of Telecom Italia and TIM stocks;
- examined brokers' notes; and
- performed other analyses and research.

In preparing the Opinions, MCC assumed as correct and complete all the information examined and did not perform any independent check of such information. As per the financial and operating forecasts provided by the Companies, MCC considered those forecasts as reasonable and based on the best estimates available to the Telecom Italia and TIM management teams at the date thereof.

MCC did not perform any independent valuation or survey on the assets and liabilities of the Companies or their subsidiary companies, nor MCC made any inspection of their assets. As per the projections provided to MCC, MCC understands that projections are always subject to some uncertainty. Although projections represent only one driver which MCC took into account in its Opinions, substantial changes in projections could impact the conclusions drawn by MCC.

MCC's Opinions are based on economic, industrial, legislative, political and market conditions and on other existing conditions at the date of the Opinions. As far as the Fairness Opinion delivered on December 7, 2004 is concerned, Telecom Italia and TIM market prices were as well considered. Some of these conditions are out of the control of the Companies and are subject to sudden and unpredictable changes, which could impact the conclusions drawn by MCC. MCC did not carry out any independent audit on legal aspects of Telecom Italia and TIM and assumed the fairness of every legal, fiscal and accounting opinion given to Telecom Italia and TIM and to their Boards of Directors including, for example, the opinions on legal, fiscal and accounting impact of the Transaction on Telecom Italia, TIM and their shareholders and bondholders. MCC assumed that the Merger and the Transaction will be accomplished within the terms agreed.

The following paragraphs show the main financial analyses performed by MCC in connection with the Fairness Opinion dated December 7, 2004. Such summary is not a complete description of the analyses performed by MCC. A fairness opinion is a complex process and cannot be easily summarized. The flow of the described analyses and the corresponding results do not necessarily reflect their relative weight assumed by MCC. The selection of parts of this summary without taking into account the whole analysis might provide a misleading view of the underlying assumptions and opinions developed by MCC. MCC analyses are not necessarily indicative for either the actual values or the forecasted results, which could be very different from the ones resulting from the analyses themselves. Moreover, the analysis on the assets value does not intend to either provide values likely to be reflected within a transaction or to reflect current or forward market valuations or trends on the stock exchange. MCC, through the Opinions, expressed no judgment as to the market price of Telecom Italia ordinary and saving shares both before and upon completion of the Merger. Although MCC analyzed (i) the right of withdraw for the holders of TIM saving shares, (ii) the PTO and (iii) the financing related to the PTO when analysing the general terms of the Transaction, MCC expressed no opinion on the likelihood that the holders of TIM saving shares take up their right of withdraw nor on the number of TIM shareholders accepting the PTO.

MCC used the results of its analyses for no purposes other than the estimate of the fairness for Telecom Italia of the exchange ratios in connection with the Merger: therefore, those values should not be used for any other purpose. In accordance with the investment banking best market practice, MCC applied commonly-used valuation methods when performing the analyses related to the Fairness Opinion. In particular, when evaluating the exchange ratios of the Merger, MCC focused on relative valuations of Telecom Italia and TIM, giving priority to the consistency and the comparability of the adopted criteria in respect to the value of such companies. MCC considered the two companies as separate entities without taking into account either the strategic, operating and financial synergies, which could result from the Merger, or majority premia and minority discounts.

The valuation reported in the Fairness Opinion refers to January 1, 2005.

MCC adopted, as the main method, (i) the "sum-of-the-parts" in connection with Telecom Italia and (ii) the discounted cash flow analysis of Telecom Italia's *Wireless* business in connection with TIM. MCC compared the main valuation results with Telecom Italia and TIM market values in different time periods.

*Valuation of Telecom Italia.* MCC valued the main business units of Telecom Italia by adopting, as the main methodology, the discounted cash flow analysis, in connection with a "sum-of-the-parts" approach. The smaller-sized business units of Telecom Italia were valued through their market capitalization, if listed on regulated

markets, or with different other criteria depending on the nature of the business, including the trading multiples methodology and book values. Moreover, MCC compared the results of the valuations described above with the corresponding values coming from the market consensus, when available.

MCC discounted cash flow analysis is based on estimated cash flows and other information provided by Telecom Italia for the years 2005 - 2007. The weighted average cost of capital (WACC) was calculated according to the market conditions and to the more appropriate capital structure within the different business units.

The growth rates assumed by MCC for the terminal values are consistent with the main market benchmarks.

The following paragraphs summarize the main hypothesis behind the valuation of the different main business units. The valuation addresses the Firm Value of each business unit: to the sum of the different Firm Values, we then added the consolidated net debt, as better explained below.

- *Wireline Business*: terminal value growth rate equal to 0,50% and WACC equal to 8,64%.
- *Wireless Business*: terminal value growth rate equal to 2,00% and WACC equal to 8,67%.
- Telecom Italia Media: (i) terminal value growth rate equal to 1,75% and WACC equal to 11,01% (Internet Business); (ii) terminal value growth rate equal to 1,00% and WACC equal to 8,88% (Office Products Business); (iii) EV/2004E Sales multiple equal to 2,05x (Broadcasting Business).
- Business in Latin America: (i) terminal value growth rate equal to 2,00% and WACC of 9,29% (Chile); (ii) terminal value growth rate equal to 2,00% and WACC of 16,54% (Bolivia).

As a further analysis, MCC compared the results of the discounted cash flow analysis with (i) the results of the trading multiples methodology of the main comparable companies, and with (ii) the brokers' market consensus, when available.

We then added the consolidated net debt as of December 31, 2004 to the sum of the business units' values, determined with the methods described above. The consolidated net debt was adjusted to take into account proportionate net debt effects and minority interests, when relevant, and the net value of other adjustments, which include the value of some off-balance sheet items. We also took into account the pro-forma effect (i) of the conversion of the "Telecom Italia 1,5% 2001-2010 convertible with premium at the redemption" and (ii) of the exercise of stock options "in-the-money" as of December 7, 2004, consistent with the fully-diluted methodology.

The number of shares considered in the calculation of Telecom Italia ordinary and saving shares value takes into account (i) the conversion of the "Telecom Italia 1,5% 2001-2010 convertible with premium at the redemption" and (ii) the exercise of "in-the-money" stock options as of December 7, 2004, consistent with the fully-diluted methodology. Telecom Italia share value was calculated by dividing Telecom Italia equity value by the number of outstanding shares net of the treasury shares.

The following table shows the lowest, middle and highest values per Telecom Italia ordinary share, resulting from the "sum-of-the-parts" analysis, before adjustment for the payment of the 2004-related expected dividend to be paid in April 2005.

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per Telecom Italia ordinary share (€) .....	2,99	3,21	3,44

MCC compared the results of the "sum-of-the-parts", before adjustment for the payment of the 2004-related expected dividend to be paid in April 2005 with the target prices published by the brokers before December 7, 2004. Those target prices per Telecom Italia ordinary share show a range of values consistent with the results of the "sum-of-the-parts".

The following table shows the lowest, middle and highest values per Telecom Italia ordinary share, resulting from the "sum-of-the-parts", adjusted to take into account the payment of the 2004-related expected dividend to be paid in April 2005 (assumed equal to € 0,1041 per share, consistent with the 2003-related dividend paid out in 2004).

MCC performed such an adjustment in order to grant an equal treatment to both Telecom Italia and TIM shareholders since the Merger will occur after the payment of 2004-related dividend.

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per Telecom Italia ordinary share (€) .....	2,89	3,10	3,34

The following table shows the lowest, middle and highest values per Telecom Italia saving share resulting by discounting Telecom Italia ordinary shares with the average market discount rate of the last 3 months before the public announcement of the Transaction, equal to approx. 26,2%. Such discount is consistent with the discount rate of the last day of trading before the announcement of the Transaction, on December 3, 2004. The discount applied is also consistent with the average market discount rate of the latest 1, 6 and 9 months.

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per Telecom Italia saving share (€) . . . . .	2,21	2,37	2,54

The following table shows the lowest, middle and highest values per Telecom Italia saving share, adjusted to take into account the payment of the 2004-related expected dividend to be paid in April 2005 (assumed equal to € 0,1151 per share, consistent with the 2003-related dividend paid out in 2004).

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per Telecom Italia saving share (€) . . . . .	2,09	2,25	2,43

*Valuation of TIM.* MCC valued TIM by adopting, as the main methodology, the discounted cash flow analysis on Telecom Italia Wireless business (growth rate for the terminal value equal to 2,00% and WACC equal to 8,67%). The smaller-sized business units of TIM were valued through their market capitalization, if listed on regulated markets, or with different other criteria depending on the nature of the business, including the trading multiples methodology and book values. Moreover, MCC compared the results of the valuations described above with the corresponding values coming from the market consensus, when available.

MCC discounted cash flow analysis is based on estimated cash flows and other information provided by Telecom Italia for the years 2005 - 2007. The weighted average cost of capital (WACC) was calculated according to the market conditions and to the more appropriate capital structure within the different business units.

The growth rates assumed by MCC for the terminal values are consistent with the main market benchmarks.

As a further analysis, MCC compared the results of the discounted cash flow analysis with (i) the results of the trading multiples methodology of the main comparable companies, and with (ii) the brokers' market consensus, when available.

The results of the analysis described above were adjusted to take into account the net debt as of December 31, 2004 and, if relevant, the net value of other adjustments.

The following table shows the lowest, middle and highest values per TIM ordinary share, resulting from the fundamental analysis, before adjusting for the payment of the 2004-related dividend to be paid in April, 2005.

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per TIM ordinary share (€) . . . . .	5,29	5,55	5,84

MCC compared the results of the fundamental analysis, before adjusting for the payment of the dividend, with the target prices released by the brokers before December 7, 2004. The target prices per TIM ordinary share show a range of values consistent with the results of the discounted cash flow analysis.

The following table shows the lowest, middle and highest values per TIM ordinary share, resulting from the fundamental analysis, adjusted to take into account the payment of the 2004-related expected dividend to be paid in April 2005 (assumed equal to € 0,2567 per share, consistent with the 2003-related dividend paid out in 2004).

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per TIM ordinary share (€) . . . . .	5,04	5,29	5,58

The lowest, middle and highest values per TIM saving share were assumed equal to ordinary shares values, consistent with the market trend of the two classes of shares.

The following table shows the lowest, middle and highest values per TIM saving share adjusted to take into account the payment of the 2004-related expected dividend to be paid in April 2005 (assumed equal to € 0,2687 per share, consistent with the 2003-related dividend paid out in 2004).

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
Value per TIM saving share (€).....	5,03	5,28	5,57

*Exchange ratio analysis.* MCC compared the results of its analyses, adjusted to take into account the payment of the expected dividend, to calculate the Merger-related exchange ratios, as showed in the following table.

	<u>Minimum</u>	<u>Medium</u>	<u>Maximum</u>
TIM ordinary share for Telecom Italia ordinary share (€).....	1,67	1,71	1,74
TIM saving share for Telecom Italia saving share (€).....	2,30	2,35	2,40

Moreover, MCC compared the Merger exchange ratios showed above, with the exchange ratios resulting from the historical market prices of ordinary and saving shares of the Companies within fixed periods before the public announcement of the Merger, adjusted to take into account the payment of the expected dividend.

	<u>3/12/04</u>	<u>1 month average up to 3/12</u>	<u>3 months average up to 3/12</u>	<u>6 months average up to 3/12</u>	<u>12 months average up to 3/12</u>
TIM ordinary share for Telecom Italia ordinary share (€)...	1,72	1,69	1,71	1,74	1,75
TIM saving share for Telecom Italia saving share (€).....	2,47	2,41	2,36	2,39	2,44

MCC will receive by Telecom Italia fees for an overall amount up to € 30 mln, upon completion of the Merger, in connection with: (i) the advisory activities carried out as financial advisor to Telecom Italia in connection with the Transaction; (ii) the activities related to the role of mandated lead arranger for the financing facility up to € 12,0 billion granted in relation to the Transaction; (iii) the activities related to the role of lead broker and mandated broker in connection with the PTO. Telecom Italia has further agreed to reimburse MCC for the reasonable expenses incurred in relation to the services rendered by it, included invoices or other amounts in favour of the external consultants, and to indemnify and hold harmless MCC from certain liabilities.

*Relationships between Telecom Italia Group and MCC/Capitalia Group.* MCC belongs to Capitalia Banking Group (the “Capitalia Banking Group”). The Capitalia Banking Group is a full-service banking group carrying out banking activities and investment services, also providing, through the companies belonging to the Group, M&A advisory services, securities brokerage and other related financial and investment services, including management of collective investment schemes. Therefore, MCC and/or the other companies belonging to the Capitalia Banking Group may hold participations in, and/or positions in financial instruments issued by, Telecom Italia, TIM or other companies of the Telecom Italia Group. Furthermore, MCC and/or the other companies of the Capitalia Banking Group may have granted loans, or provide, have provided or be seeking to provide to Telecom Italia, TIM and/or other companies belonging to the Telecom Italia Group, its investment and/or M&A advisory services. In particular, MCC has acted as financial advisor of Telecom Italia in connection with the Merger and the PTO and as coordinator of the collection of the acceptances to the PTO.

Telecom Italia is one of MCC shareholders with a stake equal to 3%.



**PERSONAL AND CONFIDENTIAL**

January 23, 2005

Board of Directors  
Telecom Italia S.p.A.  
Corso Italia, 41  
00198 Roma  
Italy

Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to Telecom Italia S.p.A. (the "Company") of the exchange ratios (the "Exchange Ratios") of one point seventy three (1.73) ordinary shares, par value Euro 0.55 per share, of the Company (the "Company Ordinary Shares"), and two point thirty six (2.36) savings shares, par value Euro 0.55 per share, of the Company (the "Company Savings Shares") to be received for each outstanding ordinary share, par value Euro 0.06 per share, and savings share, par value Euro 0.06 per share, of Telecom Italia Mobile S.p.A. ("TIM") (in each case excluding shares already owned by the Company) (the "TIM Ordinary Shares" and the "TIM Savings Shares", respectively, and, together, the "Shares") in connection with the potential merger by incorporation ("Fusione per Incorporazione") of TIM into the Company (the "Merger") pursuant to the merger plan and the board report ("Progetto di Fusione" and "Relazione degli Amministratori", together the "Merger Documents") approved by you on the date hereof and as previously announced by you on December 7, 2004. The Merger follows a tender offer (the "Tender Offer", together with the Merger, the "Transaction") made by the Company for up to 2,456,534,241 TIM Ordinary Shares, representing up to 29% of TIM's outstanding ordinary share capital, and for up to 132,069,163 TIM Savings Shares, representing all of TIM's outstanding savings shares (excluding shares already owned by the Company), pursuant to which the Company will pay Euro 5.6 in cash for each TIM Ordinary Share accepted and Euro 5.6 in cash for each TIM Savings Share accepted. The Tender Offer was announced by you on December 7, 2004 as part of the Transaction and the offer period closed on January 21, 2005. As a result of the Tender Offer the Company will acquire 2,456,534,241 TIM Ordinary Shares and 8,454,877 TIM Savings Shares.

Goldman Sachs International and its affiliates (together, "Goldman Sachs"), as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. We have been engaged by the Company to undertake a study to enable us to render our opinion as to the fairness from a financial point of view of the financial consideration to be paid by the Company in connection with the acquisition of the TIM Ordinary Shares and the TIM Savings Shares pursuant to the Transaction. We expect to receive fees for our services in connection with the Transaction, the principal portion of which is contingent upon consummation of the Transaction, and the Company has agreed to reimburse our expenses and indemnify us against certain liabilities arising out of our engagement. In addition, we have provided certain investment banking services to the Company from time to time, including having acted as its financial advisor in connection with the merger with Olivetti in 2003 and in connection with the separation of the Italtel joint venture in 1999 and the subsequent sale of an 80% interest in Italtel S.p.A. in 2000, as joint bookrunner with respect to an offering of the Company's \$1,250,000,000 4% Guaranteed Senior Notes due 2010, \$1,250,000,000 4.95% Guaranteed Senior Notes due 2014, and \$1,000,000,000 6% Guaranteed Senior Notes due 2034 in September 2004, and as counterparty to certain derivatives and financing transactions. We also have provided certain investment banking services to TIM from time to time, including having acted as financial advisor in connection with the restructuring of its Brazilian subsidiaries in 2004. We also may provide investment banking services to the Company and TIM in the future. In connection with the above-described services we have received, and may receive in the future, compensation.

Goldman Sachs is a full service securities firm engaged in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs may provide such services to the Company, TIM and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of the Company and TIM for its own account and for the accounts of its customers and may at any time hold long and short positions of such securities.

In connection with this opinion, we have reviewed, among other things, (i) drafts of the Merger Documents dated January 19, 2005; (ii) the Annual Report on Form 20-F and the Italian Annual Report of the Company for the year ended December 31, 2003 and the Annual Reports of TIM for the years ended 31 December 2001, 2002 and

2003; (iii) the Interim Financial Statements of the Company and of TIM for the six months ended 30 June 2004; (iv) the Quarterly Financial Statements of the Company and of TIM for the three month periods ended 30 March 2004 and 30 September 2004; (v) certain internal financial analyses and forecasts of the Company and certain of its subsidiaries, including TIM, prepared and approved for use in this opinion by the Company's management; (vi) the Company letter dated January 21, 2005 relating to the absence of certain changes since December 7, 2004 and to certain other matters; (vii) the offer document ("Documento di offerta") dated January 2005 relating to the Tender Offer; (viii) the Information Memorandum and the *Documento Informativo* relating to the merger between Olivetti S.p.A. ("Olivetti") and the Company, dated May 2003, and (ix) Standard & Poor's and Moody's rating assessments and press releases in connection with the Transaction. We also have held limited discussions with certain members of the senior management of the Company and of TIM as well as with TIM's advisors and representatives regarding their assessment of the strategic rationale for, and the potential benefits of, the Transaction and the past and current business operations, financial condition and future prospects of the Company and of TIM, including the expected credit rating and the expected dividend policy of the combined company subsequent to the proposed transaction. In addition, we have reviewed the reported price and trading activity for TIM Ordinary Shares and TIM Savings Shares and for the Company Ordinary Shares and the Company Savings Shares, compared certain financial and stock market information for TIM and the Company with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations and minority buy-out transactions in the telecommunications industry specifically and in other industries generally in Italy and elsewhere and performed such other studies and analyses, and considered such other factors, as we considered appropriate.

We have relied, without independent verification, upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us, we have been advised by the Company's and TIM's management that such financial forecasts and other information and data were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company and of TIM, and we express no opinion with respect to such financial forecasts or other information and data or the assumptions on which they are based. In that regard, we have assumed with your consent that such financial forecasts will be realized in the amounts and time periods contemplated thereby. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of the Company or TIM or any of their respective subsidiaries.

Our opinion does not address the underlying business decision of the Company to engage in the Transaction nor the relative merits of the Transaction as compared to any alternative business transaction that might be available to the Company. We also express no opinion as to the prices at which the Company Ordinary Shares and the Company Savings Shares will trade at any time. Our opinion is necessarily based upon information available to us and financial, economic, political, market and other conditions as they exist and can be evaluated on the date hereof, and we assume no duty to update or revise our opinion based on circumstances or events after the date hereof.

Our advisory services and the opinion expressed herein are provided exclusively for the information and assistance of the Board of Directors of the Company in connection with its consideration of the Transaction and such opinion does not constitute a "*perizia*" within the meaning of Annex 3A no. 1 of the Regolamento Emittenti no. 11971 dated May 14, 1999 as subsequently amended, nor a "*relazione di stima*" within the meaning of that statute, nor a recommendation as to how any holder of Shares should vote with respect to the Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratios are fair from a financial point of view to the Company.

Very truly yours,

GOLDMAN SACHS INTERNATIONAL

By: \_\_\_\_\_  
Managing Director



**Summary description of the analyses carried out by Goldman Sachs International, as Telecom Italia's financial advisor, with reference to its Fairness Opinion**

On December 7, 2004, Goldman Sachs International delivered an oral opinion to the board of directors of Telecom Italia, subsequently confirmed by delivery of a written opinion, dated December 7, 2004, to the effect that, as of that date and subject to the matters and assumptions set forth in the opinions, the tender offer price of €5.6 per ordinary and savings share of Telecom Italia Mobile and the proposed exchange ratios of 1.73 ordinary shares of Telecom Italia to one ordinary share of Telecom Italia Mobile and 2.36 savings shares of Telecom Italia to one savings share of Telecom Italia Mobile, respectively, were fair from a financial point of view to Telecom Italia.

The opinion on the proposed exchange ratios was reconfirmed after the conclusion of the partial tender offer by a subsequent written opinion, dated January 23, 2005, to the effect that, as of that date and subject to the matters and assumptions set forth in the opinions, the exchange ratios of 1.73 ordinary shares of Telecom Italia to one ordinary share of Telecom Italia Mobile and 2.36 savings shares of Telecom Italia to one savings share of Telecom Italia Mobile, respectively, were fair from a financial point of view to Telecom Italia.

**The full text of the written opinion of Goldman Sachs International, dated as of January 23, 2005, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Goldman Sachs International in connection with the opinion, is attached as Annex XI (a) and is incorporated by reference into this document. Holders of Telecom Italia ordinary shares and savings shares should read the opinion in its entirety.**

In connection with its January 23, 2005 opinion, Goldman Sachs International reviewed, among other things:

- drafts of the Merger Documents (“*Progetto di Fusione*” and “*Relazione degli Amministratori*”) dated January 19, 2005;
- the Annual Report on Form 20-F and the Italian Annual Report of Telecom Italia for the year ended December 31, 2003 and the Annual Reports of Telecom Italia Mobile for the years ended 31 December 2001, 2002 and 2003;
- the Interim Financial Statements of Telecom Italia and of Telecom Italia Mobile for the six months ended 30 June 2004;
- the Quarterly Financial Statements of Telecom Italia and of Telecom Italia Mobile for the three month periods ended 30 March 2004 and 30 September 2004;
- certain internal financial analyses and forecasts of Telecom Italia and certain of its subsidiaries, including Telecom Italia Mobile, prepared and approved for use in this opinion by Telecom Italia's management;
- Telecom Italia letter dated January 21, 2005 relating to the absence of certain changes since December 7, 2004 and to certain other matters;
- the offer document (“*Documento di Offerta*”) dated January 2005 relating to the partial tender offer;
- the Information Memorandum and the *Documento Informativo* relating to the merger between Olivetti S.p.A. (“Olivetti”) and Telecom Italia, dated May 2003, and
- Standard & Poor's and Moody's rating assessments and press releases in connection with the proposed transaction.

Goldman Sachs International also held limited discussions with certain members of the senior management of Telecom Italia and of Telecom Italia Mobile as well as with Telecom Italia Mobile's advisors and representatives regarding their assessment of the strategic rationale for, and the potential benefits of, the transaction and the past and current business operations, financial condition and future prospects of Telecom Italia and of Telecom Italia Mobile, including the expected credit rating and the expected dividend policy of the combined company subsequent to the proposed transaction. Goldman Sachs International did not participate in any of the negotiations leading up to the partial tender offer and merger. In addition, Goldman Sachs International:

- reviewed the reported price and trading activity for Telecom Italia Mobile Ordinary Shares and Telecom Italia Mobile Savings Shares and for Telecom Italia Ordinary Shares and Telecom Italia Savings Shares;
- compared certain financial and stock market information for Telecom Italia Mobile and Telecom Italia with similar information for certain other companies the securities of which are publicly traded;

- reviewed the financial terms of certain recent business combinations and minority buy-out transactions in the telecommunications industry specifically and in other industries generally in Italy and elsewhere, and
- performed such other studies and analyses, and considered such other factors, as it considered appropriate.

Goldman Sachs International relied, without independent verification, upon the accuracy and completeness of all of the financial, accounting, tax and other information that was discussed with or reviewed by it, and Goldman Sachs International assumed the accuracy and completeness of that information for purposes of rendering its opinion. The managements of each of Telecom Italia and Telecom Italia Mobile advised Goldman Sachs International that the financial forecasts and other information and data provided to or otherwise discussed with Goldman Sachs International were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of Telecom Italia and Telecom Italia Mobile, and Goldman Sachs International expressed no opinion with respect to such financial forecasts or other information and data or the assumptions on which they were based. In that regard, Goldman Sachs International has assumed with Telecom Italia's consent that such financial forecasts will be realized in the amounts and time periods contemplated thereby. In addition, Goldman Sachs International has not made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of Telecom Italia or Telecom Italia Mobile or any of their respective subsidiaries.

Goldman Sachs International provided its advisory services and opinion exclusively for the information and assistance of the board of directors of Telecom Italia in connection with its consideration of the partial tender offer and merger and Goldman Sachs International's opinion does not constitute a "perizia" within the meaning of Annex 3A no. 1 of the Regolamento Emittenti no. 11971 dated May 14, 1999 as subsequently amended, nor a "relazione di stima" within the meaning of that statute. Goldman Sachs International's opinion does not constitute a recommendation as to how any holder of Telecom Italia shares should vote with respect to the merger.

Goldman Sachs International's opinion was necessarily based upon information available to it and financial, economic, political, market and other conditions as they existed and could be evaluated on January 23, 2005, the date the opinion was rendered, and Goldman Sachs International assumed no duty to update or revise its opinion based on circumstances or events after that date. Goldman Sachs International's opinion does not address the underlying business decision of Telecom Italia to engage in the partial tender offer and merger nor the relative merits of these transactions as compared to any alternative business transaction that might have been available to Telecom Italia. Goldman Sachs International also expressed no opinion as to the prices at which Telecom Italia ordinary shares and savings shares will trade at any time.

The following is a summary of the material financial analyses presented by Goldman Sachs International to the board of directors of Telecom Italia on December 7, 2004 in connection with the rendering of its December 7, 2004 opinion, which analyses, as updated, Goldman Sachs International also relied upon in connection with the rendering of its January 23, 2005 opinion. The following summary does not purport to be a complete description of the analyses performed by Goldman Sachs International. The order of the analyses described, and the results of those analyses, do not represent the relative importance or weight given to the analyses by Goldman Sachs International.

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

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

*Discounted Cash Flow Analysis of Telecom Italia Mobile.* Goldman Sachs International computed for Telecom Italia Mobile an implied equity value and an implied ordinary share and savings share price using a discounted cash flow methodology based on

- management projections of future operating cash flows for the years 2005 through 2007;
- discount rate of 8.8% based on the weighted average cost of capital; and,
- terminal values determined on the basis of:
  - the net present value of future operating cash flows beyond 2007 (the “Perpetuity Growth Method”); and
  - multiples applied to the 2007 projected earnings before interest, taxes, depreciation and amortization, or EBITDA (the “Exit Multiple Method”).

Telecom Italia Mobile equity value is finally derived based on the carrying value of minorities and associates and the expected net debt as of December 31, 2004. The implied price of ordinary shares and savings shares of Telecom Italia reflects the dilutive impact of in-the-money convertible securities. Goldman Sachs International calculated the implied share price for savings shares and ordinary shares assuming a 0.2% discount of savings shares to ordinary shares, corresponding to the average discount of those shares over the three-month period prior to December 3, 2004. In performing this analysis Goldman Sachs International adjusted the resulting value per ordinary and savings share of Telecom Italia Mobile to take into account the expected dividend to be distributed in May 2005, as merger completion is expected by end of June 2005. Goldman Sachs International presented the value range derived from the application of the Exit Multiple Method and the Perpetuity Growth Method as follows:

	<b>Value range of Telecom Italia Mobile (Euro)</b>
Implied Equity Value per Ordinary Share Price .....	5.07 - 5.60
Implied Equity Value per Savings Share Price .....	5.05 - 5.58

*Sum of the Parts Analysis of Telecom Italia.* Goldman Sachs International computed for Telecom Italia an implied total equity value and implied exchange ratios based on the value of the sum of the various business segments (valued as separate economic entities) less expected net debt as of December 31, 2004. The values of the main businesses were calculated using a discounted cash flow methodology based on:

- management projections of future operating cash flows for the years 2005 through 2007;
- discount rates ranging from 7.3% to 20.0% based on the weighted average cost of capital for each business; and,
- terminal values determined on the basis of the Perpetuity Growth Method and the Exit Multiple Method.

For purposes of the Perpetuity Growth Method, Goldman Sachs International selected perpetual growth rates for each business based on growth rates estimated by research analysts for comparable businesses ranging from a low of (1.0)% to a high of 4.0%. For purposes of the Exit Multiple Method, Goldman Sachs International utilized EBITDA trading multiples ranging from 4.0x to 7.4x based on companies comparable to each of the businesses.

Telecom Italia’s other investments have been valued at carrying value or based on shareholders’ equity. Goldman Sachs International calculated the implied share price for savings shares and ordinary shares assuming a 26.3% discount of savings shares to ordinary shares, corresponding to the average discount of those shares over the three-month period prior to December 3, 2004. The implied equity value of Telecom Italia reflects the dilutive impact of in-the-money stock options and convertible bonds. In performing this analysis Goldman Sachs International adjusted the resulting value per ordinary and savings share of Telecom Italia to take into account the expected dividend to be distributed in May 2005, as merger completion is expected by end of June 2005. For purposes of its presentation, Goldman Sachs International used the value range derived from the application of the Exit Multiple Method and the Perpetuity Growth Method as follows as well as resulting exchange ratios:

	<b>Value range of Telecom Italia and Exchange Ratios (Euro)</b>
Implied Total Equity Value Per Ordinary Share .....	2.82 – 3.43
Implied Ordinary Exchange Ratio .....	1.63x – 1.79x
Implied Total Equity Value Per Savings Share .....	2.04 – 2.49
Implied Exchange Ratio .....	2.24x – 2.47x

*Market Exchange Ratio Analysis.* Goldman Sachs International analyzed the relative share prices for various periods ending December 3, 2004, including, for purposes of mitigating the impact of short-term market fluctuations, the twelve-month period ending December 3, 2004. Goldman Sachs International calculated the implied historical exchange ratios of Telecom Italia ordinary shares to Telecom Italia Mobile ordinary shares based on the simple average of ordinary share prices as reported as the official prices on Telematico, an automated screen trading system managed by Borsa Italiana, for the periods set forth below ending December 3, 2004. In performing this analysis, Goldman Sachs International adjusted the price of Telecom Italia ordinary and savings shares to take into account the expected dividend to be distributed in May 2005, as merger completion is expected by end of June 2005. Additionally, Goldman Sachs International took into account that both Telecom Italia and Telecom Italia Mobile ordinary and savings shares have significant market capitalization and liquidity. The results of this analysis were as follows:

<u>Period</u>	<u>Implied Ordinary Exchange Ratio</u>	<u>Implied Savings Exchange Ratio</u>
Three months ended December 3, 2004 . . . . .	1.71x	2.36x
Twelve months ended December 3, 2004. . . . .	1.75x	2.44x

*Review of Combined Entity Key Credit Ratios.* Goldman Sachs International reviewed the estimated ratio of net debt to EBITDA 2005 for Telecom Italia/Telecom Italia Mobile as a combined entity on both a pre-merger and post-merger basis. Goldman Sachs International compared those ratios to similar ratios for selected companies consisting of BT Group, Deutsche Telekom, Telefónica and France Telecom. Goldman Sachs International’s review of these ratios for Telecom Italia/Telecom Italia Mobile were based on estimates provided by Telecom Italia management and, for the comparable companies, Goldman Sachs International public analyst estimates. This review indicated that, while the leverage of Telecom Italia/Telecom Italia Mobile will increase, this should not lead to a rating downgrade. Additionally, Goldman Sachs International was informed that, based on a preliminary assessment by Standard & Poor’s and Moody’s, Telecom Italia/Telecom Italia Mobile is expected to maintain a credit rating of BBB+ following the completion of the partial tender offer and merger.

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

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

Goldman Sachs International, as part of its investment banking business, is continually engaged in preparing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and financial analyses for estate, corporate and other purposes. Goldman Sachs International is familiar with Telecom Italia having provided certain investment banking services to it from time to time, including having acted as its financial advisor in connection with the merger with Olivetti in 2003 and in connection with the separation of the Italtel joint venture in 1999 and the subsequent sale of an 80% interest in Italtel S.p.A. in 2000, as joint bookrunner with respect to an offering of Telecom Italia’s \$1,250,000,000 4% Guaranteed Senior Notes due 2010, \$1,250,000,000 4.95% Guaranteed Senior Notes due 2014, and \$1,000,000,000 6% Guaranteed Senior Notes due 2034 in September 2004, and as counterparty to certain derivatives and financing transactions. Goldman Sachs International is also familiar with Telecom Italia Mobile, having provided certain investment banking services to it from time to time, including having acted as financial

advisor in connection with the restructuring of its Brazilian subsidiaries in 2004. Goldman Sachs International may also provide investment banking services to Telecom Italia and Telecom Italia Mobile in the future. In connection with the above described services Goldman Sachs International has received, and may receive in the future, compensation.

Goldman Sachs International is a full service securities firm engaged in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs International may provide such services to Telecom Italia, Telecom Italia Mobile and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of Telecom Italia and Telecom Italia Mobile for its own account and for the accounts of its customers and may at any time hold long and short positions of such securities.

Telecom Italia retained Goldman Sachs International on December 3, 2004 as a financial advisor in connection with the proposed transactions, which engagement was formalized in a letter dated December 6, 2004. Under the terms of that letter, Euro 3,000,000 became payable to Goldman Sachs International on December 7, 2004. Telecom Italia has also agreed to pay Goldman Sachs International an additional Euro 9,000,000 upon the completion of the merger. In addition, Telecom Italia has agreed to reimburse Goldman Sachs International for its out-of-pocket expenses, including fees and disbursements of its lawyers, plus value added tax, up to a maximum amount of Euro 75,000 and to indemnify Goldman Sachs International against various liabilities arising out of or in connection with the engagement or any matter referred to in the engagement letter.

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Telecom Italia Mobile S.p.A.  
Via Cavalli 6  
10100 Torino

Attn: Dr. Carlo Buora, Chairman

Attn: Dr. Marco De Benedetti, CEO

December 7, 2004

Dear Members of the Board,

This document (the "*Assessment*") is being provided solely for the benefit of the Board of Directors of Telecom Italia Mobile S.p.A. ("*TIM*") in connection with, and for the purposes of, its consideration, in its sole independence of judgment, of the appropriate exchange ratio for a merger transaction by incorporation (the "*Proposed Merger*") of TIM into Telecom Italia S.p.A. ("*Telecom Italia*", and, when jointly with TIM, the "*Companies*"). The Proposed Merger will be preceded by the launch of a tender offer by Telecom Italia on 67% of floating ordinary shares and 100% of floating savings TIM shares, and by the payment of 2004 dividends by both companies. Holders of ordinary and savings TIM shares, other than Telecom Italia, shall be referred to as "*Public Shareholders*".

This Assessment is confidential and may not be used or relied upon, or disclosed, referred to or communicated (in whole or in part) to any third party for purposes not accounted for in this Assessment, without our prior written authorization. Furthermore, the use of data and information of single parts of this Assessment cannot be evaluated outside the broader scope and context of the full document. Any valuation and result of this Assessment needs to be considered within, and cannot be relied upon apart from the entire document.

Further, our Assessment is necessarily based on the economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this Assessment and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Assessment. In addition, the continuous changes in the telecommunications sector and the laws and regulations applicable to such sector could affect the financial forecasts and evaluations of the Companies.

With this Assessment, Lazard shall not make any recommendation as to whether TIM should pursue (or not pursue) the Proposed Merger, or to effect the way TIM should decide on the matter. Lazard acknowledges that the exchange ratio decided upon by the Members of the Boards of Telecom Italia and TIM will be evaluated by experts named by the Court of Milan, in compliance with article 2501 *quinquies*, last paragraph, of the Civil Code.

This Assessment is being provided solely for the benefit of the Board of Directors of TIM, and is not on behalf of, and shall not confer rights or remedies on any shareholder of Telecom Italia, TIM or any other person, or be used for any other purpose.

You have requested the Assessment of Lazard at a preliminary stage of the Proposed Merger, with the assumptions that: (i) the Board of Directors of the Companies shall evaluate, in their sole independence of judgement, and each separately, the Proposed Merger, shall prepare and approve the merger plans, reports and



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connected documents, including all customary terms and conditions; they shall furthermore forego independent evaluations, in compliance with Italian and foreign applicable legislation; (ii) the Proposed Merger will be consummated on the terms and subject to the conditions described in the above mentioned merger plans and connected documents; (iii) all material governmental, regulatory or other approvals and consents required in connection with the Proposed Merger will be obtained without any negative effect on the Companies. Consequently, we highlight that our Assessment is necessarily made at a preliminary level, and the outcomes herein contained may change, subject to several factors, including the terms and conditions included in the merger plans and connected documents as provided by the Boards of Directors of Telecom Italia and TIM.

Lazard is acting as financial advisor to TIM in connection with the Tender Offer and will receive a fee for its services, mostly dependent on the success of the Tender Offer. Lazard or its affiliates have in the past, or in the present, provided financial advisory services to Telecom Italia, Pirelli & C. S.p.A, Pirelli & C. Real Estate S.p.A., Camfin S.p.A., for which they have received customary fees. In addition, certain companies affiliated with Lazard may trade shares and other securities of the abovementioned Companies for their own account and for the accounts of their customers.

### ***The Companies Under Evaluation***

#### *Telecom Italia Mobile*

Listed on the Milan Stock Exchange since July 17, 1995, TIM S.p.A. is one of the main mobile operators worldwide, with subsidiaries and affiliates in Europe, in Mediterranean countries and South America.

TIM launched its mobile services in Italy in 1990 and operates since 1995 as a partial spinoff from Telecom Italia mobile operations. In October 2000, TIM won a UMTS license and, in 2002, acquired by incorporation part of the assets of BLU (the fourth mobile operator in Italy).

In the Mediterranean, TIM operates in Turkey, where it strengthened its presence since February 2004 with the merger of its former subsidiary Istim with Aycell, GSM operator fully owned by the fixed line operator Turk Telecom. TIM also operates in Greece, through its subsidiary TIM Hellas (formerly, Stel Hellas), the country's market leader.

In South America, TIM Group operates in five countries, if including its subsidiary Digitel in Venezuela, which it agreed to dispose of last November. The main foreign market where TIM operates is Brazil, where it is the main GSM operator with a national coverage, and the second largest in terms of revenues.

#### *Telecom Italia*

Telecom Group core business, excluding the mobile operations described above, comprises companies that provide fixed telecom services, internet services, and TV broadcasting. Telecom operates also some specialized IC&T services.

Internationally, Telecom Group provides, through subsidiaries and joint ventures, fixed-line and mobile telecom services in several markets, mainly in Europe, the Mediterranean and South America (Argentina, Brazil, Chile, etc.).

Telecom Italia Group operates also in several other segments, e.g. TV broadcasting and the Internet through its subsidiary Telecom Italia Media, IT services and telecom services through I.T. Telecom Group, and innovative technologies through TI Labs.

### ***Material Evaluated***

The Assessment is based on:

- (i) historical economic and financial company information;
- (ii) economic and financial forecasts, as contained in the "Preliminary Budget 2005-2007";
- (iii) historical prices and trade volumes of ordinary and savings TIM and Telecom Italia shares;



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- (iv) the information and documents disclosed during the discussions with TIM and Telecom Italia senior management;
- (v) public information with respect to certain other companies in lines of business we believe to be generally comparable to the businesses of Telecom Italia and TIM;
- (vi) such other financial studies, analyses and investigations as we deemed appropriate.

For the sake of this mandate, the Companies provided Lazard with the latest version of the “Preliminary Budget 2005-2007” on December 3, 2004. This version was underseen by the Executives Committee, but not yet approved by the Board of Directors of the Companies.

With reference to our discussions with the management, for the sake of the analyses made, we assumed that:

- (i) the merger of TIM into Telecom Italia will be effective after the date of payment of dividends by the Companies, in May 2005
- (ii) in line with the disclosures to the market during the presentations of March 25, 2004, the dividends to be distributed in May 2005 will be the same as those of 2004

In preparing this Assessment we have assumed and relied upon, without independent verification, the accuracy and completeness of all of the foregoing information and dates, without having independently valued the principal assets and liabilities of the Company.

Lazard relied upon the accuracy and completeness of the information and dates above, and will assume no responsibility as far as any independent check on the aforementioned, or any estimate or independent evaluation on debits and credits of the Companies.

With respect to the financial forecasts and projections provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of the management of Telecom as to the expected future results of operations and financial condition to which such forecasts and projections relate.

### ***Valuation***

In compliance with the mandate between TIM and Lazard, dated as of December 6, 2004, and with all requests submitted, Lazard does not express any Assessment on the absolute value of the abovementioned securities, or any other method of the exchange ratio, and did not carry any independent evaluation on the absolute value of Telecom Italia or TIM securities.

Moreover, this valuation assumes that, as we were informed, the increase in debt after the tender offer will not imply any credit downgrading by rating agencies, and the value of the securities will not be affected.

The main method used to determine the exchange ratio for the Proposed Merger was the evaluation of relative market prices (“Valuation of Market Prices”). Furthermore, as a control methodology, a Sum of the Parts (“SOP”) valuation was carried on for TIM and Telecom Italia (on a fully diluted basis).

According to the SOP valuation, the value of a company is determined by the sum of the values of the single business units and subsidiaries, considered on a stand-alone basis. This sum is accordingly restated to account for the financial position and minorities and, if relevant, of other biases, as off balance sheet items and potential tax shields.

With reference to the use of the relative market price valuation method, we assume:

- the meaningfulness of the prices given by the market on which the stocks under evaluation are traded
- the meaningfulness of the market prices of the companies under evaluation
- the availability, on the long term, of comparable prices for the companies under evaluation

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Coherently, we highlight that:

- both Companies have a high market capitalization and a considerable non-concentrated floating share;
- the large trade volumes for the stocks imply that the market prices can be a fair indication of the potential value of Telecom Italia and TIM;
- considerable volumes of the Telecom Italia and TIM stocks are traded daily (on average, 1% of the capital stock):
  - over the past twelve months, TIM traded approx. 385% of its ordinary capital stock (not including shares owned by Telecom Italia); and
  - over the past twelve months, Telecom Italia traded approx. 213% of its ordinary capital stock (not including shares owned by Olimpia)

	Price (weighted average)		Average Volume (000s)		Cumulated Volume (000s)		Avg. Traded Capital (%) (*)		Cumulated Traded Capital (%) (*)	
	TI	TIM	TI	TIM	TI	TIM	TI	TIM	TI	TIM
Price, as of Dec-04	2.18	5.37	88,144	1,394	88,144	1,394	1.52%	1.06%	1.52%	1.06%
1 month average	2.09	5.05	50,244	1,446	1,105,572	31,908	0.87%	1.09%	19.07%	24.09%
2 month average	2.04	4.94	38,480	954	1,751,579	42,919	0.66%	0.72%	29.88%	32.50%
3 month average	1.99	4.86	34,401	754	2,256,053	49,031	0.59%	0.57%	38.58%	37.15%
4 month average	1.91	4.73	30,994	485	4,006,249	63,582	0.53%	0.57%	70.05%	48.14%
12 month average	1.87	4.64	34,263	429	8,737,167	108,367	0.59%	0.32%	150.75%	82.81%

(\*) as a percentage of total floating shares

TI - No. floating shares	5,795,921
TIM - No. floating shares	132,069

- both Companies have a high float, which represents a remarkable share of the aggregate capitalization of S&P/MIB (as of November 30, 2004):
  - TIM for approx. 7.0% of S&P/MIB and approx. 7.8% of Mibtel
  - Telecom approx. 9.2% of S&P/MIB and approx. 5.4% of Mibtel
- Telecom Italia and TIM float is significantly diluted among Italian and international institutional investors and Italian retail investors, none of which holds a strong enough position to influence the stock performance.

With respect to the Valuation of Market Prices, we undertook, among others, the following tasks:

- analysis of simple averages on an historical LTM time range
- analysis of weighted averages of volumes on an historical LTM time range
- adjustments of the Telecom Italia and TIM stock value to account for the forecasted payment of 2004 dividends

In order to offset the effects created by rumours on stock trading, our analysis accounts November 16, 2004 as the last day of trading, because after then, above average trade volumes and an increase in price were recorded.

Furthermore, to outweigh the short-term fluctuations typical of financial markets, we extended, customarily, our analysis of market averages on sufficiently broad time frames.

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As far as ordinary shares are concerned, the exchange ratio is in the range of 1.69-1.75.

	Ordinary Shares - Cum dividend			Ordinary Shares - Ex dividend		
	€ per share		Exchange ratio	€ per share		Exchange ratio
	TI	TIM	TIM / TI	TI	TIM	TIM / TI
<b>Weighted Averages</b>						
Price before market rumours (16-Nov-2004)	2.82	4.81	1.71x	2.71	4.55	1.68x
1 month average	2.70	4.68	1.73x	2.59	4.42	1.71x
2 month average	2.63	4.56	1.73x	2.52	4.30	1.70x
3 month average	2.58	4.50	1.74x	2.48	4.25	1.71x
6 month average	2.55	4.51	1.77x	2.45	4.25	1.74x
12 month average	2.54	4.52	1.78x	2.44	4.27	1.75x

Note: Prices with and ex-dividends assume the same dividends as in 2004, amounting to € 0.1151 per share for Telecom Italia and € 0.2687 per share for TIM

As far as savings shares are concerned, taking into consideration the significant rise in volumes, slightly above the average, after November 16, we decided to rely on the market methodology only before the date thereof, and identified a exchange ratio range of 2.30-2.39.

	Savings Shares - Cum dividend			Savings Shares - Ex dividend		
	€ per share		Exchange ratio	€ per share		Exchange ratio
	TI	TIM	TIM / TI	TI	TIM	TIM / TI
<b>Media ponderate</b>						
Price before market rumours (16-Nov-2004)	2.05	4.78	2.33x	1.94	4.51	2.33x
1 month average	2.01	4.62	2.30x	1.89	4.35	2.30x
2 month average	1.95	4.53	2.32x	1.84	4.26	2.32x
3 month average	1.92	4.48	2.34x	1.80	4.22	2.34x
6 month average	1.86	4.45	2.39x	1.75	4.18	2.39x
12 month average	1.84	4.45	2.42x	1.72	4.18	2.43x

Note: Prices with and ex-dividends assume the same dividends as in 2004, amounting to € 0.1151 per share for Telecom Italia and € 0.2687 per share for TIM

In order to verify our Assessment, we:

- evaluated the distinct TIM business units and subsidiaries with the Discounted Cash Flow method
- evaluated Telecom Italia, as sum-of-the-parts, with the Discounted Cash Flow method for the single business units, including the abovementioned valuation of TIM.

This control methodology substantially confirmed what was found with the Valuation of Market Prices.

In order to allocate the equity value between the savings and ordinary shares of Telecom Italia and TIM when applying the control valuation methodology, the mean discount percentages of the savings shares relative to the ordinary shares were averaged at the 1, 2, 3, 6 and 12 months preceding the announcement of the Proposed Merger. It is in fact a generally accepted principle that other methods to allocate the equity value between ordinary and savings shares lead to the introduction of discretionary elements into the valuation, which are not supported by objective elements.

Furthermore, it needs to be remarked that the range considered does not change the economic benefits of the privileges of TIM savings shares to be exchanged.

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***Conclusions***

Lazard shall not express an Assessment with respect to the price ordinary and savings Telecom or any other TIM stock could be traded after the announcement of the Proposed Merger, nor with respect to the price TIM shares could be traded at after the conclusion of the Proposed Merger.

On the basis of the above considerations, and within their specific scope, Lazard values that, as of today, a exchange ratio in the range of 1.69-1.75 Telecom Italia shares for each TIM ordinary share and a exchange ratio in the range of 2.30-2.39 Telecom Italia savings shares for each TIM savings share, after the Proposed Merger, would be financially fair for the Public Shareholders.

Upon acceptance of this Assessment, subject to the mandate entered into between TIM and Lazard on December 6, 2004, TIM Board of Directors agrees that this Assessment is confidential and shall not be disclosed, referred to or communicated (in whole or in part) to any third party for any purpose whatsoever, without our prior written authorization.

Very truly yours,

LAZARD & CO. S.R.L.

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LAZARD

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To the Board of Directors of Telecom Italia Mobile S.p.A.

Attn.: Dr. Carlo Buora, Chairman

Attn.: Dr. Marco De Benedetti, CEO

January 23, 2005

**Subject: Merger by incorporation of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A.**

We herein refer to the document dated December 7, 2004 (the "Assessment") that Lazard & Co. S.r.l. prepared for the Board of Directors of Telecom Italia Mobile S.p.A., evaluating the exchange ratio for the transaction above.

You informed us, jointly with Telecom Italia S.p.A., that since December 7, 2004 no specific event occurred, or failed to occur, that influenced, or could have influenced, neither of the documents, information, projections, data and assumptions the Assessment refers to, nor the financial and economic situation, the business, projected assets and liabilities of Telecom Italia Mobile S.p.A. and Telecom Italia S.p.A. and their respective subsidiaries.

On the basis of, and limited to, the above statements, and in accordance with the terms, conditions, and assumptions contained in the Assessment, herein restated, as of today, we uphold the conclusions of the aforementioned Assessment.

This letter is confidential and for the exclusive use of Telecom Italia Mobile S.p.A. Board of Directors, and may not be used or disclosed, referred to or communicated (in whole or in part) to any third party for any purpose whatsoever without our prior written authorization. This Assessment is subject to the mandate entered into between Telecom Italia Mobile S.p.A. and Lazard and dated as of December 6, 2004.

