



**TELECOM ITALIA S.p.A.**

*(incorporated with limited liability under the laws of the Republic of Italy)*

**TELECOM ITALIA FINANCE S.A.**

*(incorporated with limited liability under the laws of the Grand-Duchy of Luxembourg)*

**€10,000,000,000**

**Euro Medium Term Note Programme**

**unconditionally and irrevocably guaranteed in respect of Notes issued by**

**Telecom Italia Finance S.A. by**

**TELECOM ITALIA S.p.A.**

*(incorporated with limited liability under the laws of the Republic of Italy)*

Under this €10,000,000,000 Euro Medium Term Note Programme (the **Programme**), Telecom Italia S.p.A. (**Telecom Italia**) and Telecom Italia Finance S.A. (**TI Finance** and, together with Telecom Italia in its capacity as an issuer, the **Issuers** and each an **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed with the relevant Dealer (as defined below).

Payment of all amounts owing in respect of the Notes issued by TI Finance will be unconditionally and irrevocably guaranteed by Telecom Italia (in such capacity, the **Guarantor**).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €10,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a **Dealer** and, together, the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to the Lead Manager(s) acting on behalf of all Dealers agreeing to subscribe such Notes.

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance) and the relevant Dealer. The Issuers may also issue unlisted Notes.

Subject to and as set out in "*Terms and Conditions of the Notes — Taxation*", Telecom Italia shall not be liable to pay any additional amounts to holders of the Notes in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of 1st April, 1996 (as the same may be amended or supplemented from time to time) where the Notes are held by a Noteholder resident for tax purposes in a country which does not allow for a satisfactory exchange of information with Italy and otherwise in the circumstances described in Condition 8.

The Issuers and the Guarantor (in the case of Notes issued by TI Finance) may agree with the relevant Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

TI Finance has a right of substitution as set out in Condition 15.1. The Trustee may at any time agree, without the consent of the Noteholders, Receiptholders or Couponholders, to the substitution, in place of TI Finance, of Telecom Italia or any Subsidiary (as defined in the Conditions) of Telecom Italia as principal debtor under the Notes, Receipts and the Coupons. Telecom Italia shall indemnify each Noteholder, Receiptholder and Couponholder against (A) any tax, assessment or governmental charge which is imposed on such Noteholder, Receiptholder or Couponholder by (or by any authority in or of) the Republic of Italy (**Italy**) with respect to any Note, Receipt or Coupon and which would not have been so imposed had the substitution not been made and (B) any tax, assessment or governmental charge, and any cost or expense relating to the substitution, except that Telecom Italia shall not be liable under such indemnity to pay any additional amounts either on account of "*imposta sostitutiva*" or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy. As long as the Notes are listed on the Luxembourg Stock Exchange, in the case of such substitution, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement will be prepared and the Noteholders will be notified in accordance with Condition 14.

Telecom Italia and TI Finance have notified the Dealers that Notes issued under the Programme may only be sold by each Dealer in Italy to professional investors (as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended). For further information on sales into Italy, see "*Subscription and Sale — Italy*".

**Arrangers**

**JPMORGAN**

**BARCLAYS CAPITAL**

**CABOTO**

**JPMORGAN**

**MCC S.p.A.**

**UBM — UNICREDIT BANCA MOBILIARE**

**Dealers**

**LEHMAN BROTHERS**

**BNP PARIBAS**

**DEUTSCHE BANK**

**LEHMAN BROTHERS**

**MEDIOBANCA S.p.A.**

Each of the Issuers and the Guarantor, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect. Each of the Issuers and the Guarantor accepts responsibility accordingly. This Offering Circular may only be used for the purposes for which it has been published.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuers or the Guarantor in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuers or the Guarantor in connection with the Programme.

No person is or has been authorised by any of the Issuers, the Guarantor or the Trustee to give any information or to make any representation not contained in or consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuers, the Guarantor, any of the Dealers or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by any of the Issuers, the Guarantor, any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and/or the Guarantor (if applicable). Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of any of the Issuers, the Guarantor, any of the Dealers or the Trustee to any person to subscribe or purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning any of the Issuers and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of any of the Issuers or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “Subscription and Sale”).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuers, the Guarantor, the Dealers and the Trustee represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly,

and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Italy, Japan, the Grand Duchy of Luxembourg (*Luxembourg*) and The Netherlands, see “Subscription and Sale”.

All references in this Offering Circular to *euro* and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, and to *U.S. dollars*, *U.S.\$* and \$ refer to United States dollars.

References to “Old Telecom Italia” and “Old Telecom Italia Group” and “New Telecom Italia” and “New Telecom Italia Group” refer to Telecom Italia and its consolidated subsidiaries as they existed immediately prior to, and immediately after, respectively, the effective date of the merger between Olivetti S.p.A. (*Olivetti*) and Old Telecom Italia described herein.

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**In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.**

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published annual report of Telecom Italia and the most recently published annual report of TI Finance, in each case together with the auditors' reports and, if published later, the most recently published unaudited interim consolidated (in the case of Telecom Italia only) financial statements (if any) of each of the Issuers; see "*General Information*" for a description of the financial statements currently published by each of the Issuers; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuers and/or the Guarantor from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuers and (in the case of Notes issued by TI Finance) the Guarantor will provide, without charge upon request, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Issuers or to the Guarantor at their respective offices set out at the end of this Offering Circular. In addition, such documents will be available from the principal office in Luxembourg of J.P. Morgan Bank Luxembourg S.A. for Notes listed on the Luxembourg Stock Exchange. The most recently published financial statements of Telecom Italia are also available for inspection on its website: [www.telecomitalia.it](http://www.telecomitalia.it).

The Issuers and (in the case of Notes issued by TI Finance) the Guarantor will, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of any of the Issuers or (in the case of Notes issued by TI Finance) the Guarantor which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading in any material respect, a new offering circular will be prepared.

## SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this summary.

<b>Issuers:</b>	Telecom Italia S.p.A. Telecom Italia Finance S.A.
<b>Guarantor:</b>	Telecom Italia S.p.A. (in respect of Notes issued by TI Finance)
<b>Description:</b>	Euro Medium Term Note Programme
<b>Arrangers:</b>	J.P. Morgan Securities Ltd. Lehman Brothers International (Europe)
<b>Dealers:</b>	Barclays Bank PLC BNP PARIBAS Banca Caboto s.p.a. Deutsche Bank AG London J.P. Morgan Securities Ltd. Lehman Brothers International (Europe) MCC S.p.A. – Capitalia Gruppo Bancario Mediobanca – Banca di Credito Finanziario S.p.A. UniCredit Banca Mobiliare S.p.A.  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.  <b>Notes having a maturity of less than one year</b>  Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the <b>FSMA</b> ) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “ <i>Subscription and Sale</i> ”.
<b>Issuing and Principal Paying Agent:</b>	JPMorgan Chase Bank, N.A.
<b>Trustee:</b>	J.P. Morgan Corporate Trustee Services Limited
<b>Programme Size:</b>	Up to €10,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Notes may be distributed on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.

<b>Maturities:</b>	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued as specified in the relevant Pricing Supplement on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
<b>Index Linked Notes:</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
<b>Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:</b>	<p>Floating Rate Notes and Index Linked Interest Notes may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.</p>
<b>Dual Currency Notes:</b>	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree.
<b>Zero Coupon Notes:</b>	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.



<b>Redemption:</b>	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions — Notes having a maturity of less than one year</i>” above.</p>
<b>Denomination of Notes:</b>	<p>Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “<i>Certain Restrictions — Notes having a maturity of less than one year</i>” above.</p>
<b>Taxation:</b>	<p>All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Relevant Jurisdiction, subject as provided in Condition 8. In the event that any such deduction is made, the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.</p>
<b>Restrictions on Security Interests:</b>	<p>The terms of the Notes will contain a provision restricting the ability of the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor to create security interests in respect of certain of their capital markets indebtedness, as further described in Condition 3.</p>
<b>Cross Default:</b>	<p>The terms of the Notes will contain a cross default provision as further described in Condition 10.</p>
<b>Status of the Notes:</b>	<p>The Notes will constitute unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.</p>
<b>Guarantee:</b>	<p>Notes issued by TI Finance will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.</p>



**Listing:**

Application has been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

**Governing Law:**

The Notes will be governed by, and construed in accordance with, English law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10th August, 1915, as amended, are excluded.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Italy, Japan, Luxembourg and The Netherlands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale*”.

Telecom Italia and TI Finance have notified the Dealers that Notes issued under the Programme may only be sold by each Dealer in Italy to professional investors (as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended). For further information on sales into Italy, see “*Subscription and Sale — Italy*”.

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent Global Note (a **Permanent Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event or (c) at any time at the request of the relevant Issuer. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form and a certificate to such effect signed by a duly authorised representative of the relevant Issuer is given to the Trustee. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such further Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition 7.2), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trading on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

## FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

### TELECOM ITALIA S.p.A.

#### TELECOM ITALIA FINANCE, société anonyme

(having its registered office at 12-14, boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg and whose registered number is R.C.S. Luxembourg B-76, 448)

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[Guaranteed by TELECOM ITALIA S.p.A.]  
under the €10,000,000,000  
Euro Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 17th February, 2005. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 17th February, 2005, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" or "N/A" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*

1. (a) Issuer: [Telecom Italia S.p.A.]  
[Telecom Italia Finance S.A.]  
(b) [Guarantor: Telecom Italia S.p.A.] (*in the case of Notes issued by TI Finance only*)
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
(a) Series: [ ]  
(b) Tranche: [ ]
5. (a) Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]  
(b) Net proceeds: [ ] (*Required only for listed issues*)

6. Specified Denominations: [ ]  
*(Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies))*
7. (a) Issue Date: [ ]  
 (b) Interest Commencement Date: [ ]
8. Maturity Date: [Fixed rate — specify date/  
 Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
 [specify reference rate] +/- [ ] per cent.  
 Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Dual Currency Interest]  
 [specify other]  
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency Redemption]  
 [Partly Paid]  
 [Instalment]  
 [specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)]
13. Listing: [Luxembourg/specify other/ None]
14. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]  
*(If payable other than annually, consider amending Condition 5)*
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(Amend in the case of long or short coupons)*
- (c) Fixed Coupon Amount(s): [ ] per [ ] in nominal amount
- (d) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]

- (e) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or *[specify other]*]
- (f) Determination Date(s): [ ] in each year  
*(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*(This will need to be amended in the case of regular interest payment dates which are not of equal duration)*  
*(Only relevant where Day Count Fraction is Actual/Actual (ISMA))*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*[specify other]*]
- (c) Additional Business Centre(s): [ ]  
*(Note that this item relates to the determination of interest period end dates)*
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: [ ]  
*(Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions)*
  - Interest Determination Date(s): [ ]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
  - Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Moneyline Telerate Page 248, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (h) Margin(s): [+/-] [ ] per cent. per annum

- (i) Minimum Rate of Interest: [ ] per cent. per annum
- (j) Maximum Rate of Interest: [ ] per cent. per annum
- (k) Day Count Fraction: [Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(See Condition 5 for alternatives)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Any other formula/basis of determining amount payable: [ ]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5(c) and 7.10 apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent responsible for calculating the interest due: [ ]
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ]
- (d) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
- (f) Additional Business Centre(s): [ ]
- (g) Minimum Rate of Interest: [ ] per cent. per annum
- (h) Maximum Rate of Interest: [ ] per cent. per annum
- (i) Day Count Fraction: [ ]
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (b) Calculation Agent, if any, responsible for calculating the interest payable: [ ]



- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [    ]
- (d) Person at whose option Specified Currency(ies) is/are payable: [    ]

#### PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [    ]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [    ] per Note of [    ] Specified Denomination
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [    ]
- (ii) Maximum Redemption Amount: [    ]
- (d) Notice period (if other than as set out in the Conditions): [    ]  
*(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [    ]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [    ] per Note of [    ] Specified Domination
- (c) Notice period (if other than as set out in the Conditions): [    ]  
*(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
22. Final Redemption Amount of each Note: [    ] per Note of [    ] Specified Denomination /specify other/see Appendix
23. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): [    ]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

	[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
	[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] <i>(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate)</i>
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes:	
(a) [Instalment Amount(s):	[Not Applicable/give details]
(b) [Instalment Date(s):	[Not Applicable/give details]
29. Redenomination:	Redenomination [not] applicable <i>(If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Pricing Supplement)</i>
30. [Date Board Approval for issuance of Notes obtained:	[     ]] <i>(in the case of Notes issued by Telecom Italia S.p.A. only)</i>
31. Other terms or special conditions:	[Not Applicable/give details]
<b>DISTRIBUTION</b>	
32. (a) If syndicated, names of Managers:	[Not Applicable/give names]
(b) Stabilising Manager (if any):	[Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer:	[     ]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions:	[Not Applicable/give details]
<b>OPERATIONAL INFORMATION</b>	
36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
37. Delivery:	Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any):	[     ]
ISIN:	[     ]
Common Code:	[     ]

**[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the €10,000,000,000 Euro Medium Term Note Programme of Telecom Italia S.p.A. and Telecom Italia Finance S.A.]

*To be added if Telecom Italia S.p.A. is the Issuer:*

[Telecom Italia S.p.A., with registered office at Milan (Italy), Piazza degli Affari 2, registered at the Company Register in Milan with number 00488410010,

share capital at the Issue Date [            ]

reserves at the Issue Date [            ]

Issue approved by the Issuer's Board of Directors on [            ], registered at the Company Register in Milan on [            ]]

**RESPONSIBILITY**

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By: \_\_\_\_\_  
*Duly authorised*

By: \_\_\_\_\_  
*Duly authorised]*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Telecom Italia S.p.A. (**Telecom Italia**) or Telecom Italia Finance S.A. (**TI Finance** and, together with Telecom Italia (in its capacity as an issuer), the **Issuers** and each an **Issuer**) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 23rd January, 2004 made between Telecom Italia (in its capacity both as an Issuer and as guarantor (in such capacity, the **Guarantor**) of Notes issued by TI Finance), TI Finance and J.P. Morgan Corporate Trustee Services Limited (the **Trustee**, which expression shall include any successor as Trustee). References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 23rd January, 2004 and made between Telecom Italia (in its capacity both as an Issuer and as the Guarantor), TI Finance, the Trustee, JPMorgan Chase Bank as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions (**these Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the principal office for the time being of the Trustee being at 23rd January, 2004 at Trinity Tower, 9 Thomas More Street, London E1W 1YT, England and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Issuer and the Trustee or, as the case may be, and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## 1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable. Definitive Notes will be executed by a duly authorised representative of Telecom Italia in the case of Notes issued by Telecom Italia or by two directors of TI Finance in the case of Notes issued by TI Finance.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of an error which is manifest or, in the opinion of the Trustee, proven, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

## 2. STATUS OF THE NOTES AND THE GUARANTEE

### 2.1 Status of the Notes

The Notes and any relative Receipts and Coupons are unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and rank *pari passu* among themselves and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

### 2.2 Status of the Guarantee

In the case of Notes issued by TI Finance, the payment of principal and interest in respect of the Notes and all other moneys payable by the relevant Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed (the **Guarantee**). The Guarantor guarantees the payment of such amount when such amount becomes due and payable, whether at the stated maturity of the Notes, by declaration or acceleration, call for redemption or otherwise. The obligations of the Guarantor under the Guarantee are unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and (save as aforesaid and for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

## 3. RESTRICTIONS ON SECURITY INTERESTS

So long as any Note remains outstanding, the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor shall not create or permit to subsist any Security Interest other than Permitted Encumbrances upon the whole or any part of their present or future revenues or assets to secure any Capital Markets Indebtedness without at the same time or prior thereto taking any and all action necessary to ensure that:

- (i) all amounts payable by it under the Notes, any relative Receipts and Coupons and the Trust Deed are secured by the Security Interest equally and rateably with the Capital Markets Indebtedness to the satisfaction of the Trustee; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (A) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the Noteholders or (B) as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-quarters of the votes cast thereon) of the Noteholders.

