



In an ever growing wireless telephone market, with around 30 million subscribers in Italy and penetration equal to around 53% of the population, Omnitel closed the millennium with excellent results, achieving turnover in excess of Lire 7,200 billion (+62%), EBITDA of Lire 3,000 billion (+104%) and net profit of 1,662 billion (+113%). These results reflect an excellent market performance and management choices aimed at growth in a highly competitive environment:

- Over 4.2 million new customers, with an increase of 68% compared to 1998.
- Aggregate market share growth from 30% to 34.6%, in spite of the entry of a new operator.
- A market share of net new acquisitions in 1999 of 43%, that is the leadership position.
- Continuing expansion and improvement of the range of services offered, accompanied by a pioneering launch of Internet services through Omnitel 2000.
- Users serviced with ever growing care, who express their satisfaction for the Omnitel quality with a degree of fidelity still growing in spite of a very dynamic market.
- Decrease in average prices to users compared to 1998 and well far from 1996.
- Capital expenditure of nearly Lire 1,900 billion, with growth of 44% compared to 1998 and 300% compared to 1997.
- 3,039 new staff, with a increase of 63% compared to 1998; not to speak of resources indirectly employed and worth created in the economy thanks to the growth of Omnitel.

These data testify to great success, placing Omnitel at the top of the Italian economy in terms of growth and value creation: growth of ROI and ROE, a client base now exceeding 10 million users and a growing "market value" in spite of a trend toward reduction of unit prices, all data confirm without any doubt a virtuous cycle of strong value creation, accompanied by significant benefits to customers. If the market and competition are increasingly liberalized – as is to be hoped – Omnitel looks to create new value for its stakeholders also in the new millennium.

Income statement data

	1999	1998	1997	1996
	Lit. bn. %	Lit. bn. %	Lit. bn. %	Lit. bn. %
Total gross revenues ¹	7,387 -	4,634 -	1,835 -	767 -
Service recurring revenues	6,494 100.0%	3,951 100.0%	1,499 100.0%	445 100.0%
Gross margin	4,689 72.2%	2,628 66.5%	1,067 71.2%	170 38.2%
EBITDA ²	3,002 46.2%	1.473 37.3%	310 20.7%	(401) (90.1%)
EBIT ³	2,218 34.2%	958 24.2%	(13) (0.9%)	(485) (109.0%)
Income before taxes	2,350 36.2%	839 21.2%	(140) (9.3%)	(589) (132.4%)
Net income	1,662 25.6%	781 19.8%	(140) (9.3%)	(589) (132.4%)
	1,002 20.070	701 10.070		

Including implicit charged paid to dealers on rechargeable cards
 Earning before capitalization, depreciation/amortization, financial charges, extraordinary income/expenses and taxes
 Earning before financial charges, extraordinary income/expenses and taxes

Economic indicators

	1999	1998	1997	1996
Usage per average subscriber (min/month)	135.0	128.0	136.0	147.0
ARPU ¹ (Lit. 000/month)	68.4	81.2	93.0	107.0
Variable acquisition costs per subscriber ² (Lit. 000/g.a)	47.4	48.4	38.9	107.4
Total acquisition costs per subscriber ³ (Lit. 000/g.a)	101.8	97.8	111.5	229.9
Bad debt & fraud provision as % of total service recurring revenues	0.8	1.1%	4.3%	19.8%
Operating expenses as % of total service recurring revenues	26.0	29.2%	50.5%	128.4%
Depreciation & amortization				
as % of total service recurring revenues	12.8	14.0%	25.1%	60.0%
Net financial charges as % of total service recurring revenues	1.0	2.5%	8.8%	22.3%

1 Average revenue per user

2 Sales commissions, promotions and handset subsidies

3 Variable acquisition costs and commercial operating expenses (advertising, sponsorships, trade & co-marketing, etc.)

Commercial Indicators

	1999	1998	1997	1996
Penetration of Italian mobile market	53%	37.0%	21.0%	11.0%
Penetration of Italian GSM market	47.0%	30.0%	15.0%	5.0%
Net new customers signed up	4,228,000	3,732,000	1,742,000	660,000
EOP ¹ customers	10,418,000	6,190,000	2,460,000	713,000
OPI's market share of new customers signed up	42.9%	42.6%	33.0%	26.0%
OPI's market share of EOP GSM customers signed up	34.6%	30.0%	21.0%	11.0%
Churn rate	12.2%	13.3%	15.2%	31.4%
Rechargeable traffic as % of new customers signed up	95.0%	89.1%	88.6%	n/a
Rechargeable traffic as % of EOP customers	86.9%	78.7%	62.8%	n/a

1 EOP = End of Period

Capital Expenditure by function

	1999	1998	1997	1996
Network	1,528	1,098	433	453
Information technology	257	170	92	57
Leasehold improvements	52	31	9	11
Other investments (including amounts capitalized)	59	9	98	206
Total capital expenditure	1,896	1,308	632	727

Network indicators

	1999	1998	1997	1996
BTS 900 Mhz	4,510	3,440	2,441	1,519
BTS 1800 Mhz	677	284	-	
BSC	260	177	135	87
MSC	83	47	23	12
TRX	40,043	26,560	11,749	7,141
Coverage of territory	over 96%	over 96%	83%	61%
Coverage of population	over 99%	over 99%	96%	86%

Full Time Equivalent employees by function

	1999	1998	1997	1996
Marketing, sales & distribution	723	483	340	218
Customer operations	3,584	2,461	1,284.5	1,186
GSM network	1,560	1,180	851	770
Information technology	500	311	198	127
Staff and general services	536	424	339	301
Total	6,903	4,859	3,012.5	2,602

Income statement (billions of Lire)

	1999	1998	1997	1996
Total service recurring revenues	6,494	3,951	1,499	445
Total service variable costs	(1,629)	(1,212)	(358)	(149)
Total service contribution margin	4,865	2,739	1,141	296
Total service contribution margin				
as % of service recurring revenues	74.9%	69.3%	76.1%	66.5%
Technical assistance contribution margin	3	8	10	1
Technical assistance contribution margin				
as % of service recurring revenues	0.1%	0.2%	0.7%	0.2%
Total recurring revenues	6,508	3,968	1,521	453
Gross margin on recurring revenues	4,868	2,748	1,151	297
Gross margin as % of service recurring revenues	75.0%	69.6%	76.8%	66.7%
Total net acquisition costs	(198)	(115)	(27)	(51)
Total net acquisition costs				
as % of service recurring revenues	(3.0%)	(2.9%)	(1.8%)	(11.5%)
Contribution margin sales of accessories & other	74	38	8	13
Accrual to bad debt & fraud provision	(55)	(42)	(65)	(89)
Total gross revenues	7,387	4,634	1,835	767
Total gross margin				
(after accrual to bad debt & fraud provision)	4,689	2,628	1,067	170
Gross margin as % of service recurring revenues	72.2%	66.5%	71.2%	38.2%
Total operating expenses	(1,687)	(1,155)	(757)	(572)
Operating expenses as % of service recurring revenues	(26.0%)	(29.2%)	(50.5%)	(128.5%)
EBITDA	3,002	1.473	310	(401)
EBITDA as % of service recurring revenues	46.2%	37.3%	20.7%	(90.1%)
Capitalization	46	38	53	183
Depreciation & amortization	(830)	(554)	(376)	(267)
EBIT	2,218	958	(13)	(485)
EBIT as % of service recurring revenues	34.2%	24.2%	(0.9%)	(109.0%)
Net financial charges	(64)	(97)	(132)	(99)
	196	(22)	5	(5)
Extraordinary income (expenses) net				
Extraordinary income (expenses) net PROFIT BEFORE TAXES	2,350	839	(140)	(589)
	2,350 (688)	839 (58)	(140)	(589)

Balance Sheet (billions of Lire)

	1999	1998	1997	1996
ASSETS	7,076	5,195	3,207	2,581
Current assets	2,907	2,075	838	474
Cash and bank and marketable securities	585	642	207	37
Receivables (net) accrued income and prepayments	2,228	1,365	595	401
Inventories (net)	94	68	36	36
Tangible assets, net	3,277	2,137	1,227	904
GSM equipment	2,853	1,664	850	535
Network infrastructure	805	573	413	302
Technical equipment	36	23	18	14
Other equipment	15	8	5	2
IT equipment	572	316	176	93
Office equipment	104	72	44	34
Office improvements	134	81	50	41
(accumulated depreciation)	(1,404)	(745)	(364)	(152)
Assets under construction	162	145	35	35
Intangible assets, net	892	983	1.142	1.203
GSM license	842	833	833	833
(accumulated amortization)	(261)	(208)	(156)	(104)
Capitalized technical expenses	407	352	309	260
(accumulated amortization)	(135)	(95)	(59)	(29)
Other capitalized expenses	394	376	411	362
(accumulated amortization)	(356)	(279)	(199)	(122)
Financial assets	1	4	3	3
LIABILITIES & SHAREHOLDERS' EQUITY	7,076	5,195	3,207	2,581
Current liabilities	3,807	2,269	1,078	911
Short-term bank debt	2	9	7	114
Current portion of long-term bank debt	61	61	61	61
Payables, accrued liabilities and deferred income	3,744	2,199	1,010	736
Long term liabilities	213	1,553	1,537	940
Medium/long-term bank debt	161	1,517	1,511	922
Staff severance pay provision	52	36	26	18
Shareholders' equity	3,056	1,373	592	730
Share capital	594	592	1,050	1,050
Share premium reserve	19	-	400	400
Statutory reserves	211	-	3	1
Accumulated profit (loss)	2,232	781	(861)	(721)

Cash Flow Statement (billions of Lire)

	1999	1998	1997	1996
NET PROFIT (LOSS)	1,662	781	(140)	(589)
Depreciation & amortization	830	554	371	266
Accrual to staff severance pay provision	19	10	8	7
Disposals & retirements	12	3	-	
GROSS CASH FLOW FROM OPERATING ACTIVITIES	2,523	1,348	239	(316)
Change in net working capital	658	387	80	(152)
Net (incr.)/decr. receivables, accrued income and prepayments	(864)	(769)	(193)	(282)
Net (incr.)/decr. inventories	(26)	(32)	1	1
Net (incr.)/decr. payables, accrued liabilities and deferred income	1,383	1.010	200	129
Incr./(decr). unearned revenue from prepaid traffic	165	178	72	-
Cash flow from investments in fixed assets	(1,896)	(1,308)	(632)	(727)
Tangible assets	(1,813)	(1,291)	(535)	(521)
Intangible assets	(82)	(16)	(97)	(203)
Financial assets	(1)	1	_	(3)
NET CASH FLOW FROM OPERATING ACTIVITIES	1,285	427	(313)	(1,195)
Cash flow from financing activities	(1,342)	8	484	1,218
Incr./(decr.) short term debt	(8)	2	(106)	84
Incr./(decr.) long term debt	(1,355)	6	588	483
Incr./(decr.) capital stock and reserves	21	-	2	651
NET CASH FLOW	(57)	435	171	23
Cash and cash equivalents at beginning of period*	642	207	36	13
Cash and cash equivalents at the end of the period*	585	642	207	36

* Including cash, Special Cash Collateral and marketable securities

Net Working Capital (billions of Lire)

	1999	1998	1997	1996
Receivables, prepayment and accrued income	2,228	1,365	595	401
Inventories, net	94	68	36	36
Payables, accrued liabilities and deferred income	(3,744)	(2,199)	(1,010)	(736)
Total net working capital	(1,422)	(766)	(379)	(299)

Net Capital Employed (billions of Lire)

	1999	1998	Difference
Net worth	3,056	1,373	1,683
Net financial indebtedness*	(361)	945	(1,306)
Net working capital	1,422	766	656
Staff severance pay provision	52	36	16
TOTAL RESOURCES	4,169	3,120	1,049
Net tangible assets	3,277	2,137	1,140
Net capitalized technical expenses	272	257	15
Net tangible assets and net capitalized technical expenses	3,549	2,394	1,155
Other net capitalized expenses and financial investments	39	101	(62)
GSM license, after amortization	581	625	(44)
Net intangible assets	620	726	(106)
TOTALE USES	4,169	3,120	1,049

* excluding Special Cash Collateral in 1998 (Special Cash Collateral was collected in 1999)

Net Financial Indebtedness (billions of Lire)

	1999	1998	1997	1996
Bank deposits	585	95	33	25
Short-term bank debt	(2)	(9)	(7)	(114)
Marketable securities	-	502	129	
Current portion of long-term debt	(61)	(61)	(61)	(61)
Medium/long-term debt	(161)	(1,517)	(1,511)	(922)
Net financial indebtedness	361	(990)	(1,417)	(1,072)
Special Cash Collateral	-	45	45	11
Net financial indebtedness excluding Special Cash Collateral	361	(945)	(1,372)	(1,061)

Partners



Shareholders'





BOARD OF DIRECTORS

(appointed for three years until the approval of the financial statements at 31/12/1999)

Chairman	Carlo Peretti	from 28/04/97
Chief Executive Officer	Vittorio Colao	from 04/08/99
Directors	Thomas Bartlett Lars Berg Frank Esser Klaus Esser Giancarlo Ferrero Francesco Gianni Ted Hoffman Julian Horn Smith Kurt Kinzius Riccardo Ruggiero Vern Tyerman	from 28/04/97 from 08/07/99 from 28/04/97 from 08/07/99 from 10/11/98 from 16/12/98 from 08/07/99 from 07/10/99 from 25/03/98 from 08/07/99 from 28/04/97

BOARD OF STATUTORY AUDITORS

(appointed for three years until the approval of the financial statements at 31/12/1999)		
Chairman	Tommaso Di Tanno	from 04/08/99
Current Auditors	Giuseppe Deiure Gianfranco Macconi	from 04/08/99 from 04/08/99
Alternate Auditors	Fabio Brunelli Mario Tardini	from 04/08/99 from 04/08/99

SHAREHOLDERS

Omnitel Sistemi Radiocellulari Italiani S.p.A.70%Pronto Italia S.p.A.30%

OMNITEL PRONTO ITALIA S.P.A.

Registered Office	lvrea – via Jervis, 13
Capital Stock	Lire 594,293,883,000 fully paid-up
Reg. at Ivrea Tribunal	n. 3568
Reg at C.C.I.A.A. of Turin	n. 660391
Fiscal/VAT Code	04791530019

to the Directors on Operations

for the year ended December 31, 1999

1999 FOR OMNITEL: A YEAR OF LEADERSHIP

Omnitel in Italy

The year ended December 31, 1999 saw wireless technology definitely establishing itself and, in this framework, Europe, and Italy in particular, played a fundamental role. In mid-1999 the number of wireless telephones exceeded wireline phones, while in late 1999 the penetration of cellular phones reached 53% of the overall population. Italy is now one of the markets with the highest penetration among countries with a population of over 10 million (the fifth largest after the Scandinavian countries) and has established itself as the largest market by number of users, around 30 million.