Very truly yours,

Lazard & Co. S.r.l.

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**Summary Description of the analyses undertaken by Lazard, financial advisor of Telecom Italia Mobile, with reference to its Assessment**

In accordance with the mandate between Telecom Italia Mobile S.p.A. ("TIM") and Lazard & Co. S.r.l. ("Lazard"), the Board of Directors of TIM engaged Lazard to act as financial advisor for the merger (the "Proposed Merger"), in order to provide a fairness opinion upon the appropriate exchange ratio for the realization of an operation of merger by incorporation of TIM into Telecom Italia S.p.A. ("Telecom Italia"), to be preceded by the launch of a public tender offer by Telecom Italia on 67% of the free-float of TIM ordinary shares and 100% of the free-float of TIM savings shares.

On December 7, 2004, Lazard provided the Board of Directors of TIM with a written document (the "Assessment"), in which it was considered that, at such date and on the basis of the procedures followed and subject to the premises and qualifications set forth in the Assessment, an exchange ratio in the range of 1.69-1.75 Telecom Italia ordinary shares for 1 TIM ordinary share, and 2.30-2.39 Telecom Italia savings shares for 1 TIM savings share would be fair, from a financial point of view, to the holders of TIM shares, other than Telecom Italia.

Subsequently, by letter dated January 23, 2005, Lazard reaffirmed to the Board of Directors of TIM the conclusions expressed in the Assessment dated December 7, 2004, on the basis of and subject to the premises, qualifications and hypotheses assumed regarding the scope of the analyses made as described in the letter and in the Assessment, and further subject to the assumption that no significant event had occurred between December 7 and the aforementioned date that could result in Lazard revising the conclusions set forth in the Assessment.

Lazard was requested to provide its Assessment, and to assume and consider, among other things, that the Boards of Directors of TIM and Telecom Italia will evaluate and propose, in their sole and independent judgement and discretion, each respectively, the Proposed Merger and the exchange ratio, and prepare and provide for the approval of the merger plans, the reports and related documentation which will contain customary terms and conditions, as well as obtain appraisals of independent experts, all in accordance with applicable Italian and foreign laws and regulations.

The Assessment delivered on December 7, 2004 and the letter of January 23, 2005 were addressed to the Board of Directors of TIM for its exclusive use and specifically refer to the fairness of the exchange ratio from a financial point of view, for the TIM ordinary and savings shareholders other than Telecom Italia, as of the dates on which they were provided. The Assessment and the letter of confirmation do not refer to any other aspect of the Proposed Merger and neither provide any opinion upon the decision by the Board of Directors of TIM to proceed with, or realize, the Proposed Merger, nor do they constitute any recommendation as to how the Board of Directors of TIM should take decision regarding the Proposed Merger. The Assessment, the letter and the Summary Description provided herein do not constitute any recommendation for any shareholder of TIM or Telecom Italia to pursue any action in relation to the Proposed Merger, including any action with respect to the Public Offer to TIM shareholders, with respect to the right of withdrawal for TIM savings shareholders, nor any recommendation as to how any shareholder should vote upon the Proposed Merger, if presented for approval. Lazard did not express any opinion with respect to the price at which the ordinary shares or savings shares of TIM or any security of Telecom Italia could be traded following the announcement of the Proposed Merger, or with respect to the price at which securities of Telecom Italia could be traded following completion of the Proposed Merger.

**The Assessment provided on December 7, 2004, which describes the assumptions adopted, the methodologies applied, and the elements considered, documents analysed and the limitations of the analyses carried out by Lazard for the purposes of the valuation of the exchange ratio, and the letter of confirmation dated January 23, 2005, are attached to this Document as Annexes XII (a) and XII (b). The following is a summary to the Assessment, which needs to be referred to in full, together with the letter of confirmation.**

The Assessment provided by Lazard was based on the following information:

- (i) historical economic and financial information relating to Telecom Italia and TIM;
- (ii) economic and financial forecasts and other data relating to the future operational performance provided by Telecom Italia and TIM;
- (iii) the historical prices and trading volumes of the ordinary shares and the savings shares of TIM, as well as the ordinary shares and the saving shares of Telecom Italia;

- (iv) the information –gathered in a limited number of meetings with senior management of TIM and Telecom, who delivered and explained the documents provided;
- (v) the publicly available information on other companies operating in lines of business believed to be generally comparable to the businesses of Telecom Italia and TIM; and
- (vi) such other financial studies, analyses and investigations as deemed appropriate.

For the purpose of completing the necessary analyses for the Assessment, Lazard assumed and relied upon the accuracy and completeness of all of the foregoing information and data of a financial, legal, accounting, fiscal, etc. type provided and did not undertake any independent investigation of such information or any independent valuation of the assets or liabilities of Telecom Italia or TIM. With respect to the financial forecasts, Lazard assumed that they were reasonably prepared based on the best currently available estimates and judgments of Telecom Italia and TIM management as to their expected future results of operations. Lazard does not assume any responsibility or express any opinion with respect to such forecasts or the assumptions on which they are based.

Lazard's Assessment is necessarily based on the economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of the date of the Assessment. The Assessment was prepared in a changing regulatory and competitive context, in continuous evolution. Subsequent changes in the structural aspects of the telecommunications sector, laws and regulations could affect the conclusions expressed by Lazard.

The following is a brief summary of the methods used and the most relevant financial analyses undertaken by Lazard with respect to the Assessment of the exchange ratio for the Proposed Merger, delivered on December 7, 2004. It should be noted that such summary is not intended to be an exhaustive representation of the analyses undertaken by Lazard, nor are the analyses relating to the value of assets intended to represent current or future market values or future performance of the stock market.

With respect to the analyses carried out to evaluate the exchange ratio for the Proposed Merger, Lazard focused on the relative valuations of Telecom Italia and TIM, and did not express any opinion regarding the absolute value of their securities, but gave priority to the homogeneity and compatibility of the criteria applied. Lazard carried out its analyses considering the two companies as separate entities and did not take into consideration any strategic, operational or financial synergies, and similarly control premia and minority discounts were not taken into consideration. Moreover, the valuations which were effected assumed that the increase in indebtedness following the Public Offer would not result in a credit downgrading by rating agencies, and consequently the value of the securities would not be penalized.

Lazard applied the most commonly used valuation methodologies:

- As principal valuation methodology, the market value or market price method (“Market Price Valuation”), analysing Telecom Italia and TIM market prices over different time frames. In the present case, market prices were considered particularly significant, considering the high capitalization and liquidity of Telecom Italia and TIM;
- As control valuation methodology, the Sum of the Parts methodology (“SOP”), determining the value of Telecom Italia and TIM by applying the Discounted Cash Flows methodology to the different business units and subsidiaries of Telecom Italia and TIM.

The value of the capital of Telecom Italia and TIM was determined by applying the aforementioned valuation methodologies with homogeneous criteria and were adjusted to account for the expected dividend distribution during 2005 (which was assumed to be equal to the distribution of 2004). The assumption regarding the dividend distribution is based on a time frame that anticipates that the exchange of the Proposed Merger would occur following the dividend distribution.

#### *Market Price Valuation Method*

The Market Price Valuation Method estimated the value of the capital on the basis of the stock exchange quotations of Telecom Italia and TIM, over a meaningful time frame, taking November 16, 2004 as the last trading day, as a means to offset any effect the announcement of the Proposed Merger would have on the analysis. In fact, after that date, above-average trading volumes were clearly recorded.



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On the basis of market data as of November 16, 2004 (the day before there was market rumour of the Proposed Merger), it was considered that:

- a) both companies participating in the merger have a high market capitalization and a significant and broadly diffused free-float;
- b) high volumes of TIM stocks are traded on a daily basis (on average, approximately 1% of the free-floating stock);
- c) both Telecom Italia and TIM represent a significant share of the aggregate capitalization of S&P/MIB. As of November 16, 2004, according to figures provided by Borsa Italiana S.p.A.:
  - TIM represented 7.4% of Mibtel and 6.6% of the S&P MIB Index; and
  - Telecom Italia represented 5.3% of Mibtel and 8.9% of the S&P MIB Index;
- d) the free float of TIM and Telecom Italia proves to be significantly divided between institutional investors, Italian and international, and Italian retail investors.

In order to mitigate short-term fluctuations that typically characterize the financial markets, Lazard proceeded to extend the analysis of the weighted average market prices over sufficiently broad time periods.

The results of such analyses are set forth as follows:

<b>Market Prices (Ordinary shares)</b>	<b>Market Value Not Adjusted for Dividend Distr.</b>		<b>Exchange Ratio (X)*</b>	<b>Market Value Adjusted for Dividend Distr.</b>		<b>Exchange Ratio (X)*</b>
	<b>Telecom Italia (€)</b>	<b>TIM (€)</b>		<b>Telecom Italia (€)</b>	<b>TIM (€)</b>	
<b>Weighted Averages</b>						
16-Nov-2004 .....	2.82	4.81	1.71	2.71	4.55	1.68
1-month average .....	2.70	4.68	1.73	2.59	4.42	1.71
2-month average .....	2.63	4.56	1.73	2.52	4.30	1.70
3-month average .....	2.58	4.50	1.74	2.48	4.25	1.71
6-month average .....	2.55	4.51	1.77	2.45	4.25	1.74
12-month average .....	2.54	4.52	1.78	2.44	4.27	1.75

<b>Market Prices (Savings shares)</b>	<b>Market Value Not Adjusted for Dividend Distr.</b>		<b>Exchange Ratio (X)*</b>	<b>Market Value Adjusted for Dividend Distr.</b>		<b>Exchange Ratio (X)*</b>
	<b>Telecom Italia (€)</b>	<b>TIM (€)</b>		<b>Telecom Italia (€)</b>	<b>TIM (€)</b>	
<b>Weighted Averages</b>						
16-Nov-2004 .....	2.05	4.78	2.33	1.94	4.51	2.33
1-month average .....	2.01	4.62	2.30	1.89	4.35	2.30
2-month average .....	1.95	4.53	2.32	1.84	4.26	2.32
3-month average .....	1.92	4.48	2.34	1.80	4.22	2.34
6-month average .....	1.86	4.45	2.39	1.75	4.18	2.39
12-month average .....	1.84	4.45	2.42	1.72	4.18	2.43

(\*) possible differences are due to rounding  
Source: Datastream

*Sum of the Parts Methodology*

On the basis of the SOP Methodology, the value of Telecom Italia and TIM was determined as the sum of the values of their different business units and subsidiaries, taking into account the complexity of the business structure and the number of business areas. The Discounted Cash Flow methodology was mainly used to evaluate the single business units and subsidiaries. Such sum was duly adjusted to take into account the financial position of, and minority interests in, each of the companies involved in the Proposed Merger, which in the present case was with reference to the data provided by Telecom Italian and TIM as of December 31, 2004.

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The Discounted Cash Flow (“DCF”) methodology was applied to the main activities of Telecom Italia and TIM, namely, fixed and mobile telecommunication services, and for major international subsidiaries.

The other activities were valued with principal reference to their market value, if available and appropriate, or, for smaller or unconsolidated activities, their book value, or estimates of financial analysts published in research reports.

The DCF method was applied using the cash flows from operations for the principal activities resulting from the economic and financial plans 2004-2007 updated by management of Telecom Italia and TIM and disclosed to the market in March 2004, which were then projected until 2011. The growth rates used by Lazard for the projections for the period 2008-2011 and for the calculation of the Terminal Value (which was calculated using a perpetual growth rate of the discounted cash flows) assume growth forecasts in line with relevant market benchmarks.

The assumptions relating to the Weighted Average Cost of Capital (“WACC”) were developed based on a target capital structure of the activity under evaluation and on relevant market benchmarks.

With reference to the valuation of the main activities of Telecom Italia and TIM, the DCF methodology was based on the following assumptions for the most significant business units:

- for fixed-line telecommunications services, a 2% CAGR of 2008-2011 revenues and a mean EBITA margin of 31% were used for financial forecasts beyond the time frames of the business plan; for the DCF valuation, a WACC in the range of 7.0%-8.0% and a growth rate of the Terminal Value between 0.25%-0.75% were applied;
- for mobile telecommunications services, for the purposes of the financial forecasts which extend beyond the time frames of the business plan and for the DCF valuation, Lazard applied:
  - with respect to TIM S.p.A., a 3% CAGR of 2008-2011 revenues and a mean EBITA margin equal to 40%, a WACC in the range of 8.0%-9.0% and a growth rate of the Terminal Value between 1.25%-1.75%;
  - with respect to TIM International, a 3% CAGR of 2008-2011 revenues and a mean EBITA margin equal to 18.5%, a WACC in the range of 11.5%-12.5% and a growth rate of the Terminal Value between 1.75%-2.25%.

In order to allocate the equity value between the savings and ordinary shares of Telecom Italia and TIM when applying the control valuation methodology, the mean discount percentages of the savings shares relative to the ordinary shares were averaged at the 1, 2, 3, 6 and 12 months preceding the announcement of the Proposed Merger. It is in fact a generally accepted principle that other methods to allocate the equity value between ordinary and savings shares lead to the introduction of discretionary elements into the valuation, which are not supported by objective elements.

With respect to TIM, based on the evidence of the average historical discount of ordinary shares relative to savings shares, a discount equal to 0% was assumed with respect to the value of ordinary shares.

The values obtained in accordance with the foregoing were adjusted to take into account the forecasted dividend distribution for fiscal year 2004.

Lazard also compared the results of the SOP method, before adjustments due to the distribution of dividends forecasted for April 2005, with the recommendations of financial analysts on the target price of Telecom Italia and TIM securities over the period following the announcement of third quarter 2004 results.

The following chart highlights the range of values for ordinary shares of Telecom Italia and TIM identified with the SOP methodology:

<u>Euro</u>	<b>SUM OF THE PARTS METHOD</b>			
	<b>Share Values Not Adjusted for Dividends</b>		<b>Share Values Adjusted for Dividends</b>	
	<u>Telecom Italia</u>	<u>TIM</u>	<u>Telecom Italia</u>	<u>TIM</u>
Value of Ordinary shares.....	2.97-3.28	5.26-5.50	2.86-3.17	5.00-5.25
Value of Savings shares .....	2.18-2.41	5.26-5.50	2.06-2.29	4.99-5.24

*Determination of the Exchange Ratio*

Lazard compared the results deriving from the application of the SOP valuation method for TIM and Telecom Italia described above, obtaining the range of exchange ratios for the Proposed Merger indicated in the following table.

Moreover, Lazard compared the range of the exchange ratios obtained with such valuation method with the exchange ratios derived from the historical prices of the ordinary shares of the two companies, as reflected by the stock market over determined time frames preceding the market rumours of the Proposed Merger.

The results obtained by applying the SOP method confirm the relative values reflected by the Market Price Valuation method.

<b>METHOD (ORDINARY SHARES)</b>	<b>EXCHANGE RATIO NOT ADJUSTED FOR DIVIDENDS (X)</b>	<b>EXCHANGE RATIO ADJUSTED FOR DIVIDENDS (X)</b>
<b>Market Price Valuation Method</b>		
- November 16, 2004	1.71	1.68
<b>Weighted Averages:</b>		
- 1-month average	1.73	1.71
- 2-month average	1.73	1.70
- 3-month average	1.74	1.71
- 6-month average	1.77	1.74
- 12-month average	1.78	1.75
<b>Sum of the Parts Method</b>	1.68-1.77	1.65-1.75

<b>METHOD (SAVINGS SHARES)</b>	<b>EXCHANGE RATIO NOT ADJUSTED FOR DIVIDENDS (X)</b>	<b>EXCHANGE RATIO ADJUSTED FOR DIVIDENDS (X)</b>
<b>Market Price Valuation Method</b>		
- November 16, 2004	2.33	2.33
<b>Weighted Averages:</b>		
- 1-month average	2.30	2.30
- 2-month average	2.32	2.32
- 3-month average	2.34	2.34
- 6-month average	2.39	2.39
- 12-month average	2.42	2.43
<b>Sum of the Parts Method</b>	2.29-2.41	2.29-2.41

As described above, Lazard prepared the Assessment by applying and comparing different financial methodologies, solely in order to provide the Board of Directors of TIM with an opinion as the fairness, from a financial point of view, of the exchange ratio for the shareholders of both ordinary and savings shares of TIM, other than Telecom Italia.

The summary of such valuations is not a complete description of the valuations and analyses undertaken by Lazard. The preparation of a fairness opinion is a complex process that cannot be entirely described by partial analyses or summary descriptions but must be considered in its entirety. The selection of single, partial aspects, without the full understanding of the entire scope of the Assessment, could be misleading and provide an uneven and incomplete perspective of the processes involved in the Assessment.

The analyses made, which are necessarily based on estimates of future performance, are not necessarily indicative of actual future performance, which could be more or less favourable than those suggested in these analyses. Because such analyses derive from a series of assumptions relating to the performance of the sector, general business climate, macro-economic, financial, market and other issues, they are inherently subject to uncertainty, as many of such factors are not within the control of TIM, Telecom Italia or their respective advisors. Consequently, none of Lazard, TIM, Telecom Italia or any other persons assumes any responsibility in the event that future results prove significantly different from the forecasts. In addition, the analyses and the estimates relating to the value of the business or the securities are not aimed at providing recommendations as to the price at which the securities should be listed or traded on the market.

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Lazard's Assessment and the financial valuations are not the only factors considered by the Board of Directors of TIM in approving the resolution concerning the Proposed Merger and, therefore, must not be viewed as determinative of the decision of the Board of Directors or by the management of TIM.

Lazard was appointed by TIM to act as financial advisor for the Proposed Merger. This appointment was formalized with the mandate dated December 6, 2004. In accordance with such mandate, Lazard received, as of the date of the announcement of the Proposed Merger (December 7, 2004) a fee of Euro 5,0 million. Furthermore, TIM agreed to pay Lazard an additional fee of up to Euro 20,0 million upon completion of the Proposed Merger, and reimburse all expenses incurred, including fees and other compensations for fiscal and legal advisors.

Lazard has provided in the past and is currently providing financial advisory services to Telecom Italia, Pirelli & C. S.p.A, Pirelli & C. Real Estate S.p.A., Camfin S.p.A., for which it has received and/or will receive customary fees. Lazard may in the future provide financial advisory services to TIM, Telecom Italia, Pirelli & C. S.p.A.. In addition, certain companies affiliated with Lazard may trade shares and other securities of TIM and Telecom Italia for their own account and for the accounts of their customers.

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

*Strictly Private and Confidential*

7<sup>th</sup> December 2004

Board of Directors  
Telecom Italia Mobile S.p.A.  
Via Cavalli n. 6  
10100 Turin  
Italy

Dear Sirs:

You have informed us that Telecom Italia Mobile S.p.A. (the “Company”) is considering a potential merger (the “Merger”) with Telecom Italia S.p.A. (“Telecom Italia”), to be effected by incorporation of the Company into Telecom Italia, whereby the shareholders of the Company will receive newly issued ordinary and savings shares of Telecom Italia, in exchange for each of the ordinary and savings shares, respectively, of the Company they own.

This letter is delivered pursuant to, and subject to the terms of, our engagement letter with the Company dated 7<sup>th</sup> December 2004. In the context of the Merger, you have asked us to advise you with respect to the potential exchange ratios, from a financial point of view, for (i) the newly issued ordinary shares of Telecom Italia for each existing ordinary share of the Company (the “Ordinary Exchange Ratio”), and (ii) the newly issued Telecom Italia savings shares for each existing savings share of the Company (the “Savings Exchange Ratio” and together with the Ordinary Exchange Ratio, the “Exchange Ratios”), respectively.

We also understand that prior to the Merger, Telecom Italia may propose to launch voluntary cash tender offers on (i) all of the savings shares of the Company it does not already own at a price per savings share yet to be determined (the “Savings Tender Offer”) and (ii) 67% of the ordinary shares of the Company it does not already own at a price per ordinary share yet to be determined (the “Ordinary Tender Offer” and together with the Savings Tender Offer, the “Tender Offers”). We understand further that the Savings Tender Offer and the Ordinary Tender Offer will be subject, amongst other things, to a minimum acceptance level of at least 2/3 of the shares being tendered for (the “Minimum Acceptance Conditions”), and that Telecom Italia will be, at its own discretion, able to waive the Minimum Acceptance Conditions. In this context, we understand that the Board of Directors of the Company and of Telecom Italia will definitively approve the Merger and call their respective extraordinary general meetings to vote on the Merger, following completion or expiration of the Tender Offers. Therefore, it is possible that should the Tender Offers not be successfully completed, then Telecom Italia may decide not to proceed with the Merger. We are currently not rendering you an opinion in respect of the Tender Offers and you have not asked us to do so.

We understand further, that following the Tender Offers and the Merger, the credit ratings of Telecom Italia are expected to remain unchanged.

In arriving at our opinion, we have reviewed certain publicly available business and financial information relating to the Company and Telecom Italia. We have also reviewed certain other information, including financial forecasts, provided to us by the Company and Telecom Italia.

We have also considered certain financial and stock market data of the Company and of Telecom Italia, and we have also compared that data with similar data for other publicly held companies in businesses similar to those of the Company and Telecom Italia. We have assumed that prior to the Merger becoming effective, the Company and Telecom Italia will distribute ordinary and savings dividends per share in line with what was paid in 2004 and have reflected this in our analyses. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company’s and Telecom Italia’s management as to the future financial performance of the Company and Telecom Italia. In particular, we have not conducted any due diligence on the Company and/or Telecom Italia, nor have we had the opportunity to meet with the Company’s and Telecom Italia’s management to discuss the business and prospects of the Company and Telecom Italia.

Board of Directors  
of Telecom Italia Mobile S.p.A.  
7<sup>th</sup> December 2004

In addition, we have not made an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or Telecom Italia, nor have we been furnished with any such evaluations or appraisals. Our advice is necessarily based upon financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. We are not expressing any opinion as to what the value of the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares actually will be when issued to the Company's ordinary and savings shareholders respectively, pursuant to the Merger or the prices at which such Telecom Italia Ordinary Shares and Telecom Italia Savings Shares will trade subsequent to the Merger. We were not requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company and our advice does not reflect any consideration of the merits of the Merger versus other alternative transactions that could have been pursued. We have not been requested to advise as to, and our advice does not in any manner address, the Company's underlying business decision to effect the Merger.

We are acting as financial advisor to the Company in connection with the Merger and the Tender Offers and will receive a fee for our services, a substantial part of which is contingent upon the consummation of the Merger.

In the past we have performed certain investment banking services for the Company and Telecom Italia and have received customary fees for such services.

In the ordinary course of our business, Credit Suisse First Boston and its affiliates may actively trade the debt and equity securities of both the Company and Telecom Italia for their own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is for the information of the Board of Directors of the Company only in connection with its consideration of the Merger, does not constitute a recommendation to any shareholder as to how such shareholder should vote on the proposed Merger or whether or not such shareholder should tender shares pursuant to the Tender Offers and is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, without Credit Suisse First Boston's prior written consent.

CSFB is an internationally recognized investment banking firm and is actively engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Based upon and subject to the foregoing, it is our opinion that it would be appropriate from a financial point of view, as of the date hereof, for the Ordinary Exchange Ratio to fall within the range of 1.69 to 1.75 and for the Savings Exchange Ratio to fall within the range of 2.30 to 2.39.

Very truly yours,

CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED

By: \_\_\_\_\_



*Strictly Private and Confidential*

23<sup>rd</sup> January 2005

Board of Directors  
Telecom Italia Mobile S.p.A.  
Via Cavalli n. 6  
10100 Turin  
Italy

Dear Sirs:

Credit Suisse First Boston (Europe) Limited (“CSFB” or “we”), delivered to Telecom Italia Mobile S.p.A. (the “Company” or “you”) an opinion letter dated 7<sup>th</sup> December 2004 (the “Opinion Letter”) indicating that, in the context of the potential merger between the Company and Telecom Italia to be effected by incorporation of the Company into Telecom Italia, subject to the terms of the Opinion Letter, it was our opinion that it would be appropriate from a financial point of view as of 7<sup>th</sup> December 2004, for the Ordinary Exchange Ratio to fall within the range of 1.69 to 1.75 and for the Savings Exchange Ratio to fall within the range of 2.30 to 2.39. The Opinion Letter was provided at your request and pursuant to, and subject to the terms of, our engagement letter with the Company dated 7<sup>th</sup> December 2004 (the “Engagement Letter”). In addition, this letter is provided pursuant to, and subject to the terms of the Engagement Letter.

Defined terms used in this letter shall have the same meaning attributed to them in the Opinion Letter except to the extent expressly stated otherwise herein.

On 7<sup>th</sup> December 2004, the Board of Directors of the Company and the Board of Directors of Telecom Italia approved a plan for the integration of the Company and Telecom Italia involving, among other things, (i) voluntary cash tender offers by Telecom Italia for all of the savings shares of the Company that it did not already own and 67% of the ordinary shares of the Company that it did not already own and (ii) the merger of the Company and Telecom Italia, based on an Ordinary Exchange Ratio of 1.73 and a Savings Exchange Ratio of 2.36.

The Ordinary Tender Offer and the Savings Tender Offer opened for acceptance on 3<sup>rd</sup> January 2005 and closed on 21<sup>st</sup> January 2005.

On 22<sup>nd</sup> December 2004, we delivered you an opinion as of that date as to the fairness from a financial point of view to the ordinary and savings shareholders of the Company other than Telecom Italia of the consideration to be received by them pursuant to the Tender Offers, as defined in our opinion letter dated 22<sup>nd</sup> December 2004.

On 21<sup>st</sup> January 2005, the Company and Telecom Italia informed us that since 7<sup>th</sup> December 2004, no event had occurred that had impacted or could impact materially any of the documents, information, data, forecasts or assumptions referred to in the Opinion Letter and/or the financial and economic situation, business, assets, liabilities and prospects of the Company and Telecom Italia.

In arriving at the opinion set out in this letter, we have also considered the results of the Tender Offers.

It is understood that this letter is for the information of the Board of Directors of the Company only in connection with its consideration of the Merger and is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, without CSFB’s prior written consent except that the Company may disclose both this letter and the Opinion Letter to the extent that it is required to do so by law.

CSFB is an internationally recognized investment banking firm and is actively engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

In the ordinary course of our business, CSFB and its affiliates may actively trade the debt and equity securities of both the Company and Telecom Italia for their own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Based upon and subject to the foregoing and to all of the qualifications, considerations and assumptions set out in the Opinion Letter, we hereby confirm that as of the date hereof, we are not aware of any event that has occurred that would lead us to change the opinion that we provided in the Opinion Letter.

Very truly yours,

CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED

By: \_\_\_\_\_



**Summary description of the analyses carried out by Credit Suisse First Boston (Europe) Limited, as Telecom Italia Mobile S.p.A.'s financial advisor, with reference to its Valuation Opinion.**

Telecom Italia Mobile S.p.A. ("TIM") retained Credit Suisse First Boston (Europe) Limited ("CSFB") to act as its financial advisor in connection with the merger (the "Merger") with Telecom Italia S.p.A. ("TI") including for the purposes of rendering an opinion to the board of directors of TIM regarding the appropriateness from a financial point of view of a range of exchange ratios to be used in connection with the Merger.

CSFB is an internationally recognized investment banking firm and is actively engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

On December 7, 2004, CSFB delivered a written opinion (the "Opinion") to the board of directors of TIM reporting, as at the date of the Opinion, based on the procedures followed, and subject to the qualifications, considerations and assumptions set out in the Opinion, that it believed that it would be appropriate from a financial point of view for the potential exchange ratios to be used in connection with (a) the newly issued ordinary shares of TI issued for each existing ordinary share of TIM (the "Ordinary Exchange Ratio"), and (b) the newly issued savings shares of TI issued for each existing savings share of TIM (the "Savings Exchange Ratio" and together with the Ordinary Exchange Ratio, the "Exchange Ratios") to fall within the following ranges:

- 1.69 – 1.75 TI for the Ordinary Exchange Ratio;
- 2.30 – 2.39 TI for the Savings Exchange Ratio.

On January 23, 2005, CSFB confirmed to the board of directors of TIM in writing that, subject to the qualifications, considerations and assumptions set out in the Opinion, it was not aware of any event that had occurred that would lead CSFB to change the opinion that it provided in the Opinion (the "Confirmation Letter" and together with the Opinion, the "Opinions"). In providing the Confirmation Letter, CSFB took into account also the outcome of the partial tender offers launched by TI for TIM saving and ordinary shares, that closed on January 21, 2005.

CSFB's Opinions have been directed only to the board of directors of TIM for its information and in connection with its consideration of the Merger pursuant to the terms of CSFB's engagement letter with TIM dated December 7, 2004. CSFB does not accept any duty of care to, and will not have any liability or responsibility to, any third party other than the board of directors of TIM in connection with the Opinions or the summary set out in this documentation. The Opinions are not directed to and do not constitute any recommendation to any shareholder as to how such shareholder should vote on the proposed Merger. The Opinions do not constitute a recommendation to the Board of Directors of TIM as to how it should vote on the proposed Merger. The Opinions do not reflect any consideration of the merits of the Merger versus other alternative transactions that could have been pursued and CSFB has not been requested to advise as to, and the Opinions do not in any manner address, TIM's underlying business decision to effect the Merger. CSFB was not requested to, and did not, solicit third party indications of interest in acquiring all or any part of TIM.

This summary is provided for information purposes only and does not constitute a recommendation to any shareholder of TIM as to how they should vote with respect to the Merger if the Merger is presented at the EGM for approval.

**The full text of CSFB's December 7, 2004 Opinion, which sets forth the assumptions made, procedures followed, matters considered, documentation utilised and limitations on the review undertaken by CSFB in connection with the Opinion, as well as the full text of CSFB's January 23, 2005 Confirmation Letter, are attached as Annex XIII (a) and (b) and are incorporated by reference into this document. You are urged to read the Opinions carefully and in their entirety. The Opinions have been prepared in the English language only. In case of any inconsistencies, the original document in English prevails over the Italian translation.**

In performing its reviews and analyses for rendering the Opinions, CSFB, among other things:

- reviewed the documentation that sets out the terms of the proposed Merger and related transactions;
- reviewed the financial information and other information that was publicly available or made available to CSFB by TIM, including the internal financial analyses, the budgets and the forecasts for TIM and for TI prepared by TIM and TI management;

- held limited discussions with members of the senior management of TIM and TI;
- reviewed the historical market price and the historical market price and trading volume trend of TIM and TI securities;
- reviewed publicly available information on companies involved in activities generally deemed similar to TI and TIM activities;
- reviewed publicly available equity analyst research reports; and
- conducted other financial studies, analyses and investigations as it deemed appropriate.

In the course of its review and analysis and in rendering the Opinions, CSFB relied upon the accuracy and completeness of all financial, legal, fiscal and accounting, and other information reviewed by it and did not assume any responsibility for independent verification of such information. With respect to the financial and operating forecasts provided by TIM and by TI, CSFB assumed that those forecasts had been reasonably prepared on bases reflecting the best estimates and judgments available of the respective managements of TIM and TI as to the future financial and operating performance of the aforementioned companies, at the date they were prepared. In addition, CSFB does not assume any responsibility, or provide any opinion on the aforementioned forecasts or on the assumptions underlying such forecasts.

CSFB did not prepare any independent evaluation or appraisal of the assets or liabilities of, nor did CSFB conduct a physical inspection of any of the assets of, TIM or TI or any of their subsidiaries. With respect to the projections provided to CSFB, CSFB notes that projecting future results is inherently subject to substantial uncertainty. Although those projections constituted only one of many items that CSFB considered in rendering its Opinions, changes to the projections could affect CSFB's conclusions. CSFB's Opinions were based on financial, economic, market and other conditions existing at the date of its Opinions, including market prices of TIM's and TI's securities. Such conditions are generally beyond TIM's or TI's control and are subject to rapid and unpredictable changes, which could affect the conclusions that CSFB expressed.

The following is a brief summary of the most relevant financial analyses performed by CSFB in connection with rendering its Opinion dated December 7, 2004. The summary is not a complete description of the analyses performed by CSFB. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or a summary description. The order of the analyses described and the results of those analyses do not necessarily represent the relative importance or weight attributed to the analyses by CSFB. Selecting portions of this summary without considering the analyses as a whole could result in an incomplete view of the processes underlying CSFB's analyses and Opinions. The analyses performed by CSFB are not necessarily indicative of actual values or actual future results that may be significantly more or less favourable than those suggested by the analyses. Additionally, the analyses relating to the value of the businesses do not purport to be prices realisable in a transaction nor to reflect actual nor future market valuations or market price trends.

CSFB expressed no opinion as to the prices at which the ordinary shares or savings shares of TI will trade following the completion of the Merger, or as to the price at which the ordinary shares and savings shares of TIM and TI will trade prior to the completion of the Merger.

CSFB did not use the values resulting from its analyses for any purpose other than that for analysing the Exchange Ratios and those values should not be used for any other purpose. In accordance with customary investment banking practice, CSFB applied generally accepted valuation methods in preparing its Opinion. In particular, in analysing the Exchange Ratios, CSFB focused on the relative valuations of TIM and TI, giving priority to the consistency and comparability of the criteria adopted, rather than to the absolute value of the aforementioned companies. CSFB carried out its analyses considering the two companies as separate entities and therefore ignored any strategic, operational or financial synergies that may result from the Merger, as well as any control premiums and minority discounts. In addition, as indicated by TIM and TI, CSFB carried out its analyses assuming that the increase in TI's net debt due to the partial tender offers launched by TI for TIM's ordinary and saving shares would not lead to any downgrading by the rating agencies of the credit rating of TI and the value of the shares would not be affected.

For the purpose of the valuation analyses undertaken in connection with the Opinions, CSFB utilised the following valuation methodologies:

- as the principal methodology, the "Market Price Valuation Method", which considered TIM and TI market prices observed over different time periods. In this case, the market prices were deemed to be relevant, considering the high level of capitalisation and liquidity of TIM and TI;

- as additional methodologies:
  - the “Sum of the Parts Method”, as a consequence of both TIM and TI’s business activities being in different operational, industrial and strategic contexts and their different importance and relevance in relation to TIM and TI as a whole. CSFB did not use TIM share price in order to assess the value of TI’s stake in TIM as the use of a market-based method would not have been consistent with the analysis conducted for TIM;
  - the “Method of Target Prices of Equity Research Analysts”, due to the extensive coverage of TIM and TI by equity analysts.

#### *Market Price Valuation Method*

The Market Price Valuation Method has assessed the equity value on the basis of the share prices of TIM and TI in a period sufficiently broad, prior to the beginning of rumours on a possible re-organisation regarding TIM and TI. CSFB has identified such date in the 16<sup>th</sup> of November 2004, as the last trading day for TIM and TI securities not affected by market rumours. All the price analyses have been performed considering the period prior to this date.

On the basis of the market data as of 16<sup>th</sup> November 2004 it was considered that:

- both companies participating in the merger have a high market capitalization and a significant and broadly diffused float;
- high volumes of TIM and TI shares are traded daily (on average approximately 1% of the company share capital is traded);
- the free float of TIM and TI is significantly divided among Italian retail investors and Italian and foreign institutional investors, none of which has a position such to influence the course of the securities for prolonged periods of time;
- TIM and TI’s capitalization represents a considerable portion of the total capitalization of S&PMIB and Mibtel:
  - TIM represents about 6.6% of S&PMIB and about 7.4% of Mibtel;
  - TI represents about the 8.9% of S&PMIB and about 5.3% of Mibtel.

In order to mitigate the short-term fluctuations that typically characterize the financial markets, CSFB proceeded to extend the market price analysis to the volume weighted average share prices over a sufficiently broad time period, adjusting the value of the ordinary and saving shares of TIM and TI by the dividend relating to the 2004 fiscal year. CSFB, following the indications provided by TIM and TI, has assumed that the closing of the Merger will happen after the distribution of the aforementioned dividend. In this regard, a dividend per share equal to the one accrued in the 2003 fiscal year, and distributed by TIM and TI in 2004, has been assumed.

From the analyses of the historical share price trends, the averages at 1, 2, 3, 6, 12 months were selected; these, as illustrated in the following table, have resulted to fall within a defined valuation range.

<b>Market Prices (ordinary shares) Weighted Averages</b>	<b>Stock Market Values Adjusted for Dividend</b>		<b>Ratio (X)*</b>
	<b>TI (€)</b>	<b>TIM (€)</b>	
16/11/2004 .....	2.71	4.55	1.68
1 month average .....	2.59	4.42	1.71
2 month average .....	2.52	4.30	1.70
3 month average .....	2.48	4.25	1.71
6 month average .....	2.45	4.25	1.74
12 month average .....	2.44	4.27	1.75

Source: Datastream

\* Possible differences attributable to rounding

<u>Market Prices</u> (saving shares)	<b>Stock Market Values Adjusted for Dividend</b>		<b>Ratio (X)*</b>
	<b>TI (€)</b>	<b>TIM (€)</b>	
<b>Weighted Averages</b>			
16/11/2004 .....	1.94	4.51	2.33
1 month average .....	1.89	4.35	2.30
2 month average .....	1.84	4.26	2.32
3 month average .....	1.80	4.22	2.34
6 month average .....	1.75	4.18	2.39
12 month average .....	1.72	4.18	2.43

Source: Datastream

\* Possible differences attributable to rounding

The application of the Market Price Valuation Method resulted in a range of 1.69 – 1.75 for the Ordinary Exchange Ratio and 2.30 – 2.39 for the Savings Exchange Ratio.

In addition, CSFB has analysed the exchange ratios deriving from the application of the Market Price Valuation Method also disregarding any distribution of the dividend before the Merger and has presented the results for information purposes to the Board of Directors of TIM. Such results are generally consistent with the ones mentioned above, obtained by adjusting the market prices for the distribution of the dividend.

#### *Sum of the Parts Method*

On the basis of the Sum of the Parts Method, the value of TIM and TI is determined as the sum of the values of the different business lines and investments of each company, considered as economic entities valuable separately. Such sum is adjusted to take into account the net financial position of, and the minorities in, each of the companies participating in the Merger.

#### *TIM*

The discounted cash flows (“DCF”) methodology has been applied, separately to the Italian and international activities.

In applying the DCF methodology, it was made reference to cash flows generated by the main activities as reported in the update, for the period 2004 – 2007, of the economic-financial plans approved and communicated to the market in March 2004, prepared by the management in accordance with the strategic, operating and financial targets of TIM. These plans have been extended until 2011, assuming an evolution generally in line with the relevant market benchmarks.

The DCF methodology was applied by discounting the cash flows from operations, gross of any financial nature component (Free Cash Flow or “FCF”), that the company would be able to generate in the future, discounted at a rate representing the weighted average cost of capital, net of the net financial position and minorities’ interests, which in this case were taken into consideration with reference to the data estimated as of 31<sup>st</sup> December 2004.

The DCF methodology was applied with the logic of determining the fundamental value to the financial investor and reflects the following assumptions and methodologies:

- the weighted average cost of capital (Weighted Average Cost of Capital or “WACC”) is calculated on the basis of the target capital structure and with reference to the relevant market benchmarks; the WACC applied to the single business units is included in the range of 7.5% - 13.5%;
- the sales growth rates and the margins used to extrapolate financial projections beyond the time horizon of TIM’s business plan (2007-2011) reflect growth perspectives in line with relevant market benchmark; in particular, during the 2007 – 2011 period, with regard to the Italian activities, a 2.9% CAGR for revenues and an EBITDA margin of about 53% have been assumed; with respect to the international activities, a 4.2% CAGR for revenues and an EBITDA margin of about 37% have been assumed.
- to assess the terminal value, CSFB proceeded to capitalize the normalised operating cash flow (or the present value of the cash flow from operations expected for the period beyond the explicit projection time horizon);

for this purpose CSFB selected perpetual growth rates for the different business lines, also on the basis of market benchmarks, within a range of 1.0% - 4.0%, depending on the activities' nature.

The following table shows the minimum and maximum values for each TIM ordinary and saving share resulting from the Sum of the Parts Method. Such values have been adjusted to take into account the distribution of the dividend accrued in the 2004 fiscal year, as it was done in the Market Price Valuation Method. CSFB, following the indications provided by TIM and TI, has assumed the closing of the Merger will happen after the distribution of the mentioned dividend. The value for each TIM saving share has been assessed assuming a 0% discount between TIM ordinary and saving share, in line with the average historical discount.

	<u>Minimum</u>	<u>Maximum</u>
Values for TIM's ordinary shares (Euro) .....	5.01	6.56
Values for TIM's saving shares (Euro) .....	4.99	6.54

## **TI**

The DCF methodology has been mainly applied to the main activities such as the Italian and international wireline activities, the Italian and international TIM's activities, the IT market division, Olivetti – Tecnost, eliminations and corporate. TI Media and other minor stakes have been valued at market, at a price prior to the Merger announcement, also in the light of their limited weight on the total value.

In applying the DCF methodology, it was made reference to cash flows generated by the main activities as reported in the update, for the period 2004 – 2007, of the economic-financial plans approved and communicated to the market in March 2004, prepared by the management in accordance with the strategic, operational and financial targets of TI. These plans have been extrapolated until 2011, assuming an evolution generally in line with the relevant market benchmarks.

The DCF methodology was applied by discounting the cash flows from operations, gross of any financial nature component (FCF), that the company would be able to generate in the future, discounted at a rate representing the weighted average cost of capital, net of the net financial position and minorities' interests, which in this case were taken into consideration with reference to the data estimated as of 31<sup>st</sup> December 2004.

The DCF methodology was applied with the logic of determining the fundamental value to the financial investor and reflects the following assumptions and methodologies:

- the WACC is calculated on the basis of the target capital structure and with reference to the relevant market benchmarks; the WACC applied to the single business units is included in the range of 7.0% - 13.5%;
- the sales growth rates and the margins used to extrapolate financial projections beyond the time horizon of TI's business plan reflect growth perspectives in line with relevant market benchmark; in particular, during the 2007 – 2011 period, with regard to Italian wireline activities, a 0.7% CAGR for revenues and an EBITDA margin of about 49% have been assumed; in relation to international wire line activities, a 4.2% CAGR for revenues and an EBITDA margin of about 38% have been assumed;
- to assess the terminal value, CSFB proceeded to capitalize the normalized operating cash flow (or the present value of the cash flow from operations expected for the period beyond the explicit projection time horizon); for this purpose CSFB selected perpetual growth rates for the different business lines, also on the basis of market benchmarks, within a range of -0.5% - 4.0%.

The following table shows the minimum and maximum values for each TIM ordinary and saving share resulting from the Sum of the Parts Method. Such values have been adjusted to take into account the distribution of the dividend relating to the 2004 fiscal year. CSFB, following the indications provided by TIM and TI, has assumed the closing of the Merger will happen after the distribution of the mentioned dividend. The value for each TIM saving share has been assessed assuming a 27% discount between TIM ordinary and saving share, in line with the average historical discount.

	<u>Minimum</u>	<u>Maximum</u>
Values for TI ordinary share (Euro) .....	2.82	4.14
Values for TI saving share (Euro) .....	2.02	2.98



### Summary of Results

The application of the Sum of the Parts Method resulted in a range of exchange ratios, calculated by dividing the minimum and maximum values resulting for TI share with the minimum and maximum values resulting for TIM share, as follows:

	<u>Minimum</u>	<u>Maximum</u>
Ordinary Exchange Ratio (TI ordinary shares for each TIM ordinary share) . . . . .	1.58	1.78
Savings Exchange Ratio (TI saving shares for each TIM saving share). . . . .	2.19	2.48

The results obtained by applying the Sum of the Parts Method substantially confirm the relative values resulting from the Market Price Valuation Method.

In addition, CSFB has analysed the exchange ratios deriving from the application of the Sum of the Parts Method also disregarding any distribution of the dividend before the Merger and has presented the results for information purposes to the Board of Directors of TIM. Such results are generally consistent with the ones mentioned above, obtained by adjusting the value per share for the distribution of the dividend.

### Method of Target Prices of Equity Research Analysts

Considering the extensive coverage of TIM and TI's stocks by equity analysts, CSFB has applied the Method of Target Prices of Equity Research Analysts, taking into account the target prices published after the announcement of the third quarter 2004 results.

<u>TIM</u>			<u>TI</u>			<u>Exchange Ratio (Adjusted for Dividend Distribution)</u>
<u>Broker</u>	<u>Publication Date</u>	<u>Target Price (€)</u>	<u>Broker</u>	<u>Publication Date</u>	<u>Target Price (€)</u>	
Deutsche Bank	22/11/2004	5.40	Citigroup	02/12/2004	3.40	
Citigroup	19/11/2004	4.50	UBM	29/11/2004	3.20	
Morgan Stanley	17/11/2004	5.45	Deutsche Bank	30/11/2004	3.30	
Centrosim	16/11/2004	5.25	Centrosim	25/11/2004	3.20	
HSBC	10/11/2004	4.00	Exane BNP Paribas	24/11/2004	2.75	
Santander	10/11/2004	5.55	JP Morgan	19/11/2004	2.92	
Banca Leonardo	09/11/2004	5.90	Credit Suisse First Boston	18/11/2004	2.94	
Oddo Securities	09/11/2004	4.50	Morgan Stanley	17/11/2004	3.50	
JP Morgan	09/11/2004	5.50	SG	11/11/2004	2.70	
UBM	09/11/2004	5.40	HSBC	11/11/2004	3.00	
Lehman Brothers	09/11/2004	5.50	ABN Amro	11/11/2004	3.00	
Credit Suisse First Boston	09/11/2004	4.70	Bernstein Research	10/11/2004	3.25	
UBS	09/11/2004	5.10	Oddo Securities	10/11/2004	3.00	
SG	09/11/2004	4.50	DKW	10/11/2004	3.00	
Exane BNP Paribas	08/11/2004	4.40	Lehman Brothers	10/11/2004	3.00	
DKW	08/11/2004	6.00	Bear Stearns	09/11/2004	3.30	
			UBS	09/11/2004	3.00	
<b>Average</b>		<b>5.10</b>			<b>3.09</b>	<b>1.63x</b>
<b>Max</b>		<b>6.00</b>			<b>3.50</b>	<b>1.69x</b>
<b>Min</b>		<b>4.00</b>			<b>2.70</b>	<b>1.44x</b>

The application of the Method of Target Prices of Equity Research Analysts resulted in a range for the Ordinary Exchange Ratio of 1.44 – 1.69, calculated by dividing the minimum and maximum values resulting for TI share with the minimum and maximum values resulting for TIM share, taking into account the expected distribution by TIM and TI of the dividend relating to the 2004 fiscal year. The results obtained with the Sum of the Parts Method confirm the ratios calculated with Market Price Valuation Method. Equity research analysts usually do not cover the saving shares, therefore and there were not enough data points to conduct the analysis for the Savings Exchange Ratio.

In addition, CSFB has analysed the exchange ratios deriving from the application of the Method of Target Prices of Equity Research Analysts also disregarding any distribution of the dividend before the Merger and has presented the results for information purposes to the Board of Directors of TIM. Such results are generally consistent with the ones mentioned above, obtained by adjusting the target prices for the distribution of the dividend.

CSFB is acting as financial advisor to TIM with respect to the Merger, for which a fee of Euro 3.0 million is payable upon the announcement of the Merger. TIM has agreed to pay to CSFB an additional fee of Euro 7.0 million at completion of the Merger as well as the reimbursement of reasonable expenses incurred up to a maximum of Euro 20,000 and the reimbursement of reasonable fees of counsel and other professional advisers up to a maximum of Euro 55,000.

In addition, CSFB has participated in the TIM tender offers' debt facilities for a total amount of Euro 350 million and has been paid a participation fee of Euro 612,500.

In the past, CSFB has performed certain investment banking services for TIM and TI and have received customary fees for such services.

In the ordinary course of its business, CSFB and its affiliates may actively trade the debt and equity securities of both TIM and TI for their own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.



TIM S.p.A.  
Via Cavalli n. 6  
10100 Torino  
Italia

7 December, 2004

The present document constitutes a translation of the Fairness Opinion in Italian rendered by Merrill Lynch to the Board of Directors of TIM S.p.A. on December 7, 2004. Such translation is for convenience purposes only and the valid and binding version is the Italian one. In case of a disagreement or discrepancy between the translation and the original Italian version of this document, the original Italian version will prevail.

To the Members of the Board of Directors:

following our appointment by TIM S.p.A. (“TIM” or “the Company”) on 4 December, 2004, Merrill Lynch International, Milan Branch (“Merrill Lynch”) is pleased to present to the Board of Directors of the Company the conclusions from its valuation analyses which were prepared in order to assist the Board of Directors of the Company in its determination of the potential exchange ratio to be applied to ordinary and savings shares in the context of the envisaged merger with Telecom Italia S.p.A. (“Telecom Italia”) (the “Merger”).

Based on the information received from the Company, the transaction will envisage a merger by incorporation of TIM in Telecom Italia, to be effected through the cancellation of the ordinary and savings shares of TIM and a contemporaneous capital increase of Telecom Italia through the issuance of ordinary and savings shares to respective TIM shareholders. The Merger will be completed following the spin-off of a company fully owned by TIM as a going concern regarding the Italian mobile telephone assets, and following the launch by Telecom Italia of a voluntary partial public tender offer on a maximum of two thirds of the free float of TIM, on terms that will be communicated to the Board of Directors of TIM following an announcement from Telecom Italia, which is expected to take place today.