For the avoidance of doubt in respect of asset-backed financings originated by Telecom Italia or TI Finance, the expressions “assets” and “obligations for the payment of borrowed money” as used in this Condition do not include assets and obligations of Telecom Italia or TI Finance which, pursuant to the requirements of law and accounting principles generally accepted in Italy or Luxembourg, as the case may be, currently need not be, and are not, reflected in the balance sheet of Telecom Italia or TI Finance, as the case may be.

As used herein:

**Capital Markets Indebtedness** means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities, in each case which is/are listed or traded on a stock exchange or other recognised securities market;

**Permitted Encumbrance** means:

- (a) any encumbrance existing on the date on which agreement is reached to issue the first Tranche of the Notes;



- (b) any encumbrance over or affecting any asset acquired by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor after the date on which agreement is reached to issue the first Tranche of the Notes and subject to which such asset is acquired, if:
  - (A) such encumbrance was not created in contemplation of the acquisition of such asset by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor; and
  - (B) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor;
- (c) any encumbrance over or affecting any asset of any company which becomes an obligor after the date on which agreement is reached to issue the first Tranche of the Notes, where such encumbrance is created prior to the date on which such company becomes an obligor, if:
  - (A) such encumbrance was not created in contemplation of that company becoming an obligor; and
  - (B) the amount thereby secured has not been increased in contemplation of, or since the date of, that company becoming an obligor;
- (d) any netting or set-off arrangement entered into by any member of the Telecom Italia Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (e) any title transfer or retention of title arrangement entered into by any member of the Telecom Italia Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- (f) encumbrances created in substitution of any encumbrance permitted under sub-paragraphs (b)(A) and (b)(B) of this definition over the same or substituted assets provided that (1) the principal amount secured by the substitute encumbrance does not exceed the principal amount outstanding and secured by the initial encumbrance; and (2) in the case of substituted assets, if the market value of the substituted assets at the time of the substitution does not exceed the market value of the assets replaced;
- (g) encumbrances created to secure
  - (A) loans provided, supported or subsidised by a governmental agency, national or multinational investment guarantee agency, export credit agency or a lending organisation established by the United Nations, the European Union or other international treaty organisation, including, without limitation the European Investment Bank, the European Bank for Reconstruction and Development and the International Finance Corporation; or
  - (B) Project Finance Indebtedness;
 

provided that the encumbrance is created on an asset of the project being financed by such loans (and/or on the shares in, and/or shareholder loans made to, the company conducting such project) or, as the case may be, such Project Finance Indebtedness and remains confined to that asset (and/or shares and/or shareholder loans);
- (h) encumbrances arising out of the refinancing of any Capital Markets Indebtedness secured by any encumbrance permitted by the preceding sub-paragraphs, provided that the amount of such Capital Markets Indebtedness is not increased and is not secured by an encumbrance over any additional assets;
- (i) any encumbrance arising by operation of law;
- (j) any encumbrance created in connection with convertible bonds or notes where the encumbrance is created over the assets into which the convertible bonds or notes may be converted and secures only the obligation of the issuer to effect the conversion of the bonds or notes into such assets;
- (k) any encumbrance created in the ordinary course of business to secure Capital Markets Indebtedness under hedging transactions entered into for the purpose of managing risks arising under funded debt obligations such as credit support annexes and agreements;
- (l) any encumbrance over or affecting any asset of Telecom Italia to secure Capital Markets Indebtedness under a Permitted Leasing Transaction, provided that the aggregate Capital Markets Indebtedness secured by all such encumbrances does not exceed €1,000,000,000;
- (m) any encumbrance created on short-term receivables used in any asset-backed financing;
- (n) any encumbrance on real estate assets of Telecom Italia, any of its Subsidiaries or any person to which such real estate assets may be contributed by Telecom Italia or any of its Subsidiaries in connection with the issuance of any indebtedness, whether such indebtedness is secured or unsecured by such real estate assets or any other assets of such person to which real estate assets have been contributed by Telecom Italia or any of its Subsidiaries; and



- (o) any other encumbrance securing Capital Markets Indebtedness of an aggregate amount not exceeding 10 per cent. of the total net worth of Telecom Italia (as disclosed in the most recent audited consolidated balance sheet of Telecom Italia);

**Permitted Leasing Transaction** means one or more transactions or a series of transactions as a result of which Telecom Italia disposes of or otherwise transfers (including, without limitation, by way of sale of title or grant of a leasehold or other access, utilisation and/or possessory interest(s)) its rights to possess, use and/or exploit all or a portion of a particular asset or particular assets owned, used and/or operated by Telecom Italia (or its rights and/or interests in respect thereof) to one or more other persons in circumstances where Telecom Italia or an affiliate shall have the right to obtain or retain possession, use and/or otherwise exploit the asset or assets (or rights and/or interests therein) so disposed of or otherwise transferred;

**Person** means any individual, corporation, partnership, joint venture, limited liability company, trust, unincorporated organisation or government or agency or political subdivision thereof;

**Project Finance Indebtedness** means any indebtedness incurred by a debtor to finance the ownership, acquisition, construction, development and/or operation of an asset in respect of which the person or persons to whom such indebtedness is, or may be, owed have no recourse whatsoever for the repayment of or payment of any sum relating to such indebtedness other than:

- (a) recourse to such debtor for amounts limited to the cash flow from such asset; and/or
- (b) recourse to such debtor generally, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation, representation or warranty (not being a payment obligation, representation or warranty or an obligation, representation or warranty to procure payment by another or an obligation, representation or warranty to comply or to procure compliance by another with any financial ratios or other test of financial condition) by the person against whom such recourse is available; and/or
- (c) if such debtor has been established specifically for the purpose of constructing, developing, owning and/or operating the relevant asset and such debtor owns no other significant assets and carries on no other business, recourse to all of the assets and undertaking of such debtor and the shares in the capital of such debtor and shareholder loans made to such debtor;

**Security Interest** means (i) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any Person; and (ii) any arrangement providing a creditor with prior right to an asset, or its proceeds of sale, over other creditors in a liquidation;

**Subsidiary** means a corporation in respect of which more than fifty per cent. of the outstanding voting shares or equity interest having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time shares of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Guarantor or by one or more of its Subsidiaries, or by the Guarantor and one or more Subsidiaries; and

**Telecom Italia Group** means Telecom Italia and its Subsidiaries.

#### 4. MERGERS AND SIMILAR EVENTS

So long as any Note remains outstanding, the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor may each consolidate or merge with another company or firm, sell or lease all or substantially all of their respective assets to another company or buy or lease all or substantially all of the assets of another company, provided that the relevant Issuer and (as the case may be) the Guarantor shall not take any of these actions unless:

- (i) where the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor merges out of existence or sells or leases all or substantially all of its assets, the other company assumes all the then existing obligations of the relevant Issuer or (as the case may be) the Guarantor (including, without limitation, all obligations under the Notes and the Trust Deed), either by law or contractual arrangements;
- (ii) if the other company is organised under the laws of a country other than Luxembourg (in the case of TI Finance) or Italy (in the case of Telecom Italia), it must indemnify the Noteholders, Receiptholders and Couponholders against (A) any tax, assessment or governmental charge imposed on any such Noteholder, Receiptholder or Couponholder or required to be withheld or deducted from

any payment to such Noteholder, Receiptholder or Couponholder as a consequence of such merger, conveyance, transfer or lease and (B) any costs or expenses of the act of such merger, conveyance, transfer or lease; provided that, if such company is incorporated in Italy, such other company shall not be liable under such indemnity to pay any additional amounts either on account of “*imposta sostitutiva*” or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy; and

- (iii) the merger, sale or lease of all or substantially all of the assets of the relevant Issuer or (as the case may be) the Guarantor will not be an Event of Default (as defined in Condition 10) and no Event of Default or other event which, with the giving of notice or lapse of time or other condition (including, without limitation, certification from the Trustee), would be an Event of Default has occurred and is outstanding.

As long as the Notes are listed on the Luxembourg Stock Exchange, in the case of such merger or consolidation, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement will be prepared and the Noteholders will be notified in accordance with Condition 14.

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (b) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

### (a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Pricing Supplement; and

- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the TARGET System) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (i) if “Actual/365” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (I) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (II) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

**(e) Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof



to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Determination or Calculation by Trustee**

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or an error which is manifest or, in the opinion of the Trustee, proven) be binding on the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**5.3 Interest on Dual Currency Interest Notes**

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

**5.4 Interest on Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

**5.5 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

**6. PAYMENTS**

**6.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of

Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

## 6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the relevant Issuer and the relevant Issuer shall have no obligation to make any payment in respect thereof if so presented. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.



### 6.3 Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

### 6.4 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the relevant Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance), adverse tax consequences to the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance).

### 6.5 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation;
  - (ii) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET System is open.

### 6.6 Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;

- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the relevant Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the relevant Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

### **7.2 Redemption for tax reasons**

The Notes may be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the relevant Issuer satisfies the Trustee immediately before the giving of such notice that on the occasion of the next payment due under the Notes, the relevant Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or (in the case of Notes issued by TI Finance) the Guarantor would be unable for reasons outside its control to procure payment by the relevant Issuer and in making payment itself would be required to pay such additional amounts, in each case either:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and such obligation cannot be avoided by the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) taking reasonable measures available to it; or
- (b) where a Person into which the relevant Issuer or, as the case may be, the Guarantor is merged or to whom it has conveyed, transferred or leased all or substantially all of its assets is required to pay additional amounts, unless the sole purpose of such a merger would be to permit the relevant Issuer to redeem the Notes,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the relevant Issuer shall deliver to the Trustee a certificate signed by a duly authorised representative of the relevant Issuer or, as the case may be, a duly authorised representative of the Guarantor (in the case of Notes issued by TI Finance) stating that the relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the relevant Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### 7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the relevant Issuer may, having given (unless otherwise specified in the Pricing Supplement) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. So long as the Notes are listed on the Luxembourg Stock Exchange, such exchange will be informed once in each year of all Redeemed Notes and the aggregate principal amount of Notes outstanding. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

### 7.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the relevant Issuer not less than 15 nor more than 30 days' notice in accordance with Condition 14, the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise (which notice shall be irrevocable) in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly. The Luxembourg Stock Exchange will be advised by the Agent of any such Note which has been redeemed.

## 7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

$y$  is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or, as the case may be, the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

## 7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

## 7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

## 7.8 Purchases

The relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), any Subsidiary of the relevant Issuer or (in the case of Notes issued by TI Finance) any Subsidiary of the Guarantor may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor, surrendered to any Paying Agent for cancellation.

## 7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

## 7.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references

therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any Relevant Jurisdiction unless such withholding or deduction is required by law. In such event, the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable:

- (a) in respect of any Note, Receipt or Coupon presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with a Relevant Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) in respect of any Note, Receipt or Coupon presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) in respect of any Note, Receipt or Coupon presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or
- (e) in respect of payments made by Telecom Italia with respect to any Note, Receipt or Coupon for or on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1st April, 1996 (**Decree 239**) as amended and/or supplemented or superseded as at the date on which agreement is reached to issue the first Tranche of the Notes.

For the avoidance of doubt, any withholding or deduction for or on account of *imposta sostitutiva* imposed following any amendment or supplement to or replacement of Decree 239 after the date on which agreement is reached to issue the first Tranche of the Notes shall not be an exception to the payment by Telecom Italia of the relevant additional amounts payable with respect to such Note, Receipt or Coupon, to the extent that the amount of such withholding or deduction exceeds the amount of *imposta sostitutiva* payable by Telecom Italia with respect to such Note, Receipt or Coupon pursuant to Decree 239 as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes.

Furthermore, no additional amount shall be payable by Telecom Italia with respect to any Note, Receipt or Coupon for or on account of *imposta sostitutiva* if the holder becomes subject to *imposta sostitutiva* after the date on which agreement is reached to issue the first Tranche of the Notes by reason of an amendment or supplement to or replacement of the list of countries which provide for a satisfactory exchange of information with Italy, according to Article 6 of Decree 239, as amended and/or supplemented or superseded as at the date on which agreement is reached to issue the first Tranche of the Notes; or



- (f) in respect of payments made by Telecom Italia with respect to any Note having an original maturity of less than 18 months where such withholding or deduction is required pursuant to Italian Legislative Decree No. 600 of 29th September, 1973 (**Decree 600**) as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes.

For the avoidance of doubt, any withholding or deduction imposed following any amendment or supplement to or replacement of Decree 600 after the date on which agreement is reached to issue the first Tranche of the Notes shall not be an exception to the payment by Telecom Italia of the relevant additional amounts with respect to such Note, to the extent that the amount of such withholding or deduction exceeds the amount of the withholding or deduction that is required pursuant to Decree 600 as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes; or

- (g) in respect of any Note, Receipt or Coupon presented for payment by or on behalf of a holder if such withholding or deduction may be avoided by such holder producing a declaration or other evidence of non-residence in the Relevant Jurisdiction to the relevant taxing authority or making any other claim or filing, unless such holder is not entitled to produce such declaration or other evidence or to make such other claim or filing.

As used herein:

- (i) **Relevant Jurisdiction** means (A) irrespective of the identity of the Issuer, Italy and/or such other taxing jurisdiction to which Telecom Italia becomes subject, or any political sub-division or any authority thereof or therein having power to tax or (B) if the Issuer is TI Finance, the Grand-Duchy of Luxembourg and/or such other taxing jurisdiction to which TI Finance becomes subject, or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## 9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

## 10. EVENTS OF DEFAULT AND ENFORCEMENT

### 10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified to its satisfaction), (but only if, except in relation to paragraph (a) below, the Trustee shall have certified in writing to the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the relevant Issuer that the Notes are, and the Notes shall thereupon immediately become, due and repayable at their Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall have occurred and be continuing:

- (a) *Non-payment*: default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 10 days in the case of principal and 30 days in the case of interest; or
- (b) *Breach of other obligations*: the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and the failure continues for the period of 60 days next following the service by the Trustee on the relevant Issuer or (as the case may be) the Guarantor of notice requiring the same to be remedied; or



- (c) *Cross-default of Issuer or Guarantor:*
- (i) any Capital Markets Indebtedness of the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor in excess of €100,000,000 (or the equivalent thereof in other currencies) has to be repaid prematurely due to a default under its terms;
  - (ii) the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor fails to fulfil any payment obligation exceeding €100,000,000 (or the equivalent thereof in other currencies) under any Capital Markets Indebtedness of the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor, or under any guarantee provided for any such Capital Markets Indebtedness in excess of €100,000,000 (or the equivalent thereof in other currencies) of others, and such failure continues for a period of 30 days; or
  - (iii) any security or guarantee relating to Capital Markets Indebtedness in excess of €100,000,000 (or the equivalent thereof in other currencies) provided by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor is enforced by the lenders and such enforcement is not contested in good faith by the relevant Issuer or (as the case may be) the Guarantor or the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor publicly announces their inability to meet their financial obligations; or
- (d) *Insolvency:*
- (i) a court opens insolvency or equivalent proceedings against the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor which are not resolved within six months, unless such proceedings are frivolous or vexatious and contested in good faith and appropriately and do not result in court orders or the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor applies for such insolvency or equivalent proceedings; or
  - (ii) the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor approves a resolution pursuant to which it goes into liquidation or (in the case of Notes issued by TI Finance) it goes into liquidation or initiates or consents to proceedings under any applicable bankruptcy or insolvency law (including, without limitation, controlled management (*gestion contrôlée*), suspension of payments (*sursis de paiement*), a moratorium or a composition) unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by TI Finance or Telecom Italia, in connection with the Notes and the Trust Deed; or
- (e) *Guarantee not in force:* in the case of Notes issued by TI Finance, the Guarantee ceases to be valid or legally binding for any reason.