Against this background not only did Omnitel strengthen its position as the second largest European operator, but increased the number of users by 68%, achieving a co-leadership position in the Italian market in terms of net new acquisitions.

Also in the other countries growth accelerated, albeit at slower rates than in Italy. In France and Spain growth exceeded 14%, while in the United Kingdom the aggregate wireless market grew by around 12%.

As far as innovation is concerned, 1999 saw Italy as the top player. In late May 1999 Omnitel launched "Omnitel 2000", the first multi-access portal for wireless services, anticipating the Internet craze which characterized the choices of all Italian operators, both fixed and mobile, in the second half of the year. The launch of free Internet access and the entry into the market of important publishing groups contributed to drawing the attention of Italians to the Internet. At the same time, thanks to the stockmarket performance of Internet start-ups, the Web exploded as a "financial" phenomenon also in Italy. This in spite of Internet penetration in Italy remaining rather low: just over 8%, with around 5 million surfers.

In the context of international finance and large M&A operations, Italy was undisputedly a leading player. The take-over bid on Telecom Italia was certainly one of the most significant events during the year; as is well known, while Telecom was acquired by Olivetti, the latter sold to Mannesmann its subsidiaries Omnitel and Infostrada. At the beginning of 2000, Omnitel and Infostrada were acquired by VodafoneAirtouch, which completed the take-over bid on Mannesmann launched on December 24, 1999 (which is now being examined by European Community).

In any case, the change in Omnitel's ownership structure did not modify its operating structure, which was characterized by a continuity of strategy and management. Also the appointment of a new managing director – replacing Mr. Silvio Scaglia who left to start out as an independent entrepreneur – was a mark of continuity, Mr. Vittorio Colao having been general manager of operations at Omnitel since 1996.

Internet, data and wireless transmission

Wireless data transmission is bound to be the next growth area in the industry: so it is described by some analysts, who estimate that wireless data transmission as a percentage of total revenue for the telephone industry might reach 25% in 2002.

Omnitel took early steps in this direction, offering its users the first wireless link, via access to the Omnitel 2000 portal, to a multiplicity of platforms: voice, WAP (Wireless Application Protocol) and Internet. Mobile Internet, i.e. access to the Web via mobile phones, is still hampered by the slow speed currently available on the GSM network, which, however, is expected to accelerate significantly in the second half of 2000 thanks to the introduction of GPRS (General Packet Radio Service) technology. WAP handsets, rather rare for the time being, will also become increasingly available to users as the year progresses. With the introduction of packet switching in wireless and the spread of WAP terminals, mobile Internet access will become a more tangible offering.

The final stage of mobile evolution will be reached through UMTS (Universal Mobile Telecommunication System). In Italy 5 licenses will be awarded and Omnitel will bid for one, in order to be able to operate as a leading player also with this new standard, a natural successor to GSM. In this connection Omnitel, which has already started preliminary tests, is about to inaugurate in Turin one of the largest testing areas for the UMTS network.

The availability of transmission capacity and terminals will provide the capability of carrying content, and, therefore, of significantly expanding one's business: every day announcements are made and rumors heard of possible acquisitions, alliances and mergers of publishing groups, i.e. the content providers. Omnitel, for its part, has sealed a few important commercial and partnership deals and continues to move freely in the market, assessing the various opportunities. With the integration of Omnitel into a large global group such as VodafoneAirtouch, there will be opportunities to benefit from large-scale alliances, in addition to daily exchanges of specialist technology and experience.

As was the case with Mannesmann, also within the VodafoneAirtouch Group Omnitel can play a leading role in terms of products and innovation. Omnitel's potential for growth rests on two powerful drivers: on the one hand, the fact of being co-leader in the most innovative mobile telephony market, Italy; on the other hand, the possibility of exploiting the ample spread of cellular telephones in order to overcome the historically low penetration of personal computers in our country, thus converting a system weakness into a big corporate opportunity. In brief, Omnitel is in an ideal position to promote wireless access to the Web.

All indicators are present. The year 1999 saw the explosion of short text messages, which more than doubled during the year to 7 million messages sent every day on the Omnitel network alone. This trend proves that Italians are not loath to use the new channels for communication that new technologies gradually make available.

This scenario leaves plenty of space for the spread of "voice" services. The market trend will continue to be favorable: even if growth rates are bound to slow down, penetration is likely overcome 60% by the end of 2000, with four mobile operators in a fully competitive market.

To sum up, Omnitel was an undisputed protagonist in the telephone business in 1999, and laid the necessary foundations to be one also in 2000 and coming years.

THE EUROPEAN TLC MARKET¹

Also in 1999 the European market for wireless telecommunications showed exciting growth rates, with as many as 62 million net new customers (+68%), to be added to the 92 million customers already in existence at the end of 1998.

Penetration therefore rose by 10 percentage points to an average of 40%, but with differing trends in the various markets. Among the largest countries, those with population of more than ten million, Italy is leader with penetration of 53%.

Against this trend, a very brilliant one which exceeded expectations at the beginning of the year, the current forecast for market growth points to

1 FT Mobile Communication Report Jan. 20, 2000.



penetration of 70% by 2003 with 272 million users.*

A more detailed analysis of the market breakdown, moreover, confirms the net growth of users of GSM systems in the 1800 MHz band, with a marked increase equal to 294%. This is reflected by the accelerating loss of competitiveness of analog services: at year end the rate of "digitalization" of the market was equal to 96%, versus 87% in 1998.*

There is no doubt that the growth of cellular telephony in Europe was driven not only by increased competitive pressure – also due to the entry of new operators in Belgium, Italy, the Netherlands, Spain and Switzerland – but also by the development of prepaid products. Indeed, while in 1998 prepaid traffic accounted for 65% of new subscribers, 1999 saw this percentage grow steadily to 71% in the third quarter, and its share of the aggregate market to 47%.*

This is testified by the fact that Italy and Portugal, among the countries with the highest penetration of wireless telephone services, are also those with the highest penetration of rechargeable products (around 80% of total users). In contrast, the countries historically characterized – due to their geography – by widespread use of cellular phones, such as Sweden, Norway, Denmark and Finland, show a much lower average share of rechargeable products, equal to 26%. The only country disproving this trend appears to be Germany, where wireless penetration of 24.6% (September 1999) is accompanied by a share of rechargeable cards of a mere 17% (the lowest after Finland) and by a slower growth rate than in other markets.

In summary, once again, the growth rates in the Italian market were higher than in the rest of European countries:

- net customers at the end of 1999 numbered 30.3 million, with an increase of 10 million (+49%) compared to 1998;
- penetration reached 53% of the population, with an increase by 17% compared to 1998.

Italy therefore remains leader by total market size, by penetration among countries with over 10 million population and by size of the two largest operators.

^{*} Source: Salomon Smith Barney Dec. 7, 1999.

OMNITEL IN THE MARKET

During 1999 Omnitel strengthened its **competitive positioning** in spite of the entry of the third operator, Wind: net total users grew by over 4.2 million (in 1998 growth was equal to 3.7 million) as a result of both faster market growth (+11.3%) and a larger market share relative to competitors. In terms of new acquisitions, Omnitel's share in 1999 was equal to 43%. This means, in short, that in less than four years of operations Omnitel has been able to catch up with and, under certain circumstances, overcome, the former monopoly holder.

As a result of the performance illustrated, the aggregate market share reached 34% of the wireless market and 38% of the GSM market.

Operations, developed in a highly competitive environment, were characterized mainly by:

- further acceleration of the rate of innovation of products and services with the aim of creating greater differentiation from competitors, winning additional market share and defending profitability;
- launch of a new communication line, consistent with the development of the company and its market positioning;
- growth of distribution in terms of size, type and quality of distribution facilities, opening of new channels such as "Spazio Omnitel On Line", definition of commercial policies aimed at maintaining market share, particularly where distribution is shared with other operators;
- improvement in the level of customer service in all it components: entry into operation in the first half of the year of an additional Customer Care Center (there are now eight centers in operation), application of new systems for automated call management, development of access network infrastructure designed mainly to improve quality and expand capacity.

Innovation was, once again, the centerpiece of the differentiation strategy, with a view to market segmentation, management of the customer base and consolidation of profitability. It characterized services offered both by the Individuals division and the Corporate division.

In the **Individuals** market, the most significant innovations introduced during 1999 were:

■ in the spring, the launch of "Dippiù Ricaricabile", the first prepaid product with a flat rate (395 Lire per minute) and a free traffic bonus that users obtain on reaching pre-determined monthly traffic volumes (Lire 25,000 every Lire 50,000 spent in the month);

- in June, the launch of the "Summer Card" promotion: 60 days at a flat rate of 195 Lire per minute for calls to any national destination, regardless of time bands. In a market dominated by the product "City" (off-peak rate for traffic originating from a limited geographical area), this promotion was designed to make the Omnitel offering very cheap for existing users and for new ones at a seasonal time where traffic flows change significantly as a result of people going on vacation;
- in autumn, Omnitel anticipated the market by launching "Italy", which introduced off-peak rates of 195 Lire per minute for calls to all fixed-line destinations and Omnitel mobiles and cut by 40% the peak rate for calls to mobile phones of other operators. Moreover, the Personal plan was reshaped, leaving only two time bands instead of four;
- at Christmas, the launch of "Christmas Card", a promotion designed to increase penetration and usage of SMS: up to 100 free short text messages per day until January 6, 2000. The campaign was spectacularly successful: peaks of usage of up to 20 million short messages per day and an overall increase in messaging service of over 35% at the end of the promotion. During the Christmas campaign an additional promotion was launched: the price of rechargeable cards not included in the "Facile" package was reduced by Lire 50,000 with the same amount of traffic included. The combination of the two offers enabled Omnitel to exceed 1 million gross activations in December alone!
- completion of the range of services available on rechargeable cards with the addition of international roaming for incoming and outgoing calls in all types of rate plans.

Also in the Corporate market the innovation rate remained very dynamic:

- extension of the product "RAM" to the small enterprise segment, through the development and launch of the rechargeable format: minimum thresholds of 3 SIM cards, zero fixed costs, simplified access levels for outgoing calls and unified credit limits instead of credit limits for each SIM card;
- introduction of the option "Dual RAM" which allows employees to be billed for personal calls made on the corporate SIM card. The aim of this product was to increase SIM penetration at enterprises, guaranteeing them stricter control of costs while they give a benefit to employees;
- acquisition of the license as wireline network operator and launch of "RAM Integrata", i.e. a direct connection of customer's switchboards to the Omnitel network.

Finally, Omnitel 2000 launched new voice, Internet and WAP services:in Voice services, innovative voice recognition technology was introduced,

enabling customers to use information services (stockmarket listings, horoscope, weather forecasts, etc.) simply by pronouncing the "keyword" that identifies the desired item of information;

- in Web services, Omnitel 2000 launched a portal with different areas of theme information and integrated with mobile telecom services like free short text messages, as well as short messages in "push" mode linked to the stockmarket service, thanks to which users receive on their cellphones personalized stockmarket information upon the occurrence of the price fluctuation they defined themselves;
- WAP services were gradually enriched in preparation for full availability of terminals, expected at the beginning of 2000.

Communication was modified radically in content and format, although the previous strategy of representing Omnitel as an enterprise that is innovative, future-oriented, close to users and their requirements was maintained, while presenting Omnitel no longer in a development stage but rather as market leader. A formerly unknown Australian model was the protagonist of the new advertising campaign which had a cinematographic and sensational format and suddenly became a national craze.

Total advertising expenditure was large (+35% compared to 1998), also with the goal of maintaining a "share of voice" capable of sustaining the growth in market share; it was spread over all media but especially television, in line with the mass penetration of service. Also for products specifically designed for the Corporate market the TV medium was used, as a consequence of the availability of a product portfolio covering all segments from small businesses to large enterprises.

By contrast, no national communication campaign was made on the basis of sponsorships, except for a few big events such as the Giro d'Italia cycling competition and Sanremo music contest.

At local level the regional operating structures worked to integrate and strengthen the national campaigns, mainly by the use of billboards and newspaper ads and, to a lower extent, through sponsorships, only when necessary to supplement the local presence.

The sum of investments and sponsorships raised the level of awareness of the Omnitel Brand to 96% of total awareness and 78% of spontaneous awareness, with a net increase (+6%) compared to 1998. The new communication campaign, furthermore, raised the spontaneous advertising awareness from 30% in 1998 to 46% in 1999 and total advertising awareness from 56% to 68%.



Investments and operating resources dedicated to strengthening **distribution** were in line with the evolution of the competitive scenario and the entry of the third operator.

Independent dealers still make up the backbone of distribution with a share of 80% approximately of new activations, but during the year large hyper- and supermarket chains increased their share by 75% compared to 1998. In detail, the main activities in distribution growth were the following:

- in the independent dealer channel, the goal was achieving greater effectiveness and ever more extensive presence in the entire Italian territory through the development of the indirect distribution scheme (OmniPoint), already started in 1998. The overall number of authorized dealers was stable at around 2,200, distributed uniformly and with no significant variation within the individual operating areas;
- "Spazio Omnitel" outlets were further strengthened with the opening of 31 new retail outlets under franchise in 23 towns, bringing the total to 129 outlets in 88 towns; of these, 6 are managed directly by Omnitel. The share of this channel out of total gross activations rose 40% compared to 1998;
- the share and structure of distribution through large hyper- and supermarket chains, by contrast, underwent significant changes during the year. The success of this channel, however, is not due solely to an increase in number of outlets, but also to targeted commercial policies and to a strengthening of the operating management structure, both centrally and at local operating areas;
- also distribution dedicated to the Corporate market was strengthened, with a strong increase in staff numbers which resulted in an important variation in resources committed, whereas the structure of channels did not change significantly. In this scenario agencies obtained a dominant share of total activations, while the direct sales channel was focused more on maintaining penetration of medium and large enterprises.

As for the sales structure dedicated to rechargeable cards, tobacconists further increased their share to over 60% of the total. Additional channels were also opened, including the possibility of recharges made directly from users' cellphones and debited to their bank accounts through over-the-air use of their ATM cards.

At the end of May "Spazio Omnitel on Line" was launched. This is Omnitel's first e-commerce site. The results achieved during 7 months of operations were sensational, so as to make it the second most visited e-business site in

Italy: over 33,000 customers registered and 26,000 orders obtained, worth nearly Lire 3.2 billion.