## **I. Scope of the Mandate**

Any valuations provided by Merrill Lynch are of a consultative and independent nature and are neither binding nor mandatory, it being in any event the responsibility of the Boards of Directors of the companies involved to establish the terms and conditions of the transaction. Moreover, the fairness of the exchange ratio will be specifically addressed in the opinion rendered by an auditing firm acting as independent expert as required by art. 2501 *sexies* of the Italian Civil Code. This opinion is intended to assist the Board of Directors of the Company by providing data, information and other useful elements through the indication of a range for the exchange ratio between ordinary and savings shares of TIM and ordinary and savings shares of Telecom Italia from the perspective of a comparative valuation. Therefore, the following analyses do not in any way constitute, and can not be interpreted as an estimate of the absolute values of the TIM and Telecom Italia shares or of the Telecom Italia shares post-merger, nor can they be considered an opinion or the equivalent of an opinion under art. 2501 *sexies* of the Italian Civil Code. Moreover, the analyses performed by Merrill Lynch do not constitute a valuation of the price at which TIM or Telecom Italia shares can be and/or could be actually sold or exchanged and of the value and/or price that can be considered higher or lower than the one resulting or otherwise implied by our analyses. Therefore, considering the different objectives and purposes, the valuations could differ, also in respect of the methods and valuation criteria utilised, from the ones that will have to be performed pursuant to art. 2501 *sexies* of the Italian Civil Code which will constitute (also in relation to possible modifications) the sole reference document for TIM shareholders in order to assess the fairness of the exchange ratio between TIM and Telecom Italia shares.

Subject to the limitations set out above and the conditions set out hereinafter, this opinion has been prepared for the exclusive use of the Board of Directors of the Company and must be read in connection with any potential clarifications which we might provide in the context of the oral presentation to the Board of Directors of TIM on 7 December 2004 (clarifications that, if reproduced in written documents, can not be assessed or considered on their own but must be taken only as supporting elements of this opinion). Therefore no other person is, with the exception of the members of the Board, and in such case subject to the limitations set out above, authorised to rely upon the present document and its contents.

We would like to point out that our analyses do not address any aspect of the Merger other than the one described above. Therefore, in presenting its analyses Merrill Lynch does not express any opinion as to the industrial and financial motivations or merits underlying the decision to proceed with and/or effect the Merger or alternative transactions, or whether the Merger is in the best interests of the shareholders of the Company. Moreover, our analyses, given their objectives and scope, are not addressed to TIM or Telecom Italia shareholders and they do not constitute a recommendation to any shareholder as to how such shareholder should vote on the proposed Merger.

Merrill Lynch did not provide legal or tax assistance in relation to the Merger, neither has it assumed any obligation to conduct any physical inspection of the tangible or intangible assets or liabilities (including derivative instruments, warranties, commitments or other off-balance sheet items) of TIM, Telecom Italia or their affiliates. In preparing its opinion, Merrill Lynch has reviewed the documentation described in Section III - "Information Used" – without performing any due diligence or verification of the information contained in the documentation. In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available. With respect to the financial forecast information furnished to or discussed with us by TIM and Telecom Italia, we have assumed that it has been reasonably prepared and reflects the best currently available estimates and judgment of the management of TIM and Telecom Italia as to the expected future financial performance of TIM and Telecom Italia. Merrill Lynch does not assume any responsibility in relation to those estimates and projections or in relation to the sources based on which the same estimates or forecasts have been prepared. Merrill Lynch has acted on the assumption that they have been reasonably prepared and reflect the best currently available estimates as to the expected future financial performance of TIM, Telecom Italia and their affiliates, without performing any independent verification or appraisal. Therefore, Merrill Lynch does not assume any responsibility in relation to the truthfulness, completeness and accuracy of the information utilised for the preparation of this opinion.

Given the time lapse between the reference date of our analyses and the effective date of the Merger, Merrill Lynch asks that you take note of the fact that our analyses, as outlined further on the following pages, are necessarily based upon market, economic, regulatory and other conditions as they exist and can be evaluated on, and on the information made available to us as of the date of this letter. Accordingly therefore Merrill Lynch does not assume any responsibility as to any potential incompleteness of or defects in the analyses or their conclusions, Merrill Lynch having furthermore acted upon the additional assumption that at the date of effectiveness of the Merger, no events, facts or omissions occurred that had or could have affected the balance sheet, the economic, financial, regulatory conditions or the profitability of the companies involved in the Merger, or their financial outlook and forecasts and economic and market conditions.

Our opinion is necessarily based upon market, economic, regulatory and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date of this letter, and, in case of changes in the reference markets and sectors, could differ significantly in the future.

The conclusions set out in this document are based on all of the indications and valuations set out herein and therefore no single part of the letter can be considered or in any way utilised separately from the document as a whole. In the event of a possible publication of this letter, this letter must be published in its entirety and after having obtained Merrill Lynch's prior written consent, it being understood that the contents might be made public if required by applicable laws or pursuant to a request by Consob.

The Company acknowledges that Merrill Lynch has in the past acted as and in the future could act as financial advisor to the direct and indirect shareholders of the Company and Telecom Italia.

## **II. Assumptions used in the analyses**

The analyses performed must also be interpreted in light of the following assumptions:

- The valuations refer to today's date, assuming balance sheet estimates by TIM and Telecom Italia at 31 December, 2004;
- We did not take into account extraordinary or unpredictable events; in particular we did not take into account the financial and accounting effects linked to the potential exercise of the withdrawal rights ("*diritto di recesso*") granted to savings shareholders of TIM, as communicated to us by the Company;
- We did not take into account positive and/or negative effects that could arise from the Merger for the companies involved;
- Based on the information made available to us from TIM and Telecom Italia we have assumed that the terms and economic and financial effects of the tender offer do not modify the proposed exchange ratio range; we have further assumed that the current credit rating of Telecom Italia Group will remain unchanged and that there will be no adverse accounting and fiscal effects for the companies involved.

### III. Information used

In preparing its opinion, Merrill Lynch has used information, historical financial data and forecasts provided by TIM and Telecom Italia and in particular:

- The “*Reporting TI Group*” document containing historical information and forecasts for the years 2005-2007, including macroeconomic assumptions, updated to 3 December 2004, and the Group ownership structure at the reference date;
- The “*Project Sunrise*” presentation dated December 2004 and provided by Telecom Italia to the rating agencies Standard & Poor’s and Moody’s, which includes, among others, several scenarios in relation to the overall structure of the transaction, and considerations in relation to the financial structure of the Group following the completion of the transaction;
- Considerations, estimates and assumptions with reference to medium to long-term economic and financial trends of the companies being valued, provided to us during a limited number of discussions held with some members of the TIM and Telecom Italia management responsible for the planning and control of the fixed line and mobile activities in Italy and of the main international affiliates of the Group, in relation to, among others, growth, profitability and cash flow generation of the companies;
- Information provided by TIM and Telecom Italia on the assets and liabilities of the companies, in relation to, among others, the deferred tax asset, stock option plans, number of treasury shares held by the companies and the convertible bond issued by Telecom Italia.

Merrill Lynch has assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, without having independently verified such information. With respect to the financial forecast information furnished by TIM and Telecom Italia, Merrill Lynch has assumed that it has been reasonably prepared and reflects the best currently available estimates and judgment of the management of TIM and Telecom Italia as to the expected future financial performance of TIM, Telecom Italia and their affiliates.

Merrill Lynch has used information regarding market prices, publicly traded companies comparable to TIM and Telecom Italia and information in relation to general economic trends, markets, monetary conditions and tax regulations, also with reference to countries in which the international affiliates of TIM e Telecom Italia operate.

### IV. Valuation criteria

In light of the proposed transaction, the analyses do not intend to evaluate the absolute values of the companies, but aim at obtaining values that are comparable when determining the exchange ratio, through the adoption of homogeneous and consistent criteria in order to safeguard the interests of the shareholders of the companies involved, with particular reference to the minority shareholders.

In order to determine the equity value of TIM and Telecom Italia, we have used the following valuation approaches:

- Market prices: this approach is significant considering, among others, that: the shares of the two companies are listed and highly liquid, the market capitalisations of TIM and Telecom Italia are a significant component of the stock exchange and reference indices (9.3% and 6.5% of MIB 30 index, respectively, at 22 November 2004), both companies are widely covered by research analysts, the shareholder base of the companies includes highly sophisticated international institutional investors and investors specialised in the telecommunication sectors, valuation parameters for comparison with comparable operators in other countries are readily available in the market. In this specific case we believe that prices have to be observed on various time frames, also in light of share price movements occurring immediately prior to the announcement of the transaction and possibly linked to the uncertainty caused by the increasing speculation and hypotheses published by analysts and observers of the companies involved in relation to the transaction;
- Sum of the parts method: this approach determines the value of the equity as a sum of the values of each asset individually evaluated, adjusted to take into account the net financial position and other potential assets or liabilities of the companies. With regard to the valuation of the single asset, we have mainly used the Discounted Cash Flows (“DCF”) methodology, applied to the main assets of TIM and Telecom Italia, namely the Italian mobile and fixed line operations and the main international affiliates; for the remaining assets we made reference to valuation methodologies based on the market price, where available and deemed appropriate or, for minor activities or non-consolidated assets, the book value.

With regard to the balance sheet of the companies, we used the estimates provided by TIM and Telecom Italia at 31 December 2004, as indicated above. It is to be noted that, in the context of this approach, TIM valuation is an important element to determine Telecom Italia valuation the latter being the owner of a 56% stake in TIM ordinary shares. Finally, with particular reference to the DCF methodology, it is to be noted that the use of forecast data that are uncertain and limited to projections for the years 2005-2007, combined with the use of numerous assumptions for the calculation of the terminal value, a significant component of the valuation, constitute important elements in the difficulty of preparing the valuation.

As a supporting methodology Merrill Lynch has also analysed brokers' target prices for TIM and Telecom Italia, and trading multiples of comparable publicly traded companies.

## V. Valuation of the Equity and Determination of the Exchange Ratio

The results of our analyses aimed at determining the equity value of TIM and Telecom Italia are summarised in the following paragraphs.

The following table shows the official price on 3 December 2004 (last price before the announcement of the transaction), the averages, weighted for the traded volumes, of the ordinary and savings shares of TIM and Telecom Italia over the period of one week, one, three, six and twelve months, and the resulting exchange ratios:

	Ordinary Shares			Savings Shares		
	<u>TI Price (€)</u>	<u>TIM Price (€)</u>	<u>Exch. Ratio</u>	<u>TI Price (€)</u>	<u>TIM Price (€)</u>	<u>Exch. Ratio</u>
<b>Market Price: weighted averages</b>						
3 December 2004.....	2.97	5.19	1.75	2.18	5.37	2.46
1 week average.....	2.95	5.13	1.74	2.13	5.32	2.49
1 month average.....	2.88	4.93	1.71	2.09	5.09	2.44
3 month average.....	2.72	4.67	1.72	1.99	4.86	2.44
6 month average.....	2.63	4.59	1.75	1.91	4.75	2.48
12 month average.....	2.58	4.58	1.77	1.87	4.64	2.48

A similar analysis has been performed for the period prior to 19 November 2004, the day when traded volumes were extraordinarily high when compared to average daily volumes typically traded for the companies' shares; this date has been taken as the date when the rumours of a potential company restructuring began influencing the companies' share prices:

	Ordinary Shares			Savings Shares		
	<u>TI Price (€)</u>	<u>TIM Price (€)</u>	<u>Exch. Ratio</u>	<u>TIM Price (€)</u>	<u>TI Price (€)</u>	<u>Exch. Ratio</u>
<b>Market Price: weighted averages</b>						
18 November 2004.....	2.90	4.89	1.69	2.12	4.86	2.29
1 week average.....	2.85	4.84	1.70	2.08	4.80	2.32
1 month average.....	2.73	4.70	1.72	2.02	4.66	2.30
3 month average.....	2.61	4.53	1.73	1.93	4.51	2.34
6 month average.....	2.56	4.51	1.76	1.87	4.47	2.39
12 month average.....	2.55	4.53	1.78	1.84	4.46	2.42

As far as the sum of the parts methodology is concerned, in order to calculate the equity value per share, beside the assumptions described above, we also took into account the following elements:

- Net financial position: we have utilised the estimates at 31 December 2004 prepared by the companies, i.e. Euro 194 million (net cash) for TIM, and negative for Euro 29,927 million for Telecom Italia (net debt);
- Savings shares: in order to allocate the value between the different classes of shares, we observed the price differences over time frames sufficiently long (see table below). With particular reference to TIM savings shares, we have observed discounts in the range of 0.3% - 1.7% in the three, six and twelve months, even if immediately prior to the announcement of the transaction savings shares traded at a premium (since 19 November). In summary, also considering the limited market value and traded volumes of such category of shares compared to ordinary shares, and in light of the fact that, typically,

such shares trade at a discount compared to ordinary shares, we have assumed no discount or premium, treating such shares in line with the ordinaries. With reference to Telecom Italia savings shares, we took as reference point the average discount in the six months prior to announcement of the transaction, equal to 27.0%;

	<u>TI</u>	<u>TIM</u>
<b>Savings discount to Ordinary</b>		
3 December 2004 .....	26.5%	(3.4)%
1 week average .....	27.9%	(4.0)%
1 month average .....	27.3%	(1.7)%
3 month average .....	26.2%	0.3%
6 month average .....	27.0%	1.4%
12 month average .....	28.1%	1.7%

- *stock options*: we took into account the shares underlying the options exercisable at 31 December 2004, with a strike price lower than the current market price. In particular, we took into account 29.5 million shares for TIM and 119.6 million shares for Telecom Italia;
- *convertible bonds*: we took into account the shares underlying the “Telecom Italia 1.5% 2001-2010” convertible bond (1,126.4 million shares);
- *deferred tax asset*: we took into account the tax savings for Telecom Italia and TIM arising mainly from write downs of some equity stakes effected in the past, as indicated by the companies;
- *Telecom Italia stake in TIM*: we took into account 4,734 million TIM shares held by Telecom Italia S.p.A. and “Telecom Italia Finance”;
- *treasury shares*: those shares have been deducted from the total number of shares;
- *expected dividends*: since the dividend payment is expected to occur later than six months from the date of the fairness opinion and in light of the uncertainty of the related amount, we have not adjusted the values for the dividend.

The sum of the parts methodology leads to the following results:

	<u>Ordinary Shares</u>		<u>Savings Shares</u>	
	Min	Max	Min	Max
TIM Equity value				
Value per share (Euro) .....	4.92	6.47	4.92	6.47
Telecom Italia Equity value				
Value per share (Euro) .....	2.77	3.94	2.02	2.87
Exchange Ratio .....	1.78	1.64	2.44	2.25

## VI. Conclusions

The analyses performed and described above indicate an exchange ratio, understood as the number of new Telecom Italia shares to be issued in exchange for each TIM share of the same category, in the following ranges:

Ordinary shares:	1.69 – 1.78
Savings shares:	2.29 – 2.44

Merrill Lynch International – Milan Branch

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Maurizio Tamagnini

*Managing Director of Investment Banking*

TIM S.p.A.  
Via Cavalli n. 6  
10100 Torino  
Italia

23 January 2005

The present document constitutes a translation of the letter in Italian rendered by Merrill Lynch to the Board of Directors of TIM S.p.A. on January 23, 2005. Such translation is for convenience purposes only and the only valid and binding version is the Italian one. In case of a disagreement or discrepancy between the translation and the original Italian version of this document, the original Italian version will prevail.

To the Members of the Board of Directors:

On 7 December, 2004, we rendered a fairness opinion (the “Fairness Opinion”) to the Board of Directors of TIM S.p.A. (“TIM”) as to the fairness, from a financial point of view, of the exchange ratio for the ordinary and savings shares of TIM in the context of the merger between TIM and Telecom Italia S.p.A. (“Telecom Italia”).

As per your request, we have subsequently acknowledged the final results of the tender offer launched by Telecom Italia on a certain number of ordinary shares and on all the savings shares of TIM. We have also looked at the evolution of market, economic and regulatory conditions as from the date of the fairness opinion and received confirmation by the managements of TIM and Telecom Italia of the absence of any events which might have changed the current and future economic and financial situation of TIM and Telecom Italia, as existing and presented to us in the period when we performed our valuation analyses.

Based on the above, with this letter, which is to be considered an integral part of the Fairness Opinion, we confirm the conclusions of our valuation analyses already expressed at the time of the Board of Directors meeting of 7 December 2004, and in particular we confirm our opinion expressed in relation to the fairness, from a financial point of view, as to the exchange ratio terms proposed by the Board of Directors.

Merrill Lynch International – Milan Branch

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Maurizio Tamagnini

Managing Director of Investment Banking



**Description of the Analyses Conducted by Merrill Lynch as Financial Adviser of TIM with respect its own Fairness Opinion**

The present document constitutes a translation of the Description of the Analyses produced by Merrill Lynch in Italian in relation to the analysis performed for the Fairness Opinion rendered by Merrill Lynch to the Board of Directors of TIM S.p.A. on December 7, 2004. Such translation is for convenience purposes only and the valid and binding version is the Italian one. In case of any disagreement or discrepancy between the translation and the original Italian version of this document, the original Italian version will prevail.

On 7 December, 2004, Merrill Lynch International – Milan Branch rendered a fairness opinion (the “Opinion”) to the Board of Directors of TIM S.p.A. (“TIM” or “the Company”) as to the fairness, from a financial point of view, of the exchange ratio for the ordinary and savings shares of TIM in the context of the merger (“the Merger”) between TIM and Telecom Italia S.p.A. (“Telecom Italia”).

Subsequently, with a letter dated 23 January 2005 (the “Confirmation Letter”), to be considered as an integral part of the Opinion, Merrill Lynch has confirmed, for that date, the conclusions outlined in the Opinion on the basis of and subject to the premises and qualifications described in the Opinion and Confirmation Letter. In the Confirmation Letter, as requested by the Company, we have taken into account, *inter alia*, the final results of the tender offer launched by Telecom Italia on a certain number of ordinary shares and on all the savings shares of TIM.

Any valuations provided by Merrill Lynch are of a consultative and independent nature and are neither binding nor mandatory, it being in any event the responsibility of the Boards of Directors of the companies involved to establish the terms and conditions of the transaction. Moreover, the fairness of the exchange ratio will be specifically addressed in the opinion rendered by an auditing firm acting as independent expert as required by art. 2501 *sexies* of the Italian Civil Code. This opinion is intended to assist the Board of Directors of the Company by providing data, information and other useful elements through the indication of a range for the exchange ratio between ordinary and savings shares of TIM and ordinary and savings shares of Telecom Italia from the perspective of a comparative valuation. Therefore, the following analyses do not in any way constitute, and can not be interpreted as an estimate of the absolute values of the TIM and Telecom Italia shares or of the Telecom Italia shares post-merger, nor can they be considered an opinion or the equivalent of an opinion under art. 2501 *sexies* of the Italian Civil Code. Moreover, the analyses performed by Merrill Lynch do not constitute a valuation of the price at which TIM or Telecom Italia shares can be and/or could be actually sold or exchanged and of the value and/or price that can be considered higher or lower than the one resulting or otherwise implied by our analyses.

Subject to the limitations set out above and the conditions set out hereinafter, this opinion has been prepared for the exclusive use of the Board of Directors of the Company and must be read in connection with any potential clarifications which we might be provided in the context of the oral presentation to the Board of Directors of TIM on 7 December 2004 (clarifications that, if reproduced in written documents, can not be assessed or considered on their own but must be taken only as supporting elements of this opinion). Therefore no other person is, with the exception of the members of the Board, and in such case subject to the limitations set out above, authorised to rely upon the present document and its contents.

We would like to point out that our analyses do not address any aspect of the Merger other than the one described above. Therefore, in presenting its analyses Merrill Lynch does not express any opinion as to the industrial and financial motivations or merits underlying the decision to proceed with and/or effect the Merger or alternative transactions, or whether the Merger is in the best interests of the shareholders of the Company. Moreover, our analyses, given their objectives and scope, are not addressed to TIM or Telecom Italia shareholders and they do not constitute a recommendation to any shareholder as to how such shareholder should vote on the proposed Merger.

**The full text of the Opinion rendered on 7 December 2004 outlining the assumptions, the information and the documents reviewed and the limitations on the analyses performed by Merrill Lynch in relation to the Opinion, as well as the full text of the Confirmation Letter dated 23 January 2005, are herein included as Appendix XIV (a) and Appendix XIV (b) and constitute an integral part of this document. Addresses of this document are invited to review the Opinion and Confirmation Letter with attention and in their entirety.**

Merrill Lynch did not provide legal or tax assistance in relation to the Merger, neither has it assumed any obligation to conduct any physical inspection of the tangible or intangible assets or liabilities (including derivative instruments, warranties, commitments or other off-balance sheet items) of TIM, Telecom Italia or their affiliates. In preparing its Opinion, Merrill Lynch has reviewed the documentation described below without



performing any due diligence or verification of the information contained in the documentation. In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available. With respect to the financial forecast information furnished to or discussed with us by TIM and Telecom Italia, we have assumed that it has been reasonably prepared and reflects the best currently available estimates and judgment of the management of TIM and Telecom Italia as to the expected future financial performance of TIM and Telecom Italia. Merrill Lynch does not assume any responsibility in relation to those estimates and projections or in relation to the sources based on which the same estimates or forecasts have been prepared. Merrill Lynch has acted on the assumption that they have been reasonably prepared and reflect the best currently available estimates as to the expected future financial performance of TIM, Telecom Italia and their affiliates, without performing any independent verification or appraisal. Therefore, Merrill Lynch does not assume any responsibility in relation to the truthfulness, completeness and accuracy of the information utilised for the preparation of this opinion.

Given the time lapse between the reference date of our analyses and the effective date of the Merger, Merrill Lynch asks that you take note of the fact that our analyses, as outlined further on the following pages, are necessarily based upon market, economic, regulatory and other conditions as they exist and can be evaluated on, and on the information made available to us as of the date of this letter. Accordingly therefore Merrill Lynch does not assume any responsibility as to any potential incompleteness of or defects in the analyses or their conclusions, Merrill Lynch having furthermore acted upon the additional assumption that at the date of effectiveness of the Merger, no events, facts or omissions occurred that had or could have affected the balance sheet, the economic, financial, regulatory conditions or the profitability of the companies involved in the Merger, or their financial outlook and forecasts and economic and market conditions.

Our opinion is necessarily based upon market, economic, regulatory and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date of this letter, and, in case of changes in the reference markets and sectors, could differ significantly in the future.

In preparing its Opinion, Merrill Lynch has used information, historical financial data and forecasts provided by TIM and Telecom Italia and in particular:

- The “*Reporting TI Group*” document containing historical information and forecasts for the years 2005-2007, including macroeconomic assumptions, updated to 3 December 2004, and the Group ownership structure at the reference date;
- The “*Project Sunrise*” presentation dated December 2004 and provided by Telecom Italia to the rating agencies Standard & Poor’s and Moody’s, which includes, among others, several scenarios in relation to the overall structure of the transaction, and considerations in relation to the financial structure of the Group following the completion of the transaction;
- Considerations, estimates and assumptions with reference to medium to long-term economic and financial trends of the companies being valued, provided to us during a limited number of discussions held with some members of the TIM and Telecom Italia management responsible for the planning and control of the fixed line and mobile activities in Italy and of the main international affiliates of the Group, in relation to, among others, growth, profitability and cash flow generation of the companies;
- Information provided by TIM and Telecom Italia on the assets and liabilities of the companies, in relation to, among others, the deferred tax asset, stock option plans, number of treasury shares held by the companies and the convertible bond issued by Telecom Italia.

Merrill Lynch has assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, without having independently verified such information. With respect to the financial forecast information furnished by TIM and Telecom Italia, Merrill Lynch has assumed that it has been reasonably prepared and reflects the best currently available estimates and judgment of the management of TIM and Telecom Italia as to the expected future financial performance of TIM, Telecom Italia and their affiliates.

Merrill Lynch has used information regarding market prices, publicly traded companies comparable to TIM and Telecom Italia and information in relation to general economic trends, markets, monetary conditions and tax regulations, also with reference to countries in which the international affiliates of TIM e Telecom Italia operate.

In light of the proposed transaction, the analyses do not intend to evaluate the absolute values of the companies, but aim at obtaining values that are comparable when determining the exchange ratio, through the adoption of

homogeneous and consistent criteria in order to safeguard the interests of the shareholders of the companies involved, with particular reference to the minority shareholders.

In order to determine the equity value of TIM and Telecom Italia, we have utilised two main valuation methodologies: sum of the parts and market prices.

As a supporting methodology Merrill Lynch has also analysed brokers' target prices for TIM and Telecom Italia, and trading multiples of comparable publicly traded companies.

The sum of the parts approach determines the value of the equity as a sum of the values of each asset individually evaluated, adjusted to take into account the net financial position and other potential assets or liabilities of the companies.

The sum of the parts methodology leads to the following results:

	<u>Ordinary Shares</u>		<u>Savings Shares</u>	
	Min	Max	Min	Max
TIM Equity value				
Value per share (Euro) .....	4.92	6.47	4.92	6.47
Telecom Italia Equity value				
Value per share (Euro) .....	2.77	3.94	2.02	2.87
Exchange Ratio .....	1.78	1.64	2.44	2.25

*Sum of the parts of TIM.* Merrill Lynch has utilised the discounted cash flow methodology ("DCF") for the main operations, such as, for example, TIM SpA, TIM Hellas, Maxitel, TIM Brasil and others. For minor or non-consolidated assets, we have utilised the book value.

In performing the DCF analysis we have used, among others:

- unlevered free cash flows for the main operations, as per TIM management forecasts for 2004 – 2007;
- discount rates based on WACC of the single asset individually valued, ranging from 8.50% to 9.50% for the main European and North American operations, and from 12.75% to 14.75% for the main South American operations;
- terminal value calculated with the perpetuity method, utilising rates based on the growth prospects of single asset individually valued, ranging from 1.50% to 2.75% for the main European and North American operations, and from 3.50% and 5.50% for the main South American operations.

In order to calculate the equity value per share, beside the assumptions described above, we also took into account the following elements:

- Net financial position: we have utilised the estimates at 31 December 2004 prepared by the Company, i.e. Euro 194 million (net cash);
- Savings shares: in order to allocate the value between the different classes of shares, we observed the price differences over time frames sufficiently long. With particular reference to TIM savings shares, we have observed discounts in the range of 0.3% - 1.7% in the three, six and twelve months, even if immediately prior to the announcement of the transaction savings shares traded at a premium (since 19 November). In summary, also considering the limited market value and traded volumes of such category of shares compared to ordinary shares, and in light of the fact that, typically, such shares trade at a discount compared to ordinary shares, we have assumed no discount or premium, treating such shares in line with the ordinaries.

	<u>TIM</u>
<b>Savings discount to Ordinary</b>	
3 December 2004 .....	(3.4)%
1 week average .....	(4.0)%
1 month average .....	(1.7)%
3 month average .....	0.3%
6 month average .....	1.4%
12 month average .....	1.7%

- Stock options: we took into account the shares underlying the options exercisable at 31 December 2004, with a strike price lower than the current market price. In particular, we took into account 29.5 million shares for TIM;
- Deferred tax asset: we took into account the tax savings for TIM arising mainly from write downs of some equity stakes effected in the past, as indicated by the Company;
- Treasury shares: those shares have been deducted from the total number of shares;
- Expected dividends: since the dividend payment is expected to occur later than six months from the date of the Opinion and in light of the uncertainty of the related amount, we have not adjusted the values for the dividend.

*Sum of the parts of Telecom Italia.* Merrill Lynch has utilised the discounted cash flow methodology for the operations denominated “Wireline” and for some consolidated assets. As far as Telecom Italia Media is concerned, we have utilised the market value, while for the stake in TIM, market value has not been utilised to be consistent with the valuation methodology utilised for TIM, according to the principle of a relative and comparable valuation. For minor or non-consolidated assets, we have utilised the book value.

In performing the DCF analysis we have used, among others:

- unlevered free cash flows for the main operations, as per TI management forecasts for 2004 – 2007;
- discount rates based on WACC of the single asset individually valued, ranging from 8.25% to 9.25% for the “Wireline” operations, and from 9.75% to 15.75% for the main South American operations;
- terminal value calculated with the perpetuity method, utilising rates based on the growth prospects of single asset individually valued, ranging from 0.50% to 1.50% for the “Wireline” operations, and from 1.50% to 2.50% for the main South American operations.

In order to calculate the equity value per share, beside the assumptions described above, we also took into account the following elements:

- Net financial position: we have utilised the estimates at 31 December 2004 prepared by Telecom Italia, negative for Euro 29,927 million (net debt);
- Savings shares: with reference to Telecom Italia savings shares, we took as reference point the average discount in the six months prior to announcement of the transaction, equal to 27.0%;

	<u>TI</u>
<b>Savings discount to Ordinary</b>	
3 December 2004 .....	26.5%
1 week average .....	27.9%
1 month average .....	27.3%
3 month average .....	26.2%
6 month average .....	27.0%
12 month average .....	28.1%

- stock options: we took into account the shares underlying the options exercisable at 31 December 2004, with a strike price lower than the current market price. In particular, we took into account 119.6 million shares for Telecom Italia;
- convertible bonds: we took into account the shares underlying the “Telecom Italia 1.5% 2001-2010” convertible bond (1,126.4 million shares);
- deferred tax asset: we took into account the tax savings for Telecom Italia arising mainly from write downs of some equity stakes effected in the past, as indicated by the company;
- Telecom Italia stake in TIM: we took into account 4,734 million TIM shares held by Telecom Italia S.p.A. and “Telecom Italia Finance”;
- treasury shares: those shares have been deducted from the total number of shares;
- expected dividends: also for Telecom Italia we have not adjusted the values for the dividend.

The following table shows the official price on 3 December 2004 (last price before the announcement of the transaction), the averages, weighted for the traded volumes, of the ordinary and savings shares of TIM and Telecom Italia over the period of one week, one, three, six and twelve months, and the resulting exchange ratios:

	Ordinary Shares			Savings Shares		
	TI Price	TIM Price	Exch. Ratio	TI Price	TIM Price	Exch. Ratio
	(Euro)	(Euro)		(Euro)	(Euro)	
<b>Market Price: weighted averages</b>						
3 December 2004. ....	2.97	5.19	1.75	2.18	5.37	2.46
1 week average. ....	2.95	5.13	1.74	2.13	5.32	2.49
1 month average. ....	2.88	4.93	1.71	2.09	5.09	2.44
3 month average. ....	2.72	4.67	1.72	1.99	4.86	2.44
6 month average. ....	2.63	4.59	1.75	1.91	4.75	2.48
12 month average. ....	2.58	4.58	1.77	1.87	4.64	2.48

A similar analysis has been performed for the period prior to 19 November 2004, the day when traded volumes were extraordinarily high when compared to average daily volumes typically traded for the companies' shares; this date has been taken as the date when the rumours of a potential company restructuring began influencing the companies' share prices:

	Ordinary Shares			Savings Shares		
	TI Price	TIM Price	TI Price	TIM Price	TI Price	TIM Price
	(Euro)	(Euro)		(Euro)	(Euro)	
<b>Market Price: weighted averages</b>						
3 December 2004. ....	2.90	4.89	1.69	2.12	4.86	2.29
1 week average. ....	2.85	4.84	1.70	2.08	4.80	2.32
1 month average. ....	2.73	4.70	1.72	2.02	4.66	2.30
3 month average. ....	2.61	4.53	1.73	1.93	4.51	2.34
6 month average. ....	2.56	4.51	1.76	1.87	4.47	2.39
12 month average. ....	2.55	4.53	1.78	1.84	4.46	2.42

Our analyses have been prepared in order to assist the Board of Directors of TIM as to the fairness, from a financial point of view, for the ordinary and savings shareholders of TIM, with the exception of Telecom Italia, of the exchange ratios in the context of the Merger. The analyses do not aim at evaluating the fair absolute value of the shares or the price at which the shares or assets could be actually sold.

The Opinion and the Confirmation Letter of Merrill Lynch and the financial analyses are only one of a number of elements considered by the Board of Directors of TIM for the approval of the resolution regarding the Merger, and therefore must not be deemed as decisive for the decision of the Board of Directors.

Merrill Lynch has been appointed by the Board of Directors of TIM, on the basis of the recommendations of its independent members forming the Committee for Internal Control and Corporate Governance, to act as advisor in the context of the overall transaction. In this context, Merrill Lynch has rendered an opinion as to the fairness, from a financial point of view, for the ordinary and savings shareholders of TIM, with the exception of Telecom Italia, of the exchange ratios in the context of the Merger, and a fairness opinion as to the fairness, from a financial point of view, of the price offered by Telecom Italia in relation to the tender offer launched, in the context of the Merger, over the two thirds of the ordinary free float and on all savings shares of TIM.

For the services rendered, Merrill Lynch has accrued a Euro 14.0 million fee, of which Euro 4.2 million accrued following the delivery of the opinion in relation to the exchange ratios, and Euro 9.8 million accrued following the delivery of the opinion in relation to the tender offer. Moreover, TIM has agreed to reimburse Merrill Lynch for the reasonable expenses sustained in relation to its services, including potential fees payable to external lawyers, up to Euro 100 thousand, and will indemnify Merrill Lynch from potential liabilities that could arise in relation to the mandate or other aspects in relation to the mandate.

Merrill Lynch is part of a financial services group (the "Group") which includes, among other businesses, equity and debt securities trading for both clients and as principal, securities offerings, fund management, financing services and financial advisory services. Therefore, in the ordinary course of its activities, one or more companies of the Group could be engaged in transactions regarding financial instruments of TIM and/or Telecom Italia and/or other companies involved in the Merger.

STUDIO CASO'  
dottori commercialisti associati

To the Board of Directors  
of Telecom Italia Mobile SpA  
Via Giannone 4  
*Torino*

**OPINION**

**REQUESTED BY THE BOARD OF DIRECTORS OF  
TELECOM ITALIA MOBILE S.P.A.  
IN ORDER TO ESTABLISH THE EXCHANGE RATIO OF  
THE SHARES WITH REGARD TO THE MERGER OF  
TELECOM ITALIA MOBILE S.P.A.  
INTO  
TELECOM ITALIA S.P.A.**

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## **1) Introduction**

The Board of Directors of Telecom Italia Mobile S.p.A. has asked our Firm (“Assignment”), in the person of Angelo Caso to issue its professional opinion (“Opinion”) on determining the shares exchange ratio should a merger of Telecom Italia Mobile S.p.a. into its controlling company Telecom Italia S.p.A. occur.

The “Assignment” excludes the survey of legal, fiscal and accounting aspects of the said deal, as well as the assessment of the economic and strategic drivers of the expected business integration.

The financial and economic data, as well as any other information used to prepare this “Opinion” have been provided to us by Telecom Italia Mobile S.p.A. These data and information have not been verified by us, therefore the sole responsibility of the truthfulness, accuracy and completeness of such data and information is that of the Company.

With reference to such data and information, in the drawing up of this “Opinion” we have relied on the assumption that the Company has not suppressed any event or situation that could, even potentially, affect the said data and information, and on the additional assumption of the completeness and truthfulness of all the data and information.

This “Opinion” has been prepared for the members of the Board of Directors of Telecom Italia Mobile S.p.A. only, to support their assessments and decisions regarding the expected merger and cannot be used for different purposes, neither entirely nor partially, nor exhibited to third parties without our written consent, except when required by Law.

## **2) Our engagement and purpose of the assignment**

The “Assignment” has been conferred to us by an engagement letter and this “Opinion” refers only to such letter.

According to the scope of the “Assignment”, the “Opinion” requested has the only purpose to provide the Board of Directors of Telecom Italia Mobile S.p.A. with elements and references in order to identify the exchange ratio between the ordinary shares of Telecom Italia Mobile S.p.A. and the ordinary shares of Telecom Italia S.p.A., and of the savings shares of Telecom Italia Mobile S.p.A. and the savings shares of Telecom Italia S.p.A.

The Board of Directors of Telecom Italia Mobile S.p.A. informed us that Telecom Italia S.p.A., when proposing to their shareholders the merger with Telecom Italia Mobile S.p.A., will examine the possibility to launch a Tender Offer (Offerta Pubblica di Acquisto – OPA) on a significant amount of the outstanding shares of Telecom Italia Mobile S.p.A. The Board of Directors of Telecom Italia Mobile S.p.A. will consider this proposal in detail.

The conclusions expressed in this “Opinion” did not take into consideration the possibility that the OPA may be carried out prior to the above described merger.

The evaluation of the two Companies, parties to the merger, was carried out with the sole purpose to determine relative and comparable values in order to identify the exchange ratio of the shares.

As a consequence, the Companies assessed value is not relevant outside the context of this document and does not constitute in any way an assessment of the absolute value of the shares of the merging companies Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A., nor of the other companies belonging to the Group.

All the assessments and comments included in this “Opinion” are made within the context and for the purposes of this “Opinion” and cannot be used out of the context of this “Opinion” or for different purposes.

This “Opinion” applies to the economic and market conditions, general and specific, currently existing; any development that should occur after the date of this “Opinion” will not imply for our Firm any obligation to update this “Opinion”.



### 3) *Reference Material*

In order to carry out the “Assignment” we have received from Telecom Italia Mobile S.p.A. the following documentation:

- Annual Separate Financial Statements and Consolidated Financial Statements of Telecom Italia S.p.A. as of 31 December 2003;
- Annual Separate Financial Statements and Consolidated Financial Statements of Telecom Italia Mobile S.p.A. as of 31 December 2003;
- Half-year Report as of 30 June 2004 of Telecom Italia S.p.A.
- Half-year Report as of 30 June 2004 of Telecom Italia Mobile S.p.A.
- Quarterly Report as of 30 September 2004 of Telecom Italia S.p.A.
- Quarterly Report as of 30 September 2004 of Telecom Italia Mobile S.p.A.
- Industrial Plan for the period 2005-2007 of Telecom Italia S.p.A.;
- Industrial Plan for the period 2005-2007 of Telecom Italia Mobile S.p.A.;
- Consolidated Cash-flow statement of Telecom Italia S.p.A. for the period 2005-2007;
- Statement of cash-flow by business unit for the period 2005-2007;
- Corporate By-laws of Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A.

Moreover we have obtained public domain information such as:

- Valuations and reports on the companies carried out by financial analysts;
- Studies and evaluations of competitors and the markets where the companies operate;
- Performance of the share price of Telecom Italia S.p.A., Telecom Italia Mobile S.p.A., and other companies of the Group.

### 4) *The valuation criteria applied to establish the exchange ratio*

To establish the exchange ratio between the shares of the merging companies, we have valued the shares by adopting techniques generally accepted in similar deals.

In order to establish relative values between the two companies, and enable us to assess the fair ratio between the value of the shares rather than the absolute value of each of the two companies, we applied valuation criteria that are comparable and homogenous.

The evaluation of companies involved in deals of share exchange has to be carried out on a stand alone basis before the merger thus leaving aside any effect that could arise from the merger, such as synergies of operative, financial or strategic kind that could possibly arise from the business combination.

In order to establish the exchange ratio, we referred to historic share market quotations, considering different time spans and calculation systems.

The use of this method seems to be satisfactory in this case, given that both companies are listed on the same regulated market, a significant share of their Stock Capital is outstanding on such market, and that the shares under consideration are not illiquid and subject to not transient daily exchanges.

In this case the market value (Stock Exchange quotation), properly identified using different calculation systems, shows features undoubtedly homogenous, but also objective, as it is free from bias and neutral.

The above results were confirmed by the application of the “Sum of Parts” approach (dealing with Groups), under which we valued the main business units using when appropriate the Unlevered Discounted Cash Flow method.

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### 5) *The exchange ratio*

In order to establish the value range within which is comprised the fair exchange ratio of the shares of Telecom Italia Mobile with the shares of Telecom Italia S.p.A. , applying the method of the Market Price Exchange Ratios, we have made an analysis of the relative prices of the shares of Telecom Italia S.p.A. and of Telecom Italia Mobile S.p.A. in different periods of time to 3 December 2004, last day of the Exchange trading of the shares.

To this end we have taken into consideration the official prices weighted by the trading volumes as they were recorded by the Italian Stock Exchange (source: Datastream), as of 3 December 2004 and for the following time periods, ending on 3 December 2004:

- 1 month
- 3 months
- 6 months
- 12 months

The exchange ratios obtained:

<u>Period</u>	<u>Ordinary shares "Telecom Italia Sp.A." for ordinary share "Telecom Italia Mobile S.p.A"</u>	<u>Savings shares "Telecom Italia S.p.A." for saving share "Telecom Italia Mobile S.p.A"</u>
3 december 2004 .....	1,75	2,46
One month to 3 December 2004. . . .	1,71	2,44
Three months to 3 December 2004. ....	1,72	2,44
Six months to 3 December 2004 . . .	1,75	2,48
Twelve months to 3 December 2004. ....	1,77	2,48

However, the analysis carried out has showed that the market prices in the days of the shares quotation, before the suspension requested by the Group, result (both in exchange volumes and in the share value) affected by market rumours - related to the reorganization of the whole Group to which the two companies belong - starting from 16 November 2004. Hence, the average of the market prices we have considered has, as final date, the 16 November 2004.

The exchange ratios thus obtained are the following:

<u>Period</u>	<u>Ordinary shares "Telecom Italia Sp.A." for ordinary share "Telecom Italia Mobile S.p.A"</u>	<u>Savings shares "Telecom Italia S.p.A." for saving share "Telecom Italia Mobile S.p.A"</u>
16 November 2004 .....	1,71	2,33
One month to 16 November 2004 . .	1,73	2,30
Three months to 16 November 2004. ....	1,74	2,34
Six months to 16 November 2004 . .	1,77	2,39
Twelve months to 16 November 2004. ....	1,78	2,42

By applying the approach "Sum of Parts" we have assessed the value of the individual business units of the Group (evaluated as separated economic entities), net of the relative net financial position as of 31 December 2004.

The main business units have been evaluated with the method of the unlevered discounted cash flow.

The minor business units have been evaluated making reference to the Stock Exchange capitalization, if listed, or to market multiples or to carrying values, if not listed.

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The exchange ratios obtained by applying the "Sum of Parts" approach confirm the value range highlighted by the analysis of the Market prices.

\* \* \*

On the basis of the analysis carried out and summarized above, the exchange ratio that will be chosen by the Board of Directors of Telecom Italia Mobile S.p.A. will be fair, if falling within the following range:

Ordinary shares "Telecom Italia Sp.A." for one ordinary share	
"Telecom Italia Mobile S.p.A" .....	1,71 – 1,78
Savings shares "Telecom Italia Sp.A." for one savings share	
"Telecom Italia Mobile S.p.A" .....	2,30 – 2,42

Milano, 7 December 2004

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To the Board of Directors of  
Telecom Italia Mobile S.p.A.  
Via Giannone 4  
Torino

Milano, 22 January 2005

**Opinion in order to establish the exchange ratio of the shares with regard to the merger of Telecom Italia Mobile SPA into Telecom Italia SPA.**

With reference to our Opinion issued on 7 December 2004, you asked us, on 21 January 2005, to confirm the conclusions there expressed.

To this purpose you informed us that from 7 December 2004 to 21 January 2005 it did not occur and it is not to your knowledge any event that has affected or could affect the data and information that you provided to us up to 6 December and that are indicated in our Opinion. Particularly you have stated that no change occurred "*in the economic and financial position, in the business, in assets and liabilities or in the prospects of Telecom Italia SpA, of Telecom Italia Mobile SpA and of the other Group Companies*" (as at 21 January 2005).

Having taken due note of the preceding, we point out, preliminarily, that the Opinion issued on 7 December 2004 has been drawn up by us without taking into consideration any possible effect arising from the Tender Offer (Offerta Pubblica di Acquisto – OPA) subsequently launched by Telecom Italia SpA on the shares of Telecom Italia Mobile SpA (as specifically indicated in the mentioned Opinion).

It is clear that the confirmation you are asking us with regard to the conclusions we expressed in our Opinion of 7 December 2004, is connected to the effect of the OPA (otherwise in consideration of what you communicated on 21 January 2005 and on that assumption, we would have no reason to change our Opinion).

For this reason we have asked you to let us know the actual results of the OPA which ended on 21 January 2005 and, to this end, you asked us to refer to the press release of 21 January 2005 issued by Telecom Italia SpA that communicated what follows (preliminary results).

1. The number of the ordinary shares of Telecom Italia Mobile SpA offered to Telecom Italia SpA at the price of 5.60 each was 2,639,179,970.
2. The number of the savings shares of Telecom Italia Mobile SpA offered to Telecom Italia SpA at the price of 5.60 each was 8,454,877.

Therefore the following documents complete the list of the material used by us and mentioned in our Opinion dated 7 December 2004;

1. The offering document issued by Telecom Italia S.p.A. according to D. Lgs. 58/1998;
2. The press release of Telecom Italia SpA dated 21 January 2005.

\* \* \*

Preparing this confirmation, besides the information mentioned under 1 and 2 above, we have taken into consideration the following occurrences pointed out in the mentioned offering document:

- Telecom Italia has contracted a loan, for the carrying out of the deal, for a total amount of 12 billions, on the terms of par. G.2 of the offering document;
- The rating Agencies have not changed the rating given to Telecom Italia SpA shares;
- The net financial position as at 31 December 2004 of the Telecom Italia SpA Group, which amounts to about 30 billions, would increase, as a result of the execution of the deal, to about 44 billions.

This confirmation is therefore based on all the data and all the occurrences mentioned above, as well as on the fact that, up to date, what you have stated with your communication of 21 January 2005, and above recalled, is still true.

In case that any data, occurrences or statements above mentioned should change in a material way, this confirmation could need to be modified.

\* \* \*

That said, we point out that in our Opinion of 7 December 2004 we defined a range of values that could be assigned to the exchange ratio between the shares of Telecom Italia SpA and the shares of Telecom Italia Mobile SpA, applying an approach, detailed in our opinion, based on the historic market prices of those shares.

The range of values we established was the following:

Ordinary shares "Telecom Italia Sp.A." for one ordinary share	1.71 –1.78
"Telecom Italia Mobile S.p.A".....	
Savings shares "Telecom Italia Sp.A." for one savings share	
"Telecom Italia Mobile S.p.A".....	2.30 –2.42

It is our opinion that the above approach and the way it has been applied does not need to be modified as a consequence of the OPA as realized and described above, and of the other related data and occurrences shown above.

In particular it is our opinion that, in applying the evaluation approach based on market prices, no event occurred that could involve the need to modify the reference date we used as final date for our calculations (i.e. the "ante rumours" date identified as the 16 November 2004), as explained in our Opinion of 7 December 2004.

What above because the market prices of the period from 16 November to 3 December 2004 are affected by the market expectations consequent to rumours and the prices after 16 November 2004 are affected by the Group communications related to the deal in progress. Therefore, we deem that the market prices subsequent to 16 November 2004 cannot be used to carry out a proper application of the approach based on those prices.

Again with reference to our Opinion of 7 December 2004, we point out that we verified the exchange ratio by applying the Sum of Parts approach, net of the net financial position as at 31 December 2004 as then stated by you.

In carrying out the Sum of Parts procedure, the valuation of the main business units had been made with the unlevered discounted cash flow method, whereas the minor business units had been evaluated with reference to market prices (if listed) or to market multiples and to carrying amounts (if not listed); the all as better detailed in the mentioned Opinion dated 7 December 2004.

Following the OPA, as realized and communicated, and taking also into account the other data and occurrences communicated and highlighted above, we deemed to have to reperform the verification (particularly taking in due consideration the investment made by Telecom Italia SpA in ordinary and saving shares of Telecom Italia Mobile SpA and the related borrowing).

The results we obtained in this way confirm that the exchange ratio between the shares of the two Companies parties to the merger falls within the range of values identified with the method based on the market prices and quoted above.

\* \* \*

In the light of what explained above, as per your request, we confirm the conclusions we reached in our Opinion of 7 December 2004, on the assumptions pointed out in that Opinion and on the assumptions pointed out in this confirmation letter.

Kind regards,

**Descriptive memo of the procedures adopted by Studio Casò to draw up the  
Opinion in order to establish the exchange ratio of the shares with regard to the  
merger of Telecom Italia Mobile SpA into Telecom Italia SpA**

This memo requested by Telecom Italia Mobile SpA to be enclosed to the “Documento Informativo” regarding the merger through incorporation of Telecom Italia Mobile SpA into Telecom Italia SpA, has been drawn up by Studio Casò on 5 March 2005.

This memo only makes reference to the Opinion dated 7 December 2004 regarding the establishment of the exchange ratio of shares within the scope of the said merger and to the confirmation letter dated 22 January 2005, documents delivered by Studio Casò to the Board of Directors of Telecom Italia Mobile SpA in the accomplishment of the assignment entrusted by this Company on 5 December 2005 (Opinion) and to the request of the same Company dated 21 January 2005 (Confirmation Letter).

The Opinion of 7 December 2005 and the Confirmation Letter of 22 January 2005 have been delivered to the Board of Directors of Telecom Italia Mobile SpA within the terms and the limits indicated in said documents; this memo doesn't modify in any way those terms and limits.