## 10.2 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the relevant Issuer and/or (in the case of Notes issued by TI Finance) the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## 11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the relevant Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 12. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) are entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive is brought into force, the Issuer and (in the case of Notes issued by TI Finance) the Guarantor undertake that they will ensure that there is maintained a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

In addition, the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

## 14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The relevant Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have

been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION, DETERMINATION AND SUBSTITUTION**

### **15.1 Meetings in respect of Notes issued by TI Finance**

In respect of Notes issued by TI Finance, the Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by TI Finance, the Guarantor or the Trustee and shall be convened by TI Finance if required in writing by Noteholders holding not less than 25 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than one-half in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any adjourned meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than one-quarter in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may, without the consent of the Noteholders, agree with TI Finance to the substitution in place of TI Finance (or of any previous substitute under this Condition 15.1) as the principal debtor under the Notes, Receipts, Coupons and the Trust Deed of another company, being either (i) the Guarantor or (ii) a Subsidiary of the Guarantor, subject to (a) (in the case of (ii)) the Notes being unconditionally and irrevocably guaranteed by the Guarantor, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution (c) the Guarantor or the Subsidiary of the Guarantor substituted in place of TI Finance indemnifying the Noteholders, Receiptholders and Couponholders against (A) any tax, assessment or governmental charge imposed on any such any Noteholder, Receiptholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder, Receiptholder or Couponholder as a consequence of such substitution and (B) any costs or expenses of the act of such substitution, except that the Guarantor or, as the case may be, the Subsidiary of the Guarantor (provided that such Subsidiary is incorporated in Italy) shall not be liable under such indemnity to pay any additional amounts either on account of “*imposta sostitutiva*” or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy and (d) certain other conditions set out in the Trust Deed being complied with. As long as the Notes are listed on the Luxembourg Stock Exchange, in the case of such a substitution, TI Finance will advise the Luxembourg Stock Exchange, a supplement will be prepared and the Noteholders will be notified in accordance with Condition 14.

The Trustee may also, without the consent of the Noteholders, agree with TI Finance and the Guarantor to the substitution in place of the Guarantor (or of any previous substitute under this Condition 15.1) as guarantor of the Notes of another company, being any entity that may succeed to, or to which the Guarantor (or any previous substitute under this Condition 15.1) may transfer, all or substantially all of the assets and business of the Guarantor (or any previous substitute under this Condition 15.1) by operation of law, contract or otherwise, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution (b) the company substituted in place of the Guarantor indemnifying the Noteholders, Receiptholders and Couponholders against (A) any tax, assessment or governmental charge imposed on any such any Noteholder, Receiptholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder, Receiptholder or Couponholder as a

consequence of such substitution and (B) any costs or expenses of the act of such substitution, except that (provided that such company is incorporated in Italy) such company shall not be liable under such indemnity to pay any additional amounts either on account of “*imposta sostitutiva*” or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy and (c) certain other conditions set out in the Trust Deed being complied with.

### **15.2 Meetings in respect of Notes issued by Telecom Italia**

In respect of Notes issued by Telecom Italia, the Trust Deed contains provisions consistent with the rules of the Italian Civil Code for convening meetings of the Noteholders to consider any matter affecting their interests, including any modification of the Conditions or of any provisions of the Trust Deed. According to the Italian Civil Code, such meeting will be validly held if (i) in the case of a first meeting, there are one or more persons present being or representing Noteholders holding more than one-half in nominal amount of the Notes for the time being outstanding, and (ii) in case of an adjourned meeting, there are one or more persons present being or representing Noteholders holding more than one-third in nominal amount of the Notes for the time being outstanding. Certain proposals, as set out in Article 2415 of the Italian Civil Code (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass a resolution) may only be sanctioned by a resolution passed at a meeting of the Noteholders by one or more persons present holding or representing not less than one-half of the aggregate principal amount of the outstanding Notes. Resolutions passed at any meeting of the Noteholders shall be binding on all Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders. In accordance with the Italian Civil Code, a “*rappresentante comune*”, being a joint representative of Noteholders may be appointed in accordance with Article 2417 of the Italian Civil Code in order to represent the Noteholders’ interest hereunder and to give execution to the resolutions of the meeting of the Noteholders.

The Trustee may, without the consent of the Noteholders, agree with Telecom Italia to the substitution in place of Telecom Italia (or of any previous substitute under this Condition 15.2) as the principal debtor under the Notes, Receipts, Coupons and the Trust Deed of another company, being any entity that may succeed to, or to which Telecom Italia (or any previous substitute under this Condition 15.2) may transfer, all or substantially all of the assets and business of Telecom Italia (or any previous substitute under this Condition 15.2) by operation of law, contract or otherwise, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (b) certain other conditions set out in the Trust Deed being complied with. As long as the Notes are listed on the Luxembourg Stock Exchange, in the case of such a substitution, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement will be prepared and the Noteholders will be notified in accordance with Condition 14.

### **15.3 Waiver, Authorisation, Determination and Exercise by the Trustee of Discretions etc.**

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct an error which is manifest or, in the opinion of the Trustee, proven. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting

from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the relevant Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

## **16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER AND/OR THE GUARANTOR**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance) and/or any of their respective Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance) and/or any of their respective Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **17. FURTHER ISSUES**

The relevant Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **19. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **19.1 Governing law**

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law, except for the first paragraph of Condition 15.2 which is governed by, and shall be construed in accordance with, Italian law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10th August, 1915, as amended, are excluded.

### **19.2 Submission to jurisdiction**

Each of the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) has in the Trust Deed irrevocably agreed, for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons and accordingly submit to the exclusive jurisdiction of the English courts.

Each of the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) has in the Trust Deed waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders, the Receiptholders and the Couponholders, may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons, against the relevant Issuer or, as the case may be (in the case of Notes issued by TI Finance), the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **19.3 Appointment of Process Agent**

Each of the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) has appointed Telecom Italia United Kingdom Ltd at its registered office at Princes House, Suite 4C, 38 Jermyn Street, London SW1Y 6JA as its agent for service of process, and undertakes that, in the event of Telecom Italia United Kingdom Ltd ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.



## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes.

## CAPITALISATION OF THE TELECOM ITALIA GROUP

The following table provides the cash and cash equivalents, the short-term debt and the capitalisation of the Telecom Italia Group, in accordance with Italian GAAP, as at 30th September, 2004:

	<b>As at 30th September, 2004</b>
	<i>(unaudited)</i>
	<i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	<b>3,756</b>
<b>Total short-term debt</b> .....	<b>1,884</b>
<b>Long-term debt:</b>	
Payable to banks .....	938
Payable to other financial institutions .....	643
Notes and bonds .....	27,072
Convertible notes .....	5,595
Other long-term debt .....	74
<b>Total long-term debt (a)</b> .....	<b>34,322</b>
<b>Stockholders' equity:</b>	
Share capital <sup>(1)</sup> .....	8,858
Additional paid-in capital .....	99
Reserves, retained earnings and profit of the period .....	6,184
<b>Total stockholders' equity before minority interests</b> .....	<b>15,141</b>
Minority interests .....	4,249
<b>Total stockholders' equity (b)</b> .....	<b>19,390</b>
<b>Total capitalisation (a + b)</b> .....	<b>53,712</b>

Note:

(1) As at 30th September, 2004, Telecom Italia's share capital (€8,857,834,072.45) comprised:

- 10,309,231,790 ordinary shares (par value of €0.55 each, corresponding to €5,670,077,484.50) subscribed, issued and existing; and
- 5,795,921,069 savings shares (par value of €0.55 each, corresponding to €3,187,756,587.95) subscribed, issued and existing.

On 6th October, 2004, Telecom Italia Capital S.A., a wholly-owned subsidiary of Telecom Italia, issued notes in an aggregate nominal amount of U.S.\$3,500 million, guaranteed by Telecom Italia, divided into three tranches (all listed on the Luxembourg Stock Exchange) and maturing respectively on 15th January, 2010 (U.S.\$1.25 billion), 30th September, 2014 (U.S.\$1.25 billion) and 30th September, 2034 (U.S.\$1 billion). The yields in U.S. dollars of the three tranches are as follows: 4.058% for the 5-year notes, 4.995% for the 10-year notes and 6.607% for the 30-year notes. Compared with the spread over Euribor for equivalent issues in euro, these yields are approximately 5 basis points lower for the 5 and 10-year notes and approximately 10 basis points lower for the 30-year notes.

On 23rd November, 2004 Telecom Italia issued floating-rate notes (3-month Euribor + 0.66%) in the amount of €120 million maturing on 23rd November, 2015 in a private placement under the Programme.

These note issues also serve to implement Telecom Italia Group's policy of refinancing maturing debts.

Taking into account the above-mentioned issues (€2,831 million of U.S.\$ notes and the €120 million private placement), the gross financial debt at 30th September, 2004 increased from €36,206 million to €39,157 million, while net financial debt remained unchanged after the receipt of the proceeds of the issues.

Furthermore, on 14th October, 2004, Telecom Italia Capital S.A. completed an exchange offer in respect of:

- the debt securities (the "Notes") issued on 29th October, 2003 (not registered with the United States Securities and Exchange Commission — SEC) in the total amount of U.S.\$4 billion, divided into three tranches (Series A, Series B and Series C) and
- newly-issued Notes registered with the U.S. Securities and Exchange Commission.

The newly-issued Notes were registered pursuant to the Securities Act and contained the same terms and conditions as those of the corresponding unregistered Notes. The Notes are unconditionally guaranteed by Telecom Italia. By the end of the exchange offer period, U.S.\$3,957,588,000 of the unregistered Notes (U.S.\$985,926,000 of Series A Notes, U.S.\$1,972,460,000 of Series B Notes and U.S.\$999,202,000 of Series C Notes) had been exchanged, representing approximately 98.94% of the nominal amount of the unregistered Notes issued in October 2003.

Moreover, on 9th November, 2004, the Board of Directors of Telecom Italia authorised the issuance of non-convertible notes under the Programme in an aggregate amount of up to €4.9 billion by 31st December, 2006 and also authorised the guarantee of notes issued in an aggregate amount of up to U.S.\$5 billion by Telecom Italia Capital S.A.

On 14th December, 2004, pursuant to the terms and conditions of the €500 million Floating Rate Extendable Notes due 2005 issued by TI Finance and guaranteed by Telecom Italia, the maturity date of a total outstanding principal amount of €499,717,000 of the aggregate amount of Notes originally issued has been extended to 14th December, 2006. The Notes will continue to bear interest at the rate of 3 month EURIBOR plus a margin of 1.30% per annum. The balance of €283,000 by way of outstanding principal amount of the Notes will be repaid to holders on 14th March, 2005.

Except as disclosed elsewhere in this Offering Circular, there has been no material change in the capitalisation of the Telecom Italia Group since 30th September, 2004.

## CAPITALISATION OF TELECOM ITALIA

The following table provides the cash and cash equivalents, the short-term debt and the capitalisation of Telecom Italia, in accordance with Italian GAAP, as at 30th September, 2004:

	<b>As at 30th September, 2004</b> <i>(unaudited)</i> <i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	<b>776</b>
<b>Total short-term debt</b> .....	<b>4,782</b>
<b>Long-term debt:</b>	
Payable to banks .....	299
Payable to other financial institutions .....	373
Notes and bonds .....	12,660
Convertible notes .....	2,828
Other long-term debt .....	12,980
<b>Total long-term debt (a)</b> .....	<b>29,140</b>
<b>Stockholders' equity:</b>	
Share capital <sup>(1)</sup> .....	8,858
Additional paid-in capital .....	99
Reserves, retained earnings and profit of the period .....	6,576
<b>Total stockholders' equity (b)</b> .....	<b>15,533</b>
<b>Total capitalisation (a + b)</b> .....	<b>44,673</b>

Note:

(1) As at 30th September, 2004, Telecom Italia's share capital (€8,857,834,072.45) comprised:

- 10,309,231,790 ordinary shares (par value of €0.55 each, corresponding to €5,670,077,484.50) subscribed, issued and existing; and
- 5,795,921,069 savings shares (par value of €0.55 each, corresponding to €3,187,756,587.95) subscribed, issued and existing.

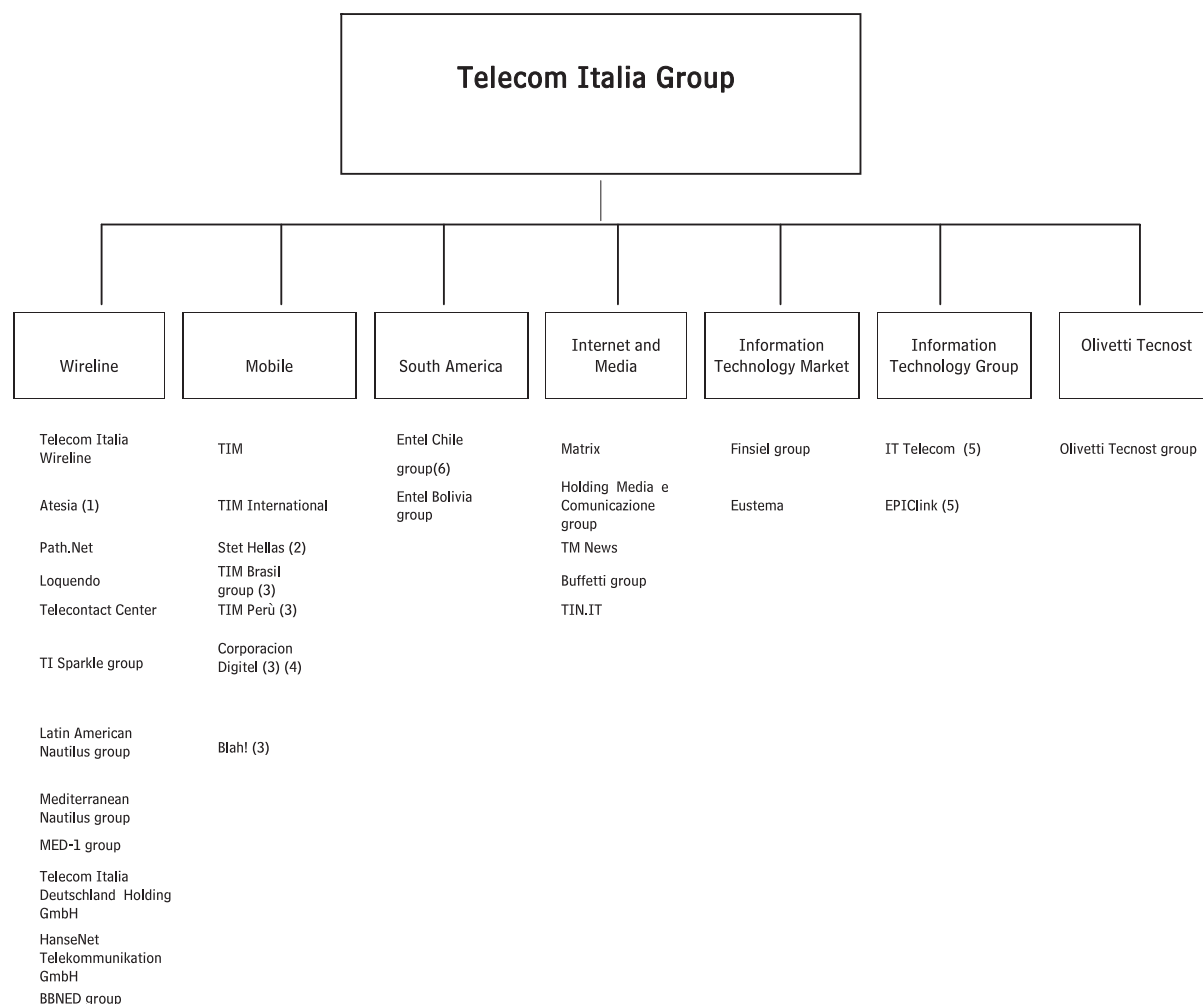
Except as disclosed herein and under "Capitalisation of the Telecom Italia Group" above, there has been no material change in the capitalisation of Telecom Italia since 30th September, 2004.