All these activities aimed at developing distribution were accompanied by careful management of acquisition costs, which remained stable. This was made possible by:

- avoidance of subsidy policies;
- policies for the remuneration of distributors consistent with the volumes of activations on the market;
- fall in prices of terminals, also driven by the growing volumes of activations and commercial policies.

In order to improve the **standards of customer service** work was conducted mainly to strengthen the telephone interface facilities and improve the quality and capacity of the network.

At the end of the first half of 1999 the eighth Call Center, based in Bologna, became operational. Total resources engaged in customer service over the whole national territory went from 2,497 full-time equivalents at January 1, 1999 to 3,506 FTE at December 31, 1999.

The commitment to improvement did not concern only the number of resources but also the systems employed. Indeed, starting from September new automated call management systems were introduced, based on a voice recognition platform, which brought the total of calls managed by automated answering systems to nearly 70% of total calls, up 8% from the previous levels.

In spite of a very high total number of calls (around 100 million), the average churn rate during the year was lower than the average for the Italian market. Similarly, the standard of customer service at 20 and 40 seconds was respectively equal to 61% and 74%, while productivity rose 5% compared to 1998.

The development of the wireless access network followed two main lines: improvement of the quality of coverage and increase in capacity. Overall, 1,463 new base transceiver stations (BTS) were put into operation (of which 1,070 BTS at 900 MHz and 393 BTS at 1800 MHz), with 13,483 additional transceivers, 264 microcells and new frequency management technology. The expenditure translated into a marked improvement in quality, thanks to better management of traffic congestion and growing indoor coverage.



Customers evidently appreciated the sum of activities directed towards innovation and service improvement: although the market has been characterized by increased competition from operators old and new, Omnitel managed to reduce further the churn rate, that is customer migration, which fell to 12% per year overall.

OMNITEL 2000

Launched in the course of 1999, *Omnitel 2000* is one of the Company's main strategic projects. *Omnitel 2000* – which is illustrated in greater detail in the section on subsidiaries – supplements the range of wireless products and services offered by Omnitel, expanding business into new areas characterized by huge growth prospects: development and marketing of Web, WAP, and voice services are only a few applications of the future, for *Omnitel 2000* already of the present, characterized by growing added value content.

Entry into this field provides a huge strategic opportunity for a wireless telephone operator such as Omnitel, and follows a logic which is more typical of the Web than of classical telephone business, since market growth should follow an exponential curve rather than a straight line, however high. The next few months will tell if Omnitel's pioneering strategy has been a winning one; for the time being we may note that the market for WAP cell phones is forecast to grow very fast already in 2000 (two million units at year end), that the service offering of *Omnitel 2000* is wide-ranging and diverse, that the organization of such a business is certainly complex and has been undertaken by Omnitel with the best human resources available and significant investments.

Omnitel is convinced that the time factor will be also in this market, as it is with everything that concerns the Web, the element capable of proclaiming the success of an initiative: being there, being first among mobile operators, and having quickly overcome a number of obstacles inherent in the absolute novelty of this business, are all elements that point to the future success of *Omnitel 2000*.

THE REGULATORY FRAMEWORK

The year 1999 saw, on the one hand, the prosecution of regulatory activity by AGCom, the Italian Regulatory Authority for Telecommunications (hereinafter "AGCom" or "the Telecom Regulator"), on the other hand a consolidation of market liberalization with the start of commercial operations by the third wireless operator, the awarding of a fourth wireless license and over 70 licenses for the installation of networks and provision of voice services.

The transition from monopoly to a competitive market, the goal of the recent reform of telecommunications, is now an established fact in wireless telephony; in this stage the business is characterized by a high degree of dynamism, rapid growth in the number of players and increasingly livelier competition.

In the ever more competitive scenario that has been characterizing the telecom market in Italy, therefore, it appears clear that regulatory activity should lay down rules that ought to be ever less restrictive and more flexible, monitoring – rather than conditioning – the development of competition on the market. This is to be hoped also with a view to the abolition of the specialist regulatory regime and segment regulation which characterized the initial transition from monopoly to deregulated market and the adoption, in its stead, of general rules on competition, as was testified by the views of the European Commission expressed in the "1999 Communications Review".

In summary, Omnitel hopes that Italian and European regulatory authorities will increasingly adopt a "hands-off" policy consistent with a market environment which is, without doubt, increasingly open and competitive and similar to a market for consumer goods; on the contrary, a growing dirigiste trend towards state intervention, of which worrying signals can already be perceived, would be clearly negative for the growth of the whole industry.

Below we illustrate the main events that characterized Omnitel's operations during 1999.

Inversion of title to the charge for fixed-to-mobile calls

In January the Telecom Regulator (AGCom) decided that the charge for calls from a fixed to a mobile telephone was to be paid to the operator of the wireline network, Telecom Italia, instead of the wireless operators. The price changes proposed by the wireless operators were thus revoked by



the Regulator.

In resolution No. 10/99 of March 17, 1999 the Regulator defined the new charges for calls originating from Telecom Italia and terminating on the wireless networks.

Access Deficit

The mechanism for allocating the "access deficit" charge introduced by art. 7 of Presidential Decree 318/97 was definitely abolished. This was in accordance with AGCom's resolution No. 101/99, which stated that the mechanism was not to be applied in respect of 1999; and in accordance with art. 7, item 6, of Presidential Decree 318/97 which provided for its elimination by January 1, 2000.

Award to Omnitel of a license for providing voice telephone services

In June Omnitel was awarded a license enabling it to supplement its offering of telecommunication products in specific segments of the market.

Contribution towards the establishment and operation of the Telecom Regulator "Autorità per le Garanzie nelle Comunicazioni" (AGCom)

Pursuant to Ministerial Decree dated July 16, 1999, Omnitel calculated, and paid on July 31, 1999, its contribution for the charge relating to the establishment and operation of AGCom.

Terms of the interconnection agreement with Telecom Italia

In July 1999 Telecom Italia submitted a new reference interconnection proposal. Omnitel considers this proposal applicable starting from January 1, 1999 based on the provisions of art. 4 of Presidential Decree DPR 318/97, art. 14 and 15 of Ministerial Decree dated April 23, 1998 and Section II, point 3 of Resolution No. 1/CIR/98.

Universal Service

In application of Ministerial Decree March 10, 1998, with Resolution No. 2/CIR/99 dated August 4, 1999, AGCom examined the costs of universal service to the company currently providing it, Telecom Italia; it then resolved that with reference to 1998 the obligation for that company to provide universal service was not an unfair burden. Therefore, no allocation of the cost among operators was resolved. This orientation is confirmed by developments in the rest of European countries where, with the exception of France, no mechanism for funding the universal service has been, in practice, applied. Omnitel hopes that in future the logic of Universal Service

will be rethought, with the burden of funding transferred to general taxation and, at any rate, with the introduction of competitive mechanisms – such as, for instance, "pay or play" – for the identification of the offering operators.

Notification to Omnitel as operator having significant market strength and determination of interconnection charges

In early September 1999 Omnitel was the subject of a ruling by AGCom, which notified the Company of its identification as a telecom operator with significant strength in the national interconnection market as well as in the mobile telephone market.

In Omnitel's view this notification was a forced acceleration and, consequently, caused damage to the Company because it was made in spite of the fact that its share of that market did not exceed 18%, versus a reference threshold of 25% established by Italian and European legislation. Omnitel filed a court appeal against the ruling.

Abolition of the performance bond

In September 1999, following an indication of the European Commission, the Telecom Regulator resolved the abolition for the holders of telecom licenses, inter alia, of the obligation to give a performance bond, in that it was judged incompatible with the new rules on liberalization (Resolution No. 217/99 of September 22, 1999). Although the regulator has not yet proceeded – as prescribed – to revise and amend the existing license agreements, the abovementioned obligation may certainly be considered to have lapsed also for Omnitel, whose GSM license, based on the regulations, is fully equivalent to the licenses issued at a later date. In any case, in May 1998 Omnitel Pronto Italia achieved all the performance bond targets provided for by Appendix B to the GSM license agreement approved by Presidential Decree dated December 2, 1994.

Public consultation to define the reference framework for the introduction of UMTS (Universal Mobile Telecommunication System) in Italy and approval by AGCom of the regulations for the issuance of individual licenses for third-generation terrestrial mobile communication systems

In September 1998 the Communications Ministry, at the same time as its opposite number in other European countries, started consultations with the parties concerned in order to define the reference framework for the introduction in Italy of third-generation mobile telecommunication systems, UMTS.

At end of the consultation process AGCom issued regulations setting forth

the principles and procedures applicable to the release of UMTS licenses (resolution No. 410/99).

With the introduction of UMTS, which Omnitel sees as a fundamental development and following on the huge expenditure on GSM technology, it will be possible to strengthen even further the capacity of wireless telephone networks and to develop innovative and integrated voice/data services which will allow, inter alia, easy access to the Internet via mobile terminals.

Sentence by the Antitrust Authority for alleged anti-competition agreement with Telecom Italia Mobile (TIM)

At the end of September 1999 the Authority for Competition and the Market, on completion of an investigation started in January 1999, passed judgment, and imposed the relevant penalty, against Omnitel and TIM, guilty, in the Authority's view, of making a price-fixing deal concerning interconnection charges for fixed-to-mobile calls and thus breaching antitrust rules. This judgment was considered incorrect by the AGCom, which rather justified the steps taken by the parties, mainly based on the (unclear) applicable regulations in force. The appeal filed by Omnitel before the regional administrative court against the ruling is still pending (see section "Most significant litigation").

In any case Omnitel, with all respect due to the relevant authorities, rejects the charge of having made with TIM a deal allegedly restrictive of, or harmful to, competition as totally groundless. On the contrary, as is well known, the relationship between the two companies has always been characterized by a high degree of competitiveness on the commercial side and intense contentiousness in bilateral relations.

Policies for allocation of electromagnetic spectrum and frequencies

As decided by the Communications Ministry in a letter dated December 18, 1998, starting from March 1, 1999 Omnitel has been able to use an additional radio channel in the 900 MHz band, over and above those allocated in the 16 largest Italian cities starting from November 1, 1998. Moreover, starting from July 1999, a year earlier than the date provided for in Ministerial Decree No. 113 dated March 25, 1998, usage of the frequencies already allocated in the 1800 MHz band was extended to the whole national territory.

The policy of allocation of frequencies, however, is in need of urgent revision, which according to Omnitel should be accompanied by the early release of additional portions of spectrum, particularly in the 1800 MHz band.

Interconnection charges to wireless networks and prices for fixed-to-mobile calls

In a later decision, Resolution No. 338/99 of December 6, 1999, AGCom introduced a new principle for the definition of prices for fixed-to-mobile calls, enabling Telecom Italia to apply different prices according to the operator called and the interconnection prices charged by the latter. This principle introduces a competitive mechanism in the interconnection values of mobile operators (i.e. the component of the price that is set by the mobile operator), thereby removing a big obstacle to full-fledged competition in this segment, with direct benefits to the end users. At the same time, AGCom set a ceiling for the "retention" value charged by Telecom Italia (i.e. the component of the price that is paid to the fixed-line operator), at 110 Lire per minute, and a ceiling for the interconnection charge on the networks of the notified mobile operators, at 360 Lire per minute on average.

Start of the revision process of the GSM license

AGCom, in a letter dated December 29, 1999, in application of art. 2, item 4, of Presidential Decree 318/97, opened a proceeding with the aim of modifying the public service licenses in existence at the time the Decree came into force and bringing them into line with its provisions. Omnitel, following the entry into force of DPR 318/97, back in 1998 started abolishing all restrictions incompatible with EEC Directive 90/388, as amended by EC Directive 96/2.

Start of reform of EU telecommunications legislation with the drafting of the 1999 Communications Review

In late 1999 The European Commission issued a communication, known as 1999 Communications Review, with the goal of redesigning the future legislative and regulatory framework for the whole telecommunications industry. As is clear, this reform process is crucial to the development of telecommunications in Europe in coming years, because it will redefine completely the reference framework for the business. With regard to that document Omnitel presented it case to the Italian and European Regulators, arguing for increasingly "lighter" regulation and ever wider scope for the operation of market mechanisms.

Contribution towards the use of electromagnetic spectrum and available numbers

Omnitel has not yet received any indication as to the amount of the contribution due for the usage of frequencies for radio links and available numbers, required by the Ministerial Decree of February 5, 1998.



MOST SIGNIFICANT LITIGATION

Identification of Omnitel as a player "with significant market strength"

On October 5, 1999 Omnitel filed an appeal with the Regional Administrative Court of Latium seeking first to suspend, and then to nullify, Resolution No. 197/99 of AGCom on the "Identification of telecommunications operators with significant market strength". The appeal relates to the part of the resolution which notified Omnitel of its identification as a telecom operator with significant strength in the national interconnection market in spite of the fact that at the time Omnitel's market share was largely below the 25% of the reference market established by the regulation as an indicator of significant strength. The court, with its order dated October 27, 1999, refused to grant the suspension sought; the order was subsequently impugned before the Council of State, which partly amended it, without, however, suspending the effect of the notification.

No developments occurred in Wind's appeal before the Regional Administrative Court of Latium seeking to nullify the failure by the authorities to include Omnitel among operators having significant market strength in the telephone business for 1998. The case has become irrelevant in light of the notification received by Omnitel for the year 1999.

Provisional definition of the Fixed-to-Mobile regime

Through an appeal filed on April 13, 1999 Omnitel sought from the Regional Administrative Court of Latium the nullification of AGCom's Resolution No. 10/99 of March 17, 1999 defining a provisional regime for fixed-to-mobile calls, for the portion requiring wireless operators to break down the average value indicated in the interconnection agreements made with Telecom Italia in a manner consistent with the prices to users decided by the Regulator, as well as for the portion establishing that "the present provisions" were still applicable to international traffic. The Company did not seek a suspension.

Resolution by AGCom concerning "charges" for fixed-to-mobile calls

With resolution No. 338/99 of December 17, 1999 the Telecom Regulator intervened on the subject establishing new criteria for the definition of charges for fixed-to-mobile calls: it set a ceiling both for the portion payable to the fixed-line operator ("retention") and for the portion payable to the wireless operator ("termination").

The resolution was impugned before the Regional Administrative Court of Latium by several operators (including Telecom Italia, TIM, Albacom), for

different and partly contrasting reasons.

Omnitel, which has also been considering the opportunity of entering an appearance in those proceedings in order to assert its claims, taking into account also the predominance of the technical aspect has decided, instead, to submit a petition for re-examination to AGCom itself, urging the Regulator to rethink some of the concepts underlying the intervention and revise parts of the resolution.

Decision by the Antitrust Authority concerning prices for fixed-to-mobile calls

Further to the investigation started on January 7, 1999, the Authority for Competition and the Market completed the preliminary stage, at the end of July, and on October 1, 1999 announced its final decision.