**This memo is not an autonomous and independent document and has no validity unless read together with the above mentioned documents; this memo doesn't assume to be alternative and/or supplemental and/or modificative of the above said documents delivered to the Board of Directors of Telecom Italia Mobile SpA.**

**This memo has to be read together with the Opinion of 7 December 2004 and with the Letter of confirmation of 22 January 2005; an unconnected reading can imply the non perfect understanding of the approaches and methods adopted by Studio Casò and of the conclusions reached by Studio Casò.**

The assignment conferred to Studio Casò specifically excluded:

- a) the survey of legal, fiscal and accounting aspects of the said deal, as well as the assessment of the economic and strategic drivers of the expected business integration;
- b) any verification of the financial and economic data, of the prospective data and of any information provided by Telecom Italia Mobile SpA; the Company conferring the assignment was the sole responsible both of the truthfulness and of the accuracy and completeness of the said data and information.

The conclusions reached by Studio Casò have relied on the assumption that the Company has not suppressed any event or situation that could, even potentially, affect the said data and information, and on the additional assumption of the completeness and truthfulness of all the data and information.

The Opinion delivered on 7 December 2004 has been drawn up disregarding any possible effect arising from the Tender Offer (Offerta Pubblica di Acquisto - OPA) subsequently launched by Telecom Italia SpA on the shares of Telecom Italia Mobile SpA.

These effects have, conversely, been taken into consideration in drawing up the confirmation letter dated 22 January 2005.

The data and information used are the following:

**Opinion of 7 December 2004:**

- Annual Separate Financial Statements and Consolidated Financial Statements of Telecom Italia S.p.A. as of 31 December 2003;
- Annual Separate Financial Statements and Consolidated Financial Statements of Telecom Italia Mobile S.p.A. as of 31 December 2003;
- Half-year Report as of 30 June 2004 of Telecom Italia S.p.A
- Half-year Report as of 30 June 2004 of Telecom Italia Mobile S.p.A.
- Quarterly Report as of 30 September 2004 of Telecom Italia S.p.A.

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- Quarterly Report as of 30 September 2004 of Telecom Italia Mobile S.p.A.
- Industrial Plan for the period 2005-2007 of Telecom Italia S.p.A.;
- Industrial Plan for the period 2005-2007 of Telecom Italia Mobile S.p.A.;
- Consolidated Cash-flow statement of Telecom Italia S.p.A. for the period 2005-2007;
- Statement of cash-flow by business unit for the period 2005-2007;
- Corporate By-laws of Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A.
- Valuations and reports on the companies carried out by financial analysts;
- Studies and evaluations of competing companies and the markets where the companies operate;
- Performance of the share price of Telecom Italia S.p.A., Telecom Italia Mobile S.p.A. and other companies of the Group.

**Confirmation letter of 22 January 2005, besides the above:**

- The offering document issued by Telecom Italia S.p.A. according to D. Lgs. 58/1998;
- The press release of Telecom Italia SpA dated 21 January 2005.

\* \* \*

**General methodological choices.**

1. The evaluations have been carried out taking into account the operative autonomy of the companies (stand alone) before the merger and thus leaving aside any effect that could arise from the merger, as synergies of operative, financial or strategic kind that could possibly arise from the business combination.
2. Given the purposes of the assignment, in order to establish relative values able to state the fair ratio between the value of the shares of the two companies, we applied homogenous valuation criteria.
3. Making the choice among different methods (used in doctrine and in procedure) we have identified as the most suitable in the case in point the method based on Stock Exchange quotations given that both the companies were (and are) listed on the same regulated market, that a significant share of their stock capital was (and is) outstanding on such market and that the shares were (and are) not illiquid and subject to non transient daily exchanges.

The different time-frames (spans) used and the different systems adopted to calculate the averages have allowed us to identify a range of values to give to the exchange ratio between the two companies.

4. The results obtained, *to the sole purpose of verifying the values indicated by the Stock Exchange quotations*, have been compared with the results obtained with the Sum of Parts approach (results constituted, in this last case, by a precise value).
5. In drawing up the confirmation letter of 22 January 2005 we have deemed that no event had occurred that could involve the need to adopt a method different from the one based on market prices to establish the range of values to be attributed to the exchange of the shares of the two Companies.

It was, conversely, necessary, again to the sole purpose of verifying the values indicated by the market, to compare over again these results with the ones resulting from the approach of the Sum of Parts. This because the evaluation of the two merging Companies has been made taking into account the outcome of the OPA launched by Telecom Italia SpA on the shares of Telecom Italia Mobile SpA.

**Applying the method based on market prices.**

We have made an analysis of the prices of the shares of Telecom Italia S.p.A. and of Telecom Italia Mobile S.p.A. in different periods of time to 3 December 2004, last day of the Exchange trading of the shares before the suspension requested by the Companies. In particular, we have taken into consideration the official prices

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weighed by the trading volumes as they were recorded on the Telematic Capital Market of Milano operated by Borsa Italiana SpA (source: Datastream), for the following periods:

- 3 December 2004 (precise date)
- 1 month to 3 December 2004
- 3 months to 3 December 2004
- 6 months to 3 December 2004
- 12 months to 3 December 2004.

The analysis showed that the marked prices after 16 November 2004 are affected by the market expectations subsequent to rumours related to the reorganization of the Group Telecom Italia.

Therefore, the reference date taken as final date for the calculations has been 16 November 2004 and the time periods considered have been the following:

- 16 November 2004 (precise date)
- 1 month to 16 November 2004
- 3 months to 16 November 2004
- 6 months to 16 November 2004
- 12 months to 16 November 2004.

As to the confirmation letter of 22 January 2005, the date taken as final date for the calculations has not been modified because the prices after 3 December 2004 have been affected by the news concerning the extraordinary transactions resolved by the boards of directors of Telecom Italia SpA and of Telecom Italia Mobile SpA.

### **Applying the Sum of Parts.**

The “Sum of Parts” has been used as a method to confirm the results obtained with the evaluation based on the market prices. It consists of the separate evaluation of the individual business making up the Group to be evaluated and of the subsequent sum of the values thus obtained.

The evaluation of the individual business units has been made considering these units as separate economic entities, net of the relative net financial position as of 31 December 2004, taking into account the interest share of the Group being evaluated.

The procedure has been applied both to the Group Telecom Italia SpA and to the Group Telecom Italia Mobile SpA.

By applying it the main business units have been evaluated with the method of the unlevered discounted cash flow.

The evaluation of the other activities, considered their limited importance within the total evaluation of the Group, has been made making reference to the average stock exchange capitalization, if connected to listed companies and to market multiples or carrying values if connected to not listed companies.

The main choices we have made by applying the Unlevered Discounted Cash Flow method have been the following.

- We made reference to the analytic forecasts of the cash flows ensuing from the operating management and contained in the Plan prepared by the Companies without any revision nor further projection in regard to the time period indicated by the Companies (2005/2007)
- These cash flows have been considered net of the fiscal charge to be calculated on the operating earning (EBIT).
- Besides the period of analytical forecast, it has been assumed a steady-state growth rate of the net operating cash flow of the year 2007. To establish the growth rates we have considered long term growth rates lined up with market benchmarks.
- The rate used to discount the cash flows has been established as “weighted average cost of capital “Wacc”, computed assuming a target financial structure.
- We have made reference to the net financial position foreseen at 31 December 2004 (this also as prepared and indicated by the Companies).

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### **Conclusions represented in the Opinion of 7 December 2004 and confirmed in the Letter of 22 January 2005**

The exchange ratio between the shares of Telecom Italia SpA and Telecom Italia Mobile SpA has been deemed fair if falling within the following range

Ordinary shares. ....	1,71 – 1,78
Savings shares. ....	2,30 – 2,42

The range has been established with the market prices method. However, it has been pointed out, as additional information, that by applying the Sum of Parts procedure, as briefly described above, we have obtained an exchange ratio which value falls within the said range.

\* \* \*

The assignment to Studio Caso has been conferred on 5 December 2004 by the Board of Directors of Telecom Italia Mobile SpA following appointment of the Audit Committee of the Company.

Studio Caso, in the person of Dott. Angelo Caso, has been asked to draw up a professional opinion, of a technical nature, concerning the fairness of the exchange ratio of the shares between the two Companies parties to the merger.

Thus, it doesn't deal neither with an advice and assistance activity on behalf of the Company nor with an activity meaning to complete the decision making process of Telecom Italia Mobile SpA.

Neither it dealt with the drawing up of a "survey report" nor a "estimate" according to Stock Exchange Regulation.

With reference to the assignment conferred to Studio Caso it was agreed an all-inclusive fee (expenses included) amounting to € 2.000.000,00 (two millions), plus Welfare Fund and VAT.

No further remuneration connected to the successful outcome of the operations of the two Companies has been foreseen in favour of Studio Caso given the neutral and independent contents of the requested Opinion.

Studio Caso has not supplied nor supplies other services in favour of the two Companies parties to the merger.

**Telecom Italia S.p.A.**

PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION  
as of and for the year ended December 31, 2004

INDEPENDENT AUDITORS' REPORT ON EXAMINATION  
OF PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION  
(Translation from the original Italian text)

INDEPENDENT AUDITORS' REPORT ON EXAMINATION  
OF PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION  
(Translation from the original Italian text)

To the Board of Directors of  
Telecom Italia S.p.A.

1. We examined the financial information consisting of pro-forma consolidated balance sheet and consolidated income statement (the "Pro-forma Consolidated Financial Information"), accompanied by the explanatory notes, of the Telecom Italia Group as of and for the year ended December 31, 2004.

Such Pro-forma Consolidated Financial Information derive from the historical data of the consolidated financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2004 and from the pro-forma adjustments applied to such data and examined by us. The consolidated financial statements as of and for the year ended December 31, 2004 have been audited by us and we have issued our auditors' report on March 16, 2005.

The Pro-forma Consolidated Financial Information have been prepared on the basis of the assumptions described in the explanatory notes to reflect the effects of the merger by incorporation of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A., detailed in the Plan for the Merger adopted by the Boards of Directors of Telecom Italia Mobile S.p.A. and Telecom Italia S.p.A. on January 23, 2005.

2. The Pro-forma Consolidated Financial Information, accompanied by the explanatory notes, as of and for the year ended December 31, 2004, have been prepared as required by article 70 of Consob Rule n.11971/99, and subsequent changes, in application of Law Decree n. 58/98 concerning the regulations governing listed companies.

The scope of the preparation of the Pro-forma Consolidated Financial Information is to present, in accordance with valuation criteria consistent with the historical financial data and with the applicable regulations, the effects of the above mentioned merger transaction on the consolidated economic trend and on the consolidated balance sheet of the Telecom Italia Group, as if such transaction virtually occurred on December 31, 2004 and, with respect to the economic effects only, at the beginning of the year 2004. However, it should be noted that if the merger transaction had actually occurred on such dates, the results that are presented therein would not be necessarily obtained.

The directors of Telecom Italia S.p.A. are responsible for the preparation of the Pro-forma Consolidated Financial Information. Our responsibility is to express an opinion on the reasonableness of the assumptions adopted by the directors for the preparation of the Pro-forma Consolidated Financial Information and on the correctness of the methodology utilized in preparing such data. In addition, it is our responsibility to express an opinion on the correctness of the valuation criteria and of the accounting principles applied.

3. Our examination has been made in accordance with the criteria recommended by Consob in its Recommendation n. DEM/1061609 of August 9, 2001 for the examination of the pro-forma data and applying the procedures we deemed necessary in the circumstances with respect to the engagement received.
4. In our opinion, the assumptions adopted by Telecom Italia S.p.A. for the preparation of the financial information of the pro-forma consolidated balance sheet and consolidated income statement of the Telecom Italia Group as of and for the year ended December 31, 2004, accompanied by the explanatory notes to reflect the merger of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A., described under paragraph 1 above, are reasonable and the methodology utilized for the preparation of the above mentioned financial information has been properly applied for the information purposes described above. In addition, we believe that the valuation criteria and the accounting principles have been properly applied for the preparation of such data.

Milan, March 23, 2005

Reconta Ernst & Young S.p.A.  
Signed by: Felice Persico, Partner

**Shareholders' agreements published pursuant to Article 122 of Legislative decree n. 98/1998**

**Shareholders' agreement between Pirelli & C. SpA (succeeded to Pirelli SpA\*) and Edizione Holding SpA**

- August 7, 2001 - signing ..... pg. 3
- September 14, 2001 - first act of amendment ..... pg. 15
- February 13, 2002 - second act of amendment ..... pg. 17

**Shareholders' agreement between Pirelli & C. SpA, (succeeded to Pirelli SpA\*) Intesa SpA and Unicredito Italiano SpA**

- September 14, 2001 - signing ..... pg. 20
- September 26, 2001 - first act of amendment ..... pg. 37
- October 24, 2001 - second act of amendment ..... pg. 42
- December 16, 2003 - third act of amendment ..... pg. 45

**Shareholders' agreement between Pirelli & C. SpA, (succeeded to Pirelli SpA\*) Edizione Finance, Edizione Holding, Intesa SpA and Unicredito Italiano SpA**

- February 21, 2003 - signing ..... pg. 51
- January 23, 2004 - first act of amendment ..... pg. 94
- January 28, 2005 - second act of amendment ..... pg. 99

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(\*) As of August 4, 2003, following the consummation of the merger by incorporation of Pirelli SpA into Pirelli & C. SpA.

## AGREEMENT BETWEEN PARTNERS

Between PIRELLI S.p.A. (joint-stock company, based in Milan, viale Sarca 222, having 1,042,775,333.08 Euros in stock capital, inscribed in the Milan Registry of Businesses, fiscal code and value-added tax number 0086890151, in the person of Chairman of the Board of Directors Dr. Marco Tronchetti Provera, who was granted the necessary powers through a resolution by the Board of Directors on July 28, 2001 (hereafter referred to as "Pirelli")

- as one party -

and EDIZIONE HOLDING S.P.A., based in Treviso, Calmaggione 23, with 90,692,800,000 lire in stock capital, inscribed in the Treviso Registry of Businesses under number 13945, fiscal code and value-added tax number 00778430264, in the person of Managing Director Dr. Gianni Mion, who was granted the necessary powers through a resolution of the Board of Directors on July 27, 2001 (hereafter referred to as "Edizione")

- as the other party -

whereas

- (a) on the date of July 30, 2001, Pirelli and Edizione signed an offer to acquire, directly or through a subsidiary company to be named by the execution date as provided for therein, Olivetti Stock and Olivetti Warrants (as defined in paragraphs 1.01 and 1.23, respectively), from BELL S.A. (Spanish abbreviation for "company")
- (b) the offer by Pirelli and Edizione was accepted on the same date by BELL S.A. and the Contract (as defined in paragraph 1.04) was then drawn up;
- (c) the Parties (as defined in paragraph 1.15) intend to designate a common assignee company to proceed with the acquisition of Olivetti Stock and Olivetti Warrants;
- (d) to achieve the objectives indicated in the preceding premise, the Parties constituted the Company (as defined in paragraph 1.18) on the date of August 3, 2001, and Edizione shall have 20% (twenty percent) participation in it and Pirelli shall have 80% (eighty percent) participation;
- (e) in executing separate agreements between the Parties and BELL S.A. and G.P.P. INTERNATIONAL S.A., on the date of July 30, 2001, Pirelli acquired, acting also on behalf of Edizione, through a wholly subsidiary company, Kallithea S.p.A. (formerly S.r.l.) (limited-responsibility partnership), the Remaining Olivetti Stock (as defined in paragraph 1.16), which on the same date paid the Price (as defined in paragraph 1.16), using the liquidity made available to it by Pirelli through Financing (as defined in paragraph 1.08);
- (f) the Parties intend to ensure that the Remaining Olivetti Stock are transferred to the Company as soon as possible and in any case no later than August 30, 2001, against payment augmented by financial obligations related to the Financing, to be made on August 30, 2001, of the value as of that date;
- (g) Pirelli owns Pirelli Participations and Edizione owns Edizione Participations (as defined in paragraphs 1.13 and 1.14, respectively), which both Parties intend to transfer and cause to be transferred to the Company for the respective unitary prices of 2,1734 (check original) and 2,172 Euros (representing their respective average prices);
- (h) upon completion of the preceding transactions, especially once the conditions contained in the Contract are fulfilled, the Company shall be the owner of the Participations (as defined in paragraph 1.12);
- (i) Pirelli and Edizione intend to invoke the same conditions relative to the agreements made between them on the date of July 30, 2001, with respect to their reciprocal relationships as partners in the Company;



all these premises being stated,  
and being an integral part of the agreement, the following is stipulated and agreed upon:

ARTICLE I  
**Definitions**

In addition to the terms defined in other clauses of the Agreement (as defined in paragraph 1.06), for the purposes of the same, each of the terms listed below shall have the stated meaning:

- 1.01 “Olivetti Stock”: 1,552,662,120 ordinary shares of Olivetti S.p.A., which is the subject of the Contract.
- 1.02 “Company Stock”: 20% of the Company’s capital stock.
- 1.03 “Conditions”: conditions for suspension of the transfer of Olivetti Stock and Olivetti Warrants (as defined in paragraph 1.23) with regard to obtaining the Authorizations as provided for and required by the Contract.
- 1.04 “Contract”: the offer dated July 30, 2001, made by Pirelli and Edizione to BELL S.A., accepted on the same date with regard to the contract of sale of Olivetti Stock and Olivetti Warrants.
- 1.05 “Strategic Subsidiaries”: companies controlled by the Olivetti Group (as defined in paragraph 1.10 below), non quoted and operating in these sectors: infrastructures and services including the Internet, advertising collections, telephone annuities, television.
- 1.06 “Agreement”: this agreement between Partners stipulated on this date between Pirelli and Edizione.
- 1.07 “Execution Date”: the second Business Day (as defined in paragraph 1.09) preceding (stet) the execution date of the Contract.
- 1.08 “Financing”: the interest-bearing financing granted by Pirelli to Kallithea S.p.A. on July 30, 2001, with interest tied to the Euribor rate at 0.25% per month on an annualized basis.
- 1.09 “Business Day”: every calendar day, except for Saturdays, Sundays and days when banks are closed for normal business in the Milan market.
- 1.10 “Olivetti Group”: the companies of Olivetti S.p.A., Telecom Italia S.p.A., Telecom Italia Mobile S.p.A. and Seat-Pagine Gialle S.p.A..
- 1.11 “Olivetti”: the company Olivetti S.p.A., based in Ivrea, Via Jervis, no. 77.
- 1.12 “Participation”: Participation Pirelli, Participation Edizione, Olivetti Stock, Olivetti Warrants and the Remaining Olivetti Stock.
- 1.13 “Participation Edizione”: the 134,322,250 ordinary Olivetti Stock belonging to Edizione.
- 1.14 “Participations Pirelli”: the 130,980,000 ordinary Olivetti Stock owned by Pirelli.
- 1.15 “Party”/“Parties”: Edizione and Pirelli, together or separately.
- 1.16 “Price”: the sum of 4.175 (four point one seven five) Euros for each Olivetti share.
- 1.17 “Seat”: the company Seat-Pagine Gialle S.p.A., based in Turin, Via A. Saffi no. 18.
- 1.18 “Company”: the limited-responsibility company that the Parties constituted on August 3, 2001, and which will be turned into a stock company by August 30, 2001, for the acquisition of the Participations.
- 1.19 “Statute”: the company statute that the Parties shall adopt by August 30, 2001, a copy of which is attached here under number 1.19.
- 1.20 “Telecom Italia”: the company Telecom Italia S.p.A., based in Turin, Via Bertola no. 34.
- 1.21 “TIM”: the company Telecom Italia Mobile S.p.A., based in Turin, Via Bertola no. 34.
- 1.22 “Remaining Olivetti Stock”: 147,337,880 ordinary Olivetti Stock already acquired by Kallithea S.p.A.
- 1.23 “Olivetti Warrants”: 68,409,125 Olivetti warrants for 2001-2002, which are the subject of the Contract.

ARTICLE II  
**Capitalization of the Company**

The Parties hereby agree, by August 30, 2001 to adopt the text of the Corporate By-laws and to endow the Company with the means sufficient to enable the Company to acquire additional Olivetti Stock, the Pirelli Participation and the Edizione Participation, in an amount not less than 5,200,000,000 Euros, participating in Edizione, in the amount of no less than 20% (twenty percent), and in Pirelli, in the amount of no less than 80% (eighty percent).

ARTICLE III  
**Designation of Third Parties**

(a) The rights and obligations of the Parties deriving from this Agreement shall be understood to be assumed by the Parties unto themselves and/or by the person to be named by these parties by the Execution Date, in accordance and in observance with the terms established in Articles 1401 et sig. of the Civil Code and in accordance with the following conditions:

- (i) the designation may be made to only one person;
- (ii) the person named must be a company controlled by the nominating Party or must have 100% control over the nominating Party;

(b) The nomination of the third party as established above and the respective acceptance thereof (when necessary) may occur through simple written statements, even arriving separately, as long as they are delivered to the other Party by the Execution Date, without any other restrictions in terms of the form (or any other nature), with a tacit understanding that the terms and stipulations of Article 1403 of the Civil Code are hereby waived;

(c) each Party shall remain fully responsible for the person designated in accordance with the aforementioned stipulations;

(d) to all effects of Article III herein, Edizione shall name its own 100% controlled company Edizione Finance International S.A..

ARTICLE IV  
**Corporate Governance Bodies of the Company**

4.01 *Composition of the Board of Directors.* For the entire term of the present Agreement, the Parties hereby agree to do everything in their power, within the limits permitted by law so that:

- (i) The Board of Directors of the Companies is composed of 10 (ten) members;
- (ii) 2 (two) Board Members out of 10 (ten) are named by Edizione;
- (iii) in the event that a Executive Committee is name, 1 (one) of its members shall be elected from the 2 (two) board members named by Edizione;
- (iv) The Vice-President of the Board of Directors is named by Edizione from the 2 (two) board members named by Edizione; this person shall have the powers of vice-legal representative of the company.

4.02 *Transfer of Duties.* In the event that, for any reason whatsoever, including death, termination of the work agreement, or revocation on the part of the assembly of shareholders, one of the members of the board of directors named in accordance with the stipulations established herein should cease to perform the duties inherent in the position of board member, the Parties hereby agree to do everything in their power so that, within the limits established by law, the board member to replace the outgoing one should be named by the Assembly of shareholders of the company (and before that meeting during the preparatory meeting of the Board of Directors of company), in the person named by the Party who had named the person to be replaced.

4.03 *The Board of Auditors.* For the entire term of this Agreement, the Parties hereby agree to do everything in their power so that, in the limits established by law, one actual board member and one alternate board member shall be named by Edizione.

4.04 *Confidential Material.* Pirelli hereby agrees to do everything in its power, within the limits of law, so that no decision should be made by the Board of Directors of the Company without the favorable vote of at least one

of the board members named by Edizione (if present) in application of section 4.01 on the following points of business:

- an indication of the vote to be made by the Ordinary and Extraordinary Assemblies of Olivetti;
- the purchase, sale, or arrangement in any manner of shares with a total value greater than 100,000,000 Euros per transaction;
- decisions relating to the relations between the holdings of the Company and the holdings of third parties and the methods, terms, and conditions for sources of external financing;
- proposals for decisions to be placed before the Extraordinary Assembly of shareholders of the Company.

#### ARTICLE V

##### **The Entrance of New Partners**

5.01 *Pledges Made by the Parties.* Waiving the stipulations of the Corporate By-laws, in particular in reference to the clauses relating to the Right of Pre-Emption and the Right of Co-sale, the Parties hereby agree that Pirelli, possibly in the period between the date in which the Company shall be constituted and the Execution Date, but even subsequent to that date, shall have the right to transfer shares of the Company to one or more parties up to the total of 20% (twenty percent) of the corporate capital of the Company, as long as the buyers found by Pirelli for those purposes have received prior approval by Edizione, it remaining understood that this approval cannot be denied without valid reasons and motives if these companies are, in fact, financial partners, and in the event of entrance into the share capital of Unicredito S.p.A. and/or Banca Intesa BCI S.p.A., which is under discussion, Edizione gives its assent from this moment forward.

5.02 *Formalities.* (a) For the purposes of the application of section 5.01 of this Agreement, Pirelli shall send Edizione a communication in the form established in section 14.02, including an indication of the number of shares reserved for sale to parties in accordance with section 5.01 above.

(b) within a period of 5 (five) business days from the receipt of the aforementioned communication, Edizione must give its consent, where necessary in relation to the aforementioned matters, with a communication sent to Pirelli in the form established in section 14.02. It is hereby understood that in the event that Edizione fails to provide a communication within the aforementioned period, Pirelli may sell the shares in the Company to the third parties that it has found and communicated, as if Edizione had granted its consent, with the limit of 20% (twenty percent) of the corporate capital discussed in section 5.01 above remaining in effect in any case.

#### ARTICLE VI

##### **Opa on Olivetti Shares**

For the entire term of this Agreement, the Parties hereby agree that, in the event that third parties should make a public offer of purchase with the intention of acquiring the Olivetti shares, in accordance with Legislative Decree 58/98, Edizione hereby agrees, from this time forward, when so requested by Pirelli through communication sent in the form established in section 14.02, and in accordance with the applicable stipulations of law, not to oppose, and to do everything so that the members of the Board of Directors of the Company do not oppose the acceptance of the public offer of purchase of the Company.

#### ARTICLE VII

##### **Corporate Bodies of the Olivetti Group**

7.01 *Composition of the Board of Directors of Olivetti.* For the entire term of this Agreement, the Parties hereby agree to do everything in their power, within the limits established by Law, that in the Board of Directors of Olivetti, Telecom, TIM, and Seat (the “**Olivetti Companies**”):

- (i) one fifth of the components of the Board of Directors of the Olivetti Companies (rounded off to the greater number up to two (2) board members), after the specific determination of the exact number of board members that shall compose the board, whose designation is not reserved by stipulations of law, by-laws, or regulations, to the market or other parties, be named by Edizione.
- (ii) the Vice-President of the Board of Directors of the Olivetti Companies, with the powers of vice-legal representative, be named from among the board members named by Edizione in accordance with the terms established above.

- (iii) in the event of the formation of an executive committee, 1 (one) of its members shall be elected from the board member or board members named by Edizione.

7.02 *Composition of the Board of Directors of the Strategic Controlled Companies.* For the entire term of this Agreement, the Parties hereby agree to do everything in their power, within the limits established by Law, that in the Board of Directors of the Strategic Controlled Companies:

- (i) one fifth of the components of the Board of Directors of the Strategic Controlled Companies, after the specific determination of the exact number of board members that shall compose the board, be named by Edizione.
- (ii) the Vice-President of the Board of Directors of the Strategic Controlled Companies, with the powers of vice-legal representative, be named from among the board members named by Edizione in accordance with the terms established above.

7.03 For the entire term of this Agreement and notwithstanding the points established in sections 7.01 and 7.02 above, Edizione hereby agrees not to present opposition to the fact that the members of the Board of Directors of the Olivetti Companies and the Strategic Controlled Companies not named by Edizione, the Market, or Government Agencies, shall be named by Pirelli.

7.04 *Termination of Duties.* In the event that, for any reason whatsoever, including death, termination of the work agreement, or revocation on the part of the assembly of shareholders, one of the members of the board of directors named in accordance with the stipulations established herein should cease to perform the duties inherent in the position of board member, the Parties hereby agree to do everything in their power so that, within the limits established by law, the board member to replace the outgoing one should be named by the Assembly of shareholders of the company (and before that meeting during the preparatory meeting of the Board of Directors of company), in the person named by the Party who had named the person to be replaced.

#### ARTICLE VIII

##### **Decisions Made By the Board of Directors of the Olivetti Companies**

8.01 *Confidential Material.* Waiving any stipulation to the contrary in the corporate bylaws, Pirelli hereby agrees to do everything in its power, within the limits of law, so that no decision should be made by the Board of Directors of the Company without the favorable vote of at least one of the board members named by Edizione (if present) in application of section 7.01 on the following points of business:

- (i) individual investments greater than 250 million Euros;
- (ii) purchase, sale and deeds of disposition for any reason whatsoever of controlling and connecting shareholdings with a unit value of more than 250 million Euros;
- (iii) deeds of disposition for any reason whatsoever of firms or branches thereof individually greater than 250 million Euros;
- (iv) proposals to call the Extraordinary Meeting
- (v) Intragroup transactions between the Olivetti group and the Pirelli group for amounts individually greater than 50 million Euros;
- (vi) Transactions with related parties.

#### ARTICLE IX

##### **Regulations Governing a Deadlock Situation**

9.01 *Identification of Deadlock Situations.* For the purposes of Article IX herein, the following may be considered “**Deadlock**” situations:

- (i) A deadlock situation may occur as a result of a disagreement between the Parties such as to cause reasonable prospects of the inability to pass resolutions at the Extraordinary Assembly of the Company, or a decision of the Board of Directors of the Company in the matters of business discussed in section 4.04, or a decision of the Board of Directors of the Olivetti Companies cannot be validly made in accordance with the corporate by-laws of the company or the stipulations of section 4.04 or the situations discussed in section 8.01 of this Agreement; and
- (ii) The situation was the subject of a meeting between the parties in accordance with section 9.02 below.

9.02 *Obligation of the parties to hold a meeting.*

The Parties hereby agree to hold a meeting in the event that a Deadlock Situation should arise, as defined in point (i) of section 9.01 above.

9.03 *Procedure:* (a) In order to fulfill the obligations assumed in accordance with section 9.02 above, the Parties hereby agree to meet, that is to consult with each other, through teleconference or video conference within and no later than the third (3rd) day preceding the date established for the meeting of the board of the Company, or the board of Olivetti, or, immediately, as soon as notification has been received, in the event of the urgent convocation of a meeting of the board of the Company, or the board of Olivetti, in accordance with the applicable legal stipulations.

(b) During the meeting discussed in the above section, the Parties will do everything in their power to reach an agreement and/or to identify a common direction on the matters placed before them for examination, to these effects, and to act in good faith in these matters.

(c) The unexcused absence of one of the Parties to the meeting or the abstention from the decisions reached during these meetings shall imply the acceptance of the decisions reached by the other Party and shall obligate the absent or abstaining Party to accept these decisions.

9.04 *Expression of Will.* (a) In the event that during the meetings discussed in sections 9.02 and 9.03 above, the Parties should reach an agreement in terms of the matters which form the subject of the aforementioned meeting, the Parties shall be obligated to express their will in applicable forums in accordance with the following stipulations:

- (i) by naming a common representative for participation in the extraordinary assembly of the Company and to cast a vote in this assembly, in a manner consistent with the points agreed upon;
- (ii) ensuring that their own representatives to the Board of Directors of the Company and to the Board of Directors of the Olivetti Companies participate in the board meeting and cast their vote during this meeting in a manner consistent with the points agreed upon.

(b) On the other hand, in the event that the Parties are not able to come to an agreement on the matters which form the subject of the aforementioned meeting, Edizione will be obligated to abstain from taking part in the meeting of the board and from casting its vote or having its vote cast and/or to abstain from expressing its wishes or taking a stand on the matters which form the subject of the aforementioned meeting, in any meeting or in any manner, notwithstanding the stipulations established in point (c) below.

(c) In the event that the situation discussed in point (b) above should occur, Edizione shall have the right to send Pirelli a “**Notice of Deadlock Situation**” by telegram or registered letters, in accordance with the terms of Section 14.02, within 15 (fifteen) days from the conclusion of the meeting discussed in section 9.03.

(d) In the event that the Deadlock Situation discussed in section 9.01 should persist, and if the situation discussed in point (b) should occur, and if Pirelli does not receive the Notice of Deadlock Situation in the term established in point (c) above, Pirelli shall have the right to send Edizione, by telegram or registered letter, and in accordance with the terms established in section 14.02, a Notice of Deadlock Situation to be received by Edizione within 15 (fifteen) days from the conclusion of the term established in point (c) above.

9.05 *Rights of the Parties.* (a) In the event that one of the Parties should send the other Party a Notice of Deadlock Situation in the terms established in points (c) and (d) of section 9.04:

- (i) Edizione shall have the right (which shall be considered to be exercised with the receipt by Pirelli of the Notice of Deadlock Situation, in the terms established in point (c) of section 9.04 above) to sell to Pirelli, which will have the corresponding obligation of purchasing, all, and not part, of the Company shares at a price determined in accordance with the stipulations established in point (b) below; and
- (ii) Pirelli shall have the right (which shall be considered to be exercised with the receipt by Edizione of the Notice of Deadlock Situation, in the terms established in point (d) of section 9.04 above) to purchase from Edizione, which will have the corresponding obligation of selling, all, and not part, of the Company shares at a price determined in accordance with the stipulations established in point (b) below.

(b) For the purposes of point (a) above, the Parties hereby agree that the object of the decision shall be (x) the price of the Company Shares, taking into account the economic value thereof (“**The Price of the Company**

**Shares**”) and (y) a value which is the expression of the pro-quota of the majority premium as if the Company Shares were the expression of Olivetti control (“**Premium**”). The Price of the Company Shares and the Premium shall be determined through common agreement between Pirelli and Edizione within 10 business days from the date on which one of the Parties has received notification from the other party, in accordance with the terms established in point (a), or, if there is no agreement, by two investment banks of international standing, one of which chosen by each of the Parties. In the event of any disagreement between the two investment banks appointed as stated hereinabove, and if they are unable to fix the price and establish the premium within a period of 30 business days from the date on which they are named, the two banks shall name a third investment bank [indicated at the time that the two banks are named] of similar international standing which shall have the task of determining, with a binding effect on the Parties within the framework of the figures determined by the two banks, both the Price and the Premium. In case of disagreement of the two investment banks about the designation of the aforementioned third bank, the Chief of the Court of Milan shall name the bank. The Chief of the Court of Milan shall also be authorized [in the order and in the terms indicated above] to name the investment bank which one of the Parties has failed to name or to replace it in the event that it no longer performs this function.

(c) The figures reached in accordance with point (b) above, and thus the Price of the Company shares and the Premium determined on this basis, shall be definitively binding for the Parties, in accordance with Articles 1349 and 1473 of the Civil Code, for the buying and selling transactions discussed in point (a) above.

(d) The sales transaction shall be made within 30 (thirty) business days from the receipt of the communication to the Parties of the evaluation discussed in point (b) above, and the price included therein shall be understood as payable in cash at the time of the transfer of the Company Shares discussed in section 9.06 below.

9.06 *Transfers*. In the event that the Company Shares are to be sold in accordance with section 9.05 (a), the following stipulations shall be applicable:

- (i) the Company shares shall be understood as transferred for regular use on the date established in point (iii) below;
- (ii) the rights of ownership of the Shares sold shall be understood as transferred to the buyer on the date established in point (iii) below;
- (iii) the transfer of the Shares and the payment of the price for them shall take place at the offices of the Company, at 11:00 a.m. on the 5th (fifth) business day subsequent to the date on which the sale was concluded, in accordance with section 9.04(d) above, respecting, when applicable, any authorizations on the part of the competent authorities having jurisdiction over the Parties in relation to the sale;
- (iv) when the transfer and the payment established by point (iii) above have been made, the Company shares shall be free of restrictions or liens or third party rights of any nature.
- (v) the expenses, fees, or indirect taxes relating to the sale of the Company Shares shall be paid by the buyer;
- (vi) the taxes relating to capital gains made by the seller shall be paid by the seller;
- (vii) at the same time as the transfer of the Shares and the payment of the respective price, the seller shall make sure that the board members (actual and alternate) named by the Seller shall retire from their position on the Boards of the Company and of Olivetti.

## ARTICLE X Collateral Purchases

10.01 *Obligations of the Parties*. (a) for the entire term of this Agreement the Parties, unto themselves and through the companies controlled by them or the companies that control them, in accordance with the terms of Article 2359, section one of the Civil Code, may not purchase shares or bonds in Olivetti and/or Warrants which give them the right to purchase shares or bonds which may be converted into Olivetti shares, issued by Olivetti or Olivetti companies.

(b) The Company may not purchase the shares and bonds and the financial instruments indicated in point (a) above in the amount exceeding the opa threshold of 30% (thirty percent), including the shares actually held either directly or indirectly.



ARTICLE XI  
**Penalty for breach of agreement**

In the event of the non-performance of one or more of the commitments assumed pursuant to the provisions set forth in this Agreement, the breaching Party, without prejudice to any other right of the other Party (including the right to compensation of the greater damage] shall be required to pay to the other Party as a penalty, at the latter's simple written request, an amount equal to 10% (ten per cent) of the principal amount invested by the non-breaching Party in the capital of the Company at that date, less any ordinary and/or special dividends that may have been received.

ARTICLE XII  
**Term**

12.01 *Effective date.* The effective date of this Agreement is subject to the execution of the Contract and shall commence as of the purchase of the Olivetti shares and Olivetti warrants as specified therein.

12.02 *Term.* (a) This Agreement shall run for three years as of its effective date and shall be deemed to be tacitly renewed on each expiration date unless notice of withdrawal has been given by one of the Parties, without prejudice to the provisions of paragraph 12.03 below.

(b) Other than in the cases specified by law, the Parties shall have the right to withdraw from this agreement on the expiration date:

- (i) as to Edizione, subject to a notice sent 6 (six) months in advance;
- (ii) as to Pirelli, subject to a notice sent 1 (one) month in advance.

12.03 *Non-renewal.* (a) In the event Pirelli gives Edizione by the deadline specified in point (ii) of paragraph 12.02 (b) above and in the form specified in paragraph 14.02, notice of withdrawal upon expiration of this Agreement, Edizione shall have the right to sell to Pirelli, which shall have the corresponding obligation to buy, all (but not part) of its shares of the Company, on terms and conditions determined, *mutatis mutandis*, in accordance with paragraph 9.05 (b) above, (and of the provisions set forth therein) giving notice to Pirelli within 30 (thirty) working days. In that event, however, the purchase shall be effected against payment of the price specified in art. 9.05 (plus an amount equal to 50% (fifty per cent) of the total of the Price of the Company Shares and the Premium.

[b] Payment of the penalty shall be made immediately upon the simple written request of Edizione, to be sent to Pirelli at the end of 30 (thirty) days following communication given to the Parties of the determination made in application of the procedure specified in paragraph 9.05 (b) above.

ARTICLE XIII  
**Key event**

a) Whenever, during the term of this Agreement, following one or several acts *inter vivos* carried out for any reason, for Edizione, Messrs. Luciano, Gilberto, Carlo and Giuliana Benetton, or their spouses or direct descendants, stop designating the majority of the board of directors of Edizione, and for Pirelli, Dr. Marco Tronchetti Provera stops, not by his own volition, assuring the strategic-operational management of the Pirelli Group, understood as Pirelli & C. Sapa and the companies directly and indirectly controlled, a “**Key Event**” takes place.

b) In the presence of the Key Event concerning one party, the other Party will have the right to transfer all (but not part) of its Company shares to the Party which incurred the Key Event, under terms and conditions determined *mutatis mutandis* pursuant to the previous paragraph 9.05 (b) (and the provisions mentioned therein) notifying such latter Party within 30 (thirty) Business Days from the day the other Party declared in writing that it became aware of the Key Event, or received written communication of such circumstance. However, in this case, the purchase and sale will take place against payment of the price referred to in article 9.05 (b) plus an amount equal to double the amount of the price of the Company Shares and Premium.

ARTICLE XIV  
**General Provisions**

14.01 *Modifications.* No modification of this Agreement shall be valid and binding until it is set forth in a written instrument signed by the Party against which the modification is invoked.



14.02 *Communications and Notices.* Any communication requested or permitted by the provisions of this Agreement shall be given in writing and shall be deemed to be effectively and validly given upon receipt of same, if made by mail or telegram, or upon acknowledgment of receipt by means of a specific declaration (including by fax), if made by fax, provided it is addressed as follows:

- (i) if to Edizione, at the following address:

Calmaggiore 23  
Treviso  
Attenzione di: dott. Gianni Mion  
Telefax n. 0422-411118

- (ii) if to Pirelli, at the following address:

Viale Sarca 222  
Milano  
Attenzione di: dott. Carlo Buora  
Telefax n. 02-64423454

or to another address that each of the Parties shall have the right to communicate to the other, subject to the procedures set forth in this paragraph 14.02, on the understanding that the Parties elect domicile for all purposes relative to this Agreement, including for any legal notices or notices involving the arbitration proceeding referred to in Article XV below, at the addresses indicated above or at any other addresses that may be communicated in the future.

14.03 *Tolerance.* Tolerance of any behavior in violation of the provisions contained in this Agreement does not constitute waiver of the rights arising from the breached provisions nor the right to demand precise compliance with all the terms and conditions specified herein.

14.04 *Headings.* The headings of the individual clauses have been provided only to facilitate reading and therefore are not to be taken into account for the purposes of interpreting this Agreement.

## ARTICLE XV

### **Disputes**

15.01 *Arbitration.* Any dispute arising from this Agreement or from any executor, amending or supplementing instruments, shall be submitted to the unappealable ruling of an Arbitration Panel consisting of three arbitrators, who shall decide without any procedural formality other than respect for the principle of cross-examination, but shall apply substantial Italian law. The arbitration shall be customary in nature in accordance with the provisions of the code of civil procedure and shall take place in Milan.

15.02 *Designation of the arbitrators.* (a) The Party requesting the arbitration shall indicate, at least in general outline, the demands constituting the object of the arbitration.

(b) The Party that initiates the arbitration procedure must at the same time and under pain of nullification, designate its own arbitrator. The Party called to arbitration shall have twenty (20) calendar days in which to designate its own arbitrator. The two arbitrators of the Parties shall jointly designate the third arbitrator who shall serve as chairman of the Arbitration Panel. Should the arbitrators designated as indicated above not come to an agreement on the designation of the third arbitrator within twenty (20) calendar days of the designation of the second arbitrator, said third arbitrator shall be designated by the Presiding Judge of the Court of Milan, who shall also be called upon if the Party called to arbitration fails to name its own arbitrator by the deadline indicated above.

15.03 *Competent jurisdiction.* Without prejudice to what is stipulated above, it is agreed that any legal proceeding related in any way to this Agreement shall be subject to the exclusive jurisdiction of the Courts of Milan.

Milan/Treviso August 7, 2001

Attachments

1.19: Bylaws of the Company

EDIZIONE HOLDING S.P.A.

PIRELLI S.P.A.

## ACT OF AMENDMENT TO THE SHAREHOLDERS' AGREEMENT

Between PIRELLI S.P.A, with headquarters in Milan, Viale Sarca 222, company capital 1,042,775,333.08 Euros, recorded with the Registry of Companies of Milan, Tax Code and VAT No. 0086890151, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, in possession of the necessary powers of attorney (hereinafter "Pirelli")

- Party of the first part -

and EDIZIONE HOLDING S.P.A., with headquarters in Treviso, Calmaggione 23, company capital L. 90,692,800,000, recorded with the Registry of Companies of Treviso under No. 13945, Tax Code and VAT No. 00778430264, in the person of the Chairman of the Board of Directors, Mr. Gilberto Benetton, in possession of the necessary powers of attorney (hereinafter "Edizione")

- Party of the second part -

Given that

- (a) Pirelli and Edizione signed, on August 7, 2001, a Shareholders' Agreement (the "Agreement") concerning, among other things, the discipline of the mutual relationships as shareholders of the joint company, hereinafter referred to as Olimpia S.p.A.;
- (b) Edizione Finance International S.A. has been subrogated in the rights and obligations of Edizione under the Agreement pursuant to Article III thereof and, as such, signs the present Act;
- (c) without prejudice to any other provision of the Agreement, and with reference to the Definitions contained in Article I thereof, the Parties (as defined therein) agree that it is appropriate to proceed with the amendment of Article XIII of the Agreement in question;

given these recitals,

effective as of the date of this Act of Amendment, the Parties agree that the Agreement must be deemed amended by adopting the language of Article XIII, as reported below, in substitution of that agreed upon on August 7, 2001.

### ARTICLE XIII

#### Key Event

- (a) A "**Key Event**" is deemed to have occurred, for the purposes of this Agreement, if, during the original term or extension thereof, as a result of one or more acts *inter vivos* under any status, there is a substantial change, as compared to the situation existing today, in the structure of the control of Edizione or Pirelli (including, for these purposes, Pirelli & C Sapa), understood as the exercise by subjects, other than the current ones, of the decisive power to appoint the majority of the members of the board of directors, with a consequent potential change in strategic addresses.
- (b) Once the Key Event has taken place regarding one Party, the other Party will have the right to transfer all (but not part of) its shares of the Company to the Party affected by the Key Event, under the terms and conditions determined, *mutatis mutandis*, pursuant to the previous paragraph 9.05(b) (and the provisions referred to therein), with notice to such latter Party within 30 (thirty) Business Days of the date the other Party has declared in writing that it has become aware of the Key Event, or received written communication of such circumstance. In such case, however, the purchase and sale will take place against payment of the price referred to in paragraph 9.05(b), plus an amount equal to double the Price of the Company Shares and Premium.

Milan/Treviso September 14 2001

**PIRELLI S.P.A.**

**EDIZIONE HOLDING S.P.A.**

**EDIZIONE FINANCE INTERNATIONAL S.A.**

## SECOND ACT OF AMENDMENT OF THE SHAREHOLDERS' AGREEMENT

Between PIRELLI S.P.A., with headquarters in Milan, viale Sarca 222, Euro capital of 1,043,203,199.48, recorded with the Registry of Companies of Milan, tax and VAT identification number 00886890151, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, holding the necessary powers of attorney pursuant to the decision of the Board of Directors of July 28, 2001 (hereinafter "Pirelli")

- party of the first part -

and EDIZIONE HOLDING S.p.A., with headquarters in Treviso, Calmaggione 23, Euro capital of 47,160,256, recorded with the Registry of Companies of Treviso under No. 13945, tax and VAT identification number 00778430264, in the person of the Chairman of the Board of Directors, Mr. Gilberto Benetton, holding the necessary powers of attorney (hereinafter "Edizione")

- party of the second part -

recitals

- (a) Pirelli and Edizione signed a Shareholders' Agreement (the "Agreement") on August 7, 2001 concerning, among other things, the discipline of the mutual relationships as shareholders of Olimpia S.p.A.;
- (b) Edizione Finance International S.A. has been subrogated in the rights and obligations of Edizione under the Agreement pursuant to Article III thereof and, as such, signs this Act ("Edizione Finance");
- (c) On September 14, 2001, Pirelli, Edizione and Edizione Finance decided to amend Article XIII of the Agreement, leaving the rest firm and unchanged by executing an act of amendment (the "Act of Amendment");
- (d) leaving all other provisions of the Agreement firm and unchanged, and with reference to the Definitions contained in Article I thereof, leaving the Act of Amendment firm and unchanged; by this act (the "Second Act of Amendment") the Parties intend to amend Article X of the Agreement, to make the clauses under letters (a) and (b) consistent with the actual will of the Parties;

with these recitals,

effective as of the date of this Second Act of Amendment, the Parties decide that Article X of the Agreement, as amended by the Act of Amendment, must be deemed amended by the adoption of the new language indicated below.

### ARTICLE X Collateral Acquisitions

10.01 *Commitment of the Parties.* For the entire term of this Agreement, be it original or renewed, the Parties, including through their respective subsidiaries and/or parent companies, pursuant to Art. 2359, paragraph one of the Civil Code,, may not acquire or own common shares, bonds convertible to Olivetti shares and/or warrants, which give the right to purchase shares or bonds convertible to Olivetti shares (the "Bonds") issued, or to be issued, by Olivetti or by the Olivetti Companies (nor acquire voting rights in Olivetti common shares under any status).

10.02 *Derogation.* In derogation to the provisions set forth in paragraph 10.01 above, each of the Parties, with communication sent to the other Party at the same time, may acquire Bonds, including for the purpose of derivative financial instruments existing on today's date or to be issued subsequently (the "Derivatives"). The Party acquiring the Bonds referred to in and governed by this paragraph will be obligated to send timely periodic written reports to the other Party, monthly, indicating the number, load prices and date of the operation concerning the Bonds.

10.03 *Possible conversion.* The Party owning or otherwise receiving the Bonds may exercise the respective conversion right, after communication is issued to the other Party at least 60 (sixty) days in advance, only to the extent that the amount of the Olivetti shares obtained from the conversion itself (possibly increased by the number of Olivetti shares owned as of the same date, arising from prior conversions of Bonds), does not exceed, after the conversion, the percentage of the capital of Olivetti corresponding to the difference between 28.74% and

the percentage of the holding of the Company in the voting capital in Olivetti at the time of the conversion, without prejudice for the right of the Company to convert the Bonds owned as of the execution date of this Agreement. Said limit may be exceeded with the approval of the other Party—which may not be unreasonably withheld—without prejudice to complying with the applicable floors in matters of OPA [take-over bid].

10.04 *Acquisition right.* (a) In the event referred to in paragraph 10.03 above, the other Party will have the right to acquire, and the Party which exercised the conversion right will have the obligation to sell, shares of the same nature and type as those arising from the exercise of the conversion of the Bonds, to the extent that said shares are divided between the Parties, respecting the original proportions of the Parties' holdings in the capital of the Company (80 (eighty)% Pirelli - 20 (twenty)% Edizione).

(b) The acquisition right must be exercised, under penalty of lapse, within thirty (30) days from the date on which the Party which exercised the conversion right reported it to the other Party, also indicating the price of the shares calculated by the methods indicated in items (c) or (d) below, as the case may be, enclosing the respective back-up documentation.

(c) The acquisition price will be equal to the average cost incurred (including accrual) for the acquisition of the Bonds converted, plus interest calculated annually at Euribor 12 months, at the value date of each disbursement, plus 150 base points, from the time of the acquisition of the Bonds to the time of the closing of the purchase and sale of the shares arising from the conversion, after deducting the capital amount, as of the date of each collection, of the certificates of the other Party's Bonds collected within the same period of time. The Parties will equally share the costs and charges of the purchase and sale operation.