## DESCRIPTION OF TELECOM ITALIA

The legal and commercial name of the company is Telecom Italia S.p.A. The company is incorporated as a joint stock company under the laws of Italy. The duration of the company extends until 31st December, 2100. The registered office and principal executive offices of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. Its telephone number is +39-02-85951.

### Overview of the Telecom Italia Group's Major Business Areas

The following is a chart of the Telecom Italia Group's business units as at 30th September, 2004:



#### Notes:

- (1) On 12th November, 2004, Telecom Italia disposed of the 80.1% stake in Atesia S.p.A.
- (2) With effect from 1st November, 2004, STET Hellas changed its commercial name to TIM Hellas.
- (3) Mobile South America.
- (4) On 5th November, 2004, a preliminary agreement for the sale of Corporacion Digital C.A. was reached by TIM with CANTV (Compania Anonima Nacional Teléfonos de Venezuela). The completion of the transaction, expected within the first half of 2005, is conditional upon the signature of the definitive agreement and obtaining all the necessary approvals from the competent Venezuelan authorities.
- (5) On 31st December, 2004, the merger of IT Telecom and EPIClink with and into Telecom Italia became effective.
- (6) On 24th January, 2005 Telecom Italia International N.V. executed a preliminary agreement for the disposal of its 54.76% equity stake in Entel S.A. to Almendral S.A., a holding company listed on the Santiago Stock Exchange. The closing of the transaction, subject to, among other things, the approval by the competent authorities, is expected to occur within the next three months.

### Overview

On 18th July, 1997, Old Telecom Italia's predecessor company was merged with and into STET — Società Finanziaria Telefonica — per Azioni (**STET**), its parent holding company, with STET as the surviving corporation. As at the effective date of the merger, STET changed its name to "Telecom Italia S.p.A.".

In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatisation of Telecom Italia selling substantially all of its stake in the Old Telecom Italia Group through a global offering, and a private sale to a stable group of shareholders.

On 21st May, 1999, Olivetti, through a tender offer, obtained control of the Old Telecom Italia Group when approximately 52.12% of Old Telecom Italia ordinary shares were tendered to Olivetti.

Through a series of transactions beginning in July 2001, Olimpia S.p.A. (**Olimpia**) acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

On 9th December, 2002, the Ministry of the Treasury sold its remaining stake in Old Telecom Italia's ordinary and savings share capital.

On 4th August, 2003, Old Telecom Italia merged with and into Olivetti with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A." (**Merger**). Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Pirelli S.p.A. (**Pirelli**), Olimpia's largest shareholder, or Olimpia increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Since that date Olimpia has acquired additional Ordinary Shares through market purchases and Olimpia is currently the largest shareholder of Telecom Italia with approximately a 17% holding of Telecom Italia's Ordinary Shares.

As at 30th September, 2004, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 26.2 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary TIM, the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with approximately 52 million mobile lines (which includes 40.7 million lines in which Telecom Italia has an economic interest or proportionate lines). The Telecom Italia Group also had 7.5 million mobile lines (2.7 million proportionate lines) through companies indirectly owned through Telecom Italia International. In Italy TIM is one of three operators with the right to provide GSM digital mobile telecommunications services and one of three operators with the right to provide DCS 1800 digital mobile telecommunications services. TIM is one of five entities which have acquired a UMTS licence to provide third generation mobile services in Italy.

The Telecom Italia Group also provides leased lines and data communications services, internet services and IT software and services. Following the Merger with Olivetti, Telecom Italia also operates in the office products, IT office products and specialised application for service automation in banking retail, gaming and lottery management and specialised automation systems sector through Olivetti Tecnost.

The Telecom Italia Group's international portfolio of subsidiaries and investments includes fixed and mobile telecommunications companies which operate mainly in Latin America and certain countries in Europe.

## **Recent Developments**

### *Note issues*

On 6th October, 2004, Telecom Italia Capital S.A., a wholly-owned subsidiary of Telecom Italia, issued notes for a total amount of U.S.\$3,500 million, guaranteed by Telecom Italia, divided into three tranches (all listed on the Luxembourg Stock Exchange) and maturing respectively on 15th January, 2010 (U.S.\$1.25 billion), 30th September, 2014 (U.S.\$1.25 billion) and 30th September, 2034 (U.S.\$1 billion). The yields in US dollars of the three tranches are as follows: 4.058% for the 5-year notes, 4.995% for the 10-year notes and 6.607% for the 30-year notes. Compared with the spread over Euribor for equivalent issues in euro, these yields are approximately 5 basis points lower for the 5 and 10-year notes and approximately 10 basis points lower for the 30-year notes.

On 23rd November, 2004 Telecom Italia issued floating-rate notes (3-month Euribor + 0.66%) in the amount of €120 million maturing on 23rd November, 2015 in a private placement under the Programme.

These note issues also serve to implement the policy of refinancing maturing debts.

Moreover, on 9th November, 2004, the Board of Directors of Telecom Italia authorised the issuance of non-convertible notes under the Programme in an aggregate amount of up to €4.9 billion by 31st December, 2006 and also authorised the guarantee of notes issued in an aggregate amount of up to U.S.\$5 billion by Telecom Italia Capital S.A.



Taking into account the above-mentioned issues (€2,831 million of U.S.\$ notes and the €120 million private placement), the gross financial debt at 30th September, 2004 increased from €36,206 million to €39,157 million, while net financial debt remained unchanged after the receipt of the proceeds of the issues.

On 29th November, 2004, following the authorisation notified by letter no. 4100363 dated 24th November, 2004, a prospectus was filed with Consob concerning the listing of “Telecom Italia S.p.A. €1,000,000,000 Floating Rate Notes due 2007”, “Telecom Italia S.p.A. €750,000,000 4.50% Notes due 2011” and “Telecom Italia S.p.A. €1,250,000,000 5.375% Notes due 2019” on EuroMOT, as per Borsa Italiana decision no. 3658 dated 11th October, 2004. Pursuant to decision no. 3731 dated 29th November, 2004, Borsa Italiana authorised the commencement of trading on 2nd December, 2004.

On 14th December, 2004, pursuant to the terms and conditions of the €500 million Floating Rate Extendable Notes due 2005 issued by TI Finance and guaranteed by Telecom Italia, the maturity date of a total outstanding principal amount of €499,717,000 of the aggregate amount of Notes originally issued has been extended to 14th December, 2006. The Notes will continue to bear interest at the rate of 3 month EURIBOR plus a spread of 1.30%. The balance of €283,000 by way of outstanding principal amount of the Notes will be repaid to holders on 14th March 2005.

#### *Exchange offer for notes issued by Telecom Italia Capital S.A.*

On 14th October, 2004, Telecom Italia Capital S.A. completed an exchange offer in respect of:

- the debt securities (the “Notes”) issued on 29th October, 2003 (which were not registered with the United States Securities and Exchange Commission — SEC) in the total amount of U.S.\$4 billion, divided into three tranches (Series A, Series B and Series C) and
- newly-issued Notes registered with the U.S. Securities and Exchange Commission.

The newly-issued Notes were registered pursuant to the Securities Act and contained the same terms and conditions as those of the corresponding unregistered Notes. The Notes are unconditionally guaranteed by Telecom Italia. By the end of the exchange offer period, U.S.\$3,957,588,000 of the unregistered Notes (U.S.\$985,926,000 of Series A Notes, U.S.\$1,972,460,000 of Series B Notes and U.S.\$999,202,000 of Series C Notes) had been exchanged, representing approximately 98.94% of the nominal amount of the unregistered Notes issued in October 2003.

#### *Telecom Italia Media S.p.A. share capital*

On 5th October, 2004, the Board of Directors of Telecom Italia Media S.p.A. (**Telecom Italia Media**) set the terms for a capital increase by way of a rights offering for approximately €120 million, pursuant to the resolution adopted by Telecom Italia Media’s shareholders at the extraordinary meeting held on 10th September, 2004.

Taking into account the recent performance of the shares, the Board of Directors fixed the subscription price for the newly-issued shares at €0.21 (representing a premium of €0.18) for each new ordinary share and €0.17 (representing a premium of €0.14) for each new savings share.

The Board of Directors thereby authorised the issue of 564,333,957 ordinary shares and 9,462,662 savings shares which, under the rights offering, were offered for subscription to eligible holders at a ratio of 11 new ordinary or savings shares for every 60 shares of the same class held.

By the end of the acceptance period (11th October, 2004 – 29th October, 2004 inclusive) subscriptions had been received for 549,262,186 ordinary shares, for a total of €115.3 million or 97.3% of the ordinary shares offered, and for 8,372,925 savings shares, for a total of €1.4 million or 88.5% of the savings shares offered.

The unexercised rights were offered on the stock exchange (MTA) on behalf of Telecom Italia Media during the period 8th to 12th November, 2004. By the end of the period, all the rights offered had been sold, in particular: 82,209,660 rights (for a total of €1,257,807.80) entitling holders to subscribe to 15,071,771 ordinary shares and 5,944,020 rights (for a total of €62,412.21) entitling holders to subscribe to 1,089,737 savings shares.

These rights were also exercised and therefore all the shares issued were subscribed without the need for Telecom Italia to subscribe any unexercised rights.

### *Sale of Corporacion Digitel*

On 5th November, 2004, TIM reached a preliminary agreement with CANTV (Compania Anonima Nacional Teléfonos de Venezuela) for the sale of Corporacion Digitel C.A., a Venezuelan company wholly-owned through TIM International, for a total of U.S.\$450 million.

The completion of the transaction, expected in the first half of 2005, is subject to the execution of the definitive agreement and obtaining all necessary approvals from the relevant competent Venezuelan authorities.

### *Sale of Atesia*

Effective 1st July, 2004, Atesia sold to Telecontact S.p.A. the business unit engaged in customer care services for fixed telephony. On 2nd July, 2004, Telecom Italia entered into an agreement with COS Communication Services S.p.A. (part of the COS Group, the leading Italian manager of outsourced contact centre and customer relationship management (CRM) services) for the sale of an 80.1% equity interest in Atesia. The sale related only to the activities performed on behalf of TIM and the external market. The effectiveness of the agreement was subject to the approval of the Italian Antitrust Authority. This approval was obtained on 28th October, 2004 and the transaction was completed on 12th November, 2004.

### *Italian Antitrust Authority*

In June 2003, the Italian Antitrust Authority launched an investigation into alleged abuses of dominant position by Telecom Italia, in order to determine whether the company had engaged in unlawful commercial practices in the business segment. In particular, alleged abusive conduct, with the alleged intent to exclude competitors, consisted of setting prices for landline services to business customers that could not be matched by competitors, given the interconnection charges the latter have to pay to access Telecom Italia's network. The final hearing was held before the Authority on 29th September, 2004, with the participation of the other operators who had intervened in the proceedings. Telecom Italia presented its case on the basis of the written pleading that had been filed with the Authority and outlined a proposal prepared by an independent expert containing specific commitments to improve the market situation as well as several solutions considered suitable to (i) reduce the difficulties competitors have in providing integrated telecommunication solutions to business customers; (ii) accelerate the development of competition in the access market through extraordinary measures for the two-year period 2005-2007 and (iii) implement a mechanism to monitor and verify compliance with these commitments.

The Italian Antitrust Authority's investigation was scheduled to end on 16th November, 2004. On 19th November, 2004, the Authority notified Telecom Italia of its decision to fine the company €152 million for its alleged abuse of dominant position. This fine represents slightly less than 1% of Telecom Italia's revenues. The Authority also ordered Telecom Italia to cease and desist from the anti-competitive behavior ascribed to it and to inform the Authority of the steps taken to that effect within 90 days from notification of the ruling.

On 31st December, 2004, Telecom Italia appealed to the Regional Administrative Court (TAR) against the Antitrust Authority's decision.

### *Telecom Italia/TIM merger*

On 7th December, 2004, the Boards of Directors of Telecom Italia and TIM approved a plan for the integration of the two companies that has as its objective the simplification of the Group's ownership structure and the optimisation of the financial and capital structure of the Group resulting from the merger, against a backdrop of rapid technological development focused toward promoting significant increases in business efficiencies. The integration process approved foresees (i) a partial voluntary cash tender offer by Telecom Italia for 2,456,534,241 TIM ordinary shares, equivalent to two-thirds of the ordinary share free float, and for all 132,069,163 TIM savings shares (the "Cash Tender Offer"); and (ii) the merger of TIM into Telecom Italia after the spin-off of the domestic mobile communications business, currently operated by TIM, into a subsidiary wholly owned by TIM is effective. Such spin-off would result in the beneficiary company taking over the authorisation held by TIM for the provision of mobile communications services in Italy. The merger will occur following the payment of dividends that are expected to be in line with last year.

Following due authorisation by Consob and publication of an Offer Document, on 3rd January, 2005 Telecom Italia launched the Cash Tender Offer, which was completed on 21st January, 2005; the consideration offered by Telecom Italia was equal to €5.60 per TIM ordinary and savings share. In order to finance the transaction, corresponding to an outlay of €14,496 million, Telecom Italia will use up to €2,500 million of its own funds;

in addition, a pool of Italian and international banks has granted Telecom Italia a line of credit for a maximum aggregate amount of €12,000 million, divided into three tranches (the first equal to €3,000 million; the second equal to €6,000 million; and the third equal to €3,000 million) to be used to pay the portion of the consideration offered not covered by the amount disbursed by Telecom Italia using its own funds.

On the basis of the final data received from the intermediaries engaged to coordinate the collection of acceptances by shareholders, the total number of tendered shares was as follows: 2,639,154,665 ordinary shares (equal to approximately 31.2% of TIM ordinary share capital, and approximately 107.4% of the ordinary shares subject to the offer), and 8,463,127 savings shares (equal to approximately 6.4% of TIM savings share capital and the same percentage of savings shares subject to the offer).

Although not all the conditions to effectiveness of the Cash Tender Offer (pursuant to the Offer Document) were met, and specifically the number of savings shares tendered was less than the minimum quantity of 88,046,109 TIM savings shares, taking into account the overall number of shares tendered and the purpose of the restructuring plan, the relevant conditions have been waived by the Board of Directors of Telecom Italia which, on 23rd January 2005, confirmed the effectiveness of the Cash Tender Offer and the purchase of the TIM savings shares tendered. Since the number of TIM ordinary shares exceeds the maximum number of ordinary shares sought in the Cash Tender Offer, according to the terms of the Offer Document Telecom Italia prorated the acceptances; on the basis of the number of ordinary shares tendered the proration percentage was 93.0803440%. As a result, Telecom Italia will acquire from each shareholder the number of TIM ordinary shares equal to the proration percentage of the ordinary shares tendered, rounded down to the nearest whole number; any ordinary shares not acquired by Telecom Italia following proration were returned to tendering shareholders on 26th January, 2005. The transfer to Telecom Italia of ownership of shares tendered and accepted took place on 28th January, 2005. The total consideration payable by Telecom Italia was €13,804 million, €2,504 million of which was paid out from Telecom Italia own funds and €11,300 million was drawn from the line of credit (the residual amount of the first tranche of the line of credit, equal to €700 million, has been cancelled).