In the decision the Antitrust Authority, notwithstanding the specific opinion to the contrary of AGCom, charged Omnitel with making three separate deals with TIM allegedly in breach of antitrust law:

- the first, in the form of restrictive trade practice, for fixing (or, more correctly, maintaining) identical prices on fixed-to-mobile calls in the course of 1998;
- the second, with reference to the redefinition of rates for fixed-to-mobile calls in January 1999;
- the third, also in the form of restrictive trade practice, for the redefinition, in July 1998, of the terms for the interconnection agreement with TIM, concurrently with the entry into the market of the third wireless operator and allegedly to the detriment of the latter and of new entrants into the fixed-line business.

The three deals would be "severe" breaches and are liable to penalties as follows:

- the first, at a rate of 1.8% of revenue from Telecom Italia for 1998 (for Omnitel, equal to Lire 27,918,000,000);
- the second, at a rate of 1% of revenue from Telecom Italia, again for 1998 (for Omnitel, equal to Lire 15,510,000,000);
- the third, at a rate of 1% of revenue from interconnection rates charged to TIM for 1998 (for OmniteI, equal to Lire 3,440,000,000).

On October 29, 1999 Omnitel impugned the decision before the Regional Administrative Court of Latium, seeking a prior suspension; the Company claims that the decision ignored the way events actually took place and distorted a series of circumstances, of which the Regulator was well aware, in addition to being vitiated by defects of illegitimacy.

At a hearing held on November 17, 1999, following a request of the parties, the claim for suspension was joined to the principal proceeding (for which the next hearing is scheduled for May 3, 2000).



Interconnection

No developments occurred with reference to the appeals filed by Telecom Italia on the subject of interconnection which we mentioned in the Notes to the consolidated financial statements for 1998.

Through a further appeal on January 7, 1999, Omnitel sought the nullification of AGCom's resolution No. 1/CIR/98 for the portion establishing the retroactivity of the terms of Telecom Italia's reference proposal dated July 24, 1998 and effective January 1, 1998 for holders of fixed-line licenses and July 25, 1998 for holders of wireless licenses. The Company did not seek a suspension.

Other proceedings

Prosecution of several proceedings pending at December 31, 1998 was abandoned in 1999. In particular, those concerning the start of commercial service and coverage, those on compensatory measures and various disputes in relation to advertising and unfair competition.

No significant suits have been instituted by or against suppliers, while the suits brought by customers are very few and negligible in terms of substance, which confirms widespread satisfaction for the services provided by Omnitel and the efficiency of Call Centers.

In contrast, a high and growing number of civil and administrative proceedings have been instituted in relation to the installation of base transceiver stations, caused by widespread fears about the propagation of electromagnetic fields. Omnitel considers such fears totally devoid of substance, given that the limits set prudently by the Ronchi Decree have been complied with and there are no significant emissions. The Company has been monitoring carefully the regional laws implementing the Ronchi Decree, as well as other municipal regulations setting limits to the installation of base transceiving antennae, and to date this has resulted in Omnitel instituting two suits to impugn the regional laws of Lombardy and Marches, and several suits against municipalities.

INCREASE IN KNOW-HOW AND DEFENSE OF TECHNOLOGICAL INNOVATION

The main target of activities and research in the context of technological innovation is to create network infrastructure capable of offering new services to customers, abreast of the times and ahead of competitors.

During 1999, the defense of technological innovation was focused on the following issues:

- a evolution of the GSM standard, with particular reference to the introduction of a new transmission technique based on packet switching (also at the level of wireless interface);
- b Wireless Application Protocol and impact on terminals;
- c development of standardization towards a definition of third-generation wireless systems.

In relation to GSM, new transmission techniques were introduced (for instance, frame relay), a new connectivity layer dedicated to data was defined, trials were conducted on GPRS technology, and traffic models were developed for data applications with packet access to the wireless interface.

In relation to the WAP protocol, advanced Mobile Internet services were realized, materializing one of the most innovative concepts emerged in recent years. The network increased its available features through the development of WAP platforms and data networks for the ongoing update of content available through the service; "server-side" WAP applications are being developed by Omnitel using last-generation programming language (Java).

As to UMTS, Omnitel followed the phase of standardization of thirdgeneration wireless systems from the start, participating in international workshops, collaborating with universities in developing models for thirdgeneration system components, developing models for the design and dimensioning of UMTS networks and familiarizing with the new technology. In particular, a trial was defined with leading manufacturers in the segment of wireless appliances, terminals and applications, so as to:

- test the functioning of new appliances;
- test the behavior of an UMTS network in terms of call control features and mobility of the terminal;
- allow interconnection to Omnitel's existing network infrastructure;
- allow integration with service and intelligent network hubs;
- create new services, with particular emphasis on "mobile multimedia";
- test in the field UMTS terminals developed by the main manufacturers.


In economic and management terms the technological development activities illustrated above translates into a substantial commitment of human and financial resources.

EVOLUTION OF THE GSM NETWORK AND PREPARATION FOR THE UMTS TENDER

In the course of 1999 Omnitel built a total of 1,070 new base transceiver stations (BTS) operating in the 900 MHz band, bringing the total of stations in operation from 3,440 to 4,510, with growth of 31% compared to the end of 1998. In early January 1999 service was started in the 1800 MHz band, and during the year the necessary transmission equipment was installed at 393 BTS and the existing antennae systems were modified accordingly. The total number of stations operating in the 1800 MHz band therefore went from 284 to 677, with an increase of 138%. GSM BTS operating in the 900 MHz and in the 1800 MHz band therefore total 5,187.

Moreover, 224 microcell stations realized with equipment supplied by Nokia were installed. At the same time, a second supplier of microcell equipment was evaluated and approved: the technology chosen was Lucent, of which 40 microcell stations were installed during 1999.

Special attention was paid, furthermore, to indoor coverage. To this end, of the 1,070 sites mentioned above, 126 were built in order to improve indoor coverage in the 20 largest Italian cities.

The table below shows figures relating to the main network elements in operation at the end of 1999:

Type of Network element	Increase 1999	Stock 1999
BTS	1,463	5,187
BSC	83	260
TCSM	1,756	3,088
HTS	8	8
TSC	5	11
MSC	36	83
HLR	18	49
VMS	6	18
SMSC	32	54
EIR	4	8
SCP	11	16
SMP	1	6

The evolution of the network from 1995 to the present for BTS, BSC and MSC may be summarized as follows:



Quality of the network

The level of quality of service provided to our customers is constantly monitored by the Network Quality Department, both using statistical performance indicators gathered into a centralized corporate system (Metrica), and making direct measurements in the territory: as a matter of fact, also in 1999 periodical monitoring activity continued through national and local quality tests, which have always evidenced the high quality of the Omnitel network.

In 1999 a new tool, CellAD, was introduced to assess the performance of the wireless access network. This tool makes it possible to generate a continuous and automated cycle of outgoing and incoming calls on which quality levels may be tested.

Introduction of advanced network features and innovative services

Omnitel introduced service in the dual-band GSM 900/GSM 1800 network starting from January 1999. The dual-band network is fully accessible for any customer owning an adequately equipped mobile telephone and allows the provision of the best network access and the best quality available. Access to the network was further improved through the introduction of the microcell access level. The wireless access network is therefore organized on different levels, 900 MHz, 1800 MHz and microcells, the latter designed to increase network capacity. Also, several advanced features were introduced which make it possible to regulate traffic routing to the various levels and optimize network performance and support for innovative services.

Among the advanced features we wish to mention:

- new "handover" algorithms allowing optimal redistribution of traffic in a multi-level (macrocell/microcell, or GSM900/GSM1800) network;
- Intelligent Frequency Hopping, which, by combining the benefits introduced by Base Band Frequency Hopping and the Intelligent Underlay Overlay feature, makes it possible to improve the re-use of frequencies in the network and, therefore, to increase network capacity;
- the Enhanced Full Rate voice coder, which makes it possible to offer, to users equipped with handsets supporting this feature, better voice quality than that provided by the Full Rate coder in the same wireless environment.

During 1999 the optimization of the fixed network architecture was continued with the introduction of an additional switching level, that of Hub Transit Switches (HTS), allowing transmission in Asynchronous Transfer Mode.

Furthermore, preliminary work was conducted with a view to the planned evolution of the network in 2000, completing bidding for the supply of new technology. Competitive bids were invited for the "Core Network" of the GPRS (General Packet Radio Service) network, while bidding was concluded for point-to-point transmission equipment using SDH (Synchronous Digital Hierarchy) technology.

Last, but not least, 1999 was the year of the launch of Omnitel 2000, the service enabling Omnitel users to access a huge quantity of information (news, hotels, etc.) either through Internet, or via WAP terminals , or "navigating" the system with voice commands.

UMTS-related activities

During 1999 Omnitel, building on its consolidated experience with GSM technology, took an active part in the definition of the UMTS standard, in order to gain the necessary know-how for planning and operating the future system and assessing the technical features of future 3G equipment.

Omnitel also made collaboration and trial agreements with manufacturers in order to influence and assess the characteristics of products designed to build the 3G network; testing will focus both on technical aspects (such as the features of the new system and co-existence with the existing GSM network), and the ability of UMTS to offer innovative services.

The implementation of the trials will extend over the whole year 2000 and into the next year.

All the activities and expenditure illustrated so far were made with the aim of enabling Omnitel to make a successful bid for the license for thirdgeneration systems.

OMNITEL AND THE ENVIRONMENT

In 1999 Omnitel carried on an intensive awareness campaign aimed at the public and institutions on the subject of the environmental impact, and absence of any possible negative effect, of electromagnetic waves from Base Transceiver Stations.

Omnitels' position was acknowledged also by an important environmentalist association, Legambiente, which signed with Omnitel a joint document recognizing the absolute quality of the network plan in relation to compliance with limitations set by Italian law and efforts to ensure maximum protection of people living in the vicinity of transmission sites, in the spirit of Law Decree No. 381.

At the same time, activities continued for Consorzio Elettra 2000, promoted



by Omnitel together with the other Italian operators and the University of Bologna to provide incentives and support for scientific research on the subject. An important manifesto, signed by nearly a hundred Italian, and then by European, scientists, confirmed the correctness and validity of international and national limits to exposure, which Omnitel has always complied with in planning the network.

In 1999 Omnitel also started supporting the World Health Organization in a epidemiological study of the possible effects of electromagnetic radiation.

HUMAN RESOURCES

The workforce employed by Omnitel Group at December 31, 1999 numbered 7,898 (corresponding, when part-time employees are considered, to 6,903 full-time employees), 42% more than in 1998. In 1999, 3,182 people were hired, at a rate of more than 265 per month.

The total may be broken down between permanent and seasonal employees as follows (data at December 31, 1999, compared with 1998):

	Permanent	Seasonal	Total	Total F.T.E.
Full-time	5,031	337	5,368	5,368
Part-time	2,237	293	2,530	1,535
Total at Dec. 31, 1999	7,268	630	7,898	6,903
Total at Dec. 31, 1998	5,179	374	5,553	4,859
			F.T.E. = Full Ti	ime Equivalent

The Time Equivalent

The average age of the workforce was 29, the same as in 1998, giving concrete proof of Omnitel's vocation as a young, growing company. Women are in the majority, and account for 58% of the total.

Level of Education

University graduates account for 32% of resources in all corporate functions, except in Customer Care where the number is understandably lower (14%), however all staff have higher education and, in addition, there is a high percentage of senior undergraduates.

Distribution by professional area

Resources are distributed by professional area as follows:



58% of total resources are employed at Call Centers, which testifies to Omnitel's attention to customers through continuous investment in strengthening the customer service structure.

Organization

Working closely with the customers, speedy response and continuous innovation are the key factors to corporate success. Omnitel continues to reflect this in its organizational structure, which adapts rapidly and flexibly to the continuous evolution of the market.

In 1999, there was a far-reaching review of the whole structure, with the aim of:

- segmenting management by customer category;
- limiting the number of organizational levels to speed up decision-making time and enhance the empowerment level of resources;
- creating new tools and processes with which to optimize the management of innovation.

Distribution by geographical area

Omnitel confirms the value of a "region-based organization" which ensures strong presence in and supervision of the territory.



Resources are distributed by organization unit based on geographical areas as follows:



Distribution by function and area

Resources are distributed by function, broken down by organization unit based on geographical areas, as follows:

H	Headquarters	North West	North East	Center	South	Total
Staff	336	31	18	25	22	432
Network	318	310	293	319	320	1,560
IT	382	31	22	33	32	500
Customer Care	77	1,241	891	1,199	1,147	4,555
Sales	315	119	98	105	90	727
Other	124	0	0	0	0	124
Total	1,552	1,732	1,322	1,681	1,611	7,898

Of the above resources, 580 are employed by the Call Center in Pisa and 508 by the Call Center in Catania, which were set up as separate legal entities, respectively Omnitel Servizi Centro S.p.A. and Omnitel Servizi Sud S.p.A. In 1999, 33 people were employed at Omnitel Gestioni S.p.A., and 66 at Omnitel 2000 S.p.A.

Training at Omnitel: the Service University

The Service University is the Omnitel version of the Corporate University, that is, the most recent organizational training model, linking academia with the corporate culture.

From the outset, the academic world has been represented in this activity, with a Scientific Committee composed of academics from four different universities and the continuous collaboration of university lecturers working both on the technological front and for Marketing and Management. The innovating aspect of the Service University also translates into the use of technologies: in particular, the University relies on a site, which will soon be transformed into a portal, both for remote training and other training activities. The innovating spirit which distinguishes Omnitel has led to the introduction

of remote training programs for more than 600 employees, including professional staff and managers: the excellence of the training process has also been assessed by the appropriate Ministries which awarded Omnitel first place in an Italian ranking involving as many as 800 companies on this theme.

In addition, Omnitel was one of the very first companies in Italy to have continuous remote training programs for management; these programs have been integrated by periods of learning at international level through Knowledge Management, leading in order to compare competences with the most innovative companies in the ICT sector.

Development and management of human resources

People Review

With a view to enhancing the Company's potential and skills, Omnitel established a resource assessment process known as People Review. All employees are subject to People Review, which is based on three elements of assessment:

- potential, defined as a set of personal characteristics and capabilities coherent with the corporate values;
- competence, defined as the sum of technical knowledge and skills closely related to the employee's position;
- performance, defined as the ability to achieve targets on a continuous basis.

The objectives which led to the creation of People Review were:

- obtaining constantly updated data on the human resources on the payroll, in terms not only of quantity but, in particular, of quality;
- directing management, development and training policies on the basis of the needs emerging from the assessment process.