(d) In the event of acquisition of Bonds for Derivatives purposes, the acquisition price of the shares arising from the conversion of such Bonds will be equal to the algebraic sum of the cash flows paid or collected under the terms of the Derivatives contracts, plus interest calculated annually at the rate indicated in the respective contracts or, in the absence thereof, at Euribor 12 months, at the value date of each disbursement or collection, plus 150 base points, from the time of the actual payment, or collection, of each cash flows until the time of the purchase and sale of the shares arising from conversion. The costs and charges of the purchase and sale operation will be equally shared by the Parties.

10.05 *Commitment of the Company.* Unless otherwise agreed upon in writing between the Parties, the Company may not acquire Olivetti common shares (or exercise conversion or acquisition or subscription rights in Olivetti common shares arising from the bonds and warrants outstanding or newly issued) so as to exceed the current OPA floor, currently established at 30% (thirty percent), taking into account for this purpose the effect of the own shares held directly and indirectly by Olivetti S.p.A., as set forth in the current laws and regulations, including the regulations issued by CONSOB.

Milan, February 13, 2002

**PIRELLI S.p.A.**

**EDIZIONE HOLDING S.p.A.**

**EDIZIONE FINANCE INTERNATIONAL S.A.**

Milan, September 14, 2001

INTESABCI S.p.A.  
Piazza Paolo Ferrari, 10  
20121 – MILAN

UNICREDITO ITALIANO S.P.A.  
Piazza Cordusio  
20121 – MILAN

Dear Sirs,

we have received your letter dated September 14, 2001, which we transcribe below in its entirety:

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Milan, September 14, 2001

PIRELLI S.p.A.  
Viale Sarca, 222  
20126 – MILAN

Dear Sirs,

Pursuant to our conversations, we propose the following:

***“INSTRUMENT BETWEEN PARTNERS***

Between Pirelli S.p.A., with headquarters in Milan, Viale Sarca 222, company capital 1,043,094,358.28 Euros, recorded with the Register of Companies of Milan, Tax Code and VAT No. 00886890151, in the person of the chairman of the Board of Directors, Dr. Marco Tronchetti Provera, in possession of the necessary powers of attorney following the decision by the Board of Directors of July 28, 2001 (hereinafter “Pirelli”)

– Party of the first part –

and

UniCredito Italiano S.p.A., with headquarters in Genoa, Via Dante 1, Central Management in Milan, Piazza Cordusio, company capital 2,523,215,059 Euros, recorded with the Register of Companies of Genoa, Tax Code and VAT No. 00348170101, in the person of the Deputy General Director, Dr. Pietro Modiano, in possession of the necessary powers of attorney following the decision by the Board of Directors of August 3, 2001 (hereinafter “UCI”)

and IntesaBCI S.p.A., with headquarters in Milan, Piazza Paolo Ferrari 10, company capital 3,488,995,258.84 Euros, recorded with the Register of Companies of Milan, Tax Code 00799960158, VAT No. 10810700152, in the person of Managing Director Lino Benassi, in possession of the necessary powers of attorney following the decision by the Board of Directors of September 14, 2001 (hereinafter “BCI”)

– Party of the second part –

Given that

- (a) on July 30, 2001, Pirelli and Edizione Holding S.p.A. (hereinafter “Edizione”) signed an offer for the acquisition, directly or through subsidiaries to be designated by the Execution Date, as indicated herein, by BELL S.A. of Olivetti Shares and Olivetti Warrants (as defined in paragraphs 1.05 and 1.27, respectively);
- (b) the offer of Pirelli and Edizione was accepted on the same date by BELL S.A. and therefore the Contract (as defined in paragraph 1.06) was drawn up. UCI and BCI (the “New Partners”) took note of the Contract;
- (c) in order to proceed with the acquisition of the Olivetti Shares and the Olivetti Warrants, Pirelli and Edizione Finance International S.A. (hereinafter “Edizione Finance” and together with Pirelli, the “Current Partners”) constituted, on August 3, 2001, the Company (as defined in paragraph 1.22), held 20% (twenty percent) by Edizione Finance, a company controlled by Edizione, and 80% (eighty percent) by Pirelli; the Company is governed by the bylaws enclosed herewith under A (the “Bylaws”);

- (d) on August 7, 2001, Pirelli and Edizione signed an Instrument for the regulation of their mutual relations as partners of the Company. The New Partners took note of the aforementioned agreement;
- (e) based on the agreements between the Current Partners, dated August 9, 2001, the Company received a transfer from Kallithea S.p.A. (a subsidiary of Pirelli) of 147,337,880 Olivetti common shares—equal to approximately 2% of Olivetti’s company capital—as well as from Pirelli Finance (Luxembourg) S.A. (a subsidiary of Pirelli) and from Edizione, for a total of 265,302,250 Olivetti common shares, equal to 3.64% of Olivetti’s company capital;
- (f) on August 29, 2001, the Current Partners formally designated the Company as a vehicle for the acquisition of the Olivetti Shares and the Olivetti Warrants;
- (g) on August 29, 2001, the shareholders’ meeting of the Company decided, among other things, on a capital increase (of 15,000 Euros—represented by 15,000 shares with a par value of 1 Euro each, assigned to Pirelli in the proportion of 80% (equal to 12,000 shares) and Edizione Finance in the proportion of 20% (equal to 3,000 shares) to 576,936,635 Euros, to take place including in several stages, and with split-up being permitted, by allocating 576,921,635 Euros in cash and the issue of 576,921,635 new common shares with a par value of 1 Euro each, reserved under option to shareholders in proportion to the number of shares owned, with an issue premium of 9.40 Euros per share;
- (h) the Current Partners have immediately underwritten and paid part of the capital increase and respective issue premium, for a total of 1,199,985,020 Euros;
- (i) following such underwriting and payment, 92,306,540 shares will be issued in favor of Pirelli for a par value of 92,306,540 Euros, and 23,076,635 shares in favor of Edizione Finance with a par value of 23,076,635 Euros;
- (j) Pirelli has offered to UCI and BCI that each purchase a minority interest in the Company; each of the New Partners wishes to purchase, individually, a holding of 10% of the company’s capital and therefore to purchase from Pirelli, respectively, 11,539,817 *shares* and 11,539,817 shares of the Company, including the option rights concerning the capital increase referred to in recital (g) so as to allow for the underwriting and payment, under the conditions decided upon by the Shareholders’ Meeting referred to in item (g) of the recitals, by each of the New Partners of 38,460,183 shares of the Company with an expenditure of 399,985,903.20 Euros;
- (k) Pirelli and the New Partners intend to agree on the principles of acquisition and underwriting of a capital portion of the Company, as well as the mutual relations as partners of said Company;
- (l) Pirelli commits to obtain from Edizione Finance an irrevocable waiver declaration in favor of UCI and BCI concerning all its rights and claims in connection with the acquisition, respectively, of the Olimpia UCI Holding and of the Olimpia BCI Holding (as defined below), as well as a declaration of awareness, with waiver of any reservation, concerning the commitments made by Pirelli versus the New Partners and the rights and powers of the latter, acknowledged under this Instrument, in particular with waiver by Edizione Finance, as of now, of the preferred rights on the transfers under the sale and acquisitions rights governed by this Agreement; this declaration will be given by Pirelli to both New Partners as of the Execution Date.

Given these recitals, which are an integral and essential part of the Agreement, it is set forth and agreed as follows:

## ARTICLE I Definitions

In addition to the terms defined in other clauses of the Instrument (as defined in paragraph 1.19), for the purposes thereof, the terms listed below have the meaning specified next to it for each of them:

- 1.01 “Olimpia Capital Increase”: the capital increase referred to in recital (g) above.
- 1.02 “Current Partners”: Edizione Finance and Pirelli, jointly.
- 1.03 “Olimpia BCI Shares”: the shares of Olimpia acquired by BCI pursuant to Article II, referred to in recital (j).
- 1.04 “Olimpia UCI Shares”: the shares of Olimpia acquired by UCI pursuant to Art. II, referred to in recital (j).
- 1.05 “Olivetti Shares”: 1,552,662,120 common shares of Olivetti S.p.A., subject of the Contract.
- 1.06 “Contract”: the offer dated July 30, 2001, from Pirelli and Edizione to BELL S.A., accepted on the same date, concerning the purchase and sale of the Olivetti Shares and the Olivetti Warrants.



- 1.07 “Execution Date”: the second Business Day (as defined in paragraph 1.11) prior to the Closing Date of the Contract.
- 1.08 “Signing Date”: date of signing of this Instrument.
- 1.09 “BCI Option Rights”: the Option Rights of Olimpia acquired by BCI pursuant to Art. II.
- 1.10 “UCI Option Rights”: the Option Rights of Olimpia acquired by UCI pursuant to Art. II.
- 1.11 “Business Day”: any calendar day except Saturdays, Sundays and days the banks are closed in the market of Milan for performance of their normal activity.
- 1.12 “IRR” (gross Internal Rate of Return): discount rate on an annual base and under compound capitalization, which makes the value of all incoming cash flows equal to the value of the outgoing cash flows related to the investment.
- 1.13 “New UCI Shares”: shares arising from the Olimpia capital increase underwritten by UCI pursuant to Article II below.
- 1.14 “New BCI Shares”: shares arising from the Olimpia capital increase underwritten by BCI pursuant to Article II below.
- 1.15 “Olivetti”: the company Olivetti S.p.A., with headquarters in Ivrea, Via Jervis No. 77.
- 1.16 “Olimpia UCI Holding”: Olimpia UCI Shares and New Olimpia UCI Shares.
- 1.17 “Olimpia BCI Holding”: Olimpia BCI Shares and New Olimpia BCI Shares.
- 1.18 “Party or Parties”: Pirelli, UCI and BCI, jointly or separately.
- 1.19 “Instrument”: the present Instrument, signed today between Pirelli, UCI and BCI.
- 1.20 “Seat”: the company Seat-Pagine Gialle S.p.A., with headquarters in Milan, Corso di Porta Vigentina No. 33/35.
- 1.21 “Olivetti Companies”: the companies Olivetti S.p.A., Telecom Italia S.p.A., Telecom Italia Mobile S.p.A. and Seat-Pagine Gialle S.p.A.
- 1.22 “Company” or “Olimpia”: the company Olimpia S.p.A., with headquarters in Milan, Via Sarca, 122 (formerly Olimpia S.r.l.), which the Current Partners constituted on August 3, 2001, for the acquisition of the Olivetti Shares and the Olivetti Warrants.
- 1.23 “Telecom Italia”: the company Telecom Italia S.p.A., with headquarters in Turin, Via Bertola No. 34.
- 1.24 “TIM”: the company Telecom Italia Mobile S.p.A., with headquarters in Turin, Via Bertola No. 34.
- 1.25 “Olimpia BCI Securities”: Olimpia BCI Shares and BCI Option Rights.
- 1.26 “Olimpia UCI Securities”: Olimpia UCI shares and UCI Option Rights.
- 1.27 “Olivetti Warrants”: 68,409,125 Olivetti 2001-2002 warrants, subject of the Contract.

## ARTICLE II

### **Transfer of Olimpia UCI Securities and Olimpia BCI Securities and Underwriting of the New UCI Shares and the New BCI Shares**

- 2.00 Without prejudice to the provisions of paragraph 10.1 below concerning the perfecting and complete and regular closing of the Contract as an essential condition of the agreements referred to in this Instrument, the commitments made by UCI and BCI referred to below are also subject to the condition that, on the Execution Date, the Current Partners, pursuant to the provisions of paragraph 2.03 below, (i) have underwritten and paid the shares arising from the Olimpia Capital Increase and (ii) have perfected and executed with the Company the “subordinated partner financing.”
- 2.01 Without prejudice to the provisions of paragraph 10.1 below, UCI and BCI pledge, not jointly, to purchase from Pirelli, as of the Execution Date, respectively, the UCI Olimpia Shares and the UCI Option Rights (hereinafter the “Olimpia UCI Securities”) as well as the Olimpia BCI Shares and the BCI Option Rights (hereinafter the “Olimpia BCI Securities”) under the following terms and conditions:
- 2.01.01 *Total Price of Olimpia UCI Securities and Olimpia BCI Securities.*
- (a) Olimpia UCI Securities will be sold by Pirelli and purchased by UCI at the total price agreed upon, including in an aleatory manner, of 120,014,096.8 Euros (the “Total UCI Price”).
- (b) The Olimpia BCI Securities will be sold by Pirelli and purchased by BCI at the total price agreed upon, including in an aleatory manner, of 120,014,096.8 Euros (the “Total BCI Price”).



2.01.02 *Payment Time and Terms.*

On the Execution Date, UCI and BCI will pay to Pirelli, respectively, the Total UCI Price and the Total BCI Price by separate fund credits, valued as of the Execution Date, to the checking account with Banca Nazionale del Lavoro, No. 28301 ABA 01005 CAB 01600 in the name of “Pirelli S.p.A.”

2.01.03 *Transfer of Olimpia UCI Securities and Olimpia BCI Securities.*

The Transfer of the Olimpia UCI Securities and Olimpia BCI Securities will take place, simultaneously on the Execution Date, at the same time with the payment of the Total UCI Price and the Total BCI Price, without need for any further expression of will between the parties, and will be valid between the parties as of that moment.

On the same date, at the same time, all acts necessary or appropriate will be carried out pursuant to applicable law—including tax law—in order to perform the transfer of the Olimpia UCI Securities and the Olimpia BCI Securities, making it valid for third parties as well, including the following actions:

- (a) Pirelli:
  - (i) will deliver to UCI and BCI the certificates representing, respectively, the Olimpia UCI Shares and the Olimpia BCI Shares, duly endorsed in favor of UCI and BCI, by appropriate methods, based on applicable laws in the matter, to transfer to UCI and BCI full title and full availability of the Shares and allow the registration of UCI and BCI in the book of partners of Olimpia, as well as the option warrants representing the BCI Option Rights and the UCI Option Rights;
  - (ii) will sign and exchange and/or cause signature and exchange of all other acts and documents (including tax stamps, whenever necessary) that may be required pursuant to the law;
  - (iii) will deliver to each of the New Partners an original of the declaration under the signature of Edizione Finance, as referred to in recital (I);
- (b) UCI and BCI, each to the extent applicable:
  - (i) will pay to Pirelli, respectively, the Total UCI Price and the Total BCI Price;
  - (ii) will sign and exchange all other acts and documents (including tax stamps, whenever necessary) that may be required pursuant to the law;

2.01.04 *Expenses and charges.*

All expenses, costs and charges, including those of a fiscal nature, related to the transfer of the Olimpia UCI Holding and of the Olimpia BCI Holding will be borne half by UCI and BCI, and the other half by Pirelli.

- 2.02 Without prejudice to the provisions set forth in paragraph 10.1 below, on the Execution Date, UCI and BCI pledge, non-jointly, to underwrite and pay the Capital Increase of Olimpia, respectively, (i) with a par value of 38,460,183 Euros, equal to 38,460,183 new Olimpia shares (the “New UCI Shares”) with a total disbursement of 399,985,903.2 Euros, and (ii) with a par value of 38,460,183 Euros, equal to 38,460,183 new Olimpia shares, with a total disbursement of 399,985,903.2 Euros (the “New BCI Shares”).
- 2.03 At the same time with the underwriting of the Capital Increase of Olimpia, (i) each of the New Partners, to the extent applicable, pledges to pay fully the New Olimpia BCI Shares and the New Olimpia UCI Shares, and (ii) Pirelli and Edizione Finance (whose performance is guaranteed by Pirelli pursuant to Art. 1381 of the Civil Code), to the extent applicable, will waive and refrain from underwriting and paying the residual portion of the Capital Increase, with a par value of 76,936,635 Euros, equal to 76,936,635 shares, so as to assure that, at the end of the execution of the Capital Increase, Pirelli will hold 60%, Edizione Finance 20%, and each of the New Partners 10% of the new capital of the Company. Pirelli and Edizione Finance will pay to the Company, in the form of “subordinated partners financing” under the same rate conditions as those established for the financing granted by the pool of banks, an amount equal to 800,141,004 Euros.
- 2.04 Pirelli will take steps so that, within 30 (thirty) Business Days of the Execution Date, the Bylaws are amended so as to set forth the qualified quorum of 91% of the capital for the validity of the decisions to amend or eliminate the list voting clause for the appointment of the directors, as well as to modify the number of the members of the Board of Directors.

ARTICLE III  
**Management of the Company**

3.01 *Composition of the Board of Directors.*

It is understood that, within the limits allowed by law and for the entire term of this Instrument:

- (i) the Board of Directors of the Company will be made up of 10 (ten) members;
- (ii) 1 (one) director out of 10 (ten) will be appointed at the request and indication of UCI;
- (iii) 1 (one) director out of 10 (ten) will be appointed at the request and indication of BCI;
- (iv) should an Executive Committee be created, UCI and BCI will have, respectively, the right to request at any time the inclusion of the directors designated by them in said committee.

The new Board of Directors, with the composition indicated above, must be appointed by the Execution Date of the Contract.

It is understood that the power of UCI and BCI to designate, each, a member of the Board of Directors of the Company will remain valid even after the first expiration of this Instrument, if it is extended pursuant to Art. 10.2 (a), provided UCI and BCI hold, jointly, a percentage of the company capital above 10%. However, if the joint holding of BCI and UCI in the company capital is 10% or less, then BCI and UCI may designate, jointly, only one director.

3.02 *Suspension from Office.*

Whenever, for any reason, including death, resignations or revocation by the shareholders' meeting, one of the directors appointed pursuant to the preceding provisions is suspended from office, within the limits allowed by law, the replacing director must be appointed by the Company's Shareholders' Meeting (and prior to this, by co-optation of the Board of Directors) in the person indicated by the New Partner which had previously designated the suspended director.

ARTICLE IV  
**Management of the Olivetti Company**

4.01 *Composition of the Board of Directors of the Olivetti Company.*

It is understood that, within the limits allowed by law and for the entire term of this Instrument, in the Board of Directors of Olivetti, Telecom, Seat and TIM (the "**Olivetti Companies**"), one director must be appointed at the request and designation of UCI and another director at the request and designation of BCI.

The new Board of Directors of the Olivetti Companies, with the composition established above, will be appointed as soon as possible, and in any case within 120 (one hundred twenty) days of the Execution Date of the Contract. It is understood that the power of UCI and BCI to designate, each, a member of the Board of Directors of Olivetti Companies will remain valid even after the first expiration of this Instrument, if it is extended pursuant to Art. 10.2 (a), provided UCI and BCI hold, jointly, a percentage of the company capital above 10%. However, if the joint holding of BCI and UCI in the company capital is 10% or less, then BCI and UCI may designate, jointly, only one director.

4.02 *Suspension from Office.*

Whenever, for any reason, including death, resignations or revocation by the shareholders' meeting, one of the directors appointed pursuant to the preceding provisions is suspended from office, within the limits allowed by law, the replacing director must be appointed by the Company's Shareholders' Meeting (and prior to this, by co-optation of the Board of Directors) in the person indicated by the New Partner which had previously designated the suspended director.

ARTICLE V  
**Board of Auditors of the Company**

Upon the first renewal, the Parties will consider introducing a principal auditor of the Company, designated jointly by the New Partners.

## ARTICLE VI

### Key Issues

Pursuant to Art. VII below, the following will be deemed Key Issues:

- a) the decisions of the Extraordinary Shareholders' Meeting and those of the Board of Directors of the Company, the latter referring to the following:
  - indication as to how to vote in Olivetti's Ordinary Shareholders' Meeting on Key Issues, for the purposes of the application of Articles 104 or 107 T.U. No. 58 of February 24, 1998, and in matters of acquisition of own shares, as well as voting in Olivetti's Extraordinary Shareholders' Meeting;
  - acquisition, sale and acts of disposal under any status (i) of own shares in any amount and (ii) holdings (including shares and financial instruments of any type issued by Olivetti and/or the Olivetti Companies) at a value, by individual operation, above 100,000,000 Euros;
  - determination of the ratio between equity and debt of the Company and methods, terms and conditions for resorting to outside financing sources;
  - draft proposals to be submitted to the Company's Extraordinary Shareholders' Meeting;
- b) resolutions of the Board of Directors of Olivetti and Telecom, referring to:
  - individual investments above 300 million Euros;
  - acquisition, sale and acts of disposal under any status (i) of own shares in any amount and (ii) affiliate and subsidiary holdings (including shares and other financial instruments issued by the Company or the Olivetti Companies) at a value, by individual operation, above 300 million Euros;
  - acts of disposal under any status of companies or branches thereof, with an individual value above 300 million Euros;
  - proposals to call the Extraordinary Shareholders' Meeting for resolutions in matters of modification of the corporate purpose, capital operations of any nature, merger, spin-off, transformation and dissolution;
  - operations between Olivetti, Telecom and Pirelli Group, with an individual value above 50 million Euros;
  - operations with related parties.

## ARTICLE VII

### Provisions on Deadlock

#### 7.01 *Obligation to Consult.*

Pirelli and the New Partners, the latter jointly between them, pledge to consult each other previously whenever a decision on one of the Key Issues must be discussed or decided upon.

#### 7.02 *Identification of Deadlock Situations.*

For the purposes of this Article VII, "**Deadlock**" is defined as a situation of disagreement, expressed in the previous consultation between Pirelli, on the one hand, and one or both of the New Partners, on the other hand, on a Key Issue that must be discussed by one of the corporate management bodies referred to in item (a) or (b) of Article VI above.

#### 7.03 *Procedure.*

- (a) For compliance with the obligation referred to in paragraph 7.02 above, Pirelli and the New Partners, jointly, pledge to meet or to consult each other previously by telephone conference or video conference by the Business Day preceding the day scheduled for the meeting of the Board or of the shareholders of the Company, or of the Board of Olivetti or Telecom, or, immediately, as soon as the news arrive, in the event of urgent call (or extraordinary urgency, if applicable) of the meeting of the board of the Company or of Olivetti or Telecom, pursuant to the applicable bylaws provisions.
- (b) In the consultation referred to in this paragraph, Pirelli and the New Partners will take all reasonable steps to reach an agreement and/or identify common grounds for the issues submitted for their examination, pledging, for this purpose, to act in good faith.

- (c) The unjustified absence of a single New Partner or both the New Partners in the previous consultation stage implies acceptance of the decisions made by the other subjects and imposes on the absent subject the obligation of accepting and respecting such decisions.

#### *7.04 Manifestation of Will.*

- (a) Whenever, in the previous consultation referred to in paragraphs 7.02 and 7.03 above, Pirelli and the New Partners reach an agreement concerning the issues under consultation, they are obligated to manifest their will in the competent venues pursuant to the provisions below:
  - (i) by giving a common representative delegation to participate in the Company's Extraordinary Shareholders' Meeting and casting the vote in said meeting, in accordance with the decision reached;
  - (ii) causing their own representatives in the Board of Directors of the Company and of Olivetti or Telecom to participate in the meeting of the board, casting the vote in this venue in accordance with the joint decisions reached in the previous consultation.
- (b) However, in the absence of agreement of the issues under consultation, the New Partners, if both are dissenting will be jointly obligated, or the single dissenting New Partner will be obligated, to abstain or cause abstention from participating in the shareholders or board meeting and to vote in this venue or cause voting and/or abstain from manifesting its will, in any venue and mode, or from taking a position in the issue under the previous consultation, without prejudice to the provisions of item (c) below.
- (c) Whenever the situation described in item (b) above occurs, the dissenting New Partners, separately or jointly, will have, or the single dissenting New Partner will have, the right to send to Pirelli, by telegram or registered letter, pursuant to paragraph 12.02, a "**Notice of Deadlock**" within 15 (fifteen) days of the end of the consultation referred to in paragraph 7.03.

#### *7.05 Rights of the New Partners.*

- (a) Whenever UCI and/or BCI send a Notice of Deadlock pursuant to item (c), paragraph 7.04, the New Partner which sent the Notice of Deadlock will have the right (which is deemed exercised by Pirelli's receipt of the Notice of Deadlock, pursuant to item (c), paragraph 7.04 above) to sell to Pirelli, which will have the corresponding obligation to buy from the respective New Partner, respectively, all but not part of the Olimpia UCI Holding and/or all but not part of the Olimpia BCI Holding at a price determined pursuant to the provisions in item (b) below.
- (b) For the purposes of item (a) above, the Parties agree, including in an aleatory manner, that the object of the decision must be: (x) the price of the Olimpia BCI Holding and/or Olimpia UCI Holding, corresponding proportionately to the value of the Company's economic capital ("Price of the Olimpia UCI Holding" and/or "Price of the Olimpia BCI Holding"), as well as (y) an increase expressing the proportion of the increase premium, as if the Olimpia BCI Holding and/or Olimpia UCI Holding were the expression of Olivetti's control, assuming that the latter controls Telecom and the companies controlled by the latter ("Premium"). The "Price of the Olimpia UCI Holding" and/or "Price of the Olimpia BCI Holding" and the Premium to be proportionately allocated to both the Holdings will be determined by mutual consent between Pirelli and each of the New Partners within 10 (ten) Business Days of the date Pirelli received from one of the New Partners the notice pursuant to item (a) above or, in the absence of such agreement, from two "investment banks" with international standing, chosen one by Pirelli (paying the respective costs) and one by the New Partner that sent the Notice of Deadlock (paying the respective costs), with the understanding that if an agreement on the valuation is not reached within 30 (thirty) Business Days of their appointment, it will be made by a third and additional "investment bank" (the costs of which will be paid half by Pirelli and the other half by the Seller(s)/ New Partner(s) of a similar standing, chosen by agreement of those already appointed at the time the task is assigned by Pirelli and by the New Partner that sent the Notice of Deadlock or, in the absence of agreement, by the Chief Justice of the Court of Milan. The Chief Justice of the Court of Milan (in the order and in the terms indicated above) will also be asked to appoint the "investment banks" that Pirelli or the New Partner that sent the Notice of Deadlock failed to appoint or replace in the event of subsequent termination of the task. Whenever both New Partners sent the Notice of Deadlock, the New Partners will be obligated to appoint a single "investment bank" by mutual consent.
- (c) The valuations referred to in item (b) above and therefore the Price of the Olimpia BCI Holding and/or the Price of the Olimpia UCI Holding and the Premium determined on that basis will be definitively binding for the Parties, pursuant to Articles 1349 and 1473 of the Civil Code for the purchase and sale referred to in item (a) above.

- (d) It is furthermore agreed, including in an aleatory manner, that the price owed by Pirelli will not be lower than the amounts paid by the New Partner for the acquisition and underwriting of shares in the Company, less any dividends received (“**Floor**”), nor higher than an amount which implies, in connection to the same amounts, less any dividends received, an annual IRR, including taxes, equal to 15% (“**Cap**”).
- (e) The purchase and sale will be closed within 30 (thirty) Business Days of the Parties’ receipt of the communication concerning the valuation referred to in item (b) above, and the price referred to in items (b) and (d) above must be paid in cash, at the same time with the transfer of the Olimpia BCI Holding and/or the Olimpia UCI Holding referred to in paragraph 7.06.

*7.06 Transfer.*

If the Olimpia BCI Holding and/or the Olimpia UCI Holding should be purchased and sold pursuant to paragraph 7.05 (a), the following provisions will apply:

- (i) the Olimpia BCI Holding and/or the Olimpia UCI Holding will be deemed transferred with regular enjoyment as of the date referred to in item (iii) below;
- (ii) the ownership right in the Olimpia BCI Holding and/or the Olimpia UCI Holding purchased and sold will be deemed transferred to the buyer as of the date referred to in item (iii) below;
- (iii) the transfer of the Olimpia BCI Holding and/or the Olimpia UCI Holding and the payment of the respective price will take place at the headquarters of the Company, at 11:00 a.m. on the 5<sup>th</sup> (fifth) Business Day after the date the purchase and sale is deemed closed pursuant to paragraph 7.05 (e), in compliance, whenever applicable, with the possible authorizations from the competent authorities with jurisdiction over the Parties in connection with the purchase and sale;
- (iv) in the act of transfer and payment referred to in item (iii) above, the Olimpia BCI Holding and/or the Olimpia UCI Holding will be free of prejudicial pledges, liens, encumbrances or rights of third parties of any nature; including in light of the absence of any managerial role of the New Partners and in an aleatory manner, the purchase and sale will take place without any further and different guarantee and responsibility of UCI and/or BCI, including the value, situation and activities *of the* Companies and their affiliates;
- (v) the expenses, charges and indirect taxes levied on the purchase and sale of the Olimpia BCI Holding and/or the Olimpia UCI Holding will be paid by the buyer;
- (vi) however, the taxes on any capital gains obtained by the seller will be paid by the latter;
- (vii) at the time of the transfer of the Olimpia BCI Holding and/or the Olimpia UCI Holding and the payment of the respective price, the seller will deliver to the buyer the resignations of the directors and, whenever possible, of the auditors of the Company and of the Olivetti Companies designated by it.

ARTICLE VIII  
**Collateral Acquisitions**

*8.01 Commitment of the Parties.*

- (a) UCI and BCI declare that, as of September 13, 2001, including through their respective subsidiaries, pursuant to Art. 2359, first paragraph, c.c., they own Olivetti shares (including Olivetti’s voting rights held under any status), in an amount not exceeding, respectively, 6,616,827 Olivetti shares in ownership and 46,694,466 Olivetti shares in pledge with voting right, concerning UCI, and 15,129,380 Olivetti shares in ownership and 13,865,712 Olivetti shares in pledge with voting right, concerning BCI.
- (b) For the entire term of this Instrument, the parties, including through their respective subsidiaries and/or parent companies, pursuant to Art. 2359, first paragraph, c.c., may not acquire Olivetti shares, bonds convertible to Olivetti shares and/or Warrants giving right to acquire shares or bonds convertible to Olivetti shares, issued by Olivetti or by the Olivetti Companies (including Olivetti’s voting rights held under any status). It is, however, permitted to UCI and BCI to acquire and hold such securities within said limit, for each of them, of 0.40% of Olivetti’s capital, as of the Execution Date.
- (c) Unless otherwise agreed upon in writing between the Parties, the Company may not purchase shares and bonds and instruments indicated in item (a) above in excess of the threshold set forth therein, currently established at 30% (thirty percent), while also taking into account the incidence for this purpose of the securities referred to in item (b) above, held by BCI and UCI, as well as own shares held directly and indirectly, as set forth in the current laws and regulations, including the instructions issued by CONSOB.



ARTICLE IX  
**Penalty for Breach**

In the event of breach of one or several commitments made pursuant to the provisions of this Instrument, the breaching Party, at the simple written request of the Parties or of the other Party, and without prejudice to any other of its/their rights (including the right to higher damages), will be obligated to pay, as penalty, to the complying party or complying Parties, which will take care of distribution internally, a single and total amount equal, for each breach, to 5% (five percent) of the amounts paid by the breaching Party for the acquisitions and subscriptions of shares made in the Company as of that date.

ARTICLE X  
**Term**

10.01 *Effective Date.*

The efficacy and validity of this Instrument are subject to complete and regular execution of the Contract and therefore, secondary to obtaining the necessary authorizations, including in compliance with antitrust regulations, for the acquisition by the Company of the entire holding in Olivetti represented by the Olivetti Shares and Olivetti Warrants as set forth therein. It is, however, understood that in the event of failure to execute the Contract completely and regularly by January 31, 2002, this Instrument will be deemed cancelled ipso jure, effective ex tunc and, at the simple request of UCI and/or BCI, Pirelli will be obligated (i) to acquire the entire Olimpia BCI Holding and the entire Olimpia UCI Holding at a price exactly identical to that possibly already paid by UCI and BCI for the acquisition of the Olimpia UCI Shares, Olimpia BCI shares, the new UCI Shares and the New BCI Shares, as well as (ii) to release UCI and BCI from any commitment possibly already made to the Company.

10.02 *Term.*

- (a) This Instrument will have a term of three years from the Execution Date of the Contract and will be deemed tacitly renewed from time to time on expiration for the following two years, in the absence of an opt-out notice from one of the Parties, without prejudice to the provisions of paragraph 10.03 below.
- (b) Except in the cases required by law, each of the Parties may opt out of this Instrument before every expiration, with notice sent 6 (six) months in advance.

10.03 *Absence of Renewal.*

- (a) If, before the first expiration of this Instrument or successive ones, Pirelli should send to the New Partners, jointly or separately, in the terms set forth in paragraph 12.02, the opt-out notice referred to in item (ii), paragraph 10.02 (b) above, UCI and BCI will individually have the right to send to Pirelli which, upon simple request, will have the corresponding obligation to acquire, respectively, all but not part of the Olimpia UCI Holding and Olimpia BCI Holding held by the New Partner which exercised the option right set forth herein, under terms and conditions determined, mutatis mutandis, pursuant to paragraph 7.05 (b) above (and the provisions mentioned therein), giving notice to Pirelli within 30 (thirty) Business Days.

In all events, it is agreed, including in an aleatory manner, that the price owed by Pirelli will not be lower than the amounts paid by the New Partner for the acquisitions and subscriptions of shares in the Company, less any dividends received ("**Floor**"), nor higher than an amount which implies, in connection to the same amounts, less any dividends received, an annual IRR, including *taxes*, equal to 15% ("**Cap**"). The aforementioned price will be paid in cash.

- (b) If, on the first expiration date of this Instrument, both or one of the New Partners should, jointly or separately, send to Pirelli, in the terms set forth in paragraph 12.02, the opt-out notice referred to in item (i), paragraph 10.02 (b) above, Pirelli will have the right to acquire from both New Partners opting out, or from the single New Partner opting out, which, upon simple request, will have the corresponding obligation to sell, respectively, all but not part of the Olimpia UCI Holding and Olimpia BCI Holding held by the New Partner which exercised the opt out right set forth herein, under terms and conditions determined, mutatis mutandis, pursuant to paragraph 7.05 (b) above (and the provisions mentioned therein), less the Premium, giving notice to the New Partner which sent the opt-out notice, within 30 (thirty) Business Days.

- (c) If both or one of the New Partners should send to Pirelli, in the terms set forth in paragraph 12.02, on the expiration of the first renewal in the following two years, the opt-out notice referred to in paragraph 10.02 (a) above, and therefore, on the expiration of the fifth year after the effective Date of this Instrument, or on the successive additional expiration dates, both New Partners opting out, jointly or separately, or the single New Partner opting out, will have the right to sell to Pirelli, which, upon simple request, will have the corresponding obligation to acquire, respectively, all but not part of the Olimpia UCI Holding and/or all but not part of the Olimpia BCI Holding held by the New Partner which exercised the opt out right set forth herein, under terms and conditions determined, mutatis mutandis, pursuant to paragraph 7.05 (b) above (and the provisions mentioned therein), giving notice to the New Partner that sent the opt-out notice, within 30 (thirty) Business Days. In all events, it is agreed, including in an aleatory manner, that the price owed by Pirelli will not be lower than the amounts paid by the New Partner for the acquisitions and subscriptions of shares in the Company, less any dividends received (“**Floor**”), nor higher than an amount which implies, in connection to the same amounts, less any dividends received, an annual IRR, including taxes, equal to 15% (“**Cap**”).
- (d) The payment of the amount referred to in item (a), (b) or (c) above must be made (i) immediately, at the simple written request of UCI and/or BCI to be sent to Pirelli at the end of the term of 30 (thirty) days from the communication sent to the Parties as to the decision made by the procedure referred to in paragraph 7.05 (b) above, and (ii) at the same time with the transfer of the Olimpia UCI Holding and/or the Olimpia BCI Holding.

## ARTICLE XI Changes in Stockholding

11.1 For the purposes of this paragraph, “Change of Control” means a substantial modification in the direct and indirect stockholding control of Pirelli, which means the stoppage of the control of Pirelli & C s.a.p.a. over Pirelli S.p.A., as exercised today.

If the Change of control occurs, each of the New Partners will have the right to transfer, respectively, all but not part of the Olimpia UCI Holding and/or all but not part of the Olimpia BCI Holding owned by Pirelli which, upon simple request, will have the obligation to acquire, under terms and conditions determined, mutatis mutandis, pursuant to paragraph 7.05 (b) above (and the provisions mentioned therein), giving notice to Pirelli within 30 (thirty) Business Days of the date the New Partners, separately or jointly, declared in writing that they have learned about the Change of Control, or received written communication about this circumstance. It is, however, agreed, including in an aleatory manner, that the price owed by Pirelli will not be lower than the amounts paid by the New Partner for the acquisitions and subscriptions of shares in the Company, less any dividends received (“**Floor**”), nor higher than an amount which implies, in connection to the same amounts, less any dividends received, an annual IRR, including taxes, equal to 15% (“**Cap**”).

11.2 If Pirelli intends to divest, in any form, part of its holding in the Company, so that Pirelli would hold less than a majority of the capital thereof, Pirelli may not sign any agreement in this sense, being first obligated to give prior timely notice to both the New Partners about the planned transfer, fully indicating the terms and conditions of the transfer operation and any possible outside agreements (of blockage and vote) with the buyers.

Within 30 (thirty) Business Days of receipt of the aforementioned communication, UCI and/or BCI will, individually, have the right to sell to Pirelli, which, upon simple request, will have the corresponding obligation to acquire, respectively, all but not part of the Olimpia UCI Holding and/or all but not part of the Olimpia BCI Holding held by the New Partner that exercised the Option Right set forth herein, under terms and conditions determined, mutatis mutandis, pursuant to paragraph 7.05 (b) above, with the understanding, including in an aleatory manner, that the price owed by Pirelli will not be lower than the amounts paid by the New Partner for the acquisitions and subscriptions of shares in the Company, less any dividends received (“**Floor**”).

## ARTICLE XII General Provisions

12.01 *Amendments.*

Any amendment to this Instrument will be valid and binding only if it arises from a written document signed by each of the Parties concerned.



#### 12.02 *Communications and Notices.*

Any communication required or allowed by the provisions of this Instrument must be made in writing, and will be deemed efficiently and validly made upon its receipt, if sent by letter or telegram, or at the time of the acknowledgement of receipt by the appropriate declaration (including by fax), if by fax, provided it is addressed as follows:

- (i) if to UCI, to the following address:  
Via San Protaso No. 3  
20121 MILAN  
Attn.: Dr. Pietro Modiano  
Fax No. 02-88622196
- (ii) if to BCI, to the following address:  
Piazza Paolo Ferrari No. 11  
20121 MILAN  
Attn.: Managing Director Lino Benassi  
Fax No. 02-88503086
- (iii) if to Pirelli, to the following address:  
Viale Sarca No. 222  
20126 MILAN  
Attn.: Dr. Carlo Buora  
Fax No. 02-64423454

or to a different address, which each Party has the right to communicate to the other, by the methods set forth in this paragraph 12.02; it is understood that the aforementioned addresses or different addresses that may be communicated in the future, are also elected by the Parties as their own domicile for all aspects related to this Instrument, including possible legal notices or notices related to the arbitration proceeding referred to in Article XIII below.

#### 12.03 *Tolerance.*

Any possible tolerance of acts committed in violation of the provisions hereof does not constitute a waiver of the rights arising from the provisions violated, nor of the right to require exact performance of all terms and conditions hereof.

#### 12.04 *Headings.*

The headings of the individual articles are included for the sole purpose of facilitating their reading and therefore must not be taken into consideration in any way for the interpretation of this Instrument.

#### 12.05 *Allocation of Option Rights.*

The Parties mutually acknowledge and agree that the compensation for the mutual rights to buy and sell governed by this Instrument was considered in the framework of the transfer values and prices of the respective holdings, so that, for the allocation of said rights, no further and other compensation is planned or intended.

#### 12.06 *Exercise of Rights and Performance of Obligations.*

It is understood that (i) all rights allocated under this Instrument to UCI and BCI must be deemed enforceable also individually, whenever not otherwise specified in this Instrument, and the failure to exercise its right by one of the New Partners may not be interpreted as a waiver thereof; (ii) in the event of failure to exercise or waiver by one of the New Partners of the right to designate a director, this right may be exercised in its stead by the other New Partner, in addition to its own right; (iii) all obligations undertaken by the New Partners in this Instrument are individual and not joint.

ARTICLE XIII

**Disputes**

13.01 *Arbitration.*

Any dispute arising from this Instrument, or from possible execution, amendment or expending agreements, will be submitted to the unappealable judgment of an Arbitration Board made up of five arbitrators, who will decide without procedural formalities, in compliance with the principle of hearing both parties, but will apply Italian substantive law. The arbitration will be formal pursuant to the provisions of the Code of Civil procedure and will be conducted in Milan.

13.02 *Appointment of the Arbitrators.*

- (a) The Party which requests the beginning of the arbitration proceeding must indicate its claims, at least in general lines.
- (b) The Party which begins the arbitration proceeding must designate its own arbitrator at the same time, under penalty of invalidity. Each of the Parties called to arbitration must designate its own arbitrator within twenty (20) calendar days. The three arbitrators of the parties will designate the fourth and fifth arbitrator by mutual consent, indicating the arbitrator who will fill the position of President of the Arbitration Board. Whenever the arbitrators appointed as indicated above cannot reach an agreement on the appointment of the fourth and/or fifth arbitrator within twenty (20) calendar days of the appointment of the second arbitrator, he (they) will be appointed by the Chief Justice of the Court of Milan, who will take the position if the Party(s) called to arbitration fails (fail) to appoint its (their) own arbitrator within the aforementioned term.

If the dispute concerns only two parties, the Parties calling the arbitration proceeding must designate its own arbitrator at the same time, under penalty of invalidity. The Party called to arbitration must designate its own arbitrator within twenty (20) calendar days. The arbitrators so appointed will designate the third arbitrator by mutual consent, to fill the position of President of the Arbitration Board.

Whenever one of the parties fails to appoint its own arbitrator in a timely fashion, or whenever the two arbitrators appointed fail to designate the third arbitrator within twenty (20) calendar days of the appointment of the second arbitrator, he will be appointed by the Chief Justice of the Court of Milan.

Whenever the dispute involves more than two parties, the Board will be made up of three arbitrators appointed by the same methods indicated in the preceding section, in the event that the parties spontaneously regroup into two opposed centers of interest.

13.02 *Court of Jurisdiction.*

Without prejudice to the above, it is agreed that any lawsuit related to this Instrument will be under the exclusive jurisdiction of the Court of Milan.”

\*\*\*

If you agree with all of the above, please send us a letter reproducing the content hereof, signed by you in token of confirmation and agreement.

Best regards.

signed UniCredito Italiano S.p.A.

signed IntesaBCI S.p.A.

\*\*\*

We confirm that we agree to the above.  
Best regards.

PIRELLI S.P.A.

Milan, September 26, 2001

To:  
INTESABCI S.p.A.  
Piazza Paolo Ferrari, 10  
20121- MILAN

To:  
UNICREDITO ITALIANO S.p.A.  
Piazza Cordusio  
20121 - MILAN

Gentlemen:

We have received your letter dated September 26, 2001, which we transcribe in its entirety below:

\* \* \*

Milan, September 26, 2001

PIRELLI S.p.A. Viale Sarca, 222 20126 - MILAN

Dear Sirs:

Pursuant to our discussions, we propose the following:

***INSTRUMENT OF AMENDMENT OF THE SHAREHOLDERS' AGREEMENT***

Between Pirelli S.p.A., with registered office in Milan, Viale Sarca 222, capital € 1,043,094,358.28, recorded with the Registry of Companies of Milan, Taxpayer Code and VAT ID No. 00886890151, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, holding the necessary powers of attorney pursuant to the decision of the Board of Directors of July 28, 2001, (hereinafter "Pirelli")

- party of the first part

UniCredito Italiano S.p.A., with registered office in Genoa, Via Dante 1, Central Address in Milan, Piazza Cordusio, capital € 2,523,215,059, recorded in the Registry of Companies of Genoa, Taxpayer Code and VAT ID No. 00348170101, in the person of the General Deputy Director Dr. Peter Modiano, holding of the necessary powers of attorney following the decision of the Board of Directors of August 3, 2001 (hereinafter "UCI")

and IntesaBCI S.p.A., with registered office in Milan, Piazza Paolo Ferrari 10, capital € 3,488,995,258.84, recorded with the Registry of Companies of Milan, Taxpayer Code 00799960158, VAT ID No. 10810700152, in the person of Managing Director Lino Benassi, holding the necessary powers of attorney following the decision of the Board of Directors of September 14, 2001 (hereinafter "BCI")

- party of the second part

whereas

- (a) Pirelli, UCI and BCI signed on September 14, 2001, a Shareholders' Agreement (the "Agreement") for the acquisition by UCI and BCI individually of a holding equal to 10% each of the capital of Olimpia S.p.A. held from Pirelli, as well as the acquisition of the option rights related to the Capital Increase of Olimpia (as defined in the Agreement), to allow for the subscription and payment, individually by UCI and BCI, under the conditions decided upon by the shareholders' meeting of August 29, 2001, of 38,460,183 shares;
- (b) by signing the Agreement, Pirelli, UCI and BCI also agreed to establish the discipline of their mutual relationships as shareholders of Olimpia S.p.A.;
- (c) In consideration of the new agreements reached on September 19, 2001 between Pirelli, Edizione and Bell S.A. concerning the acquisition of the Olivetti Shares and Olivetti Warrants (as defined in the Agreement), while leaving unchanged all other provisions of the Shareholders' Agreement (as defined in the Agreement), agree on the appropriateness of amending recital j, as well as Article II and paragraph 10.01 of said Agreement;

- (d) except to the extent otherwise established below, in this amendment act (hereinafter “Amendment Acts”), taking the same definitions contained in the Agreement and with the same meaning set forth therein;

with these recitals,

effective as of the date of this Amendment Act, the Parties agree that the Shareholders’ Agreement must be deemed amended by the adoption of the new text of recital j, as well as Article II and paragraph 10.01, as reproduced below, to replace the provisions agreed upon on September 14, 2001.

(j) Pirelli offered to UCI and BCI to purchase each a minority interest in the Company; it is **the will** of each of the New Partners to purchase individually a holding of 10% of the company’s capital and, in particular, to purchase from Pirelli, respectively, 140,000,000 shares and 140,000,000 shares of the Company, including the option rights concerning the New Olimpia Capital Increase (as defined below);

## ARTICLE II

### **Transfer of Olimpia UCI Securities and Olimpia BCI Securities and subscription of the New UCI shares and the New BCI Shares.**

- 2.0 Except as set forth in the provisions of paragraph 10.01 below concerning the perfecting and complete and regular closing of the contract as an essential condition of the agreements referred to in this instrument, the commitments made by UCI and BCI referred to below are also subject to the condition that, on September 28, 2001 or, should Pirelli so require, on October 1, 2001 (a) The Current Partners have subscribed a total of 222,019,235 shares arising from a tranche of the Olimpia Capital Increase and paid the shares to which they are entitled in a total amount of € 2,309,000,044 and (b) the Shareholders’ Meeting of Olimpia has (i) revoked the Olimpia Capital Increase, in the non-performed part, (ii) have decided to increase the capital free of charge using reserves up to € 1,400,000,000; and (iii) have decided on a new capital increase by a total disbursement of € 1,690,999,960, to be carried out by issuing 162,596,150 new common shares reserved under option to the shareholders, in proportion to the number of shares owned, at the price of € 10.40 per share, of which € 9.40 as issue premium (the “New Olimpia Capital Increase”).
- 2.01 Except as set forth in paragraph 10.01 below, UCI and BCI pledge, not jointly, to purchase from Pirelli, on September 28, 2001 or, should Pirelli so require, on October 1, 2001, 140,000,000 Olimpia Shares (“Olimpia UCI Shares”) with their option rights, so as to allow for the subscription and payment of a quota equal to 10% of the capital arising from the New Olimpia Capital Increase (“UCI Option Rights”) (hereinafter the “UCI Olimpia Shares and the UCI Option Rights, jointly the “UCI Olimpia Securities”), as well as 140,000,000 Olimpia Shares (“Olimpia BCI Shares”) with their option rights, so as to allow for the subscription and payment of a quota equal to 10% of the capital arising from the New Olimpia Capital Increase (hereinafter “BCI Option Rights”) (hereinafter the “BCI Olimpia BCI Shares and the BCI Option Rights, jointly the “BCI Olimpia Securities”), under the following terms and conditions:
- 2.01.01 *Total Price of Olimpia UCI Securities and Olimpia BCI Securities*
- (a) Olimpia UCI Securities will be sold by Pirelli and purchased by UCI at the total price agreed upon, including in a tentative manner, of € 350,900,006.40 (the “Total UCI Price”);
- (b) The Olimpia BCI Securities will be sold by Pirelli and purchased by BCI at the total price agreed upon, including in a tentative manner, of € 350,900,006.40 (the “Total BCI Price”).
- 2.01.02 *Payment Time and Terms*
- On September 28, 2001 or, should Pirelli so require, on October 1, 2001, UCI and BCI will pay to Pirelli, respectively, the Total UCI Price and the total BCI Price by separate fund credits, with the same value date, to the following checking accounts: - checking account with Credito Italiano No. 16421 ABI 02008 CAB 01600 in the name of “Pirelli S.p.A.”;
- checking account with Banca Commerciale Italiana No. 1686542177 ABI 02002 CAB 01700 in the name of “Pirelli S.p.A.”
- At the same time as the payment of, respectively, the Total UCI Price and the Total BCI Price, BCI, UCI and UCI will each deliver to Pirelli the original of the bank document attesting the credit of the respective amounts in the aforementioned checking accounts.