On 11th February, 2005, the drawdown was rolled-over for €9,000 million only; therefore the first tranche of the line of credit was cancelled for the residual amount of €2,300 million.

On 3rd February, 2005 Telecom Italia acquired 21 million TIM savings shares, for a consideration of €117 million, through the exercise of an option agreement called "*Confirmation of Share Basket Option Transaction*" negotiated in December 2004.

On 3rd February, 2005 Telecom Italia borrowed 37 million TIM savings shares (divided in two tranches: the first equal to no. 15 million and the second equal to no. 22 million), simultaneously posting €225 million in cash as collateral against the shares, through the execution of a stock lending agreement called "*Confirmation of a Securities Lending Transaction*" negotiated on 19th January, 2005.

Consequently, on the basis of the number of the savings shares acquired through the cash tender offer described above, the exercise of the option agreement and the execution of the stock lending agreement, Telecom Italia will be in a position to exercise approximately 50.3% of the votes for this class of shares at the special Savings Shareholders' Meeting which was called to approve the merger resolution.

On 8th February, 2005 the counterparty to the put option agreement called "*Confirmation of Share Basket Option Transaction*", which was negotiated in December 2004, exercised the related put option and therefore, on 11th February, 2005 Telecom Italia acquired 42 million TIM ordinary shares for a consideration of €234 million.

On 23rd January, 2005, the Boards of Directors of Telecom Italia and TIM adopted the plan to merge TIM with and into Telecom Italia.

The merger plan confirms the share exchange ratios announced when the reorganisation plan was first examined: (i) 1.73 Telecom Italia ordinary shares with a par value of €0.55 per share for each TIM ordinary share with a par value of €0.06 per share; (ii) 2.36 Telecom Italia savings shares with a par value of €0.55 per share for each TIM savings share with a par value of €0.06 per share.

The merger will be implemented through:

- (i) cancellation of the TIM ordinary shares held by TIM on the effective date of merger, without share exchange;
- (ii) cancellation of the TIM ordinary and savings shares held by Telecom Italia on the effective date of merger, without share exchange; and

- (iii) cancellation of the TIM ordinary and savings shares outstanding on the effective date of merger, with share exchange ratios as above indicated. A capital increase of up to €1,421 million, through the issue of a maximum of 2,291,344,587 new Telecom Italia ordinary shares and a maximum of 291,729,714 new Telecom Italia savings shares, all with par value of €0.55 per share, will service the share exchange.

As already mentioned above, before the merger becomes effective TIM will spin-off the domestic mobile communications business to a wholly owned subsidiary; the intention is to have the spin-off effective by the end of the first quarter of 2005.

Telecom Italia and TIM intend to take steps to ensure completion of the merger by the end of June 2005. Under Italian GAAP for accounting purposes, TIM operations are expected to be shown in Telecom Italia's financial statements as from 1st January, 2005; the fiscal effect of the merger will also commence from this date. On completion of the merger, Telecom Italia ordinary shares and savings shares will continue to be listed on the Borsa Italiana S.p.A. screen-based trading market; they will also continue to be listed on the New York Stock Exchange in the form of ADS.

An Extraordinary Meeting of the ordinary shareholders of Telecom Italia has been convened for 5th April, 2005, with second and third calls on 6th April and 7th April, respectively. An Extraordinary Meeting of TIM ordinary shareholders has been convened for 5th April, 2005, with a second call on 6th April, 2005. A meeting of TIM savings shareholders has been convened for 6th April, 2005, with second and third calls on 7th April and 8th April, respectively.

#### *TIM's General Manager*

On 10th December, 2004, with the agreement of the Group, Mauro Sentinelli resigned as TIM's General Manager Mr. Sentinelli, who is also Deputy Chairman of the GSM Association, will continue to act as an advisor to the Chairman of Telecom Italia on the evolution of technological platforms. On 22nd December, 2004, Mauro Sentinelli also resigned as a Director of TIM.

#### *Merger of IT Telecom and EPIClink into Telecom Italia*

On 8th and 9th September, 2004, the Boards of Directors of Telecom Italia, IT Telecom S.p.A. and EPIClink S.p.A. examined and approved the plan to merge the two wholly-owned subsidiaries IT Telecom S.p.A. and EPIClink S.p.A. into Telecom Italia. This plan is part of the reorganisation of the Group's information technology operations. The merger into Telecom Italia of these two subsidiaries will make it possible to rationalise the use of resources and technological skills and streamline operational, administrative and corporate processes.

In accordance with the respective bylaws, the merger (which does not involve an increase in Telecom Italia's share capital) was agreed by the Boards of Directors of the three companies on 11th October, 2004, in accordance with Article 2505, last paragraph, of the Civil Code.

The merger deed was executed on 17th December, 2004 and became effective for legal purposes on 31st December, 2004 and for accounting and tax purposes on 1st January, 2004.

#### *Sale of Mirror International Holding Sarl*

On 21st December, 2004 Telecom Italia sold its 30% equity stake in Mirror International Holding Sarl ("Mirror") to the Mirror company. The sale price of €72.7 million generated a capital gain of €18 million over the book value as of 30th June, 2004. Mirror previously acquired Telecom Italia's holdings in the Eutelsat, Intelsat, Inmarsat and New Skies Satellites satellite companies. The transaction is part of Telecom Italia's ongoing strategy to cease its satellite operations in order to focus more closely on its core business.

#### *Disposal of Entel S.A. equity stake*

On 24th January, 2005, Telecom Italia International N.V. executed a preliminary agreement for the disposal of its 54.76% equity stake in Entel S.A. to Almendral S.A., a holding company listed on the Santiago Stock Exchange. The transaction values the stake at U.S.\$ 934 million, which corresponds to a value of U.S.\$1,706 million for 100% of Entel S.A. The disposal will reduce Telecom Italia Group's net debt by approximately €1.1 billion and will result in a net charge of approximately €143 million.

The closing of the transaction, subject to, among other things, the approval by the competent authorities, is expected to occur within the next three months. The disposal is consistent with Telecom Italia Group's strategy of rationalising its international portfolio and focusing on areas of strategic interest with potential for growth.

## BUSINESS UNITS

### Business Unit Key Financial Data

The table below sets forth certain key financial data for each Business Unit for the three years ended 31st December, 2001, 2002 and 2003:

		<u>Wireline</u> <small>(1)(3)</small>	<u>Mobile</u>	<u>South</u> <u>America</u> <sup>(4)</sup>	<u>Internet</u> <u>and</u> <u>Media</u> <sup>(5)</sup>	<u>IT</u> <u>Market</u> <u>Group</u> <sup>(3)</sup>	<u>IT</u> <u>Group</u> <sup>(3)</sup>	<u>Olivetti</u> <u>Tecnost</u>	<u>Sub-total</u>	<u>Other</u> <u>activities and</u> <u>eliminations</u> <sup>(3)(6)</sup>	<u>Consolidated</u> <u>Total</u>
		<i>(millions of Euro, except number of employees)</i>									
Gross operating revenues.....	2003	17,216	11,782	1,126	1,297	891	1,100	655	34,067	(3,217)	30,850
	2002 <sup>(2)</sup>	17,047	10,867	1,409	1,991	1,039	996	914	34,263	(2,855)	31,408
	2001 <sup>(2)</sup>	17,174	10,250	1,534	1,957	1,322	1,039	1,097	34,373	(2,357)	32,016
Gross operating profit.....	2003	8,255	5,502	400	322	84	96	40	14,699	(419)	14,280
	2002 <sup>(2)</sup>	7,951	5,039	450	593	114	98	59	14,304	(289)	14,015
	2001 <sup>(2)</sup>	7,730	4,760	527	444	181	198	27	13,867	(212)	13,655
Operating income.....	2003	4,969	3,786	137	63	58	(36)	2	8,979	(2,190)	6,789
	2002 <sup>(2)</sup>	4,677	3,358	146	232	64	(40)	4	8,441	(2,383)	6,058
	2001 <sup>(2)</sup>	4,338	3,136	187	31	133	51	(26)	7,850	(2,725)	5,125
Capital expenditures.....	2003	2,302	1,957	130	102	30	174	20	4,715	179	4,894
	2002 <sup>(2)</sup>	2,475	1,715	216	81	39	149	35	4,710	191	4,901
	2001 <sup>(2)</sup>	2,842	3,151	406	175	33	139	62	6,808	423	7,231
Number of employees at the year end.....	2003	50,766	18,888	5,049	2,029	4,827	4,107	2,395	88,061	5,126	93,187
	2002 <sup>(2)</sup>	53,935	18,702	5,461	7,715	5,506	5,039	4,527	100,885	5,735	106,620
	2001 <sup>(2)</sup>	58,112	16,721	5,746	9,264	7,454	5,127	4,896	107,320	8,700	116,020

Notes:

(1) As at 16th June, 2003, Domestic Wireline changed its name to Wireline.

(2) The data relating to 2002 and 2001 have been reclassified and presented consistent with the 2003 presentation.

(3) Starting from 1st January, 2003, the Netikos group, the Webegg group, TILab, Loquendo and Eustema are no longer consolidated by IT Group. BBned is no longer included in Other Activities. TILab moved to Other activities and Loquendo and BBned became part of Wireline, whereas the other companies moved to the IT Market Business Unit. The effects of such reclassifications were not material.

(4) The data refer to Entel Chile group, Entel Bolivia group, the company Telecom Italia America Latina and the business segment South America of Telecom Italia.

(5) New SEAT, the beneficiary company of the spin-off from Seat Pagine Gialle which took place on 1st August, 2003, was sold in August 2003. As a result of this, the 2003 figures include the results of operations for the first seven months of New SEAT Group, as well as the results of operations for the entire year of the remaining part of Seat Pagine Gialle that after the spin-off was renamed Telecom Italia Media.

(6) The data include the operations of the International Affairs Corporate Function, TILab, the Old Business Unit Satellite Services (the Telespazio group) — which was disposed of during the fourth quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002 — the 9Telecom group — sold in the third quarter of 2002 and for which only the statement of income data was consolidated for the first six months of 2002 — as well as the financial companies, the centralized group services and the staff functions.



## **Wireline**

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

## **Mobile**

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

## **South America**

All the activities conducted by the Latin American subsidiaries (whether controlled by Telecom Italia International or by TIM International) were coordinated by Latin America Operations (LAO) until 29th February, 2004 and were developed in accordance with the Telecom Italia Group's overall strategic plan. From February 2003 to February 2004, Latin America Operations reported directly to the CEO Carlo Buora for Wireline telecommunications, and to Marco De Benedetti for Mobile telecommunications.

With effect from 1st March, 2004, the former Latin America Operations structure has been disbanded and the Telecom Italia Latam structure assumed the role of the "delocalised" Corporate function with the aim of consolidating and developing the Group's presence in Latin America.

Effective 1st March, 2004, Paolo Dal Pino was appointed the representative of the Telecom Italia Group in Latin America, reporting directly to the Chairman.

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

## **Internet and Media**

During 2003, the Internet and Media Business Unit was significantly reorganised as a result of the spin-off and sale of New SEAT through which Telecom Italia disposed of its directories, directories assistance and business information business segments of the SEAT group.

As a result of this disposition, the Internet and Media Business Unit, now held through Telecom Italia Media, operates in the following segments:

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

## **Information Technology Market**

The Information Technology Market Business Unit (**IT Market**) was created in early 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services Business Unit by type of customer.

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

## **Information Technology Group**

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



## Olivetti Tecnost

The Olivetti Tecnost group Business Unit operates through the Office Products Division in the sector of ink-jet products for the office and digital printing systems, the development and production of products associated with silicon technology (ink-jet print-heads and MEMS). Through the Systems Division it provides specialized applications for the banking field and commerce and information systems for gaming and lottery management. The reference market of the Business Unit is focused mainly in Europe and Asia.

## Other Telecom Italia Group Activities

The “Other Activities” of the Telecom Italia Group are principally constituted by the Central TILAB Function, by the companies which provide centralised services to the Group and by the Corporate Functions.

## Selected statistical data for the Italian fixed-line, mobile and internet businesses

The following table sets forth, for the periods indicated, certain selected statistical data for the fixed-line, mobile and internet businesses:

	<b>Year ended 31st December,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Subscription and Customers:</b>			
Subscriber fixed-lines at period-end in Italy (thousands) <sup>(1)</sup> . . . . .	27,353	27,142	26,596
Subscriber fixed-line growth per annum in Italy(%) . . . . .	0.7	(0.8)	(2.0)
ISDN equivalent lines at period-end in Italy (thousands) <sup>(2)</sup> . . . . .	5,403	5,756	6,027
Broadband Access in Italy and abroad (ADSL + XDSL) — (thousands) <sup>(3)</sup> . . . . .	390	850	2,200
Voice Offers in Italy — (thousands) <sup>(4)</sup> . . . . .	4,094	5,224	5,547
Network infrastructure in Italy:			
• access network in copper (millions of km — pair) . . . . .	104.3	104.3	105.2
• access network and transport in fiber optics (millions of km of fiber optics) . . . . .	3.2	3.6	3.6
Network infrastructure abroad:			
• european backbone (km of fiber optics) . . . . .	36,600	36,600	39,500
TIM lines in Italy at period-end (thousands) . . . . .	23,946	25,302	26,076
TIM group foreign lines (at period-end, thousands) <sup>(5)</sup> . . . . .	10,923	13,809	18,438
TIM group lines total (Italy + foreign, thousands) <sup>(5)</sup> . . . . .	34,869	39,111	44,514
TIM lines in Italy growth per annum(%) . . . . .	10.9	5.7	3.1
Average revenue in Italy per mobile line per month(€) <sup>(6)</sup> . . . . .	29.1	28.8	29.1
Cellular penetration in Italy at period-end (TIM lines per 100 inhabitants)(%) . . . . .	41.6	43.9	45.3
Cellular market penetration in Italy at period-end (lines for the entire market per 100 inhabitants)(%) . . . . .	89.0	93.7	99.2
GSM penetration in Italy (% of population) . . . . .	99.7	99.8	99.8
E-TACS penetration in Italy (% of population) . . . . .	98.0	98.0	97.9
<b>Retail Traffic<sup>(7)</sup>:</b>			
Average minutes of use per fixed-line subscriber in Italy during period <sup>(8)</sup> . . . . .	4,739	4,292	4,127
Of which:			
• Local traffic during period (in average minutes) <sup>(9)</sup> . . . . .	3,575	3,198	2,971
• Long-distance traffic during period (domestic and international) (in average minutes) . . . . .	1,163	1,094	1,156
Total mobile outgoing traffic per month (millions of minutes) . . . . .	1,795	1,960	2,090
<b>Internet and Media:</b>			
Page Views Virgilio (millions) . . . . .	3,945	5,267	6,612

Notes:

(1) Data include multiple lines for ISDN and exclude internal lines.

(2) Data exclude internal lines.

(3) Number of contracts. Broadband access contracts in Italy as of 31st December, 2001, 2002 and 2003 were 390,000, 850,000 and 2,040,000, respectively.