During 1999, People Review involved approximately 2,200 Omnitel employees, for whom career development plans were established.

Job rotation

The acquisition of competence through horizontal and/or vertical job rotation is one of the cornerstones of development policy in a company organized like Omnitel. In 1999, approximately 700 people changed roles within the corporate structure.

Relations with the Trade Unions

During 1999, Omnitel's relations with the trade unions continued to enjoy the same high profile as in previous years.



We should also mention that, following the positive outcome of Olivetti's take-over bid of Telecom Italia, Omnitel had to arrange supplementary health and pension schemes for its employees and managers.

From July 1, 1999 and in agreement with Infostrada, the Omnitel-Infostrada Solidarity Fund (FSOI) was set up, which dispenses supplementary refunds of the health care expenses incurred by employees.

As far as managers are concerned, the necessary steps were taken to render operational a supplementary pension fund and a supplementary health care fund with effect from January 1, 2000.

1999 also saw the start of activities to create and develop autonomous relations with Confindustria: a special department was created with this in mind, called the General Affairs, Corporate and Industrial Relations Department.

The work of the bilateral Corporate/Trade Union commissions continues (with regard to equal opportunities, training and the professional system, etc.) with the aim of improving the company's relations with its employees in these areas.

SECURITY, SAFETY AND GENERAL SERVICES

As far as Security is concerned, in 1999, the corporate organizational structures were consolidated that provide the Judicial Authorities with the services laid down by current laws.

The training activities for Customer Care Technicians (TAC) were consolidated with the aim of increasing operators' awareness of topics of confidentiality and management of emergencies in terms of safeguarding the corporate image and assets.

During 1999, in connection with aspects of Safety, the safety management system in Omnitel workplaces was further consolidated.

In particular, with regard to training as laid down by Legislative Decree No. 626/94 on safety, training courses were organized of the type held in previous years, involving 2,755 people.

As far as information activities are concerned, 7,000 copies of the manual "Safety and Health in the Workplace" issued by the Corporate Accident-Prevention Service were distributed.

Following the expansion of Omnitel, in 1999, the Real Estate Services function built new premises totaling approximately 45,000 m². The most important include: the extension to the CED building in Milan, the building of new premises for the North West Region in Milan, a new Call Center in Bologna, the doubling of the existing Call Center premises in Pisa, the total renovation of the premises in Rome and the opening of peripheral offices in Catania, Palermo, Padua, Pescara and Turin, thus augmenting Omnitel's presence nationwide.

FISCAL TREATMENT IN THE TELECOMMUNICATIONS SEGMENT

As described in the 1998 annual report, the report on operations by the Board of Directors had indicated some fiscal and fiscal-related discriminatory practices to which companies operating in Italy are subject to as compared to those engaged in the telecommunications business in other member states of the European Union, and especially for wireless operators as opposed to wireline operators.

The aim of the following comments is thus to (i) update the situation from the prior year, (ii) offer new thoughts for a hopeful evolution of the laws governing the fiscal regime of the telecommunications segment.

In the first place, it should be mentioned that the disparity in fiscal treatment continues and still constitutes a feature peculiar to Italy. This creates a twofold handicap: (i) on the European market, where Italian operators are penalized and (ii) on the national and international markets where wireless operators are discriminated against because of their absolute disadvantage in competing against both foreign and national competitors.

It should also be pointed out that such discrimination produces a serious obstacle to the balanced development of competition, especially in one of the strategic sectors of the country's economy. The first of these fiscal provisions, which creates distorting effects in the competition and diminishes the potential for growth in the telecommunications segment as a whole, is the one which introduced the "contribution for the installation and supply of public telecommunications networks, for the supply of voice telephone services and mobile and personal phone services to the public" (this refers to the provisions of article 20, paragraph 2 of Law 448/1998 – a so-called "related" law of the 1999 Italian Finance Law). This contribution, which in the first year of application



(1999) is calculated at 3% of "turnover related to all telecommunications services", is nothing more than a re-proposal of the old license fee under the fixed and mobile telephone concessions which was formally eliminated – since it contrasted with the European Community laws and the national legislation which introduced such laws – but which was nevertheless kept, in substance, even at this absolutely exaggerated figure.

It should also be mentioned that according to the EC and national laws governing this sector, the operators are merely required to pay the State a simple fee to cover the administrative costs needed to issue and later "operate" the licenses. Accordingly, strong objection can be taken to the permanence – actually in toto – of the obligation covered by the old license agreement since, in principle, it contrasts with EC obligations.

Moreover, it should be pointed out that this contribution is in addition to others which partly overlap. Specifically:

- compensation to the Ministry of Defense for the release of the 1800 MHz band (only for wireless telephone operators);
- annual fee for the assignment of numbering, introduced by Ministerial Decree of February 5, 1998;
- fee for the issue of licenses and the annual fee for checks and controls, also introduced by Ministerial Decree of February 5, 1998;
- fee for scarce resources, introduced by Ministerial Decree of February 5, 1998;
- eventual fee for the Universal Service, introduced by Ministerial Decree of March 10, 1998.

Briefly summarizing the above, the "fiscal-related" system in force in Italy has no equal in any other member state, either in terms of the amount or the manner of payment.

But the anomalies in the Italian fiscal system do not end here, given the different treatment of wireline and wireless telephone services.

In the present framework characterized by a growing convergence between wireline and wireless telephone services, customers are very mindful and attentive to the economic conditions of the plans offered and compare the various alternatives and choose the most convenient one (also) because it is the cheapest, regardless of the technical characteristics of the service (wireline or wireless technology). The convergence process among fixed and mobile telephone services, which already today constitutes one of the key factors in market growth, is in danger of slowing down considerably due to "fiscal variables", since the wireline telephone business enjoys more favorable tax treatment than the wireless business.

In particular, not only does the fiscal treatment – in terms of VAT and IRPEF/IRPEG rates – penalize the wireless telephone business as opposed to the wireline telephone business, but ad hoc taxes are levied – like the government license tax on wireless terminals – which appear to be illegitimate and discriminatory.

Thus, wireless telephone operators continue to be doubly discriminated against from a competitive standpoint:

- a on the demand side, wireless telephone customers are at a disadvantage compared to wireline customers; and
- b on the supply side, wireless operators are forced to increase the customer's fixed fee by a component the tax on the government license
 which is absent from the supply of wireline services.

So it becomes clear that tax harmonization for wireline and wireless telephone services can no longer be postponed: the adoption of specific measures for eliminating the existing discrimination aimed at wireless service operators in the tax treatment of VAT, IRPEF/IRPEG taxes and the government license tax is a necessary and decisive step to fostering true competition in telecommunications.

A first sign in this direction can perhaps be found in a recent law (art. 6, paragraph 21, Law 488/1999) which makes specific reference to so-called car phones and allows a 100% tax deduction for the related expenses. Apart from any considerations about the limited application for the wireless telephone business of these positions firstly by the Financial Administration and then by the legislator (and regardless of the reasons supporting this position: based in this case on aligning cell phones to traditional phones), what we would like to stress here is that a patent sign (the first) appears to be coming from the authorities which govern the Italian tax system. Hopefully, this breakthrough will symbolize the first step towards a tax system which can (and wants) to abandon preconceived positions that are now anachronous and based on absolute suppositions and to adopt market rationales that encourage true competition among companies. A system than can guarantee "equal treatment" to the various operators in the telecommunications sector.

Omnitel is ready to constructively contribute to the planning and design of the guidelines for an equitable and efficient tax system, also through its involvement in associations and work and study groups engaged at both the national and European community level, such as Federcomin, Confindustria, European e-business Tax Group.



TREND OF OPERATIONS

The following data refer to the consolidated financial statements reclassified for internal management purposes. Specifically, revenues are shown gross of discounts to dealers on the sale of rechargeable telephone cards (classified under variable costs and acquisition costs) and are net of the interconnection costs related to the traffic from customers of other operators and directed to Omnitel's customers.

Profit & loss data (billions of Lire)

Description	1999	1998	Variance
Total service recurring revenues	6,494	3,951	2,543
Total service variable costs	(1,629)	(1,212)	(417)
Total service contribution margin	4,865	2,739	2,126
Total service contribution margin			
as a % of service recurring revenues	74.9%	69.3%	0
Technical assistance contribution margin	3	8	(5)
Technical assistance contribution margin			
as a % of service recurring revenues	0.1%	0.2%	(0)
Total recurring revenues	6,508	3,968	2,540
Gross margin from recurring activities	4,868	2,748	2,120
Gross margin as a %			
of service recurring revenues	75.0%	69.6%	0
Total net acquisition costs	(198)	(115)	(83)
Total net acquisition costs			
as a % of service recurring revenues	(3.0%)	(2.9%)	(0)
Contribution margin on accessories & other	74	38	36
Bad debt & fraud	(55)	(42)	(13)
Total gross revenues	7,387	4,634	2,753
Total gross margin (after bad debt & fraud)	4,689	2,628	2,061
Gross margin			
as a % of service recurring revenues	72.2%	66.5%	0
Total operating expenses	(1,687)	(1,155)	(532)
Operating expenses			
as a % of service recurring revenues	(26.0%)	(29.2%)	0
EBITDA	3,002	1,473	1,529
EBITDA			
as a % of service recurring revenues	46.2%	37.3%	0
Capitalization	46	38	8
Depreciation & amortization	(830)	(554)	(276)
EBIT	2,218	958	1,260
EBIT as a % of service recurring revenues	34.2%	24.2%	0
Net financial charges	(64)	(97)	33
Extraordinary income (loss)	196	(22)	218
Income before taxes	2,350	839	1,511
Income taxes	(688)	(58)	(630)
Net profit	1,662	781	881

In 1999 the Group reported total revenues of Lire 7,387 billion, with an increase of 59% over 1998. These include service revenues of Lire 6,494 billion (+64% over 1998), revenues from handset and accessory sales of Lire 750 billion (+42%) and other revenues of Lire 143 billion.

The contribution margin as a percentage of service recurring revenues was 75% compared to 70% in the prior year due to a different mix in telephone traffic. The cost of acquisition of new customers increased, after deducting revenues from new customers, from Lire 115 billion to Lire 198 billion, also as a consequence of the increase in gross sign-up fees from Lire 4.3 million to Lire 5.2 million.

The provision for bad debts and fraud totaled Lire 55.4 billion and, as a percentage of service recurring revenues, fell to 0.85% from 1.06% in the prior year.

Actions also continued to encourage customers to use less risky forms of payment such as credit cards or bank debit cards which, compared to the prior year, rose from 76% to 88% of subscribers.

The gross margin of Lire 4,689 billion showed an increase of 78% over 1998 and was equal to 72% of service recurring revenues (66% in 1998).

Operating expenses of Lire 1,687 billion (+46% compared to 1998) showed a reduction as a percentage of service recurring revenues to 26% (29% in 1998).

A comparative summary of operating expenses with those of 1998 is presented below (billions of Lire):

	1999	1998	Variance
Personnel	481	312	169
Consultancy	63	56	7
Travel expenses and allowances,			
rent and leases	43	31	12
Other expenses	214	156	58
Overhead	85	62	23
Selling expenses	283	212	71
Network	518	326	192
Total	1,687	1,155	532

Personnel expenses include performances bonuses paid to employees and pegged to EBITDA (Earnings before capitalization, depreciation, amortization, financial charges, extraordinary income/expenses and taxes) targets and customer satisfaction (measured by the "Customer Satisfaction Index"). Selling expenses include advertising costs that relate to numerous sales promotions offered to the market via the main media channels. EBITDA amounted to Lire 3,002 billion, more than twice the earnings of the

prior year and equal to 46.2% of service recurring revenues (37.3% in 1998), which confirms the favorable trend of operations.

Operating profit (EBIT) reached Lire 2,218 billion against Lire 958 billion in 1998, after the depreciation and amortization of investments of Lire 830 billion (+50% over 1998), of which Lire 557 billion refers to tangible assets (+52%) and Lire 273 billion to intangible assets (+45%).

Capitalized operating expenses totaled Lire 46 billion (Lire 38 billion in 1998) and related to the plant start-up expenses of Lire 4 billion incurred prior to commencing operation of the base transceiver stations and network planning expenses of Lire 42 billion.

Net financial charges of Lire 64 billion (Lire 97 billion in 1998) represent the balance of interest expense and other charges of Lire 91 billion, bank charges and commissions of Lire 8 billion and financial income of Lire 35 billion, including interest income on securities, bank current accounts and on the Special Cash Collateral deposit. The reduction in financial charges as a percentage of net sales is mainly a consequence of the lower net financial indebtedness.

Profit before taxes was equal to Lire 2,350 million ad benefited from extraordinary income of Lire 196 million, mainly as a result of the recording of deferred tax assets in compliance with Accounting Principle No. 25. Net profit totaled Lire 1,662 billion, after taxes on income (IRPEG), local taxes (IRAP) and deferred tax assets for a total of Lire 688 billion. Tax loss carryforwards were completely utilized against the taxable income for the year, which also benefited from the subsidies provided under the so-called Visco Law as well as the Dual Income Tax (DIT).

Balance sheet data (billions of Lire)

	1999	1998	Variance
Assets	7,075	5,195	1,881
Current assets	2,907	2,075	832
Cash and bank and marketable securi	ties 585	642	(57)
Receivables (net), accrued income			
and prepayments	2,228	1,365	863
Inventories (net)	94	68	26
Net tangible assets	3,276	2,137	1,140
GSM equipment	2,853	1,664	1,189
Network infrastructure	805	573	232
Technical equipment	36	23	13
Other equipment	15	8	7
IT equipment	572	316	256
Office equipment	104	72	32
Office improvements	134	81	53
(accumulated depreciation)	(1,404)	(745)	(659)
Assets under construction	162	145	17
Net intangible assets	892	983	(91)
GSM license	842	833	9
(accumulated amortization)	(261)	(208)	(53)
Capitalized technical expenses	407	352	55
(accumulated amortization)	(135)	(95)	(40)
Other capitalized expenses	394	376	18
(accumulated amortization)	(356)	(279)	(77)
Financial assets	1	4	(3)
Shareholders' equity and liabilities	7,076	5,195	1,881
Current liabilities	3,807	2,269	1,538
Short-term bank debt	2	9	(7)
Current portion of long-term debt	61	61	0
Payables, accrued liabilities			
and deferred income	3,744	2,199	1,545
Long-term liabilities	213	1,553	(1,340)
Medium/long-term bank debt	161	1,517	(1,356)
Staff severance pay provision	52	36	16
Shareholders' equity	3,056	1,373	1,683
Capital stock	594	592	2
Share premium reserve	19	-	19
Statutory reserves	211	-	211
Accumulated profit (loss)	2,232	781	1,451

Total assets register an increase of 36% over 1998. The increase is mainly attributable to short-term operating assets (+Lire 889 billion) and fixed assets (+Lire 1,049 billion).