### 2.01.03 *Transfer of the Olimpia UCI Securities and Olimpia BCI Securities*

The Transfer of the Olimpia UCI Securities and Olimpia BCI Securities will take place, simultaneously, on September 28, 2001 or, should Pirelli so require, on October 1, 2001, at the same time with the payment of the Total UCI Price and the Total BCI Price, without need for any further expression of will between the parties, and will be valid between the parties as of that moment. On the same date, at the same time, all acts necessary or appropriate will be carried out pursuant to applicable law—including tax law—in order to perform the transfer of the Olimpia UCI Securities and the Olimpia BCI Securities, making it valid for third parties as well, including the following actions:

- (a) Pirelli:
  - (i) will deliver to UCI and BCI the certificates representing, respectively, the Olimpia UCI Shares and the Olimpia BCI Shares, duly endorsed in favour of UCI and BCI, by methods appropriate, based on applicable laws in the matter, to transfer to UCI and BCI full title and full availability of the Shares and allow the registration of UCI and BCI in the book of partners of Olimpia, as well as the option warrants representing the BCI Option rights and the UCI Option Rights; (ii) will sign and exchange and/or cause signature and exchange of all other acts and documents (including tax stamps, whenever necessary) that may be required pursuant to the law; (iii) will deliver to each of the New Partners an original of the declaration under the signature of Edizione Finance, as referred to in recital 1);
- (b) UCI and BCI, each to the extent applicable to it: (i) will pay to Pirelli, respectively, the Total UCI price and the Total BCI Price; (ii) will sign and exchange all other acts and documents (including tax stamps, whenever necessary) that may be required pursuant to the law.

### 2.01.04 *Expenses and charges*

All expenses, costs and charges, including of a tax nature, related to the transfer of the Olimpia UCI Holding and of the Olimpia BCI Holding will be borne half by UCI and BCI, and the other half by Pirelli.

- 2.02 Without prejudice to the provisions set forth in paragraph 10.01 below, on the Execution Date, UCI and BCI pledge non-jointly to subscribe and pay the New Capital Increase of Olimpia, respectively (i) with a par value of € 16,259,615, equal to 16,259,615 new Olimpia shares (the “New UCI Shares”) with a total disbursement of € 169,099,996 and (ii) with a **par value of € 16,259,615**, equal to 16,259,615 new Olimpia shares, with a total disbursement of € 169,099,996 (the “New BCI Shares”).
- 2.03 At the same time with the subscription of the New Olimpia Capital Increase, (i) **each of the New Partners**, to the extent applicable to it, pledges to fully pay up the New BCI Shares and the New UCI Shares, and (ii) Pirelli and Edizione Finance (to which Pirelli guarantees performance pursuant to art. 1381 of the **Civil Code**), **to the extent** applicable to them, pledge to subscribe and pay the residual part of the New Olimpia Capital Increase, respectively, for a par value of € 97,557,690 equal to 97,557,690 shares, and a par value of € 32,519,230, equal to 32,519,230 shares, to assure that, at the end of the execution of the New Olimpia Capital Increase, Pirelli will own 60%, Edizione Finance 20% and each of the New Partners 10% of the new capital of the Company.
- 2.04 Pirelli will take steps so that, within 30 (thirty) Business Days from the Execution Date, the Bylaws are amended so as to set forth the qualified quorum of 91% of the capital for the validity of the decisions to amend or eliminate the list voting clause for the appointment of the directors, as well as to modify the number of the members of the Board of Directors.

## ARTICLE X

### Term

#### 10.01 *Effective Date*

Except as set forth in Article II above, whose efficacy and validity are subject only to the provisions thereof, the efficacy and validity of this Instrument are subject to complete and regular execution of the Contract and therefore, secondary to obtaining the necessary authorizations, including in compliance with antitrust regulations, for the acquisition by the Company of the entire holding in Olivetti represented by the Olivetti Shares and Olivetti Warrants as set forth therein. It is, however, understood that in the event of

failure to execute the Contract completely and regularly by January 31, 2002, after the acquisition by BCI and UCI of 10% each of the capital of the Company by the methods indicated in Article II above, this instrument will be deemed cancelled *ipso jure*, effective *ex tunc* and, in this case, at the simple request of UCI and/or BCI, Pirelli will be obligated (i) to acquire the entire UCI Olimpia Holding and the entire BCI Olimpia Holding at a price exactly identical to that possibly already paid by UCI and BCI for the acquisition of the Olimpia UCI Shares, Olimpia BCI shares, the new UCI Shares and the New BCI Shares, and (ii) to release UCI and BCI from any commitment possibly already made to the Company.

\*\*\*

If you agree with all of the above, please send us a letter reproducing the content hereof, signed by you in token of confirmation and agreement. Best regards.

**signed UniCredito Italiano S.p.A.**

**signed IntesaBCI S.p.A.**

\*\*\*

We confirm to you that we agree with all of the above.  
Best regards.  
PIRELLI S.P.A.

Milan, October 24, 2001

To:  
INTESABCI S.p.A.  
Piazza Paolo Ferrari, 10  
20121 – MILAN

To:  
UNICREDITO ITALIANO S.p.A.  
Piazza Cordusio  
20121 – MILAN

Dear Sirs:

We have received your letter dated October 24, 2001, which we transcribe in its entirety below:

\* \* \*

Milan, October 24, 2001

To:  
PIRELLI S.p.A.  
Viale Sarca, 222  
20126 – MILAN

Dear Sirs,

following our talks, we propose the following:

***SECOND INSTRUMENT OF AMENDMENT OF THE PARTNERS' AGREEMENT***

Between Pirelli S.p.A., with headquarters in Milan, Viale Sarca 222, company capital € 1,043,094,358.28, recorded with the Registry of Companies of Milan, Taxpayer Code and VAT Number 00886890151, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, holding the necessary powers of attorney pursuant to the decision of the Board of Directors of July 28, 2001 (hereinafter "Pirelli")

- party of the first part -

and

UniCredito Italiano S.p.A., with headquarters in Genoa, Via Dante 1, Central Address in Milan, Piazza Cordusio, company capital € 2,523,215,059, recorded in the Registry of Companies of Genoa, Taxpayer Code and VAT Number 00348170101, in the person of the General Deputy Director Dr. Peter Modiano, holding of the necessary powers of attorney following the decision of the Board of Directors of August 3, 2001 (hereinafter "UCI")

and IntesaBCI S.p.A., with registered office in Milan, Piazza Paolo Ferrari 10, capital Euro 3,488,995,258.84, recorded with the Registry of Companies of Milan, taxpayer identification number 00799960158, VAT code 10810700152, in the person of Managing Director Lino Benassi, holding the necessary powers of attorney following the decision of the Board of Directors of September 14, 2001 (hereinafter "BCI")

- party of the second part -

(Pirelli, UCI and BCI hereinafter referred to as "the Parties")

whereas

- (a) Pirelli, UCI and BCI signed on September 14, 2001, a Partners' Agreement (the "Agreement") for the acquisition by UCI and BCI individually of a holding equal to 10% each of the capital of Olimpia S.p.A. held from Pirelli, as well as the acquisition of the option rights related to the Capital Increase of Olimpia (as defined in the Agreement), to allow for the subscription and payment, individually by UCI and BCI, under the conditions decided upon by the shareholders' meeting of August 29, 2001, of 38,460,183 shares;
- (b) by signing the Agreement, Pirelli, UCI and BCI also agreed to establish the discipline of their mutual relationships as partners of Olimpia S.p.A.;



- (c) in consideration of the agreements reached on September 19, 2001 between Pirelli, Edizione and Bell S.A. concerning the acquisition of the Olivetti Shares and Olivetti Warrants (as defined in the Agreement), on September 26, 2001, the Parties amended the Agreement, amending recital j, Article II and paragraph 10.01;
- (d) by this act (the “second Amendment Act”), the Parties intend to amend Article VIII of the Agreement, in which (i) they correct a material error present in item (a) of said article and (ii) make the clauses under items (b) and (c) consistent with the actual will of the Parties;
- (e) except as otherwise set forth below, the same definitions used in the Agreement, and with the same meaning, are used in this Second amendment Act;

with these recitals,

effective as of the date of this Second Amendment Act, the Parties agree that Article III of the Agreement is amended by the adoption of the new text reproduced below.

**ARTICLE VIII  
Collateral Acquisitions**

**8.1 Commitment of the Parties.**

- (a) UCI and BCI declare that, on September 13, 2001, they hold, including through their respective subsidiaries, pursuant to Art. 2359, paragraph one, civil code, Olivetti common shares (including the Olivetti voting rights held under any status), in an amount not exceeding, respectively, 6,616,827 Olivetti common shares in ownership and 46,694,466 Olivetti common shares in pledge with voting rights, concerning ICU, and 15,129,380 Olivetti common shares in ownership and 13,865,712 Olivetti common shares in pledge with voting rights, concerning BCI.
- (b) For the entire term of this Agreement, the Parties, including through their respective subsidiaries and/or parent companies, pursuant to Art. 2359, paragraph one, civil code, the parties may not acquire Olivetti common shares (or acquire voting rights in Olivetti common shares under any status), or exercise conversion or acquisition or subscription rights in Olivetti common shares arising from convertible bonds and warrants.

It is, however, permitted for UCI and BCI to acquire and hold Olivetti common shares (including those arising from the conversion of convertible bonds and/or exercise of warrants) provided the Olivetti common shares held overall at any time by UCI and BCI do not exceed, for each of them, the total maximum limit of 0.40% of the capital, as of the Execution Date.

- (c) Unless otherwise agreed upon in writing between the Parties, the Company may not acquire Olivetti common shares (or exercise conversion or acquisition or subscription rights in Olivetti common shares arising from the bonds and warrants referred to in item (b) above), so as to exceed the current OPA [take-over bid] floor, currently established at 30% (thirty percent), taking into account for this purpose the effect of the Olivetti common shares pursuant to the preceding item (b), held by BCI and UCI, as well as the common shares held directly and indirectly by Olivetti S.p.A., as set forth in the current laws and regulations, including the regulations issued by CONSOB.

\* \* \*

With the understanding that any other provision of the Agreement (including the arbitration clause, which must be understood referred to herein as if it were transcribed) remain firm, valid and enforceable, if you agree with the above, please send us a letter reproducing the contents hereof, signed by you in token of confirmation and agreement.

Best regards.

**signed UniCredito Italiano S.p.A.**

**signed IntesaBCI S.p.A.**

\* \* \*

We confirm to you that we accept all of the above.  
Best regards.

PIRELLI S.P.A.

---

Milan, December 16, 2003

Messrs.  
Pirelli & C. S.p.A.  
Via G. Negri, 10  
20123 Milan

Dear Sirs,

We received your letter of December 16, 2003 which we fully transcribe below:

\*\*\*

Milan, December 16, 2003

Messrs.  
Banca Intesa S.p.A.  
Piazza Paolo Ferrari, 10  
20121 Milan

Messrs.  
UniCredito Italiano S.p.A.  
Piazza Cordusio  
20121 Milan

Dear Sirs,

Following our conversations we propose the terms of this

### **THIRD AMENDMENT OF THE SHAREHOLDERS' AGREEMENT**

Between

Pirelli & C. S.p.A., headquartered in Milan, via G. Negri N. 10, capital of Euro 1,799,399,399.20, recorded with the Register of Companies of Milan, taxpayer and VAT code 00860340157, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, holding the necessary authorization pursuant to the decision of the Board of Directors of November 11, 2003 (hereinafter "**Pirelli**")

Party of the first part

And

UniCredito Italiano S.p.A., headquartered in Genova, via Dante 1, Central Management in Milan, Piazza Cordusio, capital of Euro 3,158,168,076, recorded with the Register of Companies of Genova, taxpayer and VAT code 00348170101, in the person of Dr. Pietro Modiano, who has the necessary powers pursuant to the decision of the Board of Directors of November 13, 2003 (hereinafter "UCI")

And Banca Intesa S.p.A., headquartered in Milan, Piazza Paolo Ferrari 10, with capital of Euro 3,561,062,849.24, recorded with Register of Companies of Milan, taxpayer 00799960158, VAT code 10810700152, in the person of Dr. Gaetano Micciche, who has the necessary powers pursuant to the decision of the Board of Directors of November 13, 2003 (hereinafter "BCI" and, together with UCI, the "Banks" and each of them individually the "Bank")

Party of the second part

Recitals

- (a) Pirelli and the Banks are, together with others, shareholders of Olimpia SpA (hereinafter "**Olimpia**"), a company with a total holding in the common capital of Telecom Italia SpA of approximately 14.16% (17.02% as of December 18, 2003); in particular, Pirelli holds 937,557,690 common shares, equal to 50.40% of the capital, while BCI and UCI hold each 156,259,615 common shares, equal to 8.40% of Olimpia's capital;

- (b) On November 13, 2003, Olimpia's Shareholders' Meeting, in the presence of all shareholders, approved a capital increase with payment up to a maximum of Euro 770 million in two tranches, the first up to a maximum of Euro 700 million (the "**First Tranche**") and the second up to a maximum of Euro 70 million (the "**Second Tranche**") by issuing a maximum of 770,000,000 new common shares, subscription of which is reserved under option to the shareholders pursuant to art. 2441, paragraph 1, of the civil code; the issue price of the new common shares, to be paid fully in money, was established by the meeting at the par value of Euro 1 each;
- (c) Pirelli, on the one hand, and the Banks on the other hand, signed on September 14, 2001 a paracorporate agreement referring to their holding in Olimpia, titled "**Shareholders' Agreement**," subsequently amended by document dated September 26, 2001 and further amended by document dated October 24, 2001 (the "**Shareholders' Agreement**," together with its amendments are collectively referred to hereinafter as the "**Agreement**");
- (d) the Agreement, inter alia, in the case of transfer to Pirelli by each of the Banks of the Olimpia shares held by them, in the occurrence of certain conditions established therein, sets forth for such transfers the criteria for the determination of the price of the transfer of the shares, establishing however that the price must be within the limits of a minimum price ("**Floor**") and in certain circumstances a maximum price expressing a ceiling for the valuation of the investment ("**Cap**");
- (e) Pirelli is interested that the Banks subscribe, within the term established by the meeting, the new Olimpia common shares for the entire share of the capital increase to which each of them is entitled under the option right;
- (f) the Banks are willing to sign Olimpia's capital increase for their respective share under option, confirming the strategic validity of the operation, even though they deem it necessary that the economic agreements previously reached concerning the hypothesis of transfer of their shares of the holding in Olimpia pursuant to the agreement, referred to in recital (d) above, be partially amended, exclusively referring to the newly issued Olimpia common shares subscribed by them in execution of the capital increase referred to in recital (b) above.

*With these recitals*

The following is stipulated and agreed between Pirelli and the Banks.

ARTICLE I  
**Recitals, definitions**

- 1.01 The recitals of this Document are an integral part thereof.
- 1.02 Except for the definitions reported and shown graphically in this Document, the terms reported therein with initial capital letter and not otherwise defined will have the meaning given to them in this document, as defined in recital (c) hereof.

ARTICLE II  
**Capital increase**

- 2.01 BCI and UCI, each for itself and without joint responsibility, undertake to subscribe, within the term established by the Shareholders' Meeting of November 13, 2003, the entire portion to which they are entitled of the first tranche of the capital increase of Olimpia referred to in premise (b) hereof, and to pay the subscription price for the 58,800,000 Olimpia common shares reserved to each of them under the option right (hereinafter the "**New Shares**"), equal to Euro 1 each.
- 2.02 Without prejudice to the subscription commitment in the preceding paragraph 2.01, the execution of the payment of the amounts owed as underwriting by BCI and UCI is subject to the condition precedent that, by December 17, 2003, Pirelli must subscribe and pay its own share of the first tranches of the capital increase referred to in recital (b) hereof.

ARTICLE III  
**Status of the new shares**

- 3.01 The New Shares, and whenever issued, the Subsequent New Shares (as defined below) will be, by express acceptance of Pirelli and of the Banks and by the effect of this Document, the object of the Agreement when subscribed, without need for further confirmation, including written, between the Parties.
- 3.02 With the exception of the provisions of Article IV below, as a consequence of paragraph 3.01 above, for the purposes of the Agreement, the New Shares and, when issued, the Subsequent New Shares (as defined below) subscribed by the Banks will be considered for all purposes part, respectively, of the BCI Olimpia Holding and of the UCI Olimpia Holding, and also with the exception of the provisions set forth in Article IV below, the New Shares and the Subsequent New Shares will be subject to all the provisions of the Agreement referring to the BCI Olimpia Holding and the UCI Olimpia Holding, respectively, to the extent that they are compatible.

ARTICLE IV  
**Transfer price of the New Shares and of the Subsequent New Shares**

- 4.01 Pirelli and the Banks agree, in derogation to the provisions to the contrary of the Agreement, that:
- (a) in the event of sale by UCI and/or BCI pursuant to paragraph 7.05, Article VII of the Agreement, for the determination of the price of the transfer to Pirelli of the respective New Shares and Subsequent New Shares, according to the criteria established in letter (d) of the aforementioned paragraph 7.05 of the Agreement, the Cap set forth therein will not apply, but the Floor identified therein will continue applying;
  - (b) in the event of sale by UCI and/or BCI pursuant to paragraph 10.03, Article X of the Agreement, for the determination of the transfer price to Pirelli of the respective New Shares and Subsequent New Shares according to the criteria established in the same paragraph 10.03, the Cap set forth therein will not apply, but the Floor identified will continue applying;
  - (c) in the event of sale by UCI and/or BCI pursuant to Article XI of the Agreement, for the determination of the transfer price to Pirelli of the respective New Shares and Subsequent New Shares according to the criteria established in the aforementioned Article XI, the Cap set forth therein will not apply, but the Floor identified therein will continue applying;
  - (d) in reference to the New Shares and without prejudice to the fact that the premium referred to in paragraph 7.05 (b) (y) of the Agreement will not apply, the total transfer price to Pirelli will be equal, including in an aleatory manner, to the highest between (I) Euro 3.53 and (II) the weighted average of the reference price recorded by the Telecom Italia shares in the 30 trading days prior to the request for sale, multiplied by a number of Telecom Italia Spa shares equal to 16,657,224.

In the event that BCI and/or UCI subscribe the 5,880,000 new Olimpia common shares representing the portion respectively reserved to them from the Second Tranche of Olimpia's capital increase referred to in recital (b) hereof (the "Subsequent New Shares") and they pay the respective subscription price, the total transfer price to Pirelli of the New Shares and of the Subsequent New Shares will be equal, including in an aleatory manner, to the highest between (I) Euro 3.53 and (II) the weighted average of the reference price recorded by the Telecom Italia shares in the 30 trading days prior to the request for sale, multiplied by a number of Telecom Italia Spa shares equal to 18,322,946.

It is understood that if Telecom Italia engages in capital operations not implying a change in net equity (such as merely for illustration, free capital increases, capital reduction due to losses or modification of the par value of the Telecom Italia shares) changing the formulas referred to in this paragraph, Pirelli, BCI and UCI will agree on the adjustments of such formulas that become necessary in order to neutralize the effect of such capital operations on the transfer price of the New Shares and of the Subsequent New Shares.

- (e) for the determination of the Floor, the New Shares, when issued, together with the Subsequent New Shares and the Company shares held today by the Banks (the "**Old Shares**") will be considered separately and, for this purpose: (i) the Floor for the Old Shares will be the amounts paid by the Banks to subscribe them, minus the dividends possibly received, and (ii) the Floor for the New Shares and, when issued, the subsequent New Shares will be equal to the amounts paid by the Banks to subscribe them, minus the dividends possibly received, without average or offset between the two Floors.

4.02 Pirelli and the Banks give note and agree, each for the aspects regarding them, that the derogation established in the letters (a) through (e) in the previous paragraph 4.01 will apply exclusively to the possible sale to Pirelli by UCI and/or BCI of the New Shares and of the Subsequent New Shares, without prejudice to the provisions set forth in the Agreement, including the Cap referred to therein, concerning the possible sale by UCI and/or BCI of Olimpia shares owned by them other than the New Shares and the Subsequent New Shares.

ARTICLE V  
**Edizione and Hopa**

Pirelli undertakes to obtain – by December 17, 2003 for the New Shares and by December 31, 2003 for the Subsequent New Shares – for Edizione and Hopa to confirm, in connection to the possible sale by UCI and/or BCI of the respective New Shares and the Subsequent New Shares, of the provisions of art. 6.09 (iii) and (iv) of the contract of 02/21/03 in connection with the possible sale of the respective original holding in Olimpia.

\*\*\*

Without prejudice to the validity and efficacy of every provisions of the Agreement (including the arbitration clause which must be considered, repeated here as if transcribed) which has not been expressly modified or derogated to in this Document, if you agree with the above, please send us a letter reproducing in full the content hereof, duly signed by you in token of confirmation and acceptance of all its provisions.

Best regards,

Signed Pirelli & C. S.p.A.

\*\*\*

We confirm that we accept all of the above.

Best regards,

UNICREDITO ITALIANO S.P.A.  
Dr. Pietro Modiano  
[signature]

BANCA INTESA S.P.A.  
Dr. Gaetano Micciche  
[signature]

## CONTRACT

Between **Pirelli S.p.A.**, with home offices in Milan, at viale Sarca 222, capital of €1,043,604,420.04, registered in the Milan Business Registry under tax code and VAT no. 008690151, herein represented by Dr. Carlo Buora, holding the necessary powers as granted by the Board of Directors on December 19, 2002;

**Edizione Finance International S.A.**, with home offices at Place d'Armes 1, L-1136, Luxembourg, capital of €1,000,000.00, registered with the Luxembourg Chamber of Commerce under number B77504, herein represented by Dr. Sergio De Simoi and Dr. Gustave Stoffel, holding the necessary powers pursuant to By-laws;

**Banca Intesa S.p.A (formerly Intesa BCI S.p.A.)**, with home offices in Milan, at Piazza Paolo Ferrari 10, Administrative Offices at Via Monte de Pietà 8, capital of €3,561,062,849.24, registered in the Milan Business Registry under tax code no. 00799960158 and VAT no. 108107000152, herein represented by Dr. Gaetano Miccichè, holding the necessary powers as granted by the Board of Directors on December 17, 2002;

**Unicredito Italiano S.p.A.**, with home offices in Genoa, at via Dante 1, Central Administration in Milan, Piazza Cordusio, capital of €3,148,070,110.00, registered in the Genoa Business Registry under tax code no. and VAT no. 00348170101, herein represented by Dr. Alessandro Profumo, holding the necessary powers as granted by the Board of Directors on December 19, 2002; and

**Olimpia S.p.A.**, with home offices in Milan, at Viale Sarca 222, capital of €1,562,596,150.00, registered in the Milan Business Registry under tax code no. and VAT no. 03232190961, herein represented by Dr. Marco Tronchetti Provera, holding the necessary powers as granted by the Board of Directors on December 19, 2002;

the party of the first part,

and

**Hopa S.p.A.**, with home offices in Brescia, at Corso Zanardelli 32, capital of €709,800,000.00, registered in the Brescia Business Registry under tax code no. and VAT no. 03051180176, herein represented by Dr. Emilio Gnutti, holding the necessary powers as granted by the Board of Directors on December 17, 2002;

the party of the second part,

and

**Edizione Holding S.p.A.**, with home offices in Treviso, at Calmaggione, capital of €47,160,256.00, registered in the Treviso Business Registry under number 13945, tax code no. and VAT no. 00778430264, herein represented by the Chairman of the Board of Directors, Dr. Gilberto Benetton, holding the necessary powers as granted by the By-laws;

standing as guarantor for Edizione Finance,

whereas

- (a) Olimpia (as defined in paragraph 1.22 below) is a holding company with approximately 28.5% of the capital of Olivetti (as defined in paragraph 1.23 below);
- (b) Olivetti, an Italian corporation traded on the Italian Stock Exchange, is an industrial holding company operating in the field of telecommunications and in specific sectors of information technology and communications, whose main subsidiaries, both direct and indirect, are Telecom (as defined in paragraph 1.45 below), TIM (as defined in paragraph 1.46 below), and Seat (as defined in paragraph 1.38 below);
- (c) Pirelli, Edizione, Intesa, and Unicredito (as defined below in paragraphs 1.31, 1.09, 1.17, and 1.48, respectively) hold 60%, 20%, 10% and 10% of the capital in Olivetti, respectively;
- (d) Pirelli has signed with Edizione and with Intesa and Unicredito two separate Paracorporate Pacts involving the relationship between Pirelli and Edizione, and between Pirelli and Intesa and Unicredito, as partners of Olimpia;
- (e) Edizione Finance as a shareholder of Olimpia will replace Edizione with regard to all rights and obligations of the latter pursuant to the agreement (as subsequently modified) signed between Pirelli and Edizione such as referred to in clause (d) above. Accordingly:
  - (i) Edizione Finance signs the present Contract as a party thereto (as a partner of Olimpia); whereas



- (ii) Edizione signs the present Contract only as guarantor for Edizione Finance with regard to every obligation assumed by the latter pursuant to the present Contract;
- (f) Hopa (as defined in paragraph 1.15 below), through its fully-owned subsidiary Holy (as defined in paragraph 1.14 below), on the date the Merger (as defined in paragraph 1.11 below) enters into effect, *inter alia*, will assume ownership of 163,558,339 Olivetti Bonds (as defined in paragraph 1.21 below), 99,941,661 shares of Olivetti stock (as defined in paragraph 1.01 below), and Holy holding in Holinvest (as defined in paragraph 1.25 below);
- (g) Current Olimpia Partners (as defined in paragraph 1.02 below) and Olimpia, on the one hand, and Hopa, on the other, have jointly expressed an interest in forming a partnership for strategic purposes, pursuant to the terms and conditions of the present Contract, so as to maximize the creation of value for their shareholders, and accordingly have agreed to the following:
  - (i) the joining of Hopa capital to that of Olimpia through a merger of Holy (which in turn owns Holy holding in Holinvest) in Olimpia, and
  - (ii) the concurrent formalizing of understandings of a paracorporate type intended to govern the relations between Current Olimpia partners and Hopa, as Olimpia partners, and the relations between Olimpia and Hopa, as Holinvest partners;

now therefore

the parties hereto do mutually covenant, stipulate and agree as follows:

#### ARTICLE I Definitions

- 1.01 “Olivetti Stock”: common shares in with voting rights in Olivetti (as defined in paragraph 1.23 below).
- 1.02 “Current Olimpia Partners”: Pirelli, Edizione Finance, Unicredito and Intesa, collectively.
- 1.03 “Hopa Controlling Companies”: Fingruppo Holding S.p.A., Banca Monte dei Paschi di Siena, S.p.A., Compagnia Assicuratrice Unipol S.p.A., Banca Popolare di Lodi S.c.a.r.l. and other private individuals signatory to the syndication pact with regard to Hopa.
- 1.04 “Standstill notice”: shall have the meaning set forth in paragraph 8.04(d) below.
- 1.05 “Accelerated standstill notice”: shall have the meaning set forth in paragraph 8.06(b)(i) below.
- 1.06 “Control”, “to control”, “Subsidiary,” and “Controlling companies”: other than cases that expressly differ from the context herein, shall have the meaning set forth in Article 2359, paragraph 1, no. 1 and no. 2 of the Civil Code.
- 1.07 “Relevant date”: shall have the meaning set forth in paragraph 9.01 of the present Contract.
- 1.08 “Agreement Term”: shall have the meaning set forth in paragraph 6.00 below.
- 1.09 “Edizione”: Edizione Holding S.p.A. as referred to in the heading of the present Contract.
- 1.09bis “Edizione Finance”: Edizione Finance International S.A., as referred to in the heading of the present Contract.
- 1.10 “Experts”: shall have the meaning set forth in paragraph 5.05 below.
- 1.11 “Merger”: shall have the meaning set forth in paragraph 5.01 below.
- 1.12 “Business Day”: every calendar day other than Saturday, Sunday, and other days when as a general rule the banks of Milan are not open for performing their usual activities.
- 1.13 “Holinvest”: Holinvest S.p.A., with home offices in Brescia, at Corso Zanardelli 32, capital of €700,000,000 and subscribed capital of €514,000,000.00, registered in the Brescia Business Registry under registration no., tax code no. and VAT no. 03562710172.



- 1.14 “Holy”: Holy s.r.l., with home offices in Brescia, at Corso Zanardelli 32, capital of €10,000.00, registered in the Brescia Business Registry under registration no., tax code no., and VAT no. 03517530170.
- 1.15 “Hopa”: Hopa S.p.A., as referred to in the heading of the present Contract.
- 1.16 “Net Financial Borrowing”: unless otherwise specified with regard to specific cases, shall be the algebraic consolidated sum (with the understanding that for each case net financial borrowing for Olimpia, borrowing for Olivetti and its subsidiaries will not be taken into account) of the following items entered in the statement of assets and liabilities prepared pursuant to Art. 2424 of the Civil Code: “bonds (D1) = convertible bonds (D2) + due to banks (D3) + due to other financial backers (D4) + financial debts owed to unconsolidated subsidiaries (D8) + financial debts owed to affiliates (D9) + financial debts owed to controlling companies (D10) – amounts due from unconsolidated subsidiaries ( C II 2) – amounts due from subsidiaries ( C II 3) – amounts due from controlling companies ( C II 4) – financial assets other than fixed assets ( C III) – liquid assets ( C IV).” Any existing updated value must be added to this amount, for financial leasing fees, if such are not included in the aforementioned items.
- 1.17 “Intesa”: Banca Intesa S.p.A (formerly Intesa BCI S.p.A), as referred to in the heading of the present Contract.
- 1.18 “Relevant Subjects”: shall have the meaning set forth in paragraph 6.02 below.
- 1.19 “Net Asset Value”: shall mean the evaluation method used for calculating increase in value, according to market practice and at current values, of financial assets and liabilities.
- 1.20 “Olimpia bonds”: 1.5% Olimpia bonds, 2001-2002, each of which is an “Olimpia bond.”
- 1.21 “Olivetti Bonds”: 1.5% convertible bonds, 2001-2010, convertible to Olivetti Stock issued by Olivetti, each of which is an “Olivetti Bond”.
- 1.22 “Olimpia”: Olimpia S.p.A., as referred to in the heading of the present Contract.
- 1.23 “Olivetti”: Olivetti S.p.A., with home offices in Ivrea, at Viale Jervis 77, capital of €8,845,456,658.00, registration number in the Turin Business Registry and tax code no. 00488410010.
- 1.24 “Extraordinary Operations”: every merger or split involving Olivetti, on the one hand, and one or more of its directly or indirectly controlled companies, on the other.
- 1.24bis “Capital Transactions”: such extraordinary transactions as may involve Olivetti capital and which change the number of shares or which result in, by way of example though not exclusively: stock split, reverse split, assignment of Olivetti stock to partners for capitalization of capital.
- 1.25 “Holy holding in Holinvest”: Holy holding of Holinvest capital, or 19.999% of this capital.
- 1.26 “Hopa holding in Holinvest”: Hopa holding of Holinvest capital, or 80.001% of this capital.
- 1.27 “Olivetti holding”: alternately:
- (i) when there are no Extraordinary Operations, holding with full voting rights equal to at least 25% of Olivetti capital on the date the present Contract is signed, or
  - (ii) when there are Extraordinary Operations, the entire package of Olivetti Stock and/or Financial Instruments (granting equal voting rights) arising from the exchange of shares with voting rights equal to at least 25% of Olivetti capital that would be attained through Extraordinary Operations executed prior to the Relevant Date.
- 1.28 “Parties”: the current Olimpia Partners, Olimpia (which, in accordance with the provisions of paragraph 12.10 below, must be considered as a single Party), and Hopa.
- 1.29 “Net Assets”: the difference – to be determined in accordance with Accounting Principles – between assets and liabilities on the “civil” balance sheets of a corporation where, upon drafting the resultant consolidated balance sheet, it is understood that for purposes of determining Olimpia’s Net Assets the assets of Olivetti and its subsidiaries are not taken into account.

- 1.30 “Pacts”: agreements of a paracorporate nature set forth in Articles VI and VII of the present Contract.
- 1.31 “Pirelli”: Pirelli S.p.A. as referred to in the heading of the present Contract.
- 1.32 “Increase Premium”: shall have the meaning set forth in paragraph 10.00 below.
- 1.33 “Accounting Principles”: Accounting principles as provided by law, and when not specifically stated therein, those set forth by the National Council of Professional Accountants, or otherwise by the International Accounting Standards Committee.
- 1.34 “Debt/equity ratio”: the ratio between Net Assets (as defined in paragraph 1.29 above) and Net Financial Borrowing (as defined in paragraph 1.16 above). Possible derivative instruments (as defined in Decree Law 24.2.1998, no. 58 – Draghi Law, Article 1, paragraph 2), not for coverage (as defined by Banca d’Italia Measure of July 30, 2002) created as of 11-30-02, must be valued at cost or market price, whichever is less, and any necessary write-off must result in a reduction in Net Assets. Possible derivative instruments for coverage must be valued in a manner consistent with the asset or liability pertaining to the coverage, with it understood that the so-called equity swap underwritten by Olimpia on November 20, 2001, will be customarily valued at cost.
- 1.35 “Stipulated Exchange Rate”: shall have the meaning set forth in paragraph 5.03(a)(ii) below.
- 1.36 “Split”: shall have the meaning set forth in paragraph 9.01 below.
- 1.37 “Holinvest Split”: shall have the meaning set forth in paragraph 9.05 below.
- 1.38 “Seat”: Seat – Pagine Gialle S.p.A, with home offices at Via Grosso 10/8, Milan, registration number in the Milan Business Registry and tax code no. 12213600153.
- 1.39 “Holy Position”: Financial statements of Holy at December 31, 2002, with the accompanying reports, attached hereto as number 5.02(ii) which – in accordance with the provisions of paragraph 5.02(ii) below – shall represent the Holy financial position of reference for the Merger project.
- 1.40 “Olimpia Position”: Financial statements of Olimpia at November 30, 2002, with the accompanying reports, attached hereto as number 5.02(i) which – in accordance with the provisions of paragraph 5.02(i) below – shall represent the Olimpia financial position of reference for the Merger project.
- 1.41 “Olivetti Companies”: Telecom, TIM, and Seat, collectively.
- 1.42 “Standstill”: shall have the meaning set forth in paragraph 8.01 below.
- 1.42bis “Accelerated Standstill”: shall have the meaning set forth in paragraph 8.06 below.
- 1.43 “Financial Instruments”: every financial instrument (including Olivetti Instruments as defined below) that directly or indirectly grants subscription rights to Olivetti Stock (which, by way of example and not exclusively, includes convertible bonds, forward contracts, call options, and prepaid swaps).
- 1.44 “Olivetti Instruments”: instruments with the characteristics as set forth in the document attached hereto as no. 1.44.
- 1.45 “Telecom”: Telecom Italia S.p.A., with home offices at Piazza degli Affari 2, Milan, registration number in the Milan Business Registry and tax code no. 00471850016.
- 1.46 “Initial Term”: shall have the meaning set forth in paragraph 8.05 below.
- 1.47 “TIM”: Telecom Italia Mobile S.p.A., with home offices at Via Giannone 4, Turin, registration number in the Turin Business Registry and tax code no. 06947890015.
- 1.48 “Unicredito”: Unicredito Italiano S.p.A, as referred to in the heading of the present Contract.

ARTICLE II  
**Object of Contract**

- (a) Under the present Contract, the various operations governed thereby and the Paracorporate Pacts contained herein, the Current Olimpia Partners, Olimpia, and Hopa hereby agree on the terms and conditions for creating a partnership with strategic connotations.
- (b) The partnership referred to in the previous paragraph shall be achieved by Hopa's joining its capital to that of Olimpia (by Holy's merger with Olimpia) together with the Current Olimpia Partners, and the subsequent joining of Olimpia's capital to that of Holinvest, together with Hopa.
- (c) The following stipulations in the present Contract shall, inter alia, govern:
- (i) the steps taken to achieve the aforesaid situation (setting the terms and conditions thereof), in particular with regard to the provisions of Articles II, IV, and V below;
  - (ii) the rules of corporate governance and other provisions of a paracorporate nature to which the Parties have agreed, in particular with regard to the provisions of Articles VI and VII below;
  - (iii)
    - (A) the mechanisms for settling possible Standstills or Accelerated Standstills such as may arise in the administration of Olimpia (to include with regard to voting instructions as determined by the Olivetti Extraordinary Shareholders' Meeting) and/or of Holinvest; and
    - (B) the means of any possible breakup of the partnership carried out under the present Contract, with regard to confirming a Standstill or Accelerated Standstill, as well as to the failure to renew Pacts upon their expiration;
- with particular regard to the provisions of Articles VIII, IX, and X below.

ARTICLE III  
**Preliminary Obligations of the Parties**

- (a) Following the signing of the present Contract, and in any case no later than February 28, 2003, Hopa, Holinvest, and the Hopa Controlling Companies must divest themselves of all Olivetti Stock, and Olivetti Instruments such as they may own, with the following exceptions:
- (i) with regard to Hopa, Olivetti Instruments as referred to up to a maximum of 40 million shares in Olivetti;
  - (ii) with regard to Holinvest, Olivetti Instruments, Olivetti Stock and Olivetti Bonds as set forth in paragraph 4.01(ii)(A) below;
  - (iii) with regard to Holy, up to a maximum of 99,941,661 shares in Olivetti and 163,558,339 Olivetti Bonds; and
  - (iv) with regard to the Hopa Controlling Companies, up to one (1) million shares in Olivetti for each Company.
- (b) In order to certify proper compliance with the obligations set forth in the previous paragraph (a), and so that the actions taken under the conditions precedent set forth in paragraphs 4.01 (i), 4.01 (ii), and 4.01 (iii) can be verified by no later than February 28, 2003:
- (i) Hopa and the Hopa Controlling Companies must furnish the Current Olimpia Partners with declarations (signed by the authorized legal representative, or in the case of individuals, by the individual from the Hopa Controlling Company), from which full compliance with the obligations set forth in the previous paragraph (a) can be inferred, with regard to Hopa and each of the Hopa Controlling Companies, respectively, and the consequent ownership of Olivetti Stock, Olivetti Instruments, and Financial Instruments as permitted under the present Contract, all based on the model attached under number 3(b), with it being understood, to avoid any doubt, that:
    - (A) the declaration furnished by Hopa must include the Olivetti Stock and/or Olivetti Instruments it holds, to include indirectly through its Subsidiaries (including Holy and Holinvest); and

- (B) determination of compliance with the obligation to divest set forth in the previous paragraph 3(a) (and subsequently for properly preparing the declaration under paragraph 3(b)(i), must also include all of the rights of any type whatsoever regarding Olivetti Stock as prescribed in the standards on Tender Offers currently in force);
- (ii) Hopa must furnish the Current Olimpia Partners with a declaration (signed by the authorized legal representative), from which it can be inferred that Holinvest meets the condition set forth in paragraph 4.01(ii) below.
- (c) Following the signing of the present Contract, and in any case no later than February 28, 2003, Olimpia, and the Current Olimpia Partners must divest themselves of all Olivetti Stock such as they may own on that date, also through their respective Subsidiaries, in excess of the limit set forth in paragraph 4.01(iii) below, with it understood that the maximum amount of Olivetti Stock that Hopa, its Subsidiaries and Hopa Controlling Companies can own pursuant to the present Contract, as stipulated in paragraph 4.01, also following verification of the Conditions Precedent referred to in Article IV, must be determined in order to calculate this excess.
- (d) In order to certify proper compliance with the obligations set forth in the previous paragraph (c), and so that the actions with regard to the Conditions Precedent set forth in paragraph 4.01(iii) below can be verified by no later than February 28, 2003, Olimpia and the Current Olimpia Partners must furnish Hopa with declarations (signed by the authorized legal representative), from which full compliance with the obligations set forth in the previous paragraph (c) can be inferred, and the consequent ownership of Olivetti Stock as permitted under the present Contract, all based on the model attached under number 3(d), with it being understood, to avoid any doubt, that:
- (i) the declaration furnished by each of the Current Olimpia Partners must also include the Olivetti Stock, the Olivetti Instruments and the Financial Instruments (as prescribed in the standards on Tender Offers currently in force) that each one holds, to include indirectly through their Subsidiaries and/or which are owned by companies belonging to the same groups managed by the Current Olimpia Partners;
- (ii) determination of compliance with the obligation to divest set forth in the previous paragraph 3(c) (and subsequently for properly preparing the declaration under this paragraph 3(d), must include all of the rights of any type whatsoever regarding Olivetti Stock as prescribed in the standards on Tender Offers currently in force); and
- (iii) when providing these declarations, Intesa and Unicredito may be limited – in accordance with the commitments assumed with Pirelli in the Paracorporate Pact governing their relationships as Olimpia partners - to furnishing the amount of Olivetti Stock they own and the additional circumstance whereby they could jointly hold additional Olivetti Stock up to a maximum of 0.40% of the capital of this company, with voting rights, with it being understood that such an exception is to be considered in calculating any possible excess as referred to in the previous paragraph (c).
- (e) Hopa hereby declares and assures that the Hopa Controlling Companies will modify, by February 28, 2003 at the latest (inserting provisions in this regard to take immediate effect), the Paracorporate Pacts that bind them, with a stipulation whereby if any of the Hopa Controlling Companies holds more than one (1) million shares in Olivetti, such shall be grounds for immediately canceling the aforesaid Paracorporate Pacts regarding the Hopa Controlling Company/Companies that has/have exceeded the limit.
- (f) Understanding the commitment to divest under the present Article III, the Parties – to include their Subsidiaries and Controlling Companies and third parties with whom, while the present Contract is in effect, agreements have been signed (by the Parties themselves and/or their Subsidiaries and or Controlling Companies) relative to Olivetti Stock and/or Financial Instruments and/or Olivetti Instruments – hereby agree and mutually acknowledge that, during the entire time the present Contract and the Pacts contained herein are in force, none of them will hold Olivetti Stock and/or Financial Instruments and/or Olivetti Instruments of sufficient quantity such as to exceed, among the Parties and with regard to Olivetti Stock and/or Financial Instruments and/or Olivetti Instruments, the limit referred to in paragraph 4.01(iii) below.

#### ARTICLE IV Conditions Precedent

4.01 *Specifications.* The Parties agree that the effectiveness of the present Contract is subject to the following conditions precedent:

- (i) that by February 28, 2003 at the latest, the Hopa Controlling Companies will dispose of all Olivetti Stock in excess of the amount excepted under the preceding paragraph III(a) such as they may hold,

and will modify the Paracorporate Pacts binding on them in accordance with item (e) of Article III above; and

- (ii) that by February 28, 2003 at the latest, Holinvest will have:
- (A) assets comprised of:
    - (1) 134,721,109 Olivetti Bonds as third-party loans;
    - (2) the right to obtain, by June 30, 2003, (i) 58,110,100 Olivetti Bonds pursuant to the agreement signed with GPP International S.A.; (ii), 39,203,282 Olivetti Bonds pursuant to the agreement signed with Hopa, and (iii) 66,244,957 Olivetti Bonds resulting from reimbursement for an equal number of Olimpia Bonds, for a total of 163,558,339 Olivetti Bonds, with the understanding that, to avoid any doubt:
      - (x) Hopa will ensure that Holinvest exercises the above right, and that GPP International S.A. meets the commitments assumed vis-à-vis Holinvest so that the latter will obtain the aforesaid Olivetti Bonds no later than June 30, 2003;
      - (y) the sale of the Olivetti Bonds will not result in Net Financial Borrowing by Holinvest in excess of the maximum limit set forth in paragraph (D) below; and
    - (3) Olivetti Instruments tantamount to 486,500,000 shares in Olivetti;
    - (4) 2,431 shares in Olivetti.
  - (B) the stipulated value of Net Worth (applying Net Asset Value and using as a base for reference the stipulated per-share value of Olivetti Stock of €1.20), not less than €220,000,000.00;
  - (C) a debt/equity ratio of not more than 1:1; and
  - (D) Net Financial Borrowing of not more than €721,750,000.00.

It is understood that calculation of Net Financial Borrowing and the stipulated Net Assets referred to in paragraphs (B) and (D) above must not take into account (1) accrued interest payable on financial debt dating from December 19, 2002, or the effects of the time lapsed during the normal management of the company and the costs of belonging to the partnership set forth herein and of purchasing Olivetti Instruments; and (2) the 100,000,000 Olivetti Bonds owned by Holinvest involved in a loan to JP Morgan Chase, and 100,000,000 nonconvertible Olivetti Bonds owned by JP Morgan Chase loaned to Holinvest. Accordingly, Hopa assures that the assets under the aforesaid loans, opposite in sign, have the same value, and thus the sum of the respective values (and the consequent effect of these operations on Holinvest) is at least 0 (zero).

- (iii) that – gross of the exemption allowed for Hopa, Holinvest, Holy, and the Hopa Controlling Companies as set forth in paragraph (a) of Article III above – the totality of Olivetti Stock held by Olimpia, the Current Olimpia Partners, Hopa, Holinvest, Holy, the other Hopa Subsidiaries and the Hopa Controlling Companies (upon conclusion of the operations referred to in Article III above) will not exceed 30% of Olivetti capital with voting rights (it being understood that for this calculation the provisions of paragraphs (c) and (d) of Article III must be taken into account); it is understood that accordingly all of the rights of any type whatsoever regarding Olivetti Stock must be calculated, as prescribed by the standards on Tender Offers currently in effect.

4.02 *Unilaterality and Other Pacts.* The Parties agree that – in view of the conditions set forth in paragraphs 4.01(i) and (iii) above – the condition set forth in paragraph 4.01(ii) above is in the exclusive interest of Current Olimpia Partners and Olimpia, and who may, upon unanimous agreement, waive same by written communication sent to Hopa no later than March 10, 2003.

4.03 *Effectiveness.* (a) If the conditions set forth in paragraph 4.01 fail to materialize by February 28, 2003 (or if the condition set forth in paragraph 4.01(ii) has not been waived by the above deadline set for the Current Olimpia Partners and Olimpia), this Contract shall be regarded as automatically without effect and cancelled as of that date, and the Parties shall be released from any remaining obligations arising from same, with the Current Olimpia Partners and Olimpia having no claim whatsoever against Hopa, and vice versa, with paragraphs 12.03, 12.05, 12.08, 12.10, and Articles XI and XIII no longer applicable.



## ARTICLE V

### Merger

5.01 *Type of Merger.* The Parties agree to create a partnership among themselves by a merger involving the incorporation of Holy into Olympia, with the corresponding increase of capital of the incorporating company, to be earmarked for Hopa as the sole partner of Holy (hereafter the “Merger”).

5.02 *Financial positions of reference.* The Parties agree to utilize as the financial statements for the Merger during the approval stage and as a deposit for the Merger project, solely for Olympia and Holy, respectively:

- (i) for Olympia, the statements at November 30, 2002, as shown in Attachment 5.02(i) (hereafter, the “Olimpia Position”);
- (ii) for Holy, the statements at December 31, 2002, as shown in Attachment 5.02(ii) (hereafter, the “Holy Position”)

5.03 *Stipulated exchange rate.* (a) The Parties mutually acknowledge:

- (i) that each has, prior to the date of the present Contract, carried out fact-finding investigations and verifications of the company involved in the Merger and a subsidiary of the other Party, aimed at verifying its asset, financial, economic, administrative, legal, and fiscal position;
- (ii) that each has – following the verifications referred to in paragraph (i) above – determined the exchange rate for the Merger to be 297,637,360 shares of Olympia stock at a par value of €1.00 each, for a single share of Holy at a par value of €10,000.00 (hereafter the “Stipulated Exchange Rate”);
- (iii) that each has taken into account, in order to calculate the Stipulated Exchange Rate, the financial statements of Holy and Holinvest referred to in paragraph 5.10.1.2 below, as well as the pro forma financial statements shown in the attachment under 5.03 (iii), as indicated in paragraphs 5.03 (b), 4.01 (ii)(A)(2) and 4.01 (ii)(D).

(b) The Parties also acknowledge that – apart from verifications made – the above ascertainments indicate:

- (i) that the Olimpia and Holy Positions are accurately represented;
- (ii) that on the date the Merger becomes effective, Holy, by virtue of owning:
  - (A) 163,558,339 Olivetti Bonds and 99,941,661 shares in Olivetti, none of them encumbered in any manner whatsoever, entered in their totality on the balance sheets at a value of €476,935,000.00;
  - (B) Holy holding in Holinvest, not encumbered in any manner whatsoever, and entered on the balance sheet at a value of €385,400,000.00;
  - (C) net cash holdings of €98,800,000.00, plus any dividends such as may be distributed by Olivetti by the effective date of the Merger, with regard to 98,975,110 shares in Olivetti; will have a Net Worth of not less than €961,135,000.00, and with no debts or other liabilities. It is understood that, for calculating the net cash holdings referred to in paragraph (C) above, and the Net Assets, as of December 19, 2002, no consideration should be given to the effects of the passing of time for the normal management of the company, nor to the costs of pertaining to the Merger herein referred to.

5.04 *Directors’ Report.* (a) Current Olimpia Shareholders shall provide for the Olimpia Board of Directors to prepare the Report under Article 2501 quater of the Civil Code by or before February 28, 2003.

(b) Hopa shall provide for the governing body of Holy to prepare the Report under Article 2501 quater of the Civil Code, as soon as possible after execution of this Contract, and in any case no later than February 28, 2003.

(c) The Parties agree that the reports under Article 2501 quater of the Civil Code, referred to in paragraphs (a) and (b) above, must be consistent in structure.