(4) Number of contracts; includes Teleconomy, Hellò and other Business voice offers.

(5) The foreign lines include those of the mobile telecommunications affiliates in Turkey and the Czech Republic. Our proportionate share results in total lines of 35.6 million as of 31st December, 2003.

(6) Including Prepaid Customers' revenues and excluding equipment sales and including non — TIM customer traffic.

(7) Retail traffic consists of traffic from Telecom Italia customers for local calls, long distance national and international calls (including calls to mobile phones).

(8) Includes total fixed outgoing traffic (including international outgoing traffic and fixed outgoing traffic to the mobile networks).

(9) Including district and internet dial-up traffic.

## Strategy

### General

Telecom Italia Group's strategic priorities include:

- consolidating its leadership in the domestic wireline market by increasing customer loyalty through innovative offers and stimulating the market for value added and broadband contents and services, particularly with regard to ADSL technology. ADSL is a telecommunications technology that permits the transmission of data and allows access to the Internet at very high speeds;
- in the mobile market, increasing traffic volumes and developing value added services in line with user expectations (MMS, or Mobile Multimedia Services, mobile TV, gaming, videostreaming, videotelephony) as well as leveraging off technology integration (GSM/EDGE/UMTS);
- in the Internet and Media sector, continuing the development of broadband services and portals, strengthening its television channels (La7 and MTV Italia) and launching Digital Terrestrial TV services;
- expanding the Telecom Italia Group presence abroad in markets where it can capitalise on its marketing and technological know-how: in the mobile business, in Latin America and especially in Brazil and, in the wireline business, through the development of broadband services in Europe;
- continuing to manage the Telecom Italia Group according to rigorous criteria of efficiency, relying on synergies deriving from the organisational model based on so-called "professional families" and service centres, cost control systems (completing the cost efficiency target), and the careful selection of investment projects, aimed primarily at fostering innovation and sustainable growth; and
- strengthening its financial structure through strong cash generation.

Capital expenditures will be directed towards reinforcing the following strategy:

- focusing on innovation;
- continuing leadership in the domestic market;
- strengthening existing international assets; and
- developing value added services.

The industrial investments planned for the three years 2004-2006 will be approximately €15 billion. The breakdown by sector of activity is shown in the table below.

	<b><u>Approximate % of Industrial Investments</u></b>
Wireline .....	42%
Mobile.....	47%
Internet and Media .....	1%
Other .....	10%

### Wireline

The Telecom Italia Group's wireline strategy continues to be driven by defence of market share in voice traffic, strong emphasis on data/internet growth and broadband contents and services development, and focus on obtaining continuing efficiencies.

In particular, the Telecom Italia Group intends to:

- maintain its domestic leadership in its core business (voice services, internet access, data transmission services for businesses, national and international wholesale services);
- consolidate its operational capabilities with the objective of offering best in class service levels to its customers and leverage opportunities to retain its client base by enhancing customer loyalty (through billing, customer relations management and customer contact);
- concentrate on developing value added services, both for corporate and residential customers, to sustain revenue and margin levels, building, in particular, on the increasing penetration of internet and broadband contents and services (including WiFi), but also on innovation in voice and

videocommunication services and terminals, equipped with new facilities, similar to mobile phone functions;

- run efficient operations and continue its cost-cutting programme (personnel, real estate, general and administrative, network);
- maintain competitive services and focus investment on enhancing network evolution and innovation such as optical transport and IP (Internet Protocol) services; and
- expand the wireline broadband offer in selected areas throughout Europe (such as Germany and France) with the creation of facility-based operators providing broadband access and value-added services by capitalising on domestic expertise.

There can, however, be no assurance that these objectives and targets will actually be achieved.

### ***Mobile***

TIM's strategy is focused on maintaining its leadership and achieving sustainable growth in the wireless market by focusing on highly valuable customers, in particular through:

- continuous innovation in voice and Value Added Services (VAS) offers;
- strong customer care able to respond and anticipate customer needs;
- constant focus on technological innovation to match market expectations, exploiting the potential of the GSM/EDGE/UMTS network integration; and
- further development of GSM services in Brazil and acquisition of leadership in the GSM Latin American market.

The main strategic tools for the achievement of such objectives are:

- innovative marketing, aimed at generating new and tailored offers to increase voice traffic and VAS utilisation;
- a multichannel and integrated approach to caring and distribution, tailored for different customer needs/profile;
- a plug and play system to share resources and know-how via a centralised support of local networks in different countries;
- establishment of "FreeMove", an alliance with leading wireless operators to launch new products and services, achieve efficiency through joint procurement of services and develop a Multinational Pan-European offer;
- excellence in human resources, through recruitment, development and retention of "key" human resources, analysis and selection of methods for increasing flexibility of resources and the management of internal innovation process; and
- profitability and cash flow generation, through maintenance of high efficiency levels on its network, IT and back-office, investments and working capital control.

There can, however, be no assurance that these objectives and targets will actually be achieved.

### **Competition**

#### ***Fixed-line Domestic and International Telecommunications Services***

Pursuant to the telecommunications regulations approved by Presidential Decree No. 318 of 19th September, 1997, which became effective on 7th October, 1997 (the "Telecommunications Regulations"), fixed-line public voice telephony services and the operation of the fixed-line network for the provision of such services were liberalised effective 1st January, 1998. Until 1st January, 1998, the Telecom Italia Group was the sole provider of fixed-line public voice telephony services, which consisted of local, long distance and international telecommunications services, in Italy. In addition to fixed-line public voice telephony services, over the last seven years there has been increasing liberalisation of all other business areas in which the Telecom Italia Group operates. The operation of telecommunications infrastructure for the provision of all telecommunications services other than fixed-line public voice telephony services was opened to competition by the Telecommunications Regulations and Law No. 249 of 31st July, 1997 (the "Maccanico Law"), during 1997. As a result of the complete liberalisation of the market for telecommunications services, the Telecom Italia Group has faced increasingly significant competition since 1998 in the Italian domestic market, including competition from foreign telecommunications operators, particularly with respect to medium-sized and large business customers.

The legal framework for regulation in the telecommunications sector in Italy was completely transformed, as a consequence of the adoption of the Maccanico Law (effective 1st August, 1997), the Presidential Decree No 318/97 (the “Telecommunications Act”) (effective 22nd September, 1997) and a series of Orders issued by the National Regulatory Authority which have been important to the Telecom Italia Group as it has faced increasing competition. To date the regulatory environment has been characterised by an intensive implementation process in order to complete liberalisation. The trend continued in 2003 as additional steps were taken regarding tariff rebalancing, interconnection charges and the further signing of contracts to permit the unbundling of the local loop.

Since the beginning of 1997 about 170 licences have been activated in Italy, although at the end of 2004 only about 40 OLOs were still actively operating on the TLC market and more or less 10 of them are operating in Local Loop Unbundling market, as the others failed or were involved in merger and acquisition operations. In its domestic market Wireline faces, among others, two national competitors, Tele2 and Wind, and three other focused competitors: Fastweb (focused on broadband and specific cities), Albacom (focused on business customers) and Tiscali (focused on internet and broadband). Only three of these competitors, Wind, Fastweb and Albacom, have their own network facilities, while the others implement a reseller model utilizing Telecom Italia’s network.

In addition, the Italian fixed telecommunications market has been influenced by the development of mobile operators that attract voice traffic through their wide range of Value Added Services and more personalised terminals.

In this competitive environment, during 2003, Wireline increased revenues and improved profitability as a result of:

- The increase of its market share on traffic both on “Voice-Online” (an increase of 0.6% compared to 31st December, 2002) and “Voice” (an increase of 0.5% compared to 31st December, 2002), due to the stabilisation of its subscriber lines volume, as the unbundling of the local loop has not yet had a material impact, and the successful performance of its winback and loyalty campaign with more than 1.8 million customers acquired and retained from competitors and more than 5.5 million loyalty packages subscribed (21% of total customer base).
- The strong growth achieved in Broadband with 2,200,000 access lines at the end of 2003, of which 160,000 abroad, 1,350,000 more access lines than at the end of 2002.
- The result achieved on Innovative Data Transmission (+42% compared to the end of 2002) and Value Added Services on Data (+30% compared to the end of 2002).

The implementation of a new marketing approach on fixed line services by developing a new mobile-like handset “Aladino” that enables customers to utilise innovative voice VAS (SMS, MMS, News, Weather and others), the first step towards more “Personalised communication” and “Videocall”.

Telecom Italia believes that its combination of service, performance, quality, reliability and price are important factors in maintaining its strong competitive position.

### ***Mobile Telecommunications Services***

**The Italian Mobile Market.** The mobile telephone market continued to grow in Italy: by 30th September, 2004, the number of cellular phone lines exceeded 60 million, corresponding to a penetration rate of around 105% of the population. The high level of penetration is related to the strong diffusion of the prepaid card and the consequent utilisation of double cards.

After several years of strong growth, the demand growth curve has reached its inflexion point and the remaining potential market is limited. Competition for mobile telecommunications services remained strong in 2004. Consequently TIM’s strategy has been focused on strengthening its leadership with high valuable customers through a great investment on customer retention. CRM is one of the main assets for TIM: only an in-depth knowledge of customers needs and habits allows long-term value creation.

There are three principal competitors to TIM in the Italian mobile market: Vodafone Italy, Wind and H3G(3). At 30th September, 2004, TIM confirmed its leadership with 26.2 million lines and a market share of approximately 43% with Vodafone Italy, Wind and H3G(3) having market shares of 35%, 19% and 3%, respectively.

TIM's statistical data excludes so called "silent" lines (500,000 as of 30th September, 2004). As mentioned, the Italian market, which has a high penetration of prepaid cards, is characterised by certain customers acquiring multiple lines in order to take advantage of specific/time-limited commercial offers. Once these offers expire these customers tend not to continue the use of such lines which is facilitated by the prepaid nature of the arrangement. As a result, TIM excludes silent lines in order to provide greater consistency between the number of lines managed by the Company and the development of the business.

### ***The Regulatory Framework***

In a scenario of increasing liberalisation, the decisions taken by the National Regulatory Authority have greater impact. The most significant measures taken by the National Regulatory Authority were the designation of TIM and Vodafone as providers with considerable market strength in terms of cellular service, interconnection, the definition of new pricing scheduled for fixed-to-mobile communications, and the current application of the mobile number portability.

In compliance with provisions of the new regulatory framework, the Communications Regulator began, in May 2004, the process of market analysis to verify the level of competitiveness of the markets indicated by the European Commission. The goal of the process is to verify the presence of significant market positions, thereby setting new obligations or modifying/eliminating existing ones.

**TIM's role in the New Economy.** TIM is committed not only to confirm its leadership role in the traditional framework of the mobile business, but also to lead the rapid technological development as a major player in the TLC sector. The business model chosen by TIM for the supply of new interactive services and access to Internet websites is an "open" model based on the integration of numerous technological platforms.

The development of new advanced services will necessarily lead to changes in TIM's revenue structure. Value Added Services have and will continue to account for a rising proportion of revenues compared to those generated by voice traffic. TIM's growth will be increasingly dependent on its ability to develop data traffic and innovative services.

This means the mobile sector is one of the segments with the highest potential growth rates and profitability. Technological developments and data transmission will generate new business models based on the capability of offering information, entertainment and advertising through mobile phones.

During May 2004, TIM launched "TIM Turbo", the new line of third generation services that marks the commercial start-up of the combined EDGE — UMTS network for TIM customers.

EDGE — which involves only upgrading the GSM/GPRS software and which is complementary to UMTS — permits TIM customers to have prompt access to the main third generation services. The EDGE launch brings an important competitive advantage for TIM. TIM is able to offer services in Italy with a network speed similar to that of UMTS (200 kbit/s for EDGE vs 384 kbit/s for UMTS). In fact, due to the availability of dual mode terminals (EDGE/UMTS) marketed with the Turbo TIM brand, TIM customers are able to use the band they need for a specific service regardless of the network they are using.

This strategy marks an absolutely different positioning in 3G: TIM is the sole operator in Italy with a firm commitment to EDGE in addition to UMTS.

Moreover it is noteworthy that TIM was the first in Europe to introduce and launch MMS, the new Multimedia Messaging Service, which represented an evolution of SMS. Today TIM's network manages millions of MMS, with about 5.8 million MMS handsets sold as of September 2004. TIM was one of the first companies in the world to expand large-scale multimedia technology with the launch mobile TV in videostreaming.

## TELECOM ITALIA — SUMMARY SELECTED FINANCIAL INFORMATION

The Merger of Old Telecom Italia with and into Olivetti became effective on 4th August, 2003. Olivetti was the surviving company in the Merger (and changed its name to Telecom Italia S.p.A.), and succeeded to the business of Old Telecom Italia.

As a result of the Merger, the summary selected financial data set forth below are financial data of Olivetti, not Old Telecom Italia, and are presented on the following basis:

- The Telecom Italia Group's selected financial data as of 30th September, 2004 and for the nine months ended 30th September, 2004 and 2003 have been extracted or derived from the unaudited interim consolidated financial statements of the Telecom Italia Group prepared in accordance with Italian GAAP which, in the opinion of Telecom Italia, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia's results of operations for the unaudited interim periods. Results for the nine months ended 30th September, 2004 are not necessarily indicative of results that may be expected for the entire year.
- The Telecom Italia Group's selected financial data as of and for the year ended 31st December, 2003 have been extracted or derived from the 2003 consolidated financial statements of the Telecom Italia Group prepared in accordance with Italian GAAP and which have been audited by Reconta Ernst & Young S.p.A., independent auditors.
- The Telecom Italia Group's selected financial data as of and for each of the years ended 31st December, 2002 and 2001 have been extracted or derived from Olivetti's consolidated financial statements prepared in accordance with Italian GAAP and which have been audited by Reconta Ernst & Young S.p.A., independent auditors.

The summary selected financial data set forth below is presented under Italian GAAP and reclassified under the international format presentation (US format presentation).

The financial information described below should be read in conjunction with:

- the unaudited interim consolidated financial statements of the Telecom Italia Group for the nine-month period ended 30th September, 2004 and as of 30th September, 2004.
- Telecom Italia's audited consolidated financial statements and notes thereto for the financial year ended 31st December, 2003.
- Olivetti's audited consolidated financial statements and notes thereto for the financial years ended 31st December, 2001 and 2002.

### **Adoption of IAS/IFRS**

According to the Regulation No. 1606 issued by the European Parliament and by the Council of the European Union in July 2002 which provides for the mandatory application of IAS/IFRS, all companies listed in regulated markets of the EU are required to publish their consolidated financial statements under IAS/IFRS from the beginning of 2005.

During 2003, Telecom Italia began work on a special project (described at length in the 2003 Telecom Italia Annual Report) relating to the implementation of international accounting standards with the establishment of a dedicated working group which involved the principal companies of the Group. This process continued during 2004 and is now almost completed.

Further details on this will be included in the 2004 Telecom Italia Annual Report, to be approved by Telecom Italia Shareholders' Meeting convened for 5th, 6th and 7th April, 2005.