Short-term operating assets of Lire 2,322 billion consist of inventories of handsets, spare parts, accessories and Sim cards of Lire 94 billion, prepaid rent and leases of Lire 52 billion and net accounts receivable of Lire 2,176 billion (+65% over the previous year). Gross accounts receivable, which include invoices to be issued and are adjusted by the provision for bad debts of Lire 257 billion, comprise Lire 500 billion receivable from customers for services, Lire 433 billion receivable from the sale of handsets, accessories, spare parts and rechargeable Sim cards to dealers, Lire 1,107 billion receivable from other telephone operators, deferred tax assets of Lire 257 billion and other receivables of Lire 136 billion.

Gross tangible assets increased by Lire 1,799 billion (+62% over 1998) due to the realization of customer service infrastructures and the extension of the GSM network which now has 5,187 Base Transceiver Stations (BTS), 260 Base Station Controllers (BSC) and 83 Mobile Switching Centers (MCS). Gross intangible assets increased mainly on account of the capitalization of technical expenses relating to the network (planning, implementation and testing). Payables totaled Lire 3,744 billion and include trade payables which comprise invoices to be received of Lire 2,013 billion that refer mainly to operating expenses incurred and continuing investments in the construction of the network. The remaining payables mainly include unearned revenues from prepaid traffic of Lire 416 billion, advance payments on calls by subscribers of Lire 36 billion, tax payables of Lire 774 billion (including the tax on the government license of Lire 30 billion, VAT of Lire 48 billion, IRPEG taxes of Lire 605 billion, IRAP taxes of Lire 77 billion and other payables of Lire 14 billion), payables to personnel of Lire 71 billion and other payables of Lire 434 billion, including the fee payable of Lire 142 billion pursuant to Law 448/98.

The current assets to current liabilities ratio went from 0.91 in 1998 to 0.76 in 1999.

Net capital outlays are analyzed in the following table (billions of Lire):

	1999	1998	Variance
Net worth	3.056	1.373	1.683
Net financial indebtedness*	(361)	945	(1.306)
Net working capital	1.422	766	656
Staff severance pay provision	52	36	16
Total resources	4.169	3.120	1.049
Net tangible assets	3.277	2.137	1.140
Net capitalized technical expenses	272	257	15
Net tangible assets			
and net capitalized technical expenses	3.549	2.394	1.155
Other net capitalized expenses			
and financial assets	39	101	(62)
GSM license, after amortization	581	625	(44)
Net intangible assets	620	726	(106)
Total uses	4.169	3.120	1.049

* excluding Special Cash Collateral deposit in 1998, which in 1999 no longer exists

Net resources used by Omnitel in 1999 increased by Lire 1,049 billion, from Lire 3,120 billion to Lire 4,169 billion. This increase can be fully explained by fixed asset additions of Lire 1,141 billion, net of the changes in accumulated depreciation. Such increase was entirely financed by the increase in own funds, equal to the profit for the year of Lire 1,662 billion. Own funds also made it possible to increase net working capital (from Lire 776 billion to Lire 1,422 billion) and to almost fully repay long-term loans (for Lire 1,355 billion) and to bring net debt from Lire (945) billion to Lire +361 billion.



Cash flow data (billions of Lire)

	1999	1998	Variance
Net profit (loss)	1,662	781	881
Depreciation & amortization	830	554	276
Accrual to staff severance pay provision	19	10	9
Disposals & retirements	12	3	9
Gross cash flow			
from operating activities	2,523	1,348	1,175
Change in net working capital	658	387	271
Net (incr.)/decr. receivables,			
accrued income and prepayments	(864)	(769)	(95)
Net (incr.)/decr. inventories	(26)	(32)	6
Net (incr.)/decr. payables, accrued liabiliti	ies		
and deferrend income	1,383	1,010	373
Net (incr.)/decr. unearned revenue			
from prepaid traffic	165	178	(13)
Cash flow from investments			
in fixed assets	(1,896)	(1,308)	(588)
Tangible assets	(1,813)	(1,291)	(522)
Intangible assets	(82)	(16)	(66)
Financial assets	(1)	(1)	-
Net cash flow			
from operating activities	1,285	427	858
Cash flow from financing activities	(1,342)	8	(1,350)
Incr./(decr.) short-term debt	(8)	2	(10)
Incr./(decr.) long-term debt	(1,355)	6	(1,361)
Incr./(decr.) capital stock and reserves	21	-	21
Net cash flow	(57)	435	(492)
Cash and cash equivalent			
at beginning of period*	642	207	435
Cash and cash equivalent at end of per	iod* 585	642	(57)

* Including cash, Special Cash Collateral and marketable securities

Net cash provided by operating activities (after changes in working capital and investments) was Lire 1,285 billion, of which Lire 402 billion was provided during the first half of the year and Lire 883 billion in the second half. In particular, the change in net working capital generated a positive cash flow of Lire 658 billion that originated from an increase in account payables & accrued expenses of Lire 1,383 billion, an increase in net account receivables & prepaid charges of Lire 864 billion, an increase in unearned revenue from prepaid traffic of Lire 165 billion and an increase in inventory of Lire 26 billion. Additions to fixed assets absorbed Lire 1,896 billion and were used mainly for additions connected to the development and expansion of the GSM network.

Cash flow provided by financing activities produced a negative Lire 57

billion due mainly to the repayment of almost all medium/long-term debt. The net financial position shows a liquidity figure of Lire 361 billion compared to a Lire (945) billion in the previous year (see following table).

Net financial indebtedness (billions of Lire)

	1999	1998	Variance
Bank deposits	585	95	490
Short-term bank debt	(2)	(9)	7
Marketable securities	-	502	(502)
Current portion of long-term debt	(61)	(61)	-
Medium/long-term debt	(161)	(1,517)	1,356
Net financial indebtedness	361	(990)	1,351
Special Cash Collateral	-	45	(45)
Net financial indebtedness			
excluding Special Cash Collateral	361	(945)	1,306

RELATIONS WITH SUBSIDIARIES, ASSOCIATES, AFFILIATES, PARENT COMPANIES AND ENTITIES CONTROLLED BY THE LATTER

During the year, the Company entered into various arms-length transactions with subsidiaries, associates, affiliates, parent companies and entities controlled by the latter which are listed and detailed in full in the Notes to the Consolidated Financial Statements. These refer to trade and financial transactions in the normal course of business of the vertically integrated group of companies.

TREND OF OPERATIONS OF THE SUBSIDIARY OMNITEL GESTIONI S.P.A.

1999 was the fourth year of operation for Omnitel Gestioni S.p.A. (henceforth referred to as "OG"). There was an increase in its activities involving the sale of services and products of the parent company under the franchising agreement entered into in 1995, and in the development of support and testing activities laid down in contracts progressively stipulated since 1996 with the parent company.

The main business of OG is to manage retail outlets, that is, the Spazio Omnitel shops in Via Orefici No. 2 in Milan, Via del Corso No. 417 in Rome, Via G. Cesare No. 28/30 in Naples and, as from December 1, the shop at Via U. Bassi No. 21 H/L in Bologna. Omnitel coverage at the airports has improved thanks to the opening in February 1999 of the Omnitel "corner" in the departures lounge (Schengen area) of Milan Malpensa Airport in addition to the retail outlet at Milan Linate Airport.

These are among Omnitel's most important direct retail outlets for OPI (Omnitel Pronto Italia) in terms of image and volumes, besides being pilot centers for development of the franchise formula Spazio Omnitel shops which, considering the numerical increase and the improved coverage of the territory, are today able to make more in-depth tests, bearing in mind the individual regional aspects of our market.

In addition, in May 1999, on behalf of the parent company, OG launched the virtual store Spazio Omnitel On Line (known as the On Line Store, abbreviated to OLS).

Significant events occurring during the period

On November 30, 1999 the subsidiary concluded the acquisition of the business line relating to a retail outlet located in Bologna at Via U. Bassi No. 21 H/L, formerly a Top shop, which began activities on December 1, 1999. The shop opening, together with the growth in business at all outlets, required an increase in resources from 27 employees on the payroll at December 31, 1998 to 33 employees at December 31, 1999.

Besides the above, during 1999 the subsidiary acquired another 14 retail outlets through business line acquisitions. The outlets were subsequently leased to franchisees of OPI. The Top shops acquisitions are motivated by the need to ensure that Spazio Omnitel is present at the locations that are most important from the viewpoint of commercial strategy and, consequently, most expensive. OPI therefore assigned the subsidiary OG the task of identifying such locations and outfitting the shops, leaving franchisees in charge of operations. At December 31, 1999, the Top shops numbered 23.

The restyling of the Internet store launched in 1998 and the subsequent opening of the On Line Store has transformed the previous site into a virtual store in its own right for marketing all OPI products and services, and some particularly innovative products that are not available through normal retail outlets. OG is therefore one of the first companies in Italy to carry out true electronic business, and ranks second in terms of volumes of transactions and revenues (more than 330,000 customers

registered, 26,000 orders worth almost Lire 3.2 billion).

During the year, the company also acquired a minimum stake equal to 0.1% in the capital of Omnitel 2000 S.p.A.

Trend of operations

The financial statements at December 31, 1999 show a loss of Lire 262,261,547.

Overall sales increased by 57.34%, from Lire 14,923 million the previous year to Lire 23,481 million (including Lire 2,485 million reported by OLS) for the year just ended. When only retail outlets are considered, a total of Lire 13,274 million of the revenues can be attributed to the sale of telephones, accessories and phone cards compared to Lire 11,669 million of the previous year, an increase of 13.8%.

In 1999, 35,102 new customers were signed up compared to 27,677 in 1998, corresponding to an increase of 26.8%.

People who visited the shops numbered around 332,000 compared to around 190,000 in 1998 (+75%). Customers registered on the OLS numbered 33,415. Customer satisfaction, measured by the "Customer Satisfaction Index" and telephone polls, was constantly high in spite of the growth in business which placed operators under significant pressure.

Revenues from the activation of new lines, including those referring to rechargeable phones, and net of lines that were disactivated, amounted to Lire 1,253 million compared to Lire 1,211 million the previous year, with a minimum variation of 3.5%.

The remaining revenues, equal to Lire 6,469 million, refer to the fees charged by OPI and the revenues resulting from the leasing of the Top shop business lines, for which Lire 7,965 million was invested during the year out of a total investment of Lire 8,368 million.

Operating expenses rose from Lire 14,748 million in 1998 to Lire 23,069 million in 1999. The 56.42% increase was mainly due to higher purchasing volumes of products for resale, as well as the increase in the cost of personnel and the increase in the amortization costs of the significant investments made during the year to acquire the Top shops.

Unfortunately, the generally positive trend of sales was still affected by the



amortization of the considerable investments made at the start of the activities for the retail outlets in Via Orefici in Milan and Via del Corso in Rome, which will become completely amortized during the next year, thus raising the overall profit of the company.

Foreseeable trend of operations

In 2000, monitoring of the performance of Spazio Omnitel stores in franchising is expected to be stepped up as is the acquisition of retail outlets (in particular Top shops) where the performance is lower than the potential expressed by the reference market; additional Omnitel corners or retail outlets will be opened in places which attract large numbers of the public. In addition, there is expected to be an increase in sales and business through the Spazio Omnitel On Line Store, also through prize contests and games.

The increases in volumes and activities that may derive will require a further increase in resources to meet the new business requirements.

During 2000 additional Top shops will probably be acquired, where Omnitel considers it appropriate to acquire premium or strategic locations to market its products and services.

Those new locations will still be franchised to partners of Omnitel Pronto Italia to operate the Spazio Omnitel shops, in accordance with the development strategy for the franchise chain.

TREND OF OPERATIONS OF THE SUBSIDIARY OMNITEL SERVIZI CENTRO S.P.A.

In 1999, Omnitel Servizi Centro S.p.A. ("OSC"), set up in July 1998, has completed its first real year of business, augmenting its activity of servicing Omnitel customers located in Tuscany, Umbria, the Marches, Abruzzo and Molise.

The expansion of the working capacity of the Pisa office was motivated by both the growth of the basic servicing activities to OPI customers, with the further management of customers in Sardinia and part of Lazio being awarded to this office, and the extension of the range of activities conducted by the Call Center.

In fact, from July 1999, in addition to the Customer Care service, the subsidiary was entrusted with the management of new line activations for the whole Central Area, and, in September, the transfer of responsibility for the Dealer Support structure to the Call Center in Pisa.

Furthermore, since June 1999, the area of competence of the Call Center in Pisa has been extended to the whole country, even for non-OPI customers, for the supply of support services for the new Omnitel 2000 value-added services, which can be used by means of three technological platforms: Internet, WAP and voice recognition from cellular phones.

Significant events occurring during the period

1999 was the first year of full operation for the Call Center in Pisa. The results of this first year were decidedly satisfactory, both in terms of the work done and the actual quality of the work.

The planned extension of the premises devoted to Customer Care was completed on schedule, making available a further 116 extra operator desks, bringing the total number of operator desks to 264, an increase in capacity of approximately 78% compared to 1998.

In 1999, the average number of people employed at the Call Center in Pisa was 445, including 340 Full-Time Equivalents (FTE) with an average mix of 63% part-time and 37% full-time staff. At December 31, 1999 the subsidiary had 586 employees, of whom 85% were women and 15% men.

Trend of operations

At December 31, 1999 the financial statements closed with a profit of Lire 508,656,980, net of taxes.

Revenues increased from Lire 5,267 million in 1998 to Lire 27,941 million in 1999; the year was characterized by investments in buildings and the acquisition of computer systems and furnishings worth approximately Lire 5 billion as part of the planned extension of the Call Center, and by the dramatic increase of the revenue and cost components, due to the growth of the structure and the broader span of operation (in 1998 the Call Center had begun its activities in the month of October).

The volume of calls handled by the Call Center in 1999 was 13,161,953. The calls requiring "live assistance" (destined for the operator, not IVR – Interactive Voice Responding) numbered 4,915,166.



Starting from June, Customer Care services were supplied on behalf of Omnitel 2000 S.p.A., taking operating calls from Omnitel cellular phones or the fixed network.

The aim of qualifying and constantly updating the training of personnel being recruited to the Call Center has led the parent company OPI to stipulate an agreement with the Tuscany Region and the Ministry of Labor, signed on August 10, 1999, which involves financing by the European Social Fund for a 5-week training course, aimed at creating the professional figure of the Customer Care Operator for Call Centers. The signing of this agreement marks the recognition of the planning and organizational skills in the training sector, for the new professional profile of Call Center operators, quite apart from the specific requirements of OSC, which, besides providing the location for the courses, will see some of its own professionals involved in the project in the role of teachers.