5.05 *Expert’s report on exchange rate adequacy.* (a) For the purpose of writing the experts’ report as prescribed under Article 2501 quinquies, subsection 1 of the Civil Code, the Parties mutually recognize as follows:

- (i) the President of the Court of Milan (at the request of Olimpia) has indicated Milan-based Price Waterhouse & Coopers S.p.A. as expert, according to the definition under Article 2501 quinquies, subsection 2, letter b) of the Civil Code, in charge of writing a report – in Olimpia’s interest – concerning the adequacy of the Merger exchange rate; and

- (ii) the President of the Court of Brescia (at the request of Holy) has indicated Prof. Maurizio Dallochio, whose office is located in Milan, Via dei Bossi 6, as expert according to the definition under Article 2501 quinquies, subsection 2, letter b) of the Civil Code, in charge of writing a report – in Holy’s interest – concerning the adequacy of the Merger exchange rate;

(For the purposes of this Contract, Milan-based Price Waterhouse & Coopers S.p.A. and Prof. Maurizio Dallochio are hereinafter collectively referred to as the “Experts”.)

(b) The Parties agree that, should the Experts find the Stipulated Exchange Rate inadequate, Olimpia, each of the Current Olimpia Shareholders, and Hopa, shall meet to resolve the matter amicably and in good faith, provided however that, should Olimpia, each of the Current Olimpia Shareholders, and Hopa fail to come to an agreement, to be formalized within thirty [30] calendar days after the Experts have filed their report, this Contract shall be deemed terminated to all intents and purposes, and neither Party shall have any liability of whatever nature to the other Party by reason of such termination.

5.06 *Merger Resolutions.* (a) The Parties mutually agree, after undertaking the corrective measures as described in paragraph 5.05(b) above, if required, and after fulfilling all legal and regulatory requirements for the approval, filing, publication and registration of the Merger project, to provide for the following :

- (i) call a Extraordinary Meeting of Olimpia Shareholders to approve the Merger and pass all resolutions related and consequent thereto; and
- (ii) call a Extraordinary Meeting of Holy Shareholders, to be held on the following day, to approve the Merger and pass all resolutions related and consequent thereto.

(b) The Parties shall provide for a new set of Olimpia by-laws (post Merger) to be adopted as a part of the Merger project; such by-laws shall adhere to the text attached hereto as Addendum 5.07(b), so as to adjust the company’s corporate governance according to the agreed stipulations, as described in detail in Article VI below.

(c) It is understood that, for all accounting and tax purposes, the Merger shall be effective as of January 1, 2003.

5.07 *Merger Agreement.* The Parties agree to provide for Olimpia and Holy to execute the Merger Agreement, as soon as possible after the term required by law.

5.08 *Interim Management.* (a) As of the date of this Contract and until the effective date of the Merger, each Party agrees to provide for its subsidiary to be merged, and in the case of Hopa, Holinvest, to abstain from performing, without prior written consent from the other Party and subject to compliance with express provisions contained herein, such acts as may produce significant changes in its economic and financial structure, including direct or indirect purchase of company stock or shares, except as required to fulfill the obligations hereunder, as known to the Parties.

(b) Additionally, each Party agrees to provide for the companies to be merged to abstain from issuing new shares, in order to avoid altering the Stipulated Exchange Rate.

5.09 *Olimpia and Holinvest post-Merger ownership.* The Parties mutually recognize that, on the basis of the Stipulated Exchange Rate:

- (i) Olimpia post-Merger shall be owned as follows:

Pirelli	: 50.40%;
Edizione	: 16.80%;
Hopa	: 16.00%;
Unicredito	: 8.40%; and
Intesa	: 8.40%.

- (ii) Holinvest post-Merger shall be owned as follows:

Hopa	: 80.001%; and
Olimpia	: 19.999%.



5.10 *Mutual Guarantees by the Parties.* The Parties mutually guarantee and represent as follows in relation to Holy and Holinvest (with respect to Hopa) and Olimpia (with respect to Current Olimpia Shareholders), their financial statements, financial position and operating results, as well as any other circumstances concerning such companies, as indicated below.

5.10.1 *Hopa's Guarantees*

5.10.1.1 *Capitalization and Title.* (a) The capital of Holy and Holinvest reflects, as to amount and structure, the relevant specifications contained in Addendum 5.10.1.1.

(b) There are no:

- (i) titles or rights of any type or nature which may be converted into shares of or interests in Holy or Holinvest, nor any other rights of third parties to obtain any shares of or interests in Holy or Holinvest, presently or in the future;
- (ii) credit rights of any nature, claimed against Holy or Holinvest by Hopa – except as indicated in balance sheet situations described in paragraph 5.10.1.2 below – or by any persons (whether individuals or entities) who own, are owned by, or are under the same ownership as Hopa.

5.10.1.2 *Financial statement.* Holy's financial statement, attached hereto as Addendum 5.02(ii) and Holinvest's financial statement, attached hereto as Addendum 5.10.1.2, have been written clearly and accurately, in compliance with the requirements of all civil and tax laws and regulations as applicable from time to time, and based on Accounting Principles applied consistently throughout the years using prudent and constant evaluation criteria; such statements constitute true and correct representations of Holy's and Holinvest's assets and liabilities, financial position, and operating results in the indicated periods. The positive and negative entries recorded in the financial statements are true and real, and have been evaluated on the basis of prudent appreciation; additionally, the provisions and reserves required to meet any possible contingent liabilities of Holy and Holinvest have been duly allocated. With reference to the date of such statements, no lower assets or greater liabilities or any other causes or events exist which may affect the value of the Net Assets indicated therein, nor are there any further debts or liabilities, of whatever kind or nature, in addition to those entered in the financial statements, regardless of whether such debts or liabilities require the allocation of a fund or reserve.

5.10.1.3 *Unrecorded Liabilities and Credits.* (a) As of the effective date of the Merger, Holy and Holinvest shall have no liabilities except those not yet paid shown in the statements referred to in paragraph 5.10.1.2 above, as well as those emerged after the statements' reference dates in connection with ordinary business conducted by Holy and Holinvest after such effective date, according to the stipulations under paragraph 5.08 above, as a result of acts performed by said companies under this Contract, or as a result of costs related to the Merger, or the partnership regulated hereunder, or – with respect to Holinvest - the acquisition of Olivetti instruments, plus the interest expense accrued on financial debt as of December 19, 2002.

(b) The credits shown in the aforesaid statements and those emerged after the reference dates of such statements, until the effective date of the Merger, are and shall be existent, certain, liquid, and collectible within the terms agreed with the debtors, with the exception of the special adjustment fund entered in the liabilities.

5.10.1.4 *Interim Management.* (a) Hopa guarantees and represents that in the period following the reference date of the financial statements referred to in paragraphs 5.10.1.2 and 5.10.1.3 above, and until the date of this Contract, the business operations of Holy and Holinvest were managed and conducted in accordance with the provisions under paragraph 5.08 above; (b) after the reference date of the statements referred to in paragraphs 5.10.1.2 and 5.10.1.3 above, no situations or circumstances occurred which may significantly affect Holy and/or Holinvest or their financial statements or financial positions, assets, operating results, or future outlooks, except for any acts required to fulfill the obligations hereunder.

5.10.2 *Current Olimpia Shareholders' Guarantees*

5.10.2.1 *Capitalization and Title.* (a) The capital of Olimpia reflects, as to amount and structure, the relevant specifications contained in Addendum 5.10.2.1(a).

(b) With the exception of the details specified in the document attached hereto as Addendum 5.10.2.1(b), there are no :

- (i) titles or rights of any type or nature which may be converted into shares of or interests in Olimpia, nor any other rights of third parties to obtain any shares of or interests in Olimpia, presently or in the future;
- (ii) credit rights of any nature, claimed against Olimpia by Current Olimpia Shareholders.

5.10.2.2 *Financial statement.* Olimpia' financial statement, attached hereto as Addendum 5.02(i) has been written clearly and accurately, in compliance with the requirements of all civil and tax laws and regulations as applicable from time to time, and based on Accounting Principles applied consistently throughout the years using prudent and constant evaluation criteria; such statement constitutes a true and correct representation of Olimpia's assets and liabilities, financial position, and operating results in the indicated periods. The positive and negative entries recorded in the financial statements are true and real, and have been evaluated on the basis of prudent appreciation; additionally, the provisions and reserves required to meet any possible contingent liabilities of Olimpia have been duly allocated. With reference to the date of such statements, no lower assets or greater liabilities exist, or any other causes or events, which may affect the value of the Net Assets as indicated therein, nor are there any further debts or liabilities, of whatever kind or nature, in addition to those entered in the financial statement, regardless of whether such debts or liabilities require the allocation of a fund or reserve.

5.10.2.3 *Unrecorded Liabilities and Credits.* (a) As of the effective date of the Merger, Olimpia shall have no liabilities except those not yet paid shown in the statements referred to in paragraph 5.10.2.2 above, as well as those emerged after the statements' reference dates in connection with ordinary business conducted by Olimpia after such effective date, according to the stipulations under paragraph 5.08, or as a result of costs related to the Merger, or the partnership regulated hereunder, or the acquisition of Olivetti instruments, plus the interest expense accrued on financial debt as of December 19, 2002.

(b) The credits shown in the aforesaid statements and those emerged after the reference dates of such statements, until the effective date of the Merger, are and shall be existent, certain, liquid and collectible within the terms agreed with the debtors, with the exception of the special adjustment fund entered in the liabilities.

5.10.2.4 *Interim Management.* Unless otherwise stated in Addendum 5.10.2.4 :

- (i) in the period following the reference date of the financial statements referred to in paragraphs 5.10.2.2 and 5.10.2.3 above, and until the date of this Contract, the business operations of Olimpia were managed and conducted in accordance with the provisions under paragraph 5.08 above;
- (ii) after the reference date of the statements referred to in paragraphs 5.10.2.2 and 5.10.2.3 above, no situations or circumstances occurred which may significantly affect Olimpia or its financial statement or financial positions, assets, operating results or future outlooks, except for any acts required to fulfill the obligations hereunder.

5.11 *Indemnification obligations* (a) Each Party – this term meaning, for the purposes of this paragraph 5.11, Hopa, on one side, and Current Olimpia Shareholders on the other, each in relation to the guarantees respectively given herein - shall fully indemnify and hold harmless the other Party with respect to:

- (i) any liability (whether actual or potential) of its subsidiary to be merged and/or of Holinvest, existing as of the reference dates of the financial statements referred to in paragraphs 5.10.1. and 5.10.2 above, pertaining to such subsidiary or otherwise arising out of any acts, omissions, circumstances, or facts existing at such date, and which is not indicated in the relevant statement (regardless of whether or not, under the Accounting Principles, the Party was allowed to omit such liabilities in the aforesaid statement).
- (ii) any loss or damage incurred by its subsidiary to be merged and/or by Holinvest or by the other Party, which would not have been incurred, had the Party's guarantees and representations contained in paragraph 5.10 above been accurate, true and correct, to the extent that such loss or damage has not been indemnified under paragraph (i) above.

(b) The rights provided by this paragraph 5.11 shall survive until the second (2nd) anniversary of the date of subscription of this Contract or until the effective date of the Split, whichever is closer; provided, however, that as long as the Split is not effective, Olimpia shall have the right to be indemnified by Hopa with respect to the guarantee issued by Olimpia under paragraph 4.01(ii), and shall maintain such right until expiration of said loan.

## ARTICLE VI

### Agreements between Shareholders concerning Olimpia and Olivetti Companies

6.00 Agreements and Agreement Term. (a) The Parties mutually recognize that the provisions in this Article VI, as well as those in Article VII below (collectively, the “Agreements”) shall be effective for the entire period (“Agreement Term”) between the effective date of the Merger and either:

- (i) the natural expiration of such Agreements, as regulated under paragraph (b) below; or
- (ii) the date on which, in compliance with the applicable provisions herein, (A) – as a result of a Standstill, the Split and Holinvest Split become effective; (B) as a result of an Accelerated Standstill, the Current Olimpia Shareholders receive an Accelerated Standstill notice.

(b) The Agreements shall have a term of three years as of the effective date of the Merger, and upon expiration shall be deemed tacitly extended [for an equal period], unless a notice of termination is served by either Party to the other, subject to the provisions in paragraph (c) below.

(c) Subject to law requirements concerning particular cases, the Parties may withdraw from the Agreements, effective on the earliest expiration date, by written notice to the other Party 3 (three) months before such expiration date.

6.01 Board of Directors of Olimpia. (a) For the entire Duration of the Agreements, the Board of Directors of Olimpia will be made up of a fixed and non-changeable group of 10 members, one of which will be appointed upon designation by Hopa. The first Director appointed by Hopa will be Emilio Gnutti.

(b) In the event the Director appointed by Hopa should cease to be on the Board, a replacement shall be designated within the next 20 (twenty) Work Days, and it is understood that the designation of the replacement will be still made by Hopa, with the consent of Pirelli, which shall not withhold it unreasonably.

(c) Should Hopa wish to revoke one or more of the Directors it designated, the Current Olimpia Partners will cooperate fully, in order for this revocation to proceed as rapidly as possible. Hopa shall have the right to designate – in accordance to what was set forth in the preceding paragraph (b) – the Director to be appointed as a replacement for the Director who was revoked, subject to the consent of Pirelli, which shall not withhold such consent unreasonably.

(d) The Parties commit to holding each other harmless and to holding Olimpia harmless from any onus or damage deriving from the revocation without just cause of the Directors that each one of them from time to time designates, pursuant to paragraph 6.01.

6.02 Relevant Subjects. (a) For the purposes of this contract and in particular of subsequent Article VIII the following shall be considered to be Relevant Subjects:

- (i) In reference to the resolutions to be adopted by Olimpia’s Shareholders’ Extraordinary Meeting in relation to any subject that pertains to it, any time the resolution is adopted:
  - (A) In opposition to a proposal by Olimpia’s Board of Directors passed with the agreement of the Directors appointed by Olimpia’s Current Partners and by Hopa; or
  - (B) In agreement with a proposal by Olimpia’s Board of Directors passed without the agreement of the Director appointed by Hopa;
- (ii) In reference to the resolutions to be adopted by Olimpia’s Board of Directors in relation to those pertaining to:
  - (A) The suggested vote to be cast during Olivetti’s Shareholders’ Extraordinary Meeting;
  - (B) The purchase, sale and transfer of any security interest valued over €100,000,000.00 per transaction, or for multiple transactions performed during the same calendar year, with the exception of that which is provided for in the subsequent paragraph (b);
  - (C) Acts or initiatives that modify or will modify the debt/equity ratio from a 1:1 ratio (while keeping open the option to remedy this situation pursuant to the procedure outlined in subsequent paragraph 8.07(a)(ii) and with the understanding that in this case it will not be considered to be a situation inducing stalling) and/or that concern the definition of the terms and conditions for using outside sources of financing;
  - (D) Proposals for resolutions to be submitted to Olimpia’s Shareholders’ Extraordinary Meeting.

(b) The Parties reciprocally acknowledge that – in spite of being slightly different from what was outlined in the preceding paragraph (a) (ii) (B) – the following shall not be considered Relevant Subjects for the purposes of this Contract: actions relating to the purchase or sale of Olivetti stock, the conversion of convertible Olivetti bonds in to Olivetti stock or equivalent financial instruments, as long as even after these transactions Olimpia’s debt/equity ratio remains below 1:1.

6.03 Board of Directors of Olivetti Companies. (a) For the entire Duration of the Agreements the current Olimpia partners will do whatever is in their power to ensure that, in the meetings of the Boards of Directors of the Olivetti Companies, a director be appointed as a result of being designated by Hopa. The first directors that Hopa designates to this end are those indicated in the attached document by number 6.03(a).

(b) The new Boards of Directors of the Olivetti Companies, made up according to the dispositions in the preceding paragraph (a), will be appointed as soon as possible after the Merger and in any event within and no later than 60 Business Days after the effective date of the Merger itself.

(c) The dispositions in the preceding paragraphs 6.01(b) and (c) will apply, *mutatis mutandis*, also regarding the meetings of the Board of Directors of the Olivetti Companies.

6.04 *Tender Offers on Olivetti Stock*. Hopa commits itself to the fact that, in the event Olivetti Stock is subject to a tender offer, the Director that it designated in Olimpia’s Board of Directors – if the Current Olimpia Partners requests it in writing – will not oppose Olimpia’s agreeing to such tender offer.

6.05 *Stand still*. (a) Except for what set forth in the subsequent paragraph (b) or expressly provided for by this Contract, the Current Olimpia Partners and Hopa (also with respect to its respective controlling companies and affiliates) commit themselves not to purchase Olivetti Stock for the Duration of the Agreements, and agree to the fact that Olimpia – in partial derogation from this limitation - notwithstanding what is set forth in subsequent paragraph 8.06, will have the right to buy and sell Olivetti Stock as long as these transactions do not cause the limits described in paragraph 4.01(iii) to be exceeded, notwithstanding the fact that in order to calculate the threshold specified in the aforementioned paragraph, one shall have to bear in mind the quantities allowed by paragraph (a) of Article III.

(b) The following cases are exceptions to the Stand Still commitment specified in paragraph 6.05(a):

- (i) The exercise on Pirelli’s part of the rights already acquired before executing this Contract, in relation to the exercise of call options and swap contracts relating to the purchase of Olivetti Stocks and Bonds (which are described in detail in the attached document designated by number 6.05(b)(i);
- (ii) For purchases of Olivetti Stock which were already allowed:
  - (A) From Unicredito and Intesa, by the current Paracorporate Pact agreed to by these entities with Pirelli, which is described in the attached document designated by number 6.05 (b) (ii) (A); and
  - (B) From Edizione, within the limits outlined by the current Paracorporate Pact agreed to by this entity with Pirelli, which are described in the attached document designated by number 6.05(b) (ii) (B).
- (iii) The maximum number of Olivetti Stock that the Hopa Controlling Companies are authorized to possess pursuant to paragraph 4.01.

(c) Notwithstanding the above mentioned rights, furthermore the Parties reciprocally acknowledge that the purchase by one Side of convertible bonds and/or warrants that grant the right to underwrite convertible bonds in to Olivetti Stock and the exercise of the rights that go with it will be allowed only following the consent of the other Party, consent that shall not be unreasonably withheld, with the proviso that in the event of a request by Hopa there will have to be the unanimous consent of all the Current Olimpia Partners that at the time of this request are Olimpia partners.

6.06 *Olimpia’s Business Purpose*. The Current Olimpia Partners commit themselves not to change Olimpia’s business purpose (as reflected in the sample Articles of Incorporation which are found under Addendum 5.07 (b)) up to the latter of the following dates (i) the date of the natural expiration of the Agreements as set forth by paragraph 6 (b) of this Contract; and (ii) in the event of a Stall or an accelerated Stall, the effective date of the Break-up and the Holinvest Break-up.

6.07 *Other Commitments Relating to Olimpia.* The current Olimpia Partners commit to make it so that, for the entire duration of the Agreements, Olimpia:

- (i) Does not have other holdings or financial investments other than its holding in Olivetti, Olivetti's bonds, Olivetti's instruments and the holding by Olimpia in Holinvest possessed as a result of the merger;
- (ii) Has a debt/equity ratio that does not exceed 1:1; and
- (iii) Does not sell its holding in Olivetti to entities controlled by Olimpia or that are parts of groups whose ownership can be ascribed to the Current Olimpia Partners.

6.08 *Co-sale Rights and Obligations.* (a) Except when otherwise set forth in this Contract and in particular in the following paragraph 8.06(b)(iii) and 8.07(b)(ii), for the entire Term of the Agreements – and in any case until the effective date of the Spinoff and of the Holinvest Spinoff – if the holding of Pirelli in the capital of Olimpia is reduced by transfer, contribution, assignment (including by spinoff), or transfer of a portion thereof, directly or indirectly, or a financial instrument that may be converted and/or which gives right to a holding in the capital of Olimpia (hereinafter jointly the “Signed Holding”) for payment, free of charge, for cash, or for payment in kind, under any status, including in several branches as compared to that held as of the signing date of this Contract, Hopa will have the right to claim (and therefore Pirelli will be obligated to cause) the buyer (hereinafter the “Third Party Buyer”) – pursuant to the applicable provisions of this paragraph 6.08:

- (i) whenever, notwithstanding the transfer and/or assignment of the Assigned Holding, Pirelli, together with Unicredito and Intesa, maintains absolute majority in the capital of Olimpia by acquiring:
  - (A) a percentage of the holding of Holinvest equal to the percentage between the Assigned Holding and 50.4% according to the following formula:

$$PpiH : PiH = PC : 50.4\%$$

Where:

PpiH: is the holding percentage of Hopa in Holinvest for which Hopa may claim transfer to the Third Party Buyer;

PiH: is the total holding (expressed as a percentage of the capital of Holinvest) of Hopa in Holinvest;

PC: is the Assigned Holding (expressed as a percentage of the capital of Olimpia);

or, as an alternative

- (B) a percentage of the Olivetti Instruments and/or of the Olivetti Shares and/or of the Financial Instruments held by Holinvest on the date Pirelli communicates its intent, equal to the percentages between the Assigned Participation and 50.4% according to the following formula:

$$PSOH : SOH = PC : 50.4\%$$

Where:

PSOH: is the portion of the Olivetti Instruments and/or Olivetti Shares and/or of the Financial Instruments held by Holinvest on the date Pirelli communicates its intent, for which Hopa may claim transfer to the Third Party Buyer;

SOH: the total number of Olivetti Instruments and/or Olivetti Shares and/or of the Financial Instruments on the date Pirelli communicates its intent, held by Holinvest;

PC: is the Assigned Holding (expressed as a percentage of the capital of Olimpia);

and therefore

- (C) a percentage of its own holding in Olimpia equal to the percentage between the Assigned Holding and 50.4%:

$$PpiO : PiO = PC : 50.4\%$$

Where:

PpiO: is the portion of Hopa's holding in Olimpia for which Hopa may claim transfer to the Third Party Buyer;

PiO: the total holding held by Hopa in Olimpia;

PC: Assigned Holding (expressed as a percentage of the capital of Olimpia);



- (ii) whenever the assignment and/or transfer with price paid in kind (contribution and/or spinoff) of the Assigned Holding implies the loss of the absolute majority in the common capital of Olimpia by Pirelli together with Unicredito and Intesa, acquiring the entire holding held by Hopa in Olimpia and/or Holinvest;
- (iii) whenever the assignment and/or transfer with the price paid in cash of the Assigned Holding implies the loss of the absolute majority in the common capital of Olimpia, by Pirelli, together with Unicredito and Intesa, Hopa will also have the obligation to sell (and, respectively, Pirelli will have the obligation and the right to cause Hopa to sell) to the Third Party Buyer the entire holding of Hopa in Olimpia and/or in Holinvest;

with the understanding that:

- (x) for the purposes of this paragraph 6.08, the financial instruments whose acquisition by the Third Party Buyer must be imposed by Hopa exercising the alternative power set forth in this paragraph 6.08(a), will be identified as “Instruments to be Assigned”;
  - (y) once Hopa communicates – pursuant to the following paragraph (c) – to Pirelli that it wishes to exercise the co-sale right set forth in this paragraph 6.08(a), Hopa will be obligated to sell the Instruments to be Assigned under the terms and conditions set forth in this paragraph 6.08 and, in particular, the following paragraphs (d) and (e); and
  - (z) the choice between the options referred to in the previous paragraph 6.08(a)(i) will be exercised discretionally by Hopa and will be unavailable.
- (b) In order to allow Hopa to exercise the rights set forth in the previous paragraph (a), Pirelli undertakes to communicate to Hopa any intention to sell, transfer, assign (including by spinoff) or otherwise transfer under any status or part of its own holding in Olimpia, as soon as allowed by the negotiations with the Third Party Buyer (taking into consideration possible reasons of confidentiality), communicating to Hopa the nature of the Third Party Buyer and the terms and conditions of the possible transfer transaction.
- (c) Hopa, after receiving the communication about the transfer project of the Assigned Holding by Pirelli, must communicate to Pirelli within twenty (20) Business Days from receipt of the communication, whether or not it intends to exercise its own co-sale right and whenever Pirelli’s communication refers to a transaction of the type indicated in the previous paragraph (a)(i), which of the options set forth in Sections (A) through (C) of said paragraph (a)(i) it intends to choose.
- (d) Should Hopa exercise the co-sale right set forth in this paragraph 6.08, the transfers of the Instruments to be Assigned to the Third Party Buyer following such exercise must be perfected simultaneously with the transfer of the Assigned Holding by Pirelli to the Third Party Buyer.
- (e) The transfer price of the Instruments to be Assigned must be established pursuant to the following provisions:
- (i) whenever Hopa exercised the co-sale right set forth in its favor in the previous paragraph 6.08(a)(i)(C) or 6.08(a)(ii), the latter in the portion referring to the Olimpia holding, the price will be equal to the same price for each Olimpia share obtained by Pirelli from the assignment of the Assigned Holding;
  - (ii) whenever Hopa exercised the co-sale right in its favor pursuant to the previous paragraph 6.08(a)(i)(A) or 6.08(a)(ii), the latter in the portion referring to the holding in Holinvest, the price will be established by considering the implicit value assigned by the Third Party Buyer to the Olivetti securities and to any Financial Instrument held by Olimpia evaluating Holinvest on this basis at Net Assets Value;
  - (iii) whenever Hopa exercised the co-sale right in its favor pursuant to the previous paragraph 6.08(a)(i)(B), the price of the Olivetti Instruments will be established considering the implicit value assigned by the Third Party Buyer to the Olivetti securities and to any Financial Instrument held by Olimpia.

with the understanding that, for the purposes of this paragraph, the Net Asset Value (referred to in the previous paragraph (ii)) and the price of the Financial Instruments (referred to in the previous paragraph (iii)) will be established pursuant to the previous paragraph (e) and, in the event of this agreement between Pirelli and Hopa, by an audit firm included among the so-called “Big Four” – appointed by the Parties by mutual agreement or, in the absence of such agreement, by the Presiding Judge of the Court of Milan at the request of the most diligent Party; with the understanding that – the determinations made by audit firm will be unappealable and final.

- (f) It is understood between the Parties that the obligations set forth in this paragraph 6.08 must be considered exclusively at the charge of Pirelli, excluding any joint liability of the Current Olimpia Shareholders.

6.08bis *Co-sale Rights concerning Olimpia's assets.* (a) For the entire Term of the Agreements – and in any event until the effective date of the Spinoff and of the Holinvest Spinoff – if the holding of Olimpia is reduced to a level below 25% of Olivetti's capital or, whenever it is so reduced, it is further reduced by transfer, assignment (including by spinoff) or sale of a portion thereof for payment, free of charge, for cash or by payment in kind, under any status, including in several tranches (hereinafter, together, the "Assigned Olivetti Holding"), Holinvest will have the right to claim (and therefore Olimpia will be obligated to cause) the buyer (hereinafter the "Third Party Buyer of Olivetti Instruments") – pursuant to the applicable provisions of this paragraph - to buy a percentage of the Olivetti Shares (and/or Financial Instruments) held by it on that date, equal to the percentage between the Assigned Olivetti Holding and Olimpia's holding in Olivetti, held before the assignment of the Assigned Olivetti Holding:

$$\text{PAOH} : \text{AOH} = \text{POC} : \text{PO}$$

Where:

PAOH: is the number of Olivetti Shares (and/or Financial Instruments) held by it, for which Holinvest [sic] may claim the transfer to the Third Party Buyer;

AOH: is the total number of Olivetti Shares (and/or Financial Instruments) held by Holinvest on the date Olimpia communicates its intent to transfer the Assigned Participation;

POC: is the Assigned Olivetti Holding (expressed as a percentage of the Olivetti Shares (and/or of the Financial Instruments) held by Olimpia on the date Olimpia communicates its intent to transfer Assigned Olivetti Holding);

PO: the total holding in Olivetti and/or all Financial Instruments held by Olimpia before the assignment of the Assigned Olivetti Holding;

with the understanding that:

- (x) for the purposes of this paragraph 6.08bis, the Olivetti Shares and/or Financial Instruments for which Holinvest must impose the acquisition of the Olivetti Instruments by the Third Party Buyer will be identified as "Olivetti Instruments to be Assigned";
  - (y) once Holinvest communicates – pursuant to the following paragraph (c) – to Olimpia that it wishes to exercise the co-sale right set forth in this paragraph 6.08bis, Holinvest will be obligated to sell the Olivetti Instruments to be Assigned under the terms and conditions set forth in this paragraph 6.08bis and, in particular, the following paragraphs (d) and (e); and
- (b) In order to allow Holinvest to exercise the rights set forth in the previous paragraph (a), Olimpia undertakes to communicate to Holinvest any intention to sell, transfer, assign (including by spinoff), or otherwise transfer under any status or part of its own holding in Olivetti, as soon as allowed by the negotiations of the Olivetti Instruments with the Third Party Buyer (taking into consideration possible reasons of confidentiality), communicating to Holinvest the nature of the Third Party Buyer of the Olivetti Instruments and the terms and conditions of the possible transfer transaction.
- (c) Holinvest, after receiving the communication about the transfer project of the Assigned Olivetti Holding by Olimpia, must communicate to Olimpia within twenty (20) Business Days from receipt of the communication, whether or not it intends to exercise its own co-sale right.
- (d) Should Holinvest exercise the co-sale right set forth in this paragraph 8.06(ii)[sic], the transfers of the Assigned Olivetti Instruments to the Third Party Buyer of the Olivetti Instruments to be Assigned following such exercise must be perfected simultaneously with the transfer by Olimpia to the Third Party Buyer of the Olivetti Instruments of the Assigned Olivetti Holding.
- (e) The transfer prize of the Olivetti Instruments to be Assigned will be equal to the price for each Olivetti share (and/or Financial Instrument) obtained by Olimpia from the transfer for the assignment of the Assigned Olivetti Holding.
- (f) The Parties mutually take note and agree that – as a partial exception to the provisions of this paragraph 6.08bis – whenever Holinvest exercises the co-sale right referred to in this paragraph 6.08bis, the assignment of the Assigned Olivetti Holding which – pursuant to the terms of the preceding paragraph would include an event of Accelerated Standstill – it will not be considered Accelerated Standstill.



6.09 *Taking Note.* The parties mutually take note that:

- (i) the Agreements set forth in this Contract do not replace and therefore do not impair the validity, efficacy and enforceability of the Agreements referred to in the Paracorporate Pact executed on September 14, 2001 between Pirelli, Unicredito, and Intesa;
- (ii) in light of the preceding paragraph (i), the exercise by Unicredito and/or Intesa of the rights set forth in their favor in the Paracorporate Pact referred to in the previous paragraph (i) may not in any manner represent nonperformance of any commitments assumed by Unicredito and Intesa (as Current Olimpia Shareholders) under this Contract, nor cause under any other status any liability for Unicredito and Intesa themselves;
- (iii) whenever Unicredito and/or Intesa exercise the *put* right pursuant to the Paracorporate Pact referred to in the preceding paragraph (i), they will immediately be released from any obligation towards Hopa arising from this Contract, regardless of the date of the actual transfer of the Olimpia shares subject to the *put*, without prejudice to the fact that Pirelli will be automatically obligated towards Hopa to perform all such obligations towards Hopa itself;
- (iv) for whenever Unicredito and/or Intesa exercise the *put* right referred to in the previous paragraph (iii), Edizione Finance and Hopa waive, as of now, exercising the preference right established in their favor in the bylaws.

## ARTICLE VII

### **Paracorporate Pacts Concerning Holinvest**

7.01 *Board of Directors of Holinvest.* (a) For the entire Term of the Agreements, the board of directors of Holinvest will be made up of a fixed, unchangeable number of 7 members, one of whom will be appointed by Olimpia's designation.

(b) The provisions of the previous paragraphs 6.01(b), (c) and (d) will apply, *mutatis mutandis*, to the Board of Directors of Holinvest.

7.02 *Lock-up Commitments.* (a) As of the date of this Contract and for a period of twenty months from the effective date of the Merger, Hopa:

- (i) undertakes not to:
  - (A) offer, constitute in pledge, sell, carry out preliminary sale steps, lend or otherwise transfer or assign (including by contribution or partial spinoff), directly or indirectly, Hopa's Holinvest Holding or any financial instrument that may be converted or which would give right to a holding in the capital of Holinvest, or
  - (B) execute swap contracts and other acts and/or contracts transferring to a different party, in full or in part, any risk or economic profit arising from Hopa's ownership of the Holinvest Holding, regardless of the fact that the transactions described in the preceding points (A) and (B) must be liquidated by delivery of Hopa's Holinvest Holding or of the aforementioned financial instruments, for cash or otherwise.
- (ii) it pledges – without prejudice to the provisions of the following paragraphs (b) and (c) – to take all necessary steps to prevent Holinvest from:
  - (A) offering, selling, carrying out preliminary sales steps, lending, granting in pledge to guarantee obligations of third parties or otherwise transferring or assigning (including by contribution or partial spinoff), directly or indirectly, the Olivetti Instruments which, as of the date of this Contract, are owned by it, or any other financial instrument that may be converted or which gives right to a holding in the capital of Olivetti; or
  - (B) executing swap contracts or other acts and/or contracts transferring to a different party, in full or in part, any risk or economic profit arising from the ownership of the Olivetti Instruments which, as of the date of this Contract, are owned by it, regardless of the fact that the transactions described in the preceding points (A) and (B) must be liquidated by delivery of the Olivetti Instruments or of the other aforementioned financial instruments, for cash or otherwise.

(b) Concerning the provisions of the following paragraph 7.03:

(i) the Parties mutually take note that they know the following:

(A) Holinvest gave in pledge to the banks which financed it (the “Creditor Banks”) the Olivetti Instruments which, as of the date of this Contract, are owned by it (as identified in the document enclosed herewith under No. 7.02(b)(ii)(A)) as guarantee of the obligations to reimburse the financing granted to it by said Creditor Banks;

(B) Hopa undertakes to take all possible steps to avoid a possible discussion of the pledge by the Creditor Banks and therefore to preserve the preferred rights in favor of Olimpia referred in paragraph 7.03 below;

(ii) in light of the provisions of the preceding paragraph (i), the Parties agree that:

(A) following the execution of this Contract, Hopa will do everything possible so that the Creditor Banks:

(1) consent that, in the event of sale of the Olivetti Instruments following the discussion of the pledge referred to in the preceding paragraph (i)(A), Olimpia be granted a preferred right concerning the acquisition of the Olivetti Instruments so sold; or, whenever such hypothesis is not feasible,

(2) to accept – in the event that the pledge referred to in the preceding paragraph (i)(A) must be discussed – to transfer to Olimpia the financing contracts and the respective guarantees, at a price equal to the market value as of that date of the credit given by the Creditor Banks to Holinvest, under the same financing contracts so assigned; on the other hand, it is understood that Hopa undertakes as of now to cause Holinvest – in the event that the Creditor Banks declare their availability to transfer the contract as indicated

in this paragraph (ii)(A)(2) to accept – and therefore consent to – such assignments:

(B) without limitation to the provisions of the preceding paragraph (A), immediately after the execution of the this contract, the Parties will send a joint communication to the Creditor Banks to inform them of the existence of the preferred right referred to in paragraph 7.03 below, and also requesting the Creditor Banks to a meeting to discuss the provisions of the aforementioned paragraph (ii)(A);

(C) in order to help Olimpia achieve the purposes set forth in the previous paragraph (i)(C), Hopa will allow a representative of Olimpia (chosen by Olimpia with the consent of Hopa – which may not be unreasonably denied) to participate in all the meetings with the Creditor Banks which are the consequence or related to the provisions of the previous paragraph (ii)(A);

(iii) the sections in the previous paragraphs(i) and (ii) will apply, *mutatis mutandis*, also in the case of subsequent financing and the respective pledges, with the understanding that the pledges so granted by Holinvest may refer only to the debts contracted by it, to the exclusion of the guarantee pledges of the debts of other parties.

(c) Hopa’s obligation referred to in the previous paragraph (a)(ii) is understood in the sense of allowing Holinvest to freely dispose – during the lock-up period – of the Olivetti Instruments and/or Financial Instruments (but without application of the preferred right referred to in paragraph 7.03 below) provided that during said period, Holinvest keeps its ownership of a number of securities of not less than 65% and not more than 125% of those listed in the previous paragraph 4.01(ii)(A) and provided the shares of the companies director or indirectly controlled by Olivetti do not exceed 10% of the assets of Holinvest, without prejudice to the composition of the assets of Holinvest on the Relevant Date.

*7.03 First Preferred Right in Favor of Olimpia.* (a) At the end of the Lock-up period referred to in the previous paragraph 7.02(a)(ii) and for the entire residual Term of the Agreements – and in any case until the effective date of the Spinoff and of the Holinvest Spinoff – Holinvest may freely dispose of the Financial Instruments and of the Olivetti Shares, provided it – should it carry out any of the transactions set forth in the previous paragraph 7.02(a)(ii)(A) and (B) – grant Olimpia (with written communication detailing the identity of the potential buyer whenever it is known to Holinvest, regardless of the fact that the sale takes place on the regulated market, and all the elements necessary for the adequate evaluation of the offer of the latter and of the elements showing his seriousness) a preferred right in the Olivetti Instruments which are the object of such transaction.

(b) It is understood that:

(i) the offer must be presented by the third party within (30) thirty Business Days from the date Olimpia received Holinvest’s communication referred to in the previous paragraph 7.03(a);

(ii) the preferred right referred to in the previous paragraph (b) must be exercised by the Olimpia within two (2) Business Days after Olimpia’s receipt of the respective *denunciatio*.

7.04 *Holinvest's Bylaws*. Hopa will take all necessary steps so that, by the date of the Merger and not later, Holinvest's bylaws be amended to allow Holinvest exclusively to engage in the holding and financial activity concerning ownership and trading of the Olivetti Shares, Olivetti Instruments and Financial Instruments, as well as the shares and/or financial instruments of the companies directly or indirectly controlled by Olivetti; Hopa's commitment is subject to the admissibility of such amendment pursuant to current legislation, without prejudice to the fact that Hopa will not be obligated to make such amendment whenever it implies the prohibition to Holinvest from continuing to own the holdings in securities other than those indicated in this paragraph, as currently owned, with the understand that, in this case, Hopa undertakes to cause Holinvest not to acquire new securities other than those described above. In addition, within the same term, Hopa undertakes to make in the current bylaws of Holinvest [sic] the amendments necessary to make it consistent with the model bylaws enclosed herewith under No. 7.04.

7.05 *Second Preferred Right in Favor of Olimpia*. (a) In the absence of a scenario of Accelerated Standstill, on the expiration of the first three-year period of the term of the Agreements (but completely independently from the fact that the agreements are extended for a subsequent three-year period or not) Hopa will cause Holinvest to execute with Olimpia a preferred rights agreement with a term of two years, under which – as of that date – Holinvest – whenever it intends to offer, pledge, sell, carry out preliminary sale steps, sell any sale option or contract, grant any option, right or warrant for acquisition, lend or otherwise transfer, assign or dispose (including by contribution or partial spinoff), directly or indirectly, all or part of Olivetti's holding post-Spinoff – it must offer it preferentially to Olimpia to the extent that, due to the transaction planned, Hopa and Holinvest would own together less than:

- (i) 65% of the holding in Olivetti belonging to them by the effect of the Spinoff; or
- (ii) 65% of the Olivetti Instruments owned by Holinvest on the reference date of the Spinoff.

(b) The preferred right referred to in the previous paragraph (a) must be exercised by Olimpia within 15 days after its receipt of the respective *denunciatio*.

(c) For the entire term of the preferred rights agreement set forth in this paragraph 7.05, the provisions of the previous paragraph 6.05 apply, *mutatis mutandis*.

## ARTICLE VIII Standstill and Accelerated Standstill

8.01 *Identification of standstill cases*. For the purposes of this Contract, "Standstill" means a situation of disagreement, expressed in preliminary consultations or, in the absence thereof, in the Extraordinary Shareholders' Meeting of Olimpia or in the Board of Directors of Olimpia, among the Current Olimpia Shareholders, on the one hand, and Hopa, on the other hand, on a Relevant Subject, at any time during the Term of the Agreements.

8.02 *Obligation of consultation*. The Current Olimpia Shareholders undertake to first consult Hopa whenever a Relevant Deliberation must be discussed or approved.

8.03 *Procedure*. (a) For the performance of the obligation referred to in paragraph 8.02 above, the Current Olimpia Shareholders and Hopa undertake to meet, or to first consult each other by telephone conference or videoconference, subject to the appropriate minutes, within and not later than the third (3<sup>rd</sup>) day prior to the day scheduled for the meeting of the board or shareholders of Olimpia, or immediately after they become aware, in the event of urgent invitation from the meeting of the Board of Olimpia pursuant to the applicable bylaws' provisions.

(b) In the consultation referred to in this paragraph, the Current Olimpia Shareholders and Hopa will do everything possible to reach an agreement and/or identify a common position in the issues submitted to their examination, and undertake for this purpose to act in good faith.

(c) The unjustified absence of a Party in the preliminary consultation or its abstention from decisions reached during the consultation, implies acceptance of the decisions reached by the other Party and impose on the absent or abstaining Party the obligation to comply with and observe such decisions.

8.04 *Manifestation of will.* (a) Whenever the Current Olimpia Shareholders and Hopa, in the preliminary consultation referred to in paragraphs 8.02 and 8.03 above, reached an agreement concerning the issues submitted to said consultation, they will be obligated to express their will at the competent levels, according to the following provisions:

- (i) by giving a joint representative delegation to participate in Olimpia's extraordinary shareholders' meeting and to cast the vote in said meeting, according to the decision made; or, as applicable,
- (ii) to cause its representatives in the Board of Directors of Olimpia to participate in the meeting of the board and cast their vote there, according to the joint decisions reached in the preliminary consultation.

(b) Otherwise, in the absence of mutual agreement on the issues submitted to consultation, Hopa will be obligated to refrain from participating in the meeting of the shareholders or of the board and from casting or causing its vote to be cast at said level and/or refrain from expressing, at any level and mode, its will or position concerning the issue subject to said preliminary consultation, except as indicated in point (d) below.

(c) Whenever the preliminary consultation referred to in the previous paragraphs 8.02 and 8.03 does not take place by the fault of the Current Olimpia Shareholders, Hopa will have the right to participate in the meeting of the shareholders and/or board and cast or cause casting of its vote at that level and/or to express, at any level and mode, its will or position concerning the Relevant Subject, except as set forth in point (d) below.

(d) Whenever the situation referred to in point (b) or the situation referred to in point (c) above occur, Hopa will have the right to send to the Current Olimpia Shareholders, by telegram or registered letter and pursuant to paragraph 12.03, a "Standstill Notice" within the term of 15 (fifteen) days from the end of the consultation referred to in paragraph 8.03 or, in the absence of consultation, from the date of the decision referred to in the preceding paragraph 8.04(c).

(e) Within 30 Business Days from the date the Current Olimpia Shareholders received the Standstill Notice, the Parties must request – for the only purpose referred to in paragraph 10.01 below – by unappealable judgment of an Arbitration Board, to be appointed in accordance with Article XIII below, the ascertainment, for the purposes set forth in Article X, of whether or not the Standstill situation was declared by Hopa in good faith.

In any event, it is understood in order to avoid any doubt, that Hopa's right (as referred to in Article IX below) to have the Spinoff [and] the Holinvest Spinoff take place without the results of such ascertainment and therefore the Current Olimpia Shareholders must implement all necessary steps for the Spinoff and Holinvest Spinoff to take place within the term indicated in paragraph 9.01(c) below.

8.05 *Rights of the Parties.* (a) Whenever Hopa sends to the Current Olivetti Shareholders a Standstill Notice pursuant to paragraph 9.04 (c) above, Hopa will have the right (which will be deemed exercised by the receipt of the Standstill Notice by the Current Olimpia Shareholders pursuant to point (c) paragraph 8.04 above) to claim – as of the end of the thirty-sixth (36) month after the date of the Merger (the "Initial Term") – all necessary steps to be taken so that within 6 months from the Initial Term, the Spinoff and Holinvest Spinoff take place pursuant to the applicable provisions of Article IX below.

(b) The Parties agree that in any case of absence of opt-out of the Parties and their consequent automatic renewal pursuant to the provisions of paragraph 6.00(b) above, the Initial Term must be considered from time to time [the end of the thirty-sixth (36) month after the date of each renewal].

8.06 *Identification of Cases of Accelerated Standstill.*

(a) Whenever - during the Term of the Agreements – one of the following events takes place (each of them an event of "Accelerated Standstill"):

- (i) a decision is made for the merger and/or spinoff of Olimpia and/or Olivetti with companies other than companies directly or indirectly controlled;
- (ii) Olimpia stops owning a holding in Olivetti at least equal to the Holding in Olivetti, including as a consequence of:
  - (A) transfer and/or assignment (including by spinoff) and/or contribution of all or part of its holding in Olivetti and/or Financial Instruments (with voting right) to companies belonging to the groups in which the Current Olimpia Shareholders are members or which are managed by them; or

- (B) transfer and/or assignment (including by spinoff) of all or part of its holding in Olivetti and/or Financial Instruments (with voting right) to third parties with payment in kind (for example by swap or contribution).
- (iii) Olimpia's debt/equity Ratio - without prejudice to paragraph (b) below – exceeds 1:1;
- (iv) the Current Olimpia Shareholders decide to contribute all or part of their total holding in Olimpia to companies belonging to groups in which the Current Olimpia Shareholders are members or which are managed by them;
- (v) without prejudice to the provisions of paragraph 8.06(b) (iii) (C) below, there are plans for transfer, assignment and/or conveyance (including by spinoff) under any status, of all or part of the total holding of the Current Olimpia Shareholders in Olimpia, to companies belonging to groups in which the Current Olimpia Shareholders are members or which are managed by them, at a price lower than the market price of Olimpia's holding in Olivetti plus € 0.60 per Olivetti Share and/or Financial Instrument owned by Olimpia. It is understood that, whenever Extraordinary Transactions or Capital Transactions are carried out, such increase of € 0.60 must be determined for a number of Olivetti Shares and/or Financial Instruments appropriately adjusted or adapted as a consequence of such Transactions, according to market practice, with the understanding that whenever, due to the determination of such number there is a disagreement between the Parties, such determination will be requested by the most diligent Party from a prime business bank chosen by mutual agreement or, in the absence thereof, designated by the President Judge of the Court of Milan;
- (vi) there are plans for assignment and/or conveyance (including by spinoff) of all or part of the total participation of the Current Shareholders in Olimpia to third parties, with payment in kind (for example by swap or contribution), whenever the third party does not assume towards Hopa the same obligations assumed by the Current Olimpia Shareholders pursuant to the agreements, without prejudice to the fact that in such case Hopa will not be subject to any co-sale obligation;

in all these cases, Hopa will have the right to ask Olimpia and the Current Olimpia Shareholders to take all necessary steps in order to decide – pursuant to the applicable provisions of Article IX below – on the Spinoff and Holinvest Spinoff.

- (b) The Parties mutually take note that:
  - (i) the right granted to Hopa in paragraph (a) above will be deemed exercised when the Current Olimpia Shareholders receive a written communication from Hopa indicating to the Current Olimpia Shareholders its desire to enforce its rights established in the event of Accelerated Standstill, "Accelerated Standstill Notice";
  - (ii) this communication must be sent by Hopa to the Current Olimpia Shareholders not later than by the fifteenth (15<sup>th</sup>) day after the occurrence of one of the events referred to in paragraph (a) above;
  - (iii) in the event referred to in paragraph 8.06(a)(v) above, Hopa will not have:
    - (A) the right to exercise the co-sale rights reserved in its favor in paragraph 6.08(a) above;
    - (B) the right to exercise its preferred right established in the bylaws; and
    - (C) any co-sale obligation.

#### 8.07 *Exceptions to Cases of Accelerated Standstill.*

- (a) In partial derogation to the provisions of paragraph 8.06(a)(iii) above, the Parties mutually take note that:
  - (i) the occurrence of a possible excess over the ratio of 1:1 in the debt/equity Ratio of Olimpia, relevant for the purposes of paragraph 8.06(iii) above, will exclusively be that carried out by Olimpia and the Current Olimpia Shareholders and communicated by them to Hopa (including as part of the approval of the periodic financial statements and balance sheets of Olimpia by its Board of Directors) quarterly, and at any time following a written request from Hopa to Olimpia; and
  - (ii) it may be considered that the event referred to in the previous paragraph 8.06(iii) took place only if, following said event, the debt/equity Ratio of Olimpia is not restored to a value equal to or lower than 1:1 within the next 5 days from the date of the communication by which Olimpia notifies Hopa that the debt/equity Ratio of Olimpia has exceeded 1:1 or, as an alternative, the latter does not irrevocably undertake to restore it, with the understanding that such restoration may occur (A) by non-refundable payments to the capital account made by the Current Olimpia Shareholders and without causing



economic difficulties for Hopa or dilutions of the latter's holding in Olimpia or (B) by subordinated financing, with the understanding that, in this case, the current Olimpia Shareholders will be obligated (in order to avoid an Accelerated Standstill) to convert or replace within 60 (sixty) days such subordinated financing by non-refundable payments to the capital account, without causing economic difficulties for Hopa or dilution of the latter's holding in Olimpia.