**Telecom Italia Group — Selected Financial Data**

	<u>Year ended 31st December,</u>			<u>Nine months ended</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>
				<i>(Unaudited)</i>	
				<i>(in millions of Euro)</i>	
<b>Statement of Operations Data in accordance with Italian GAAP:</b>					
Operating revenues .....	32,016	31,408	30,850	22,682	22,912
Other income .....	476	504	345	234	187
Total revenues .....	<u>32,492</u>	<u>31,912</u>	<u>31,195</u>	<u>22,916</u>	<u>23,099</u>
Cost of materials .....	2,640	2,315	2,081	1,424	1,651
Salaries and social security contributions .....	4,919	4,737	4,303	3,220	3,014
Depreciation and amortisation <sup>(1)</sup> .....	7,612	7,227	6,779	5,012	4,881
Other external charges .....	12,687	12,188	11,934	8,628	8,721
Changes in inventories .....	92	62	114	(100)	(119)
Capitalised internal construction costs .....	<u>(583)</u>	<u>(675)</u>	<u>(805)</u>	<u>(482)</u>	<u>(491)</u>
Total operating expenses <sup>(1)</sup> .....	<u>27,367</u>	<u>25,854</u>	<u>24,406</u>	<u>17,702</u>	<u>17,657</u>
Operating income <sup>(1)</sup> .....	<u>5,125</u>	<u>6,058</u>	<u>6,789</u>	<u>5,214</u>	<u>5,442</u>
Financial income .....	1,446	1,569	992	600	713
Financial expense <sup>(1)</sup> .....	(6,559)	(4,647)	(3,256)	(2,411)	(2,074)
<i>Of which write-downs and equity in losses in affiliated companies and other companies, net. ....</i>	<i>(1,771)</i>	<i>(487)</i>	<i>(91)</i>	<i>(81)</i>	<i>(2)</i>
Other income and (expense), net .....	<u>(3,109)</u>	<u>(5,496)</u>	<u>(1,083)</u>	<u>455</u>	<u>(391)</u>
Income (loss) before income taxes and minority interests .....	(3,097)	(2,516)	3,442	3,858	3,690
Income taxes .....	<u>(579)</u>	<u>2,210</u>	<u>(1,014)</u>	<u>(969)</u>	<u>(2,172)</u>
Net income (loss) before minority interests .....	(3,676)	(306)	2,428	2,889	1,518
Minority interests .....	<u>586</u>	<u>(467)</u>	<u>(1,236)</u>	<u>(1,008)</u>	<u>(773)</u>
Net income (loss) .....	<u><u>(3,090)</u></u>	<u><u>(773)</u></u>	<u><u>1,192</u></u>	<u><u>1,881</u></u>	<u><u>745</u></u>

**Telecom Italia Group — Selected Financial Data**

	<b>As at 31st December,</b>			<b>As at 30th September,</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>(Unaudited)</i>			
	<i>(in millions of Euro, except percentages and statistical data)</i>			
<b>Balance Sheet Data in accordance with Italian GAAP:</b>				
Total current assets <sup>(1)</sup> .....	23,417	22,597	22,429	16,358
Fixed assets, net .....	22,097	19,449	18,324	17,648
Intangible assets, net <sup>(1)</sup> .....	39,045	34,412	33,853	32,858
Total assets .....	94,227	83,384	80,501	72,478
Short-term debt .....	9,072	6,827	10,613	1,884
Total current liabilities .....	22,984	20,385	23,373	12,579
Long-term debt .....	37,747	33,804	30,852	34,322
Total liabilities .....	67,874	62,760	59,912	53,088
Total stockholders' equity before minority interest .....	12,729	11,640	16,092	15,141
Total stockholders' equity .....	26,353	20,624	20,589	19,390
<b>Financial Ratios in accordance with Italian GAAP:</b>				
Gross operating margin (Gross operating profit/operating revenues)(%) <sup>(2)</sup> .....	42.7	44.6	46.3	47.1
Operating income/operating revenues (ROS)(%) .....	16.0	19.3	22.0	23.8
Net debt/Net invested capital (debt ratio)(%) <sup>(3)</sup> .....	59.3	61.8	61.8	61.8
<b>Employees:</b>				
Group's employees (at period-end) .....	116,020	106,620	93,187	92,812
Group's employees (average number) .....	113,974	107,079	95,804	89,012
Operating revenues/Group's employees (average number) (thousands) .....	280.9	293.3	322.0	257.4
<b>Statistical Data:</b>				
<b>Wireline:</b>				
Subscriber fixed lines in Italy (thousands) <sup>(4)</sup> .....	27,353	27,142	26,596	26,156
ISDN equivalent lines in Italy (thousands) <sup>(5)</sup> .....	5,403	5,756	6,027	5,883
Broadband Access in Italy and abroad (ADSL+XDSL) (thousands) <sup>(6)</sup> .....	390	850	2,200	3,655
Voice Offers in Italy (thousands) <sup>(7)</sup> .....	4,094	5,224	5,547	5,790
Network infrastructure in Italy:				
• access network in copper (millions of km — pair) .....	104.3	104.3	105.2	105.2
• access network and transport in fiber optics (millions of km of fiber optics) .....	3.2	3.6	3.6	3.6
Network infrastructure abroad:				
• european backbone (km of fiber optics) .....	36,600	36,600	39,500	39,500
<b>Mobile:</b>				
TIM lines in Italy (thousands) <sup>(8)</sup> .....	23,946	25,302	26,076	26,203
TIM group foreign lines (thousands) <sup>(9)</sup> .....	10,923	13,809	18,438	25,750
TIM group lines total (Italy + foreign in thousands) <sup>(9)</sup> .....	34,869	39,111	44,514	51,953
GSM penetration in Italy (% of population) .....	99.7	99.8	99.8	99.8
E-TACS penetration in Italy (% of population) .....	98.0	98.0	97.9	97.9
<b>Internet:</b>				
Page views Virgilio (millions) .....	3,945	5,267	6,612	5,719

Notes:

(1) Beginning in 2003, Telecom Italia changed the way in which it accounts for bond issuance expenses including them under current assets (prepaid expenses). Previously, such costs were included in Intangible assets, net. Consequently this change also impacted certain statement of operations items. As a result of this change, the previous periods have been reclassified and presented consistent with the 2003 presentation.

(2) Gross Operating Profit was €13,655 million, €14,015 million and €14,280 million in each of 2001, 2002 and 2003, respectively and €10,648 million and €10,788 million in each of the nine months ended 30th September, 2003 and 2004, respectively. Telecom Italia

believes that Gross Operating Profit provides a useful measure of the Telecom Italia Group's operating performance. Gross Operating Profit provides shareholders with an additional level of detail, after operating revenues and before operating income, showing what Telecom Italia believes is an accurate indicator of the Telecom Italia Group's and individual segments' operating results before certain cash and non-cash charges and income arising primarily from ancillary activities. In addition the Telecom Italia Group also believes (although other telecommunications operators will calculate such information differently) that Gross Operating Profit permits an adequate comparison of the Telecom Italia Group's performance against its peer group. Telecom Italia uses Gross Operating Profit, among other measures, as a target for operating performance both internally in its business plan and externally to investors and analysts. As such, Gross Operating Profit is monitored periodically by Telecom Italia management in order to measure Telecom Italia's performance relative to its target. As calculated, Gross Operating Profit is intended to provide shareholders with an operating measure which reflects Telecom Italia's consolidated operating revenues less its consolidated operating expenses most directly related to the operations of its business, such as personnel costs. As noted above, Gross Operating Profit eliminates certain cash and non-cash charges which are part of operating the businesses but reflect estimates based on Telecom Italia's judgement in applying accounting principles, such as bad debt reserves to cover customers who do not pay their bills, rather than expenses directly related to the operations of the businesses. In addition, Telecom Italia management monitors Gross Operating Profit or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to measure its performance relative to such companies. In certain instances, Gross Operating Profit is also used as a benchmark for purposes of assessing the variable component (i.e., annual bonuses) of its employees' compensation, including in negotiations with its employees' labor unions. Gross Operating Profit is reported in Telecom Italia Italian annual report to shareholders and is used in presentations to investors and analysts. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	(millions of Euro)				
Operating income . . . . .	5,125	6,058	6,789	5,214	5,442
Depreciation and amortisation . . . . .	7,612	7,227	6,779	5,012	4,881
Other external charges (*):					
• Provision for bad debts . . . . .	448	546	471	284	199
• Write-downs of fixed assets and intangibles . . . . .	17	58	6	4	2
• Provision for risk . . . . .	389	114	70	45	54
• Other provisions and operating charges . . . . .	431	466	485	304	377
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered) . . . . .	(367)	(454)	(320)	(215)	(167)
<b>Gross Operating Profit . . . . .</b>	<b>13,655</b>	<b>14,015</b>	<b>14,280</b>	<b>10,648</b>	<b>10,788</b>

(\*) The following items included as part of "Other external charges" are added back to operating income in the calculation of Gross Operating Profit.

(3) *Net Financial Debt is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. Telecom Italia believes Net Financial Debt provides an accurate indicator of Telecom Italia's ability to meet its financial obligations, represented by gross debt, from its available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by cash and other liquid assets. In fact, it is unlikely that Telecom Italia would use all of its liquid assets to reduce gross debt all at once, as such assets must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to total shareholders' equity (including minority interests), or leverage, are used to evaluate Telecom Italia's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether Telecom Italia's financial structure is adequate to achieve its business plan and financial targets (which include debt ratio, or net debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Telecom Italia management believes that Telecom Italia's financial structure is sufficient to achieve its business plan and financial targets. Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to assess its liquidity and financial structure relative to such companies. It also monitors the trends in its Net Financial Debt and leverage in order to optimise the use of internally-generated funds versus funds from third parties. Net Financial Debt is reported in its Italian annual report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:*

	As at 31st December,			As at 30th
	2001	2002	2003	September,
				2004
				(Unaudited)
	(in millions of Euro)			
Short-term debt, including current portion of long-term debt	9,072	6,827	10,613	1,884
Long-term debt	<u>37,747</u>	<u>33,804</u>	<u>30,852</u>	<u>34,322</u>
<b>Gross debt</b>	<b>46,819</b>	<b>40,631</b>	<b>41,465</b>	<b>36,206</b>
Cash and cash equivalents:				
• Bank and postal accounts	(3,626)	(4,363)	(4,870)	(3,752)
• Cash and valuables on hand	(76)	(7)	(7)	(4)
• Receivables for securities held under reverse repurchase agreements	(4)	(56)	(60)	—
Marketable securities (*)	(3,616)	(1,927)	(2,719)	(1,086)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(894)	(995)	(826)	(286)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(705)	(511)	(307)	645
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	464	627	670	(302)
<b>Net Financial Debt</b>	<b><u>38,362</u></b>	<b><u>33,399</u></b>	<b><u>33,346</u></b>	<b><u>31,421</u></b>

(\*) *In 2001 and 2002 data include Old Telecom Italia shares held by Olivetti.*

(4) *Data include multiple lines for ISDN and exclude internal lines.*

(5) *Data exclude internal lines.*

(6) *Number of contracts. Broadband access contracts in Italy as of 31st December, 2001, 2002 and 2003 were 390,000, 850,000 and 2,040,000, respectively, while as of 30th September, 2003 and 2004 they were 1,510,000 and 3,300,000 respectively.*

(7) *Number of contracts; data include Teleconomy, Hellò and other Business voice offers.*

(8) *Data refer to TACS and GSM services lines, including holders of Prepaid Cards.*

(9) *The foreign lines include those of mobile telecom affiliates in Turkey and the Czech Republic.*

## CAPITALISATION OF TI FINANCE

The following table provides the cash and cash equivalents, the short-term debt and the capitalisation of TI Finance in accordance with the Luxembourg GAAP, as at 30th September, 2004:

	<b>As at 30th September, 2004</b>
	<i>(unaudited)</i>
	<i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	876
<b>Total short-term debt</b> .....	1,372
<b>Long-term debt</b>	
Notes and bonds .....	16,560
Convertible notes .....	3,115
Other long-term debt .....	146
<b>Total long-term debt (a)</b> .....	19,821
<b>Shareholders' equity:</b>	
Share capital <sup>(1)</sup> .....	1,162
Reserves, retained earnings and loss for the period .....	(782)
<b>Total shareholders' equity (b)</b> .....	380
<b>Total capitalisation (a + b)</b> .....	20,201

Note:

(1) As at 30th September, 2004, TI Finance's share capital (€1,162,562,614.74) comprised 118,871,433 ordinary shares, nominal value € 9.78 per share.  
Since 8th October, 2004 the subscribed share capital of TI Finance has been €542,090,241.00, consisting of 55,428,450 ordinary shares, nominal value €9.78 per share; all of the shares have been issued and are fully paid-up.

Except as disclosed elsewhere in this Offering Circular, there has been no material change in the capitalisation of TI Finance since 30th September, 2004.

## DESCRIPTION OF TI FINANCE

Telecom Italia Finance S.A. (**TI Finance**) was incorporated (under the name of TI WEB S.A.) on 2nd June, 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a *Société Anonyme*, governed by the Luxembourg law of 10th August, 1915 on commercial companies, as amended, and is a 99.9999% subsidiary of Telecom Italia S.p.A. One of TI Finance's principal purposes is raising funds for the Telecom Italia group. TI Finance is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under B-76.448. TI Finance's Articles of Incorporation were published in the *Mémorial C n. 773, Journal Officiel du Grand-Duché de Luxembourg, Recueil Spécial des Sociétés et Associations* on 21st October, 2000. The Articles of Incorporation have been modified several times. The latest modifications to the Articles of Incorporation of TI Finance were made on 8th October, 2004 and were published in the *Mémorial C n. 37, Journal Officiel du Grand-Duché de Luxembourg, Recueil Spécial des Sociétés et Associations* on 13th January, 2005.

TI Finance's registered office and postal address is 287-289, Route d'Arlon, L-1150 Luxembourg, and its telephone number is +352 45 60601.

### **Capitalisation**

The subscribed share capital of TI Finance is €542,090,241.00, consisting of 55,428,450 ordinary shares, nominal value €9.78 per share; all of the shares have been issued and are fully paid-up.

### **Business**

The corporate object of TI Finance, as set forth in Article 3 of its Articles of Incorporation, is to provide any financial assistance to Telecom Italia, as well as to companies in which Telecom Italia has a direct or indirect interest, such as, among others, the providing of loans and the granting of guarantees or securities in any kind or form. TI Finance may acquire and hold interests in Luxembourg and/or in foreign undertakings, as well as the administration, development and management of such holdings. TI Finance may also use its funds to invest in real estate and in intellectual property rights in any kind or form. TI Finance may participate in the creation and development of any other companies and entities and provide to them financial assistance in any kind or form. TI Finance may borrow in any kind or form and issue bonds or notes. TI Finance may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and developments of its purposes.

TI Finance's activity is not dependent on patents, licences, commercial contracts or new manufacturing processes. TI Finance concludes financial contracts on its own behalf. No legal or arbitration proceedings have had a significant effect on TI Finance's financial position in the recent past.

### **Board of Directors**

The following are the directors of TI Finance and their main activities outside TI Finance:

Mr. Antonio Tesone, Chairman, resident in Milan, Italy, Lawyer.

Mr. Francesco Tanzi, Vice-Chairman, resident in Milan, Italy, Manager.

Mr. Adriano Trapletti, Managing Director, domiciled in Luxembourg, Manager.

Mr. Fabio Franchi, Director, resident in Rome, Italy, Manager.

Mr. Jacques Loesch, Director, resident in Luxembourg, Lawyer.

Mr. Luigi Premoli, Director, resident in Lodi, Italy, Manager.

Mr. Riccardo Varetto, Director, resident in Turin, Italy, Manager.

The remuneration of the directors is from time to time determined by the general meeting of shareholders of TI Finance. The directors are not remunerated in their capacity as directors. Apart from Mr. Trapletti who owns one share, no director has an interest in the share capital of TI Finance.

### **Financial Year**

The financial year of TI Finance is the calendar year.