With a resolution of the Extraordinary Shareholders' Meeting of June 30, 1999, the company transformed its corporate status from a "Limited liability company" to a "Joint-stock company", and transferred its registered office from Ivrea (TO) – Via Jervis No.13 to Corsico (MI) – Via Caboto No. 15, and approved a capital increase equal to Lire 100,000,000 fully paid in by the parent company OPI. Consequently, the share capital at December 31, 1999 is composed of No. 200,000 shares with a nominal value of Lire 1,000 each, for a total of Lire 200,000,000.

Foreseeable trend of operations

February 10, 2000 saw the start of the first session of the training course aimed to create the professional figure of the Customer Care Operator for Call Centers, mentioned above. 75 specially selected candidates will be participating in the course. During the year, at least 75% of the participants are expected to be hired.

During the year it is also expected that current activities, in terms of quality, will be consolidated and that there will be a development trend, in terms of employment, in line with the growth of the OPI and Omnitel 2000 customer base, with an estimated average increase of 91 FTEs compared to 1999.

TREND OF OPERATIONS OF THE SUBSIDIARY OMNITEL SERVIZI SUD S.P.A.

In 1999, Omnitel Servizi Sud S.p.A. (OSS), set up in July 1998, had its first full year of operation, increasing its activities of servicing Omnitel customers located mainly in Sicily, Calabria and Basilicata.

The year was characterized by a considerable increase in the number of OPI customers in the South of Italy, certainly a positive factor, but one which has required the use of all the personnel in force, and has not allowed the company to take action aimed at providing services to third parties on the market.

Significant events occurring during the period

In 1999, Customer Care activity grew considerably: the average number of calls handled by Customer Care increased from an average of 204,000 (January 1999) to an average of 713,000 in the month of December.

The Complaints Department was set up and the Call Center also became the pilot center for the launch of a new experimental service devoted to contacting customers via e-mail.

As a result, the number of employees of OSS rose significantly, from 138 at December 31, 1998 to 508 (approximately 345 Full-Time Equivalents) at December 31, 1999, of whom 59 have permanent contracts and 449 training contracts. In 1999, the average work-force numbered 363.

This increase in the number of employees has led to a search for new premises for some departments, and the transfer of about 50 employees to Viale Ulisse No. 22, to offices already leased by OPI.

The company also plays an active part in the Consortium of the Secondary School of Catania – Istituto Superiore di Catania per la Formazione di Eccellenza – which has proposed a specialist course for the academic year 1999-2000 entitled "Master in Advanced Telecommunications Services".The aim of the course is to train professionals with specific competence in the new communication technologies.The training course aims to create "technological innovation managers" in the sector of operation and development telephone and multimedia services supported by Internet.



Trend of operations

At December 31, 1999 the financial statements closed with a profit of Lire 281,679,023, net after taxes.

From the economic point of view, the year 1999 was characterized by investments which mainly involved buildings, the acquisition of computer systems and furnishings for a total value of approximately Lire 4 billion, and by the significant increase in the revenue and cost components, due to the growth of the structure and the broader span of operation (in 1998, activities began with the official opening on December 7).

In the resolution passed at the Extraordinary Shareholders' Meeting of June 30, 1999 the company transformed its corporate status from a "Limited liability company" to a "Joint-stock company" and its registered office from Ivrea (TO) – Via Jervis No. 13 to Corsico (MI) – Via Caboto No. 15, and approved a capital increase equal to Lire 100,000,000 fully paid in by the parent company OPI. Consequently, at December 31, 1999 the share capital was composed of No. 200,000 shares with a nominal value of Lire 1,000 each, with a total value of Lire 200,000,000.

Foreseeable trend of operations

The presence of Customer Care in the city of Catania has provided the impetus to set up some interesting commercial and socio-cultural initiatives in the area.

The most important is the "Catania Comune Aperto" project, which aims to improve the level of understanding between Omnitel and Catania City Council on topics of innovation, service and attention to the requirements of the citizen/customer.

Through this project, Omnitel will supply tools, technologies and application processes that will simplify the dissemination of information.

No significant increase of the workforce is planned for the year 2000.

TREND OF OPERATIONS OF THE SUBSIDIARY OMNITEL 2000 S.P.A.

Omnitel 2000 S.p.A., 99.9% of which is owned by Omnitel Pronto Italia S.p.A. and 0.1% by Omnitel Gestioni S.p.A., was set up on May 19, 1999 with the corporate purpose of acquiring, selling and creating computer-based valueadded services with regard to information technology, broadcasting, entertainment and publishing in general, destined for distribution through information, online and telecommunications technologies, including the creation and operation of publications and bulletins in the field of information technology, online business and telecommunications, with the express exception of the daily Press; the activity of buying and selling, licensing concession and marketing of advertising space and rights; and the activity of commercial agent connected with the offering of its own services or services of third parties as well as e-commerce (electronic and/or digital commerce).

With the aim of achieving the corporate objective, in June, a newspaper name was registered with the courts.

The market

The Italian Web market, confirming the positive trend of the two-year period 1998-1999, is in constant growth. In particular, the number of Web-users increased from 2.6 million in 1998 to 7 million in 1999 and is expected to reach 10 million by 2000 and 13 million in 2001 (sources: Eurisko and Databank). Of these, Web-shoppers numbered 130,000 in 1998, 400,000 in 1999 and are expected to reach 800,000 in 2000 and 1.4 million in 2001 (sources: Eurisko and Databank). In 1999 online sales were US \$ 20 billion in the United States, US \$ 5.4 billion in Europe and US \$ 0.3 billion in Italy, equivalent to Lire 580 billion.

Over the next few years, volumes are expected to increase so that, by 2002, sales are expected to reach US \$101 billion in the United States, US \$48.6 billion in Europe and US \$2.4 billion in Italy, equivalent to Lire 4,650 billion (source: Forrester Research).

Current estimates suggest that, in Italy, between 1999 and 2000, advertising investments in the Internet sector will increase from approximately Lire 50 billion to more than Lire 100 billion.

The Italian WAP market is expected to show the first significant growth in 2000, increasing from 15,000 cellular phones in 1999 to approximately 2 million by December 2000.

Significant events during the period

Omnitel 2000 is a project which constitutes a strategic turning-point in Omnitel's development. The evolution of the competitive environment and the growing integration of markets which, until recently, were independent (Telco, Information Technology, Contents, etc.) have driven Omnitel to create a new business unit through which to attack the value-added services market. The company took rapid, decisive steps and was the first wireless operator to create the concept of a "multi-access portal": a huge database system into which heterogeneous content can flow. This mass of content can be accessed by means of three different and complementary technologies: Internet, WAP and voice recognition. These are new technologies with a highly innovative content which have required considerable investments in terms of platforms and human resources, in addition to the solution of some considerably complex technical problems.

The activity of the company which, it will be remembered, was set up in May and became operational in July distributing services through the Internet, became further established in September by extending its supply of services to WAP and voice-recognition technologies. By the end of 1999, more than 150 services had been made available on the Internet, approximately 80 on the WAP platform and about 50 on the voicerecognition platform. Overall, Omnitel 2000's activities in 1999 resulted in the company ranking among the top portals in Italy in only four months.

With the aim of integrating value-added services with the technological tools with which they interact, it was also decided to develop the activity of ecommerce. With this in mind, an integrated portal is being implemented which will offer a global service to all the merchants on the market.

Trend of operations

The financial statements at December 31, 1999 closed the first year of business with a loss of Lire 42,219,895,589, which can be summarized as follows (amounts in millions of Lire):

Assets	57,369
Liabilities	53,383
Loss for the year	(42,219)
Capital and reserves	46,205
Revenues	1,675
Operating expenses	61,895
Financial income	1
Deferred income taxes	18,000

The introduction of new leading-edge technologies has required considerable investments, both in terms of fixed assets and consultancy development, which have not yet been transformed into revenues. This situation has led to the accumulation of losses which, during the year, exceeded the amount of shareholders' equity.

On December 20, 1999, the Extraordinary General Meeting, called by the Board of Directors pursuant to Article 2447 of the Italian Civil Code, having taken note of the loss recorded up to October 31, 1999 of Lire 42,205,840,698 as shown in the balance sheet at that date, passed as resolution to cover the entire loss by writing off the share capital of Lire 1,000,000,000 and at the same time paying Lire 41,205,840,698 to cover the residual loss, allocating the total to other reserves in net equity. At the same time a resolution was passed to increase share capital by Lire 10,000,000,000 with a share premium of Lire 30,000,000,000, subscribed and immediately paid in the amount of share capital of Lire 1,000,000,000 and Lire 3,000,000,000.

Other information

During the year, planning costs were sustained for experimental marketing research aimed at developing new initiatives in the sector of services for value.

Subsequent events

On February 15, 2000, the Board of Directors of the company met and passed the following resolutions: a declaration that it had received Lire 36 billion from the shareholders, of which Lire 9 billion as a payment of residual capital and Lire 27 billion as the share premium, in implementation of the resolution passed by the Shareholders' Meeting held on December 20, 1999; and finally the allocation of Lire 36 billion as a partial repayment of the trade debt.

Foreseeable trend of operations

The company's business is a highly strategic one, the positive economic results of which will emerge in future years; however, even in the coming year, it is forecast that a level of revenues will be reached which, despite not fully reaching the operational breakeven point will provide a clear vision of the company's future potential.

The company's Internet activities, as is well-known, consist of distributing content free, and is linked to revenues which, with the development of Internet's level of penetration, Web advertising and e-commerce, constitute definite business potential.



WAP activities, which Omnitel was the first company to launch commercially, are linked to the penetration of WAP telephones: information available suggests that this will become significant during 2000.

Services supplied through the voice recognition platform which, from March 2000, will also be accessible by TI and TIM, are being constantly updated in a framework that is closer to customers' requirements for mobility. Omnitel 2000 is convinced that this field can represent great business opportunities in the future.

Although, on the one hand, all of this makes us extremely aware of the complexity of the undertaking, on the other, it is comforting because of the undoubted competitive advantage already achieved compared to our most direct competitors. It is on this advantage that Omnitel 2000 is counting to achieve better results in the coming year, partly linked to the forecast of the launch in April 2000 of the activity of e-commerce which will undoubtedly see Omnitel involved as a key player.

TREND OF OPERATIONS OF THE SUBSIDIARY OMNITEL SERVIZI FINANZIARI S.P.A.

Omnitel Servizi Finanziari S.p.A. (abbreviated to Omnifin S.p.A.), was set up on June 29, 1999 and registered on July 2 of the same year. On July 22, 1999 an application was made to the Italian Exchange Office to be registered in the General List according to Article 106 of Legislative Decree No. 385/93 (Consolidation Text for banking and credit laws) to enable the company to carry out payment service activities. The company was registered on September 17, 1999. On October 21, 1999 an application was made to the Banca d'Italia to be registered in the Special List of Financial Intermediaries according to Article 107 of the Consolidation Text for banking and credit laws.

Significant events occurring during the period

During 1999, the company developed analysis and design activities oriented towards the creation of new systems of payment which will become operational during the next year.

Trend of operations

At December 31, 1999, the financial statements were prepared according to current laws governing the financial statements of financial institutions, established by Legislative Decree No. 87 of January 27, 1992 and following the procedures contained in Instruction No. 103 of the Banca d'Italia of July 31, 1992.

The financial statements show a loss for the year equal to Lire 238,157,893 which is summarized in the following table (amounts in millions of Lire):

Assets	945
Liabilities	183
Capital and reserves	1,000
Loss for the year	238
Revenues	3
Costs	241

Subsequent events

No significant events took place after December 31, 1999.

Foreseeable trend of operations

During 2000, various activities will be developed so that the company becomes operational in the sphere of providing payment services. Activities will also continue with the aim of achieving registration in the Special List of Financial Intermediaries, according to Article 107, so that the company can start operating in this sector at full capacity.

YEAR 2000

In 1999, Omnitel continued and successfully completed all the activities relating to the Year 2000 Project begun in 1997 and continued in 1998. In fact there were no reports of any products or services even partially failing to function that could have had an impact on corporate processes. This result was achieved partly thanks to the attention which Omnitel gave to the Year 2000 Project during 1999, both in terms of involving human resources and in terms of economic investments in order to ensure its customers the full compatibility of the products and services offered.

In particular, the Year 2000 task force, comprising representatives from all the corporate departments and coordinated by the Information Technology



Department, worked on the following activities in 1999:

- completion of the development and testing activities contained in the work program;
- the review of all key suppliers and partners so as to obtain adequate guarantees about their compatibility with the Year 2000;
- prevention and management of emergencies. In order to be able to cope with unforeseeable problems, Omnitel drew up a contingency plan which was constantly updated according to variations in the Year 2000 Project. Detailed emergency procedures were drawn up to cope with any malfunctioning of the corporate information systems.

Inter-departmental committees were also set up to handle any emergency. They kept up continuous supervision throughout the last part of the year, and, as described earlier, were not required to intervene.

The corporate management and the Board of Directors were regularly informed about the state of activities through constant flows of information.

In 1999, Omnitel also collaborated with the Year 2000 Committee, a government institution, with the aim of studying and advising on revisions to information systems for compliance with the Year 2000 and, along with other companies, participated in the definition of the National Plan for Continuity and Emergency.

THE EURO

Following the official entry of the euro as a legal European currency, Omnitel has been preparing for the introduction of the euro based on a gradual plan which will enable the company to complete the full transition by the deadline set by the legislators of January 1, 2002.

In this connection, as far back as in 1998, a Steering Committee was set up with the task of defining the working strategies of the euro Project and, through the appointment of a euro project leader, ensuring the coordination of all the activities necessary for achieving the planned objectives.

The activities carried out in 1999 can be summarized as follows:

Planning of activities

Based on the working strategies defined by the Steering Committee,

operational plans were prepared to implement the necessary activities. In particular, along with all the corporate departments involved, relations with customers, the sales network and employees, and the actual transition to the Euro of the accounting system were analyzed and verified.

Implementation of the plan

In 1999, some of the planned activities were completed, in particular:

- Dual pricing of telephone bills
- · Dual pricing of employees' payslips
- Dual pricing of invoices for the sales network
- Corporate training activities

SUBSEQUENT EVENTS

Breakdown of the expenses for the release of the 1800 MHz band by the Ministry of Defense

On January 18, 2000, the Ministry of Communications announced the quantification made by the Ministry of Defense for the expenses connected with the release of the 1800 MHz band pursuant to the Ministerial Decree of March 25, 1998 amounting to a total of Lire 448,428,051,000, which is to be divided among the wireless operators in the financial years 1998-2002. The portion charged to Omnitel for 1998 is Lire 22,973,324,000, gross of the amount already transferred to the Ministry of Defense for fixed assets and substitutive services. The portion for the financial year 1999 has not yet been determined.