- (b) In addition, the Parties mutually take note that:
- (i) the transfer or contribution of their holding in Olimpia will not constitute a case of Accelerated Standstill pursuant to paragraph 8.06(v) above:
    - (A) by one of the Current Olimpia Shareholders, to a company which is (and remains) controlled by it; and
    - (B) by Unicredito and Intesa to:
      - (1) a company subject to joint control of said parties in their respective bank group and as long as they remain members thereof; and/or
      - (2) to Pirelli, pursuant to the provisions of the current Pool Agreement between Pirelli, on the one hand, and Unicredito and Intesa on the other hand, provided that Pirelli – simultaneously with such assignment or contribution – is subrogated in the obligations assumed by Unicredito and Intesa towards Hopa pursuant to the Agreements and in general pursuant to this Contract;
    - (C) by Edizione to Pirelli pursuant to the provisions of the current Pool Agreement between Pirelli, on the one hand, and Edizione, on the other hand, whereby Pirelli is subrogated as of now, in the event of such assignment or contribution, in the obligations assumed by Edizione towards Hopa pursuant to the Agreements and, in general, pursuant to this Contract;
  - (ii) the assignments referred to in paragraph 8.07(b)(i) above will not give Hopa the right to exercise the co-sale rights reserved to it under paragraph 6.08(a) above, nor the preferred right established for it in the bylaws, nor will they create any co-sale obligation for Hopa.

8.08. *Relations between Standstill and Accelerated Standstill.* The Parties mutually take note that whenever, in the event of a Standstill, there is an event of Accelerated Standstill, the applicable provisions in the case of Accelerated Standstill will prevail and, whenever there is an Accelerated Standstill, there may be no Standstill or a subsequent Accelerated Standstill, with the understanding that in the event of a Standstill, an Accelerated Standstill may take place but a subsequent Standstill may not be deemed to occur.

#### ARTICLE IX **Spinoff and Holinvest Spinoff**

9.00 *Triggering Events.* Should Hopa exercise the rights set forth in its favor in paragraphs 8.05 and 8.06(a) above, and in the event of failure to renew the Agreements on their initial expiration or at the expiration of the subsequent renewals periods pursuant to paragraph 6.00 above:

- (i) the Current Olimpia Shareholders undertake to do everything necessary so that – pursuant to the following paragraphs of this Article IX and in particular paragraph 9.01 – the Spinoff takes place; and
- (ii) Hopa and Olimpia undertake to do everything necessary so that - pursuant to the following paragraphs of this Article IX and in particular paragraph 9.04 – the Holinvest Spinoff takes place.

9.01 *The Spinoff.* (a) The Spinoff will consist of a partial spinoff of Olimpia as a consequence of which Hopa will receive the pro-quota of Olimpia's assets and liabilities.

- (b) The reference date, including for the determination of the pro-quota of the assets and liabilities and without prejudice to paragraph 9.02, of the Spinoff (the "Relevant Date") will be:
- (i) *the Initial Term*, in the event of Standstill and in the event of failure to renew the Agreements on the original expiration or on the expiration of the subsequent renewal periods (without prejudice to paragraph 8.05(b) above); and
  - (ii) *a date coinciding with the third (3<sup>rd</sup>) Business Day following the date of the relevant event for the purposes of Accelerated Standstill*, in the event of Accelerated Standstill.



(c) Without prejudice to paragraph 9.06 below, the Current Olimpia Shareholders must take all necessary steps to complete the Spinoff within six (6) months:

- (i) *from the Initial Term*, in the event of Standstill and in the event of failure to renew the Agreements on the original expiration or on the expiration of the subsequent renewals periods; and
- (ii) *from the date of receipt of the Accelerated Standstill Notice*, in the event of Accelerated Standstill.

9.02 *Commitment of the Current Olimpia Shareholders.* Without prejudice to paragraph 9.07 below for the so-called cash settlements, in all cases in which, pursuant to this Contract, it is necessary to proceed with the Spinoff, the Current Olimpia Shareholders must do everything necessary so that, on the Relevant Date:

- (i) the assets of Olimpia consist at least of the Olivetti Holding (ii) the share of the Olivetti Holding and Financial Instruments to be attributed to Hopa in the Spinoff is equal to the percentage of Hopa's holding in the capital of Olimpia, without prejudice to the fact that, in the Spinoff, Hopa must be attributed a share of the Olivetti Holding including in the event that, on the Relevant Date, Olimpia has a holding lower than the Olivetti Holding, except that, upon the reduction of Olimpia's holding in Olivetti below the Olivetti Holding, the exercise of the co-sale right is obtained by Hopa; in this case, Hopa will be attributed the pro rata of Olimpia's holding in Olivetti and of its financial instruments;
- (ii) Hopa will be attributed a portion, in a percentage equal to Hopa's holding percentage in Olimpia's capital,
  - (A) of Olimpia's holding in Holinvest on the Relevant Date; or
  - (B) the share reserved to Olimpia in connection with Holinvest's assets and liabilities on the same date.

9.03 *Further Commitments in the Event of Standstill, Accelerated Standstill and Failure to Renew.* In addition to the provisions of Paragraph 9.02 above, in the event of Spinoff following a Standstill, and an Accelerated Standstill or failure to renew the Agreements, the Current Olimpia Shareholders must take all necessary steps so that the debt/equity Ratio of Olimpia on the Relevant Date is not higher than 1:1.

9.04 *Subsequent Commitments only in the Event of Accelerated Standstill.* In addition to the provisions of paragraph 9.02 above, in the event of Spinoff following an Accelerated Standstill (and therefore not in the case of Standstill or failure to renew the Agreements), the Current Olimpia Shareholders must take all necessary steps so that the effects of the event which gives rise to Hopa's right to enforce the Accelerated Standstill (provided it does not consist of the events referred to in paragraphs 8.06(ii) and 8.06(iii) below) do not damage the Spinoff.

9.05 *Holinvest Spinoff.* (a) The Holinvest Spinoff will consist of a partial spinoff of Holinvest as a consequence of which Olimpia will be attributed the pro-quota of the assets and liabilities of Holinvest.

- (b) Without prejudice to paragraph 9.07 below, the reference date of the Holinvest Spinoff will be the Relevant Date of the Spinoff (and must therefore be determined pursuant to paragraph 9.01(b) above).
- (c) Without prejudice to paragraph 9.07 below, Hopa must take all necessary steps for the Holinvest Spinoff to be completed within six (6) months:
  - (i) *from the Initial Term*, in the event of Standstill and in the event of failure to renew the Agreements on the original expiration or on the expiration of the subsequent renewals periods; and
  - (ii) *from the date of receipt of the Accelerated Standstill Notice*, in the event of Accelerated Standstill.

9.06 *Commitment of Hopa.* In all cases in which the Holinvest Spinoff must be carried out, Hopa will take all necessary steps so that, on the Relevant Date:

- (i) Holinvest's debt/equity Ratio is not higher than 1:1; and
- (ii) Holinvest's assets do not include financial instruments other than Olivetti Bonds or other Olivetti Instruments or financial instruments derivative from Extraordinary Transactions or Olivetti Shares arising from the conversion of the instruments of mentioned above, in addition to the Olivetti Shares referred to in paragraph 4.01 (a) (ii) (A) (4) above.

9.07 *Modalities of the Spinoff and Holinvest Spinoff.*

(a) Without prejudice to the previous paragraphs of this Article IX, the Parties mutually take note that, in order to carry out the agreement of the Parties in the event that it is necessary to proceed with the Spinoff and the Holinvest Spinoff:

- (i) the Holinvest Spinoff must proceed and be effective before the Spinoff becomes effective, and must attribute to Olimpia (or, should it so require, in writing, to one of its fully-held subsidiaries) the pro-quota of the assets and liabilities of Holinvest (as set forth in paragraphs 9.05 and 9.06 above); *however, it is understood that*, whenever Hopa so desires, instead of the Holinvest Spinoff (and therefore instead of the allocation to Olimpia of the pro-quota of the assets and liabilities of Holinvest) Hopa may liquidate Olimpia [and therefore buy Olimpia's holding in Holinvest] with a payment in cash (so-called cash settlement) whose amount must be calculated equal to the difference, calculated at market prices on the Relevant Date, between the assets and liabilities which, in the event of the Holinvest Spinoff (and therefore in the event of allocation to Olimpia of the pro-quota of the assets and liabilities of Holinvest) would have been reserved for Olimpia; with the understanding that this right may be exercised by Hopa only within 15 (fifteen) Business Days from the Relevant Date, and that the payment of the aforementioned amount must take place within 15 (fifteen) Business Days after the exercise of said right.
  - (ii) subsequently – although without solution of continuity – at the time the Holinvest Spinoff becomes effective, the Spinoff will be carried out attributing to Hopa (or, if it so desires, to one of its fully-held subsidiaries) the pro-quota of the assets and liabilities of Olimpia (as set forth in paragraphs 9.01 to 9.04 above); *however, it is understood that*, whenever the Current Olimpia Shareholders so desire, instead of the Spinoff (and therefore instead of the allocation to Hopa of the pro-quota of the assets and liabilities of Olimpia) the Current Olimpia Shareholders may liquidate Hopa [and therefore buy the pro-quota, unless decided otherwise, of Hopa's entire holding in Olimpia] with a payment in cash (so-called cash settlement) whose amount must be calculated equal to the difference, calculated at market prices on the Relevant Date, between the assets and liabilities which, in the event of the Spinoff (and therefore in the event of allocation to Hopa of the pro-quota of the assets and liabilities of Olimpia) would have been reserved for Hopa; with the understanding that this right may be exercised by the Current Olimpia Shareholders only within 15 (fifteen) Business Days from the Relevant Date, and that the payment of the aforementioned amount must take place within 15 (fifteen) Business Days after the exercise of said right.
  - (iii) including in the event of cash settlement, Hopa will be paid or attributed the Increase Premium to which it is entitled pursuant to Article X below.
  - (iv) the stipulation of the Spinoff instrument will be subject to the stipulation of the preferred right agreement referred to in paragraph 7.05 above, whose enforceability will be, in turn, subject, as a suspensive condition, to the completion of the Spinoff.
- (b) Furthermore, the Parties mutually take note of the fact that Olimpia's liabilities include a "syndicated loan," in the amount of € 1.8 billion maturing in October 2006, which cannot be distributed as part of the Spinoff between the company subject to spinoff and the beneficiary, and that therefore:
- (i) such syndicated loan will fully remain in the liabilities of Olimpia;
  - (ii) as part of the Spinoff, Olimpia will attribute to the beneficiary another financial loan, equal to the portion of the syndicated loan receivable by the beneficiary of the Spinoff, without changing the preexisting pro-quota of the assets and liabilities to which the beneficiary is entitled.
- (c) The Parties mutually take note that, as part of the Holinvest Spinoff, as part of the attribution of the pro-quota of the applicable assets and liabilities, Hopa will be attributed 1,000,000 Olivetti Bonds and the respective debt as referred to in paragraph 4.01(ii)(D)(2).

9.08 *Penalty.* (a) Without prejudice to paragraph (b) below, in the event that (for reasons other than failure to complete the Holinvest Spinoff by the fault of Hopa) the Spinoff does not become effective within the term indicated in paragraph 9.01(c) above, the Current Olimpia Shareholders must promptly pay an indemnity to Hopa (the "Penalty") equal to € 0.70 for each Olivetti Share and/or Financial Instrument which, by the effect of the Spinoff, must be attributed to Hopa (or should have been attributed to Hopa in the event that the Current Olimpia Shareholders would have exercised their right to the so-called cash settlement pursuant to paragraph 9.07(a) above), without prejudice to the fact that, in all events, Hopa must be attributed a share of the Olivetti Holding

even in the event that Olimpia owns a holding lower than the Olivetti Holding (except if, when the Olimpia holding in Olivetti is reduced below the Olivetti holding, Hopa exercises the co-sale right); in this case, the Penalty will be calculated in connection with Olimpia's holding in Olivetti and the Financial Instrument thereof, with the understanding that the Penalty will be paid (in an amount equal to the difference between € 0.70 and the portion of the Increase Premium possibly already paid to Hopa) only in connection with the Olivetti shares and the financial instruments which, on the date of the spin-off, are the property, held or available directly or indirectly to Olimpia (net of those arising from the Holinvest spin-off, which will not therefore be considered for the determination of the penalty). It is understood that, whenever Extraordinary Transactions or Capital Transactions are carried out, such Increase Premium must be paid for the entire number of Olivetti shares and/or financial instruments, timely adjusted or adapted as a consequence of such transactions, according to market practice, without prejudice to the fact that, whenever there is a disagreement between the parties concerning the determination of such number, the determination will be requested by the most diligent among them from a prime business bank chosen by mutual agreement, or, in the absence thereof, designated by the presiding judge of the Court of Milan.

(b) In partial derogation to the preceding paragraph, the parties agree as follows:

- (i) whenever the effectiveness of the spin-off, even though it does not take place within the term established in the previous paragraph 9.01(c), takes place within the subsequent term of six (6) months from the expiration of the term set forth in the preceding paragraph 9.01(c) (the "new term") the amount paid by the current Hopa shareholders as penalty must be refunded by Hopa to the current Olimpia shareholders when Olimpia delivers to Hopa everything the latter is entitled to pursuant to the spin-off; however, it is understood that, in such latter event, the Increase Premium referred to in Article 10 below must be paid by the current Olimpia shareholders to Hopa plus interest on said amount, accrued on the balance of the Increase Premium at annual Euribor 6 months from the expiration of the term referred to in the preceding paragraph 9.01(c) to the effective date of the spin-off.
- (ii) the payment of the indemnity referred to in the preceding paragraph (a) pending on the new term must therefore be considered provisional, and may be considered final and therefore mature, including for tax purposes, only if, at the expiration of the new term, the spin-off is not yet executed.

#### ARTICLE X

##### **Increase Premium**

10.00 *Description.* In all the events in which it is necessary to proceed with the spin-off, pursuant to the applicable provisions of this contract and in particular Article 9 above (in the calculation of the pro quota of the assets and liabilities to which the beneficiary is entitled under the spin off) Olimpia or the current Olimpia shareholders, if Olimpia fails to do so, must pay to Hopa, by the methods referred to in paragraph 10.04 below, but in addition to any right of Hopa by the effect of the spin-off pursuant to Article IX above, an Increase Premium (the "Increase Premium") for each Olivetti share and/or financial instrument which, by the effect of the spin-off, must be attributed to Hopa (or should have been attributed to Hopa in the event that the current Olimpia shareholders would have exercised their right to the cash settlement pursuant to the paragraph 9.07(a) above, to be determined and paid pursuant to the provisions of the following paragraphs of this Article X. It is understood that, whenever Extraordinary Transactions or Capital Transactions are carried out, such Increase Premium must be paid for the entire number of Olivetti shares and/or financial instruments timely adjusted or adapted as a consequence of such transactions, according to market practice, with the understanding that whenever, due to the determination of such number there is a disagreement between the Parties, such determination will be requested by the most diligent Party from a prime business bank chosen by mutual agreement or, in the absence thereof, designated by the Presiding Judge of the Court of Milan; with the understanding that, without prejudice to paragraph (i) above, the Increase Premium will be paid only for the Olivetti shares and Financial Instruments directly or indirectly owned, held, or available to Olimpia as of the date of the Spinoff (net of those arising from the Holinvest Spinoff, which will consequently not be considered for the determination of the Increase Premium). Whenever actually paid, the Increase Premium must be considered to include all Hopa's claims following the Standstill or the accelerated Standstill, as the case may be.

10.01 *The Increase Premium In The Event of Standstill:* In the event that the spin-off takes place following a standstill, the Increase Premium must be determined as follows:

- (i) at € 0.35, whenever the arbitration board referred to in Article XIII below, selected by the parties pursuant to paragraph 8.04(d) above, determines that the standstill was declared by Hopa not in good faith; or instead

- (ii) at € 0.60, whenever the arbitration board referred to in Article XIII below, selected by the parties pursuant to paragraph 8.04(d) above, determines that the standstill was declared by Hopa in good faith.

10.02 *The Increase Premium in the Event of Accelerated Standstill.* In the event that the spin-off takes place following an accelerated standstill, the Increase Premium will be equal to € 0.60, without prejudice to the fact that, in the case referred to in paragraph 8.06 (ii) above, the Increase Premium will be equal to € 0.70.

10.03 *The Increase Premium in the Event of Failure to Renew the Agreements.* In the event that the spin-off takes place as the consequence of the failure to renew the agreements, the Increase Premium will be determined according to the following provisions:

- (i) the Increase Premium may not in any event and therefore not even if the parties resort to the evaluation of the investment banks referred to in paragraph (ii) below, be determined at an amount of less than € 0.35;
- (ii) the Increase Premium will be determined by mutual agreement between the current Olimpia shareholders and Hopa within 10 business days from the last day of the term of the agreement or, in the absence of such agreement, by two “investment banks” within the national standing selected one by each party; for the purposes of this paragraph 10.03. party means Hopa, on the one hand, and the current Olimpia shareholders on the other hand, without prejudice to the fact that, whenever the “investment banks” so appointment disagree on the evaluation within 30 business days from their appointment, the evaluation will be made by a third “investment bank” with the same standing, selected by agreement between the first two (at the time the parties give the task) or, in the absence of agreement, by the presiding judge of the Court of Milan;
- (iii) the Presiding Judge of the Court of Milan will be (in the order and in the terms indicated above) also requested to appoint the “investment bank” which one of the parties may have omitted to appoint or to replace it, in the event of its subsequent transfer of the task;
- (iv) the evaluation referred to in point (i) above will be final and binding for the parties pursuant to articles 1349 and 1473 of the Civil Code, for the purposes of this Article X and in particular this paragraph 10.03.

10.04 *Terms and Modalities of Payment of the Increase Premium.* The Increase Premium must be paid or allocated to Hopa by Olimpia – or by the current Olimpia shareholders pursuant to paragraph 10.00 above – in immediately available funds;

- (i) in the event referred to in paragraph 10.01 above;
  - (A) concerning the € 0.35, at the time of affecting the spin-off: and
  - (B) concerning the possible balance (equal to € 0.25) within 15 (fifteen) business days from the decision of the arbitration board, determining that the standstill was determined by Hopa in good faith;
- (ii) in the event referred to in paragraph 10.02 above, concerning the € 0.35, within 30 (thirty) calendar days from receipt of the accelerated standstill notice by the current Olimpia shareholders, and the balance of the applicable Increase Premium at the time of perfecting the spin-off;
- (iii) in the event referred to in paragraph 10.03 above, within 30 (thirty) business days from the determination referred to in points (ii) to (iv) of paragraph 10.03 above;

#### ARTICLE XI **Expenses and Burdens**

Except as otherwise agreed between the parties, the cost, dues, taxes, expenses, and other burdens arising from this contract or related to it will be paid by each party in the part concerning it.

#### ARTICLE XII **GENERAL PROVISIONS**

12.01 *Amendments.* Any amendment to this contract will be valid and binding only if it arises from a written document signed by all the parties.

12.02 *Prohibition of Assignment.* Except as otherwise set forth in the specific clauses of this contract, neither party may assign this contract in full or in part, nor may it assign any of the rights or obligations arising from it, without the prior written agreement of the other party.

12.03 *Communications and Notices.* Except as otherwise set forth in the provisions of this contract, any communication requested or allowed by it must be made in writing and will be deemed efficiently and validly made when it is received, if sent by letter or telegram, or at a time of the acknowledgment of receipt by the appropriate declaration (including by fax) at the time of transmission indicated in the report automatically issued by the transmitting machine, if made by fax, provided it is addressed as follows:

- (i) if to Pirelli, to it at:  
Via G. Negri 10  
20100 Milano  
Fax: 02-86354469  
To the attention of the *pro tempore* Managing Director
- (ii) if to Edizione Finance and Edizione, to the former at:  
Calmaggiore23  
Treviso  
Fax: 0422-411118  
To the attention of the *pro tempore* Managing Director
- (iii) if to Unicredito, to it at:  
Via Tommaso Grossi, 10  
20121 Milano  
Fax: 02-88622196  
To the attention of Dr. Pietro Modiano and Dr. Paola Pierri  
  
With copy to:  
Atty. Pietro Caliceti  
Studio Legale Caliceti  
Via Manzoni 14  
20121 Milano  
Fax: 02-77809334
- (iv) if to Intesa, to it at:  
Via Monte di Pietà 8  
20100 Milano  
Fax: 02-87963837  
To the attention of the *pro tempore* Managing Director
- (v) if to Olimpia, c/o Pirelli at:  
Via G. Negri 10  
20100 Milano  
Fax: 02-85354469  
To the attention of the *pro tempore* Managing Director
- (vi) if to Hopa, to it at:  
Corso Zanardelli 32  
25100 BRESCIA  
Fax: 030 3773851

To the attention of the *pro tempore* Managing Director or at a different address or fax number, in the Italian territory, as each of the parties may communicate to the other in writing after the date of this contract, pursuant to the preceding provisions, with the understanding, that, at the aforementioned addresses, or at different addresses that may be communicated in the future, the parties will also elect their own domicile for all purposes related to this contract, including for possible notices to be issued during or in connection to judicial or arbitration proceedings.

12.04 *Addenda.* The Addenda are an integral part of this contract as if they were fully transcribed therein.

12.05 *Tolerance.* The possible tolerance of one of the parties for the behavior of the other constituting violation of the provisions of this contract does not constitute waiver of the rights arising from the violated provisions or of the right to require exact performance of all terms and all the conditions set forth therein.



12.06 *Headings.* The headings of the individual articles are included only to facilitate the reading of this contract and therefore they must not be taken into account in any manner in the interpretation thereof.

12.07 *References.* Unless it arises otherwise from the context, the references contained herein to articles, paragraphs, points or addenda will be understood to refer to the articles, paragraphs, points or addenda of this contract.

12.08 *Governing Law.* This contract and the rights and obligations of the parties arising from it will be governed and interpreted pursuant to the laws of the Italian Republic.

12.09 *Subsequent Commitments.* The parties undertake to sign and exchange all acts and documents and to comply with all acts and to communicate everything necessary in order to assure the achievement of the objectives of this contract.

12.10 *The Current Olimpia Shareholders and Olimpia as Joint Party.* The current Olimpia shareholders and Olimpia, recognizing that they have the joint common interest, declare that they are a joint contractual party for all the purposes of this contract and therefore bind themselves to comply with the obligations and exercise with the rights arising from said contract in accordance with such joint capacity, in particular (but without limitation thereto) concerning the clause in Article XIII below.

12.11 *Announcements.* Except as otherwise set forth in any applicable imperative law, or provisions enforced by any authority with jurisdiction on the current Olimpia shareholders, Olimpia and Hopa, neither one of the parties will engage in announcements, publicity, distribution of similar, in connection with the performance or execution of the contents of this contract, any of its clauses or provisions or any of the transactions referred to therein, without prior agreement of the other party concerning the form and contents of such possible communications.

12.12 *Effects of the Contract.* All the provisions of this contract indicating obligations to be performed by the parties after the merger will remain in force and fully valid including after the merger, pursuant to their terms, without need for the parties to renew the assumption of their own commitments in connection with such obligations.

12.13 *Whole Agreement.* The parties acknowledge and mutually take note that the provisions of this agreement express their complete and entire will in connection with its object and therefore, fully replace any prior pact or agreement, including verbal, between them, in connection with the same object.

### ARTICLE XIII **Dispute**

13.01 *Arbitration.* Unless a different jurisdiction is established in this contract, any dispute arising from this contract or from possible agreements for execution, amendment or addition, will be subject to the decision of an arbitration board made up of three arbitrators, which will be decided without procedural formalities, except for the respect of the principle of hearing both parties, but will apply Italian substantive law. The arbitration will be legal pursuant to the provisions of the Code of Civil Procedure and will take place in Milan.

13.02 *Appointment of the Arbitrators.* (a) The party which requests the arbitration proceeding by notice sent through a process server must indicate, at least in general lines, the petition submitted to arbitration and must designate its own arbitrator at the same time, under penalty of invalidity.

(b) The party called to arbitration will have twenty (20) business days to designate its own arbitrator. The two arbitrators of the parties will designate by mutual concern the third arbitrator, which will preside the arbitration board.

(c) Whenever the arbitrators, as appointed above, do not reach an agreement concerning the appointment of the third arbitrator within twenty (20) business days from the appointment of the second arbitrator, the latter will be designated by the President of the Arbitration Chamber of Milan, at the request of the most diligent party, after assigning an appropriate term for the hearing of the other. The President of the Arbitration Chamber of Milan will also be authorized to provide, pursuant to this point (c), whenever the party called to arbitration fails to designate its own arbitrator within the aforementioned term, or the arbitrator designated refuses the task, or becomes disabled or is terminated from the task and is not replaced by the party which had appointed him within twenty (20) business days, by another arbitrator, who accepted.



(d) For the purposes of this contract, the current Olimpia shareholders will jointly be considered one party.

(e) Whenever, notwithstanding the provisions of the previous paragraph (d), the dispute involves more than 2 parties, the arbitration board will be made up (i) of three arbitrators appointed by the same method as indicated in 13.02 (a) and 13.02 (b) above, or the parties involved will spontaneously regroup in only two groups or (ii) whenever there is a conflict of interest which does not allow for the appointment of an arbitrator, arising between more than two parties, the multilateral dispute must be decided upon by an arbitration board with three arbitrators, all designated by the President of the Arbitration Chamber of Milan at the request of the party which asks for arbitration, and after hearing the other parties involved in the dispute.

LIST OF ATTACHMENTS

Attachment 1.44	Olivetti Instruments
Attachment 3(b)	Declaration – Hopa and Hopa Controlling companies
Attachment 3(d)	Declaration – Olimpia and Current Olimpia Shareholders
Attachment 5.02(i)	Equity Situation of Olimpia
Attachment 5.02(ii)	Equity Situation of Holy
Attachment 5.03(iii)	Pro forma Equity Situation of Holy and Holinvest
Attachment 5.07(b)	Bylaws of Olimpia
Attachment 5.10.1.1	Capital of Holinvest and Holy
Attachment 5.10.1.2	Equity Situation of Holinvest
Attachment 5.10.2.1(a)	Capital of Olimpia
Attachment 5.10.2.1(b)	Credit Rights of the Current Olimpia Shareholders Against Olimpia
Attachment 5.10.2.4	Relevant Event (Olimpia)
Attachment 6.03(a)	Directors Designated by Hopa
Attachment 6.05(b)(i)	Exceptions to the Standstill Commitments
Attachment 6.05(b)(ii)(A)	Exceptions to the Standstill Commitments
Attachment 6.05(b)(ii)(B)	Exceptions to the Standstill Commitments
Attachment 7.02(b) (ii) (A)	Pledged Olivetti Instruments
Attachment 7.04	Bylaws of Holinvest

\* *Document is not attached to this translation.*

Milan, February 21, 2003

Pirelli S.p.A  
Banca Intesa S.p.A.  
Olimpia S.p.A

Edizione Finance International S.p.A.  
Unicredito Italiano S.p.A.  
Hopa S.p.A.

In capacity of guarantor of the obligations of Edizione Finance International S.A.: Edizione Holding S.p.A.

Milan, January 23, 2004

Messrs.  
HOPA S.p.A.  
Holding of Corporate Participations

Corso Zanardelli, 32  
25121 Brescia

We transcribe in full the text of your letter received today in token of acceptance:

\* \* \*

“Messrs.

**Olimpia S.p.A.**  
**Pirelli & C. S.p.A.**  
**Banca Intesa S.p.A.**  
**Unicredito Italiano S.p.A.**  
**Edizione Finance International S.A.**  
**Edizione Holding S.p.A. (as guarantor of the obligations of Edizione Finance International S.A.)**  
c/o  
**Olimpia S.p.A.**  
Viale Sarca, 222  
20100 Milan  
*Attn: President*

Brescia, January 8, 2004

**BY MAIL**  
**FIRST SENT BY FAX TO No. 02 8535 4469**

**Re: Modification agreement of the Contract executed on February 21, 2003**

Dear Sirs,

We are referring to the Contract executed on February 21, 2003 by the undersigned company, as party of the first part, and Olimpia S.p.A., Pirelli S.p.A. (now Pirelli & C. S.p.A.), Banca Intesa S.p.A., Unicredito Italiano S.p.A., Edizione Finance International S.A., as party of the second part (hereinafter the “**Contract**”).

Following our discussions, we are transmitting below the draft text of the modification agreement of the provisions of the Contract, according to the terms and conditions below.

\* \* \* \* \*

#### **MODIFICATION AGREEMENT**

##### **Between**

**Pirelli & C. S.p.A.**, headquartered in Milan, Via G. Negri, 10, capital Euro 1,799,399,399.20, recorded with the Register of Companies of Milan under No., taxpayer code and VAT code 00860340157, in the person of the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, who has the necessary powers;

**Edizione Finance International S.A.**, headquartered at Place d’Armes, 1, L-1136, Luxembourg, capital Euro 1,000,000.00, recorded with the Chamber of Commerce of Luxembourg under number B77504, in the person of Dr. Sergio De Simoi and Dr. Gustave Stoffel, who have the necessary powers pursuant to the bylaws;

**Banca Intesa S.p.A. (formerly Intesa BCI S.p.A.)**, headquartered in Milan, Piazza Paolo Ferrari 10, General Management Via Monte di Pietà 8, capital Euro 3,561,062,849.24, registration number with the Register of Companies of Milan, taxpayer code 00799960158, VAT code 108107000152, in the person of Dr. Gaetano Miccichè, who has the necessary powers;

**Unicredito Italiano S.p.A.**, headquartered in Genoa, via Dante 1, Central Management in Milan, Piazza Cordusio, capital Euro 3,148,070,110.00, registration number with the Register of Companies of Genoa, taxpayer code and VAT code 00348170101, in the person of Dr. Alessandro Profumo, who has the necessary powers; and

**Olimpia S.p.A.**, headquartered in Milan, viale Sarca 222, capital Euro 2,630,233,510.00, registration number with the Register of Companies of Milan, taxpayer code and VAT code 03232190961, in the person of Dr. Marco Tronchetti Provera, who has the necessary powers;

- party of the first part -

*and*

**Hopa S.p.A.**, headquartered in Brescia, Corso Zanardelli 32, capital Euro 709,800,000.00, registration number with the Register of Companies of Brescia, taxpayer code and VAT code 03051180176, in the person of Dr. Emilio Gnutti, who has the necessary powers under the decision of the Board of Directors of December 17, 2002;

- party of the second part -

*and*

**Edizione Holding S.p.A.**, headquartered in Treviso, Calmaggione 23, capital Euro 47,160,256.00, recorded with the Register of Companies of Treviso under number 13945, taxpayer code and VAT code 00778430264, in the person of the Chairman of the Board of Directors, Dr. Gilberto Benetton, who has the necessary powers pursuant to the bylaws;

- as guarantor of the obligations of Edizione Finance -

#### **Recitals**

- (a) On February 21, 2003, the Parties, taking into account the participation situations of each of them as of that date in the then called Olivetti group, executed a Contract in order to form a *partnership* with strategic purposes so as to maximize the creation of value for their respective shareholders, agreeing:
- (i) that Hopa would enter the capital of Olimpia by merger of Holy into Olimpia and that the latter would be attributed, for this purpose, a certain number of Olivetti Shares; and
  - (ii) to formalize the para-corporate understandings designed to govern the relationships between the Parties in their respective capacities of partners of Olimpia and Holinvest, following their respective contributions, as of the date of the Contract, as agreed between the Parties;
- (b) Pursuant to the terms and conditions in paragraphs 3.01 (f) and 4.01 (iii) of the Contract, the Parties undertook to cause the number of the Olivetti Shares and/or Olivetti Instruments and/or Financial Instruments held, as of the date of the Contract, overall, by Olimpia, the Current Olimpia Partners, Hopa, Holinvest, Holy, the other Hopa Affiliates and the Hopa Parent Companies to never be such as to exceed the threshold referred to in paragraph 4.01 (iii) of the Contract;
- (c) For the correct performance of the commitments cited in the above recital, the Parties had agreed inter alia:
- (i) on the right to hold certain quantities of Olivetti Shares and/or Olivetti Instruments and/or Financial Instruments as indicated in articles III and IV of the Contract;
  - (ii) referring to the Current Olimpia Partners and to Hopa, certain *stand still* obligations, pursuant to paragraph 6.05 of the Contract (hereinafter the “**Stand Still Obligations**”); and
  - (iii) referring exclusively to Hopa, certain *lock-up* obligations pursuant to paragraph 7.02 of the Contract (hereinafter “**Lock-up Obligations**”);
- (d) Following the perfecting of the merger by incorporation of Telecom into Olivetti, in force from August 4, 2003 (hereinafter the “**Olivetti Merger**”), and the consequent modification of the corporate holdings owned respectively by Olimpia, the Current Olimpia Partners, Hopa, Holinvest, Holy, the other Hopa Affiliates and the Hopa Parent Companies in Olivetti’s capital arising from the Olivetti Merger, Hopa requested and the other Parties indicated that they are willing to derogate – partially and limited to Hopa – to the application of the *Lock-up* and *Stand Still* Obligations, under the terms and conditions set forth in this modification agreement (hereinafter the “**Modification Agreement**”);

- (e) All the terms indicated in this Modification Agreement with initial capital letter are intended to have the same meaning attributed to them in the Contract, unless otherwise indicated.

**With these recitals,  
which are an integral and substantial part of this Modification Agreement, it is stipulated and agreed as follows:**

ARTICLE I

**Modification of the *Stand Still* and *Lock-up* Obligations**

The Parties agree that, in express derogation to paragraphs 6.05 (a), 7.02 (a) and 7.02 (c) of the Contract, Hopa has the right to exchange or to cause exchange, directly or through one of its Affiliates, with Nexgen Capital Limited, an Irish company with headquarters at 25/28 North Wall Quay, Dublin, Ireland, under the terms and conditions agreed upon with it:

- (i) No. 973 financial instruments (Equity Linked Notes) indexed to the price trend of 486,500,000 Olivetti Shares issued by CDC IXIS Capital Market with the characteristics indicated in Addendum 1.44 of the Contract; with
- (ii) No. 229,411,021 Telecom Shares, as they result from the exchange with the Olivetti Shares carried out following the Olivetti Merger.

ARTICLE II

**Validity of the subsequent agreements**

2.01 Taking into account that all the provisions of the Contract had been executed between the Parties with reference to participation situations, in the then so-called Olivetti group, directly and/or indirectly managed by it as of the date of the Contract, the Parties agree and give mutual note that the derogation to the provisions of the Contract referred to in Article I above has been agreed upon by Hopa exclusively with reference to the perfecting of the exchange operation above and limited to its effects.

2.01 [sic] Furthermore, the Parties agree that in the aspects not expressly derogated or established in this Modification Agreement, any other provision of the Contract remains fully valid and produces all its effects between the Parties, in the terms and conditions agreed upon on February 21, 2003, including the provisions of Articles XI, XII and XIII of the Contract.

\_\_\_\_\_  
**Pirelli & C. S.p.A.**

\_\_\_\_\_  
**Edizione Finance International S.A.**

\_\_\_\_\_  
**Banca Intesa S.p.A.**

\_\_\_\_\_  
**Unicredito Italiano S.p.A.**

\_\_\_\_\_  
**Olimpia S.p.A.**

\_\_\_\_\_  
**Hopa S.p.A.**

In the capacity of guarantor of the obligations of Edizione Finance International S.A.:

\_\_\_\_\_  
**Edizione Holding S.p.A.**

\* \* \* \* \*

Whenever the text of the above Modification Agreement reflects the understandings reached by the Parties to the Contract (as defined therein), please transcribe such text and transmit it to us initialed on every page and signed by the Parties in token of full and irrevocable acceptance.

Best regards.

Signed Hopa S.p.A.”

\* \* \*

We confirm that we accept all of the above.

Best regards.

\_\_\_\_\_  
**Pirelli & C. S.p.A.**

\_\_\_\_\_  
**Edizione Finance International S.A.**

\_\_\_\_\_  
**Banca Intesa S.p.A.**

\_\_\_\_\_  
**Unicredito Italiano S.p.A.**

\_\_\_\_\_  
**Olimpia S.p.A.**

In the capacity of guarantor of the obligations of Edizione Finance International S.A.:

\_\_\_\_\_  
**Edizione Holding S.p.A.**



Milan, January 28, 2005

Pirelli & C. S.p.A.  
Via G. Negri, 10  
20100 Milan  
Fax: 02-85354469  
For the attention of Dr. Marco Tronchetti Provera

Edizione Finance International S.A./Edizione Holding S.p.A.  
Calmaggiore, 23  
31100 Treviso  
Fax: 0422-411118  
For the attention of Dr. Gustave Stoffel and Mr. Gilberto Benetton

Olimpia S.p.A.  
c/o Pirelli & C. S.p.A.  
Via G. Negri, 10  
20100 Milan  
Fax: 02-83354469  
For the attention of Dr. Carlo Buora

Hopa S.p.A.  
Corso Zanardelli, 32  
25100 Brescia  
Fax: 030-3773851  
For the attention of Dr. Emilio Gnutti

We transcribe here, in full, the text of your letter dated January 27, 2005, as full and unconditional acceptance of the content of that letter.

\* \* \*

To  
Banca Intesa S.p.A.  
Via Monte di Pietà, 8  
20100 Milan  
Fax: 02-87963837  
For the attention of Dr. Gaetano Micciché

To  
Unicredito Italiano S.p.A.  
Via Tommaso Grossi, 10  
20121 Milan  
Fax: 02-88622196  
For the attention of Dr. Alessandro Profumo and Dr. ssa Paola Pierri

Milan, January 27, 2005

*Sent by courier*  
*Sent in advance by fax*

**Re: Proposal for modified agreements within the Contract signed on February 21, 2003**

Dear Sirs,

With reference to the Contract signed on February 21, 2003 between Olimpia S.p.A., Pirelli S.p.A. (now Pirelli & C. S.p.A.), Banca Intesa S.p.A., Unicredito Italiano S.p.A., Edizione Finance International S.A. and Hopa S.p.A. and Edizione Holding S.p.A., as guarantor for the obligations of Edizione Finance International S.A., as modified on January 23, 2004 (hereinafter referred to as the “**Contract**”).

We write to propose you to enter into modified agreements within the terms stipulated in the Contract (the “**Second Modified Agreement**”), as per the terms and conditions below.

\* \* \* \* \*

**MODIFIED AGREEMENT**  
**BETWEEN**

**Pirelli & C. S.p.A.**, with address at Via G. Negri, 10, Milan, registered in the Milan Business Register with Number, Tax Code and VAT Number 00860340157, represented by the Chairman of the Board of Directors, Dr. Marco Tronchetti Provera, provided with the powers required;

**Edizione Finance International S.A.**, with address at Place d’Armes, 1, L-1136, Luxembourg, registered in the Luxembourg Chamber of Commerce with Number B77504, represented by Dr. Gustave Stoffel, provided with the powers required;

**Banca Intesa S.p.A. (was Intesa BCI S.p.A.)**, with address at Piazza Paolo Ferrari, 10, Milan, General Management, Via Monte di Pietà, 8, registered in the Milan Business Register with Number and Tax Code 00799960158, VAT Number 108107000152, represented by the Dr. Gaetano Miccichè, provided with the powers required;

**Unicredito Italiano S.p.A.**, with address at Via Dante, 1, Genoa, General Management, Piazza Cordusio, Milan, registered in the Genoa Business Register with Number, Tax Code and VAT Number 00348170101, represented by Dr. Alessandro Profumo, provided with the powers required; and

**Olimpia S.p.A.**, with address at Viale Sarca 222, Milan, registered in the Milan Business Register with Number, Tax Code and VAT Number 03232190961, represented by Dr. Carlo Buora, provided with the powers required;

- on one hand -

**and**

**Hopa S.p.A.**, with address at Corso Zanardelli, 32, Brescia, registered in the Brescia Business Register with Number, Tax Code and VAT Number 03051180176, represented by Dr. Emilio Gnutti, provided with the powers required;

- on the other hand -

**and**

**Edizione Holding S.p.A.**, with address at Calmaggione, 23, Treviso, registered in the Treviso Business Register with Number 13945, Tax Code and VAT Number 00778430264, represented by the Chairman of the Board of Directors Dr. Gilberto Benetton, provided with the powers required as per the company by-laws

- as guarantor for the obligations of Edizione Finance -

**Premises**

(a) on February 21, 2003, the Parties, considering the shareholding situation with reference to each of these Parties, on that date, within the Group at the time called the Olivetti Group, signed a Contract aimed at

creating a partnership with strategic connotations for maximizing the creation of value for their own respective shareholders, thereby agreeing the following:

- (i) the entrance of Hopa in the capital of Olimpia by means of Olimpia the merger of Holy in Olimpia and the assigning, as an effect, of a certain number of Olivetti Shares to Olimpia; and
- (ii) the formalizing of agreements of a company law nature aimed at governing the relationships

between the Parties within their respective roles as Shareholders of Olimpia and of Holinvest;

- (b) at the terms and conditions specified in paragraphs 3.01 (f) and 4.01 (iii) of the Contract, the Parties undertook to ensure that the number of Olivetti Shares and/or Olivetti Instruments and/or Financial Instruments held overall, on the date of the Contract, by Olimpia, the Current Olimpia Shareholders, Hopa, Holinvest, Holy, the other Hopa Subsidiary Companies and the Hopa Controlling Companies is never such that it exceeds the threshold limit specified in paragraph 4.01 (iii) of the Contract;
- (c) also in relation to the correct fulfillment of the obligations referred to in the above premise, the Parties had also agreed on the following:
  - (i) the right to hold given quantities of Olivetti Shares and/or Olivetti Instruments and/or Financial Instruments as indicated in articles III and IV of the Contract
  - (ii) with reference to the Current Olimpia Shareholders and to Hopa, certain stand still obligations, as per the terms specified in paragraph 6.05 of the Contract (hereinafter referred to as the “**Stand Still Obligations**”); and
  - (iii) with exclusive reference to Hopa, certain lock-up obligations, as per the terms specified in paragraph 7.02 of the Contract (hereinafter the “**Lock-up Obligations**”);
  - (iv) Hopa’s right, in the event of a demerger, to receive the Majority Premium, in the cases and at the conditions specified in the Contract itself;
- (d) on January 23, 2004, the parties signed the Modified Agreement with which the other Contract Parties accepted the partial repeal in favor of Hopa in relation to the Lock-up and Stand Still Obligations;
- (e) in view of the envisaged merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A. (hereinafter, the “**Merger**”), the proposed share capital increase approved by the Olimpia S.p.A. Board of Directors on December 7, 2004 and Shareholders’ Meeting on December 22, 2004 (hereinafter, the “**Capital Increase**”) and the possible resulting modifications to the company shareholdings held respectively by Olimpia, the Current Olimpia Shareholders, Hopa, Holinvest, the other Hopa Subsidiary Companies and the Hopa Controlling Companies in the company capital of Telecom Italia S.p.A. as a result of the merger, the Parties hereby intend, as per the limits and methods specified by Articles I, II and III below, and notwithstanding the ban on exceeding the threshold limit of 30% of the capital of Telecom Italia, as per article 106 of Italian Legal Decree 58/1998:
  - (i) to partially repeal the application of the Stand Still Obligations, at the terms and conditions specified by this modified agreement;
  - (ii) to modify the regulations concerning the Majority Premium specified by article X of the Contract; and
  - (iii) to regulate certain reciprocal relationships in relation to the Capital Increase;
- (f) all the terms indicated in this Second Modified Agreement with a Capital Letter intend to have the same meaning as attributed to these terms in the Contract, except where otherwise indicated.

**Given the above premises,  
which are an integral and substantial part of this Second Modified Agreement, the parties  
hereby agree the following:**

ARTICLE I  
**Modifications to the *Stand Still* Obligations**

1.01 The Parties hereby agree that, as an express modification to the terms of art. 6.05 (a) of the Contract, Pirelli & C. S.p.A., Edizione Finance International S.A. and/or Edizione Holding S.p.A., Unicredito Italiano S.p.A., Banca Intesa S.p.A., Hopa S.p.A., have the right, also through subsidiary companies, to acquire ordinary

shares in Telecom Italia S.p.A. (hereinafter, “**Telecom Shares**”) directly or by acquiring Telecom Italia Mobile S.p.A. shares which will be exchangeable at the time of the Merger, with the maximum quantities indicated here:

Pirelli & C. S.p.A. Telecom Shares	300 million
Edizione Finance International S.A. and/or Edizione Holding S.p.A. Telecom Shares	100 million
Unicredito Italiano S.p.A. Telecom Shares*	100 million
Banca Intesa S.p.A. Telecom Shares*	100 million
Hopa S.p.A. Telecom Shares	100 million

\* includes the quantity permitted as per article 6.05 (b) (ii) of the Contract.

Having made an exception for the above acquisitions, it is understood that none of the controlling companies and the subsidiary companies of the Parties (for which each of the Parties themselves is obliged as per article 1381 of the Italian Civil Code) will acquire ordinary shares in Telecom Italia S.p.A. or instruments which are convertible into ordinary shares in Telecom Italia S.p.A. for the entire Duration of the Agreements, notwithstanding the specifications of art. 6.05 (b) of the Contract.

1.02 The Parties undertake to communicate directly about the acquisitions of shares permitted as per article 1.01 above, in the form of a written communication to be sent to all the other Parties within 5 working days as of the acquisition.

## ARTICLE II

### **Modification to the agreements on the Majority Premium**

2.01 The Parties hereby agree, to modify articles 10.01 and 10.03 of the Contract, that the total amount of the premium due to Hopa in the event of Demerger, as per the hypotheses specified in these articles 10.01 and 10.03, is set definitively at a total of 208 million Euros, regardless of the number of Telecom Shares and/or Financial Instruments (and, therefore, even if acquired after December 1, 2004) due to Hopa as an effect of the Demerger. Payment will be made by June 30, 2006 if the Demerger takes place following a Deadlock or if the Contract is not renewed for a further three years as per art. 6.00. In relation to what may occur, it is confirmed that the Demerger will be carried out as follows: in the event of a Deadlock or if the Contract is not renewed at first expiry, within 6 months as of May 8, 2006; in the event of contract renewal or further subsequent renewals, within 6 months of the end of the last renewal.

2.02 It is also understood that in the event that there has been an Accelerated Deadlock as per art. 8.06 (a) (ii) which involves the right of Olimpia receiving, as payment for the sale/assigning/granting all or part of its shareholding in Telecom Italia, a cash amount, Hopa not having exercised the rights specified in its favor as per art. 8.06 (a), the total amount of the premium, as specified by paragraph 2.01 above (or by paragraph 2.03, in the event of renewal), due to Hopa as a result of the failure to renew the Contract on expiry or as a result of the occurrence of an event which may give rise to a Deadlock after this sale/assigning/granting, will be due to Hopa limited to the difference, if positive, between:

- (i) the total amount of the premium as specified by paragraph 2.01 above (or by paragraph 2.03, in the event of renewal); and
- (ii) any positive difference between the price recognized by the purchaser/grantor/assignor of the Telecom shares which Hopa would have the right to receive in the event of a Demerger and the Stock Exchange value of these shares on the sale/assigning/granting date.

2.03 In the event of renewal, of any kind, of the Contract, the total amount of the premium due in the hypotheses envisaged by Arts. 10.01 and 10.03 of the Contract is set at 215 million Euros and the relative payment will be made by the first of the following dates: (i) June 30, 2007 and (ii) the thirtieth day after the registration date of the Demerger in the Milan Business Register, if the Deadlock occurs from May 8, 2006 to May 8, 2007. The setting of the total amount of the premium starting from this latter date will be agreed by the Parties in good faith. The payment of the total amount of the premium calculated in this way will be made within 30 days as of the registration date of the Demerger in the Milan Business Register.

2.04 In the hypothesis specified by art. 10.2 of the Contract, any Majority Premium is excluded in relation to Telecom Italia Shares or Telecom Financial Instruments, above the number of Telecom Italia Shares or Telecom Financial Instruments held by Olimpia on December 1, 2004, covered by the Demerger and acquired after December 1, 2004.

ARTICLE III  
**Agreements on the Capital Increase**

If Unicredito Italiano S.p.A. and/or Banca Intesa S.p.A. do not subscribe the Capital Increase, Hopa and Edizione Finance International S.A. as of now undertake irrevocably not to exercise their right to subscribe, *pro quota*, the shares not subscribed by these banks, with the condition that these shares are subscribed personally by Pirelli & C. S.p.A.

ARTICLE IV  
**Validity of the extra agreements**

The Parties hereby also agree that, for matters not expressly repealed or in any case agreed within this Second Modified Agreement, any other regulation of the Contract and of the first Modified Agreement, including, in particular, the undertaking of the Parties to avoid in all cases the exceeding of the thresholds set for the public purchase offer regulation, remains fully valid and specifies all the effects for the Parties, as per the terms and conditions agreed on February 21, 2003, including the specifications in art. XIII of the Contract.

\* \* \* \* \*

If the text of this Second Modified Agreement as outlined above reflects the agreements made by the Contract Parties (as defined in the Second Modified Agreement), as a Contract Party, please transcribe this text, sign it and initial it on every page and send it to us as full and irrevocable acceptance of this irrevocable proposal.

Yours faithfully,

**Pirelli & C. S.p.A.**

**Edizione Finance International S.A.**

**Signed by Marco Tronchetti Provera**

**Signed by Gustave Stoffel**

**Hopa S.p.A.  
Signed by Emilio Gnutti**

**Olimpia S.p.A.  
Signed by Carlo Buora**

*As guarantor for the obligations of Edizione Finance International S.A.:*

**Edizione Holding S.p.A.  
Signed by Gilberto Benetton**

\* \* \*

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**Banca Intesa S.p.A**

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**Unicredito Italiano S.p.A.**