Petition for re-examination

Omnitel has petitioned AGCOM, on February 14, 2000, to re-examine Resolution No. 338/99 "Link to wireless networks and prices for fixed-tomobile communications originating from the Telecom Italia network", asking a review of the subject of the Resolution. In particular, Omnitel is of the opinion that the pro-competition mechanism adopted for fixed-to-mobile prices is ideal in its own right for creating competition in the fixed-to-mobile market and on the termination amounts of the mobile operators and, instead, the application of a guideline for the costs does not conform to the principle of proportionality and contradicts the pro-competitive mechanism above.



FORESEEABLE TREND OF OPERATIONS

Current forecasts about the Italian market confirm the sustained growth of total activations, albeit inevitably to a lesser extent than the figures recorded in the two previous years: this growth will bring the current level of penetration of the population from 53% to 63% by the end of the year, that is, approximately 37 million customers. The first months of the year 2000 confirm this forecast and, if anything, reinforce it.

However, the expansion of the market will take place in a context of everfiercer competition which may translate – on a national level – into a high number of disactivations (the so-called churn rate), close, in absolute terms, to the net increase in customers: in other words, competition among operators will take place both on the front of winning over "new" customers on the market, and in the field of already existing customers; overall, therefore, the companies will (also) be fighting for a share of the market that is much greater than 10 million customers!

Certainly the trend at the end of 1999 and the beginning of 2000 shows that the market is still extremely reactive, and able to express high levels of acceleration despite the levels of penetration so far achieved. Growth will be sustained, amongst other factors, by two important occurrences:

- the entry of the fourth operator, probably towards the end of the first half of the year, however, still in time to fully exploit the peak of the summer season;
- a higher rate of innovation than in previous years, thanks to the entry of new technologies which will permit the development of services that are not yet present on the market. The full establishment of WAP terminals, together with the effective availability of the related portals and content, the introduction of GPRS technology, which will considerably augment the speed of network transmission, and the integration of Internet and wireless telephone systems are only some of the innovations which will compete in the effective possibility of transforming existing services and thus multiplying their potential use.

It is obvious that, in this competitive scenario, Omnitel will concentrate not only on the acquisition of new customers, but also on further reducing its churn rate, which is already very low compared with that of its competitors and of the consumer goods industry in general.

Given the context described above, Omnitel plans to achieve even better results in 2000 than the already excellent results of 1999. The economic trend will register benefits from a very positive quantity effect able to

surpass an obviously negative price effect. The former – quantity effect – derives from the expected growth of the customer base and the increase in traffic per customer. The second – the price effect – is connected to the constant trend of diminishing prices; in particular, the beginning of 2000 has witnessed a reduction in interconnection charges and a fall in the prices of outgoing traffic due to greater competition; prices to users will probably change even faster with the entry of the fourth operator.

On the investment front there is expected to be a further increase compared to the already very high levels of 1999, aimed at sustaining the growth of the customer base, introducing new technologies and constantly developing the innovation of services. As in past years, most of the investments are expected to be made in the network, both to increase the capacity of the radio-mobile network (expected to grow by more than 40% compared to 1999) and to complete the evolution of the structure of the fixed network towards complete voice-data integration.

PROPOSED APPROPRIATION OF THE PROFIT FOR THE YEAR ENDED DECEMBER 31, 1999 BY THE PARENT COMPANY OMNITEL PRONTO ITALIA S.P.A.

The financial statements at December 31, 1999		
show a profit for the year of	Lire 1	1,661,500,888,507
We propose to appropriate this profit as follows:		
to the legal reserve, in the amount of 5%	Lire	83,075,044,425
to the reserve for accelerated depreciation		
to fund the network investment program	Lire	71,346,636,385
to retained earnings	Lire 1	1,507,079,207,697

We invite you to approve the draft financial statements submitted for your consideration and the proposal for appropriation of the profit for the year. We remain at your disposal for any other information and clarifications that you may require.

The Board of Directors Carlo Peretti (Chairman)

Consolidated Statements



BALANCE SHEET – ASSETS

Omnitel Pronto Italia S.p.A. Consolidated Financial Statements as at December 31, 1999

	31.12.1999	31.12.1998
A) SUBSCRIBED CAPITAL UNPAID	0	0
B) FIXED ASSETS	4,171,247,961,549	3,167,982,710,570
I) Intangible assets	1,215,129,589,931	1,151,205,466,450
1) Formation and expansion costs	66,977,963,890	87,250,847,175
2) Research, development and advertising costs	17,954,814,881	36,230,188,294
3) Industrial and other patent rights	454,942,231,816	334,797,983,508
4) Concession, licenses, trademarks and similar rights and assets	582,964,490,020	624,609,545,255
5) Goodwill	10,082,741,496	0
7) Other intangible assets	82,207,347,828	68,316,902,218
II) Tangible assets	2,952,848,432,336	1,965,504,129,844
2) Plant and machinery	2,430,576,893,988	1,533,503,521,282
3) Industrial equipment	19,988,677,043	15,984,879,509
4) Other assets	340,326,027,126	271,406,780,994
5) Assets under construction and advances	161,956,834,179	144,608,948,059
III) Financial assets	3,269,939,282	51,273,114,276
1) Investments in		
a) subsidiaries	0	3,200,000,000
b) associated companies	600,000,000	600,000,000
d) other conpanies	504,787,681	4,750,000
2) Receivables falling due within 12 months		
d) from other companies	2,165,151,601	47,468,364,276
C) CURRENT ASSETS	2,852,517,108,007	1,978,367,173,257
I) Inventory	93,948,319,405	68,155,464,418
4) Finished products and goods for resale	93,948,319,405	68,155,464,418
II) Receivables	2,173,137,319,317	1,312,963,293,720
1) Trade receivables falling due within 12 months	1,819,350,405,157	1,240,553,634,574
Trade receivables falling due after 12 months	30,781,470,895	25,856,113,000
2) Receivables from subsidiaries	0	8,886,494,244
4) Receivables from parent companies	75,445,490	114,157,195
5) Other receivables falling due within 12 months	240,087,997,775	34,552,894,707
Other receivables falling due after 12 months	82,842,000,000	3,000,000,000
III) Short-term investments	0	501,974,844,501
6) Other securities	0	501,974,844,501
IV) Cash and bank	585,431,469,285	95,273,570,618
1) Bank and postal deposits	585,057,564,022	94,979,110,354
3) Cash on hand	373,905,263	294,460,264
D) PREPAYMENTS AND ACCRUED INCOME	52,637,090,404	49,332,439,159

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BALANCE SHEET – STOCKHOLDERS' EQUITY AND LIABILITIES

Omnitel Pronto Italia S.p.A. Consolidated Financial Statement as at December 31, 1999

	31.12.1999	31.12.1998
A) STOCKHOLDERS' EQUITY	3,055,298,868,858	1,373,373,556,166
I) Common stock	594,293,883,000	592,024,500,000
II) Additional paid-in capital	18,640,384,315	0
III) Revaluation reserves	0	0
IV) Legal reserve	39,063,495,180	0
V) Reserve for own shares (treasury stock)	0	0
VI) Statutory reserve	0	0
VII) Other reserves	171,494,793,389	2,939
VIII) Profit (Loss) carried forward	570,245,657,676	0
IX) Profit for the year	1,661,560,655,298	781,349,053,227
B) PROVISIONS FOR CONTINGENCIES AND OBLIGATIONS	245,018,691,089	82,077,361,387
1) Provision for pensions and similar obligations		
Supplementary agents' indemnity	2,441,234,156	952,011,112
3) Other provisions	242,577,456,933	81,125,350,275
C) STAFF LEAVING INDEMNITY	49,847,719,597	36,342,072,970
D) PAYABLES	3,289,938,734,316	3,412,608,460,000
3) Bank loans and overdrafts falling due within 12 months	62,680,721,512	70,685,525,871
Bank loans and overdrafts falling due after 12 months	161,200,000,000	1,516,682,000,000
5) Payments on account	36,024,254,003	36,919,726,585
6) Trade payables	2,012,966,222,690	1,493,361,156,787
8) Payables to subsidiaries	0	1,619,448,570
9) Payables to affiliated companies	800,000,000	0
10) Payables to parent companies	0	7,915,122,979
11) Tax payables falling due within 12 months	773,811,671,389	217,396,201,307
Tax payables falling due after 12 months	0	3,356,640
12) Social security payables falling within 12 months	19,546,169,002	15,288,896,637
Social security payables falling after 12 months	275,121,000	510,939,000
13) Other payables	222,634,574,720	52,226,085,624
E) ACCRUED LIABILITIES AND DEFERRED INCOME	436,298,146,100	291,280,872,463
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	7,076,402,159,960	5,195,682,322,986
MEMORANDUM ACCOUNTS		
Guarantees	423,911,264,648	1,033,317,722,919
Commitments to suppliers	858,661,000,867	677,148,350,554
Dealers' commitments to the Company	172,667,534,000	174,495,650,000
Products held by third parties	20,989,209,799	515,611,000
TOTAL MEMORANDUM ACCOUNTS	1,476,229,009,314	1,885,477,334,473

INCOME STATEMENT

Omnitel Pronto Italia S.p.A. Consolidated Financial Statements as at December 31, 1999

	31.12.1999	31.12.1998
A) VALUE OF PRODUCTION	7,284,241,277,618	4,506,435,399,045
1) Revenue from sales and services	7,198,121,011,721	4,441,486,705,142
4) Own work capitalized	45,570,841,117	42,781,098,933
5) Other income	40,549,424,780	22,167,594,970
B) COST OF PRODUCTION	(5,079,183,086,484)	(3,569,161,051,001)
6) Cost of raw materials, consumables, spare parts and other goods	(978,321,856,489)	(718,968,673,015)
7) Costs of services	(2,301,098,605,014)	(1,696,520,922,276)
8) Costs of utilization of third parties' assets	(131,246,271,488)	(88,490,868,208)
9) Personnel costs:	(481,185,376,544)	(312,105,095,955)
a) salaries and wages	(350,822,701,382)	(225,315,343,373)
b) social contributions	(111,280,129,254)	(73,045,781,101)
c) staff leaving indemnity	(19,082,545,908)	(13,743,971,481)
10) Depreciation and write-downs	(887,399,176,180)	(596,102,923,930)
a) Amortization of intangible assets	(273,486,740,232)	(238,729,317,547)
b) Depreciation of tangible assets	(558,526,435,948)	(311,161,933,637)
c) Other write-downs of assets	0	(3,720,672,746)
d) Write-downs of receivables included in current assets and cash	(55,386,000,000)	(42,491,000,000)
11) Change in stock of raw materials, consumables, spare parts and other goods	s 25,179,117,544	32,479,261,095
12) Accruals for contingencies	(166,349,244,401)	(81,074,134,276)
14) Other operating charge	(158,761,673,912)	(108,377,694,436)
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)	2,205,058,191,134	937,274,348,044
C) FINANCIAL INCOME AND CHARGES	(63,777,470,954)	(97,526,926,946)
16) Other financial income	42,679,749,949	30,558,300,164
c) from securities recorded as current assets	32,409,289,964	17,969,647,092
d) other financial income	10,270,459,985	12,588,653,072
17) Interest and other financial charges	(106,457,220,903)	(128,085,227,110)
D) ADJUSTEMENTS TO THE VALUE OF FINANCIAL OPERATIONS	0	0
E) EXTRAORDINARY INCOME AND EXPENSES	208,379,000,000	0
20) Income	208,379,000,000	0
21) Expenses	0	0
RESULT BEFORE TAX	2,349,659,720,180	839,747,421,098
22) Income tax for the period	(688,099,064,882)	(58,398,367,871)
a) Current tax	(736,557,064,882)	(58,398,367,871)
b) Deferred tax	48,458,000,000	0
PROFIT FOR THE YEAR	1,661,560,655,298	781,349,053,227

CASH FLOW STATEMENT

Omnitel Pronto Italia S.p.A.

Consolidated Financial Statement as at December 31, 1999

	31.12.1999	31.12.1998
PROFIT (LOSS) FOR THE YEAR	1,661,560,655,298	781,349,053,227
Amortization and depreciation	832,013,176,180	549,891,251,184,
Disposals	11,977,472,253	6,470,980,598
Provision for staff leaving indemnity and similar obligation	19,082,545,908	13,743,971,481
Bad debt provision	55,386,000,000	42,491,000,000
Provision for contingencies and obligations	166,349,244,401	81,074,134,276
Deferred tax asset accrual	(256,837,000,000)	0
CASH PROVIDED BY OPERATING ACTIVITIES	2,489,532,094,040	1,475,020,390,766
(Increase)/decrease in trade receivables	(630,182,922,529)	(780,952,374,723)
(Increase)/decrease in other receivables	(25,806,767,995)	(11,676,330,357)
(Increase)/decrease in inventories	(25,792,854,987)	(32,479,261,095)
(Increase)/decrease in accrued income and prepayments	(3,304,651,245)	(20,378,994,748)
(Increase)/decrease in accrued expenses and deferred income	145,017,273,637	161,163,230,647
(Increase)/decrease in trade payables	509,975,021,772	785,813,142,714
(Increase)/decrease in other payables	730,842,056,903	166,691,526,823
Staff leaving indemnity paid during the year or transferred from other companies	(5,576,899,281)	(3,127,199,357)
Amount used from provision for contingencies and obligations	(3,407,914,699)	(2,375,065,642)
CHANGE IN OPERATING ASSETS AND LIABILITIES	691,762,341,576	262,678,674,262
Acquisition of tangible assets	(1,556,846,243,265)	(1,136,292,959,094)
Acquisition of intangible assets	(338,412,831,141)	(167,576,730,003)
Acquisition of investments	(500,000,000)	(1,672,352,276)
CASH USED FOR INVESTING ACTIVITIES	(1,895,759,074,406)	(1,305,542,041,373)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,285,535,361,210	432,157,023,655
(Decrease)/increase in bank loans falling due within 12 months	(8,004,804,359)	2,122,305,833
Proceeds from loans	66,861,000,000	66,861,000,000
Repayment of loans	(1,422,343,000,000)	(61,200,000,000)
Receipt of Special Cash Collateral	45,365,000,000	0
Proceeds from issuance of common stock	20,769,497,315	0
CASH PROVIDED BY FINANCING ACTIVITIES	(1,297,352,307,044)	7,783,305,833
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS*	(11,816,945,834)	439,940,329,488
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR*	597,248,415,119	157,308,085,631
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR*	585,431,469,285	597,248,415,119

* including short-term investments