### ***Financial information***

The first statutory financial statements of TI Finance to be externally audited were those for the year ended 31st December, 2000. TI Finance is not required under Luxembourg law to, and does not, publish interim financial statements, but it has nevertheless prepared interim financial statements as of 30th June, 2004, for internal purposes only.

Pursuant to Luxembourg law, TI Finance is currently exempt from preparing consolidated annual accounts. TI Finance's accounts are included in the consolidated annual accounts of the Telecom Italia group, which are available at the registered office of Telecom Italia S.p.A., located in Piazza degli Affari 2, 20123 Milan.

The financial statements are available at the offices of the Luxembourg Paying Agent (J.P. Morgan Bank Luxembourg S.A., rue Plaetis, L-2338 Luxembourg).

Since the date of its incorporation, TI Finance has not paid any dividend nor made any distributions.

At its Extraordinary General Meeting on 8th October, 2004, the Shareholders of TI Finance resolved to cover all current and accumulated losses up to 30th June, 2004, by way of a share capital reduction. The share capital was increased immediately thereafter and is equal to €542,090,241. See also, "—Recent Developments".

### ***Exchangeable Bonds***

On 16th December, 2002, as part of the general reorganisation of certain Luxembourg based Telecom Italia subsidiaries, TI Finance became the issuer in respect of €2,500,000,000 of 1.00 per cent Exchangeable (into TIM, or TI Media S.p.A. and Seat Pagine Gialle S.p.A. ordinary shares) Notes due 2006 (in September 2002, the outstanding amount of the Notes decreased by €535,500,000 to €1,964,500,000 as a result of the purchase and cancellation of the notes by Sogerim S.A., a wholly-owned finance subsidiary that was merged in 2002 into TI Finance). On 15th March, 2004 the exercise of a put option by noteholders holding €466,000 in principal amount of notes reduced the outstanding amount to €1,964,034,000.

On 1st June, 2004, in the framework of a reorganisation following the Merger of Telecom Italia and Olivetti, TI Finance became the issuer in respect of €2,500,000,000 of 1.00 per cent Guaranteed Exchangeable (into Telecom Italia ordinary shares) Bonds due 2005, of which €500,000,000 and €1,235,000,000 were cancelled on 31st December, 2001 and 31st December, 2002, respectively, and €56,668,000 were redeemed at the option of the Bondholders on 3rd November, 2003. The remaining outstanding principal amount is €708,332,000.

### ***Recent Developments***

As at 30th June, 2004, under Luxembourg GAAP, TI Finance had unaudited unconsolidated total assets of €28,377,800,709.70 and for the six months ended 30th June, 2004 its unaudited unconsolidated total income was €490,753,167.09 and its unaudited unconsolidated net loss was €103,943,017.24.

Since 30th September, 2004, TI Finance has entered into the following material transactions.

On 8th October, 2004, the Extraordinary General Meeting of Shareholders passed a resolution in order to:

- a) discharge losses as of 30th June, 2004 (current and accumulated) by (i) setting off part of the losses against positive reserves amounting to €1,466,614.22 and (ii) reducing the subscribed share capital for an amount of €729,844,920.6 by way of cancellation of 74,626,270 shares having par value of €9.78;
- b) further reduce the subscribed share capital by way of the cancellation of 39,941,457 shares having par value of €9.78 and to allot the amount of €390,627,449.46 to one or several of the Company's undistributable reserves; and
- c) increase the subscribed share capital up to €542,090,241 by the issue of new 51,124,744 shares having par value of €9.78 and further increase the Company's reserves up to the amount of €1,005,671,162.68.

On 14th December, 2004, pursuant to the terms and conditions of the €500 million Floating Rate Extendable Notes due 2005 issued by TI Finance and guaranteed by Telecom Italia, the maturity date of a total outstanding principal amount of €499,717,000 of the aggregate amount of Notes originally issued has been extended to 14th December, 2006. The Notes will continue to bear interest at the rate of 3 month EURIBOR plus a margin of 1.30% per annum. The balance of €283,000 by way of outstanding principal amount of the Notes will be repaid to holders on 14th March, 2005.

On 26th January, 2005 and 3rd February, 2005 TI Finance purchased on the market €26 and €30 million in nominal amount of the €3,000,000,000 6.125 per cent. Bonds due 2006. These Bonds were issued by Sogerim S.A., a company which merged into TI Finance in December 2002.

Except as disclosed herein, there has been no material adverse change in TI Finance's financial position or prospects since 31st December, 2003.

**SELECTED AUDITED FINANCIAL INFORMATION OF TI FINANCE<sup>(1) (2)</sup>**

**Balance Sheets**

	<u>31st December, 2003</u>	<u>31st December, 2002</u>
	<i>(Euro)</i>	
<b>Assets</b>		
<b>A) Fixed assets</b>		
Intangible assets .....	28,395.08	36,418.56
Tangible assets .....	1,354,060.11	1,565,948.39
Financial assets:		
— Investments .....	119,494,449.37	125,300,437.31
— Receivables from parent company .....	5,479,980,000.00	—
— Receivables from affiliated companies .....	1,884,642,674.96	287,975,588.83
— Other securities .....	108,586,903.16	237,689,113.56
<b>Total A)</b> .....	<b><u>7,594,086,482.68</u></b>	<b><u>652,567,506.65</u></b>
<b>B) Current assets</b>		
Receivables:		
— Receivables from parent company .....	67,000,000.00	—
— Receivables from affiliated companies .....	162,479,281.50	756,458,617.77
— Other receivables .....	55,072.74	164,718.96
Securities:		
— Other securities .....	1,684,022,436.61	6,898,107,998.76
— Commercial paper .....	125,426,282.52	—
Cash at bank and bank deposit .....	1,754,241,533.33	98,400,393.09
<b>Total B)</b> .....	<b><u>3,793,224,606.70</u></b>	<b><u>7,753,131,728.58</u></b>
<b>C) Accrued income and prepaid expenses</b> .....	566,519,524.92	738,326,981.60
<b>D) Loss of the year</b> .....	—	108,041,967.90
	<b><u>11,953,830,614.30</u></b>	<b><u>9,252,068,184.73</u></b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency interest rate swaps .....	312,001,290.81	1,171,760,788.06
— Interest rate swaps .....	—	145,262,815.87
	312,001,290.81	1,317,023,603.93
Operations linked to variable-yield securities:		
— Equity linked Swap .....	1,749,211.84	—
— Sales of options on securities .....	—	750,000,000.00
Guarantees and other direct substitutes for credit .....	—	2,006,492,323.82
	<b><u>313,750,502.65</u></b>	<b><u>4,073,515,927.75</u></b>

Notes:

(1) The selected financial data as of and for the year ended 31st December, 2003 have been extracted from TI Finance's financial statements for the year ended 31st December, 2003 prepared in accordance with Luxembourg GAAP, which have been approved by the shareholders of TI Finance at its Annual Meeting of Shareholders held on 5th May, 2004.

(2) During the last quarter of 2002, TI Finance incorporated the activities of four different Telecom Italia subsidiaries (Sogerim S.A.; Huit II s.à.r.l; TI Media S.A. and Softe S.A.). Therefore the figures included in the 2002 and the 2003 financial statements are not comparable.

	<u>31st December, 2003</u>	<u>31st December, 2002</u>
	<i>(Euro)</i>	
<b>Liabilities</b>		
<b>A) Shareholders' equity</b>		
Share capital .....	869,162,614.74	869,162,614.74
Reserve:		
— Other reserve .....	1,466,614.22	1,466,614.22
Profit (Loss) carried over .....	(947,784,705.42)	(839,742,737.52)
Net Income for the year .....	333,253,324.56	—
<b>Total A)</b> .....	<u><b>256,097,848.10</b></u>	<u><b>30,886,491.44</b></u>
<b>B) Reserve for future charges and risks</b>		
— Reserve for taxes .....	<u><b>10,766,735.88</b></u>	<u><b>516,125.13</b></u>
<b>C) Liabilities</b>		
— <i>Long-term debt (&gt; 12 months):</i>		
Bonds .....	8,876,209,022.33	8,312,020,050.00
Due to affiliated companies .....	—	303,843,294.28
Due to Third Parties .....	148,093,298.78	—
— <i>Short-term debt (&lt; 12 months):</i>		
Bonds .....	1,000,000,000.00	—
Due to bank .....	—	733,735.57
Due to affiliated companies .....	1,332,815,615.72	337,009,144.74
Due to parent company .....	1,696,509.17	—
Other payables .....	2,101,402.10	7,474,497.43
<b>Total C)</b> .....	<u><b>11,360,915,848.10</b></u>	<u><b>8,961,080,722.02</b></u>
<b>D) Accrued expenses and deferred income</b> .....	<u><b>326,050,182.22</b></u>	<u><b>259,584,846.14</b></u>
	<u><b>11,953,830,614.30</b></u>	<u><b>9,252,068,184.73</b></u>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest:		
— Cross currency interest rate swaps .....	312,001,290.81	1,171,760,788.06
— Interest rate swaps .....	—	145,262,815.87
	312,001,290.81	1,317,023,603.93
Operations linked to variable-yield securities:		
— Equity linked Swap .....	1,749,211.84	—
— Sales of options on securities .....	—	750,000,000.00
Guarantees and other direct substitutes for credit .....	—	2,006,492,323.82
	<u><b>313,750,502.65</b></u>	<u><b>4,073,515,927.75</b></u>

## Income Statements

	<b>Year ended 31st December, 2003</b>	<b>Year ended 31st December, 2002</b>
	<i>(Euro)</i>	
<b>Income</b>		
Dividends.....	690,438.00	2,653,044.35
Other Financial Income.....	718,377,982.37	75,021,227.79
Other Interests and Financial Income:		
— on Commercial Paper.....	3,766,271.13	—
— on receivables from parent company.....	110,566,241.46	—
— income on derivative financial instruments.....	15,780,532.40	—
— on receivables from banks.....	18,099,253.46	7,404,617.20
— on receivables from affiliated companies.....	35,380,160.20	8,181,102.48
— other Financial Income.....	5,209,346.24	422,491.52
	<u>188,801,804.89</u>	<u>16,008,211.20</u>
Extraordinary Income.....	196,329.29	7,196.53
Rent.....	156,250.00	—
Other Income.....	195.86	—
Loss for the year.....	—	108,041,967.90
	<u><b>908,223,000.41</b></u>	<u><b>201,731,647.77</b></u>
	<u><b>Year ended 31st December, 2003</b></u>	<u><b>Year ended 31st December, 2002</b></u>
	<i>(Euro)</i>	
<b>Expenses</b>		
Personnel expenses		
a) Wages and salaries.....	525,276.77	245,230.86
b) Social security contributions.....	213,362.81	28,254.28
	<u>738,639.58</u>	<u>273,485.14</u>
Amortisation of intangible and tangible asset.....	214,748.74	54,805.54
Write-down of receivables in current asset.....	—	3,834,109.92
Losses on extraordinary disposal of long term investments.....	11,895,825.33	—
Other expenses.....	2,451,789.62	678,901.88
Write-down of investments and securities.....	18,817,518.14	103,493,063.34
Interest and other financial expenses:		
— on note.....	462,464,096.98	78,205,122.15
— on amount due to banks.....	4,427,278.07	4,884,888.73
— on amount due to parent company.....	3,027,641.98	—
— on amount due to affiliated companies.....	33,095,879.05	7,690,448.65
— expenses on derivative financial instruments.....	12,971,700.54	—
— other financial expenses.....	14,157,728.12	2,284,665.46
	<u>530,144,324.74</u>	<u>93,065,124.99</u>
Extraordinary Expenses.....	272,211.90	8,318.75
Other taxes.....	10,434,617.80	323,838.21
Net Income for the year.....	333,253,324.56	—
	<u><b>908,223,000.41</b></u>	<u><b>201,731,647.77</b></u>

## TAXATION

*The following summary contains a description of certain Italian, Luxembourg and other tax consequences in respect of the purchase, ownership and disposal of Notes. This summary is based on the laws in force in Italy, Luxembourg and elsewhere as of the date of this Offering Circular (as they are currently applied by the relevant tax authorities) and is subject to any changes in such laws occurring after such date, which changes could be made on a retroactive basis.*

*The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.*

*Law No. 80 of 7th April, 2003 for the reform of the Italian tax system was approved by the Italian Parliament on 26th March, 2003, authorising the Italian Government, inter alia, to issue, within two years of the entering into force of such law, legislative decrees introducing a general reform of the tax treatment of financial income, which may impact upon the tax regime of the Notes, as described under “The Republic of Italy” below. Legislative Decree No. 344 of 12th December, 2003 (**Decree 344**) published in the Italian Official Gazette of 16th December, 2003, No. 261 (Ordinary Supplement No. 190), effective as of 1st January, 2004 introduced the reform of taxation of companies and of certain financial income amending the Italian Income Taxes Consolidated Code. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes, including the application to their particular situation of the tax considerations discussed below.*

### **The Republic of Italy**

#### ***Tax treatment of Notes issued by Telecom Italia***

Legislative Decree No. 239 of 1st April, 1996 (**Decree 239**), as subsequently amended, provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian listed companies provided that the notes are issued for an original maturity of not less than 18 months.

#### *Italian resident Noteholders*

Where an Italian resident Noteholder is (i) an individual (unless he has opted for the application of the “*risparmio gestito*” regime — see under “*Capital gains tax*” below), (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a tax withheld at source, referred to as *imposta sostitutiva*, levied at the rate of 12.5 per cent. If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva* but must be included in the relevant Noteholder’s income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the “status” of the Noteholder, also to IRAP, the regional tax on productive activities).

Under the current regime provided by Law Decree No. 351 of 25th September, 2001 (**Decree No. 351**) converted into law with amendments by Law No. 410 of 23rd November, 2001, as clarified by the Italian Revenue Agency through Circular No. 47/E of 8th August, 2003, payments of interest, premiums or other proceeds in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 25th January, 1994 are subject neither to substitute tax nor to any other income tax in the hands of a real estate investment fund.

Pursuant to Article 7 of Decree No. 351, a 12.5 per cent. substitute tax on proceeds deriving from the participation in real estate investment funds is applicable to Italian resident taxpayers or non-Italian resident taxpayers that are resident in a country which does not allow for a satisfactory exchange of information with the Republic of Italy. Such substitute tax could be applied as a provisional or a final tax, depending on the status of the taxpayer.



Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund (the **Fund**) or a SICAV and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but to a 12.5 or to a 5 per cent. annual substitute tax (each the **Collective Investment Fund Tax**). The substitute tax is calculated on the net result accrued at the end of the tax period. Pursuant to Article 12 of Law Decree 30th September, 2003, No. 269 (**Decree No. 269**), the 5 per cent. substitute tax on the net result accrued at the end of the tax period applies, if: (i) according to the Fund management regulation or to the SICAV by-laws, the Fund or the SICAV hold a participation of at least  $\frac{2}{3}$  of their portfolio in small or medium capitalised companies listed on EU Stock Exchanges; and, (ii) following the first year from the application of this tax regime and during the subsequent years (with certain days of tolerance in each year), the participation in small or medium capitalised companies is equal at least to  $\frac{2}{3}$  of the portfolio of the Fund or of the SICAV. For the purpose of Article 12 of Decree No. 269, a small or medium capitalised company is a company with a market capitalisation not greater than €800,000,000, calculated with reference to the market price as registered in the last trading day of each quarter.

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by articles 14, 14-*ter* and 14-*quater*, paragraph 1, of Legislative Decree No. 124 of 21st April, 1993) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 11 per cent. substitute tax.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by a decree of the Ministry of Economy and Finance (each an **Intermediary**).

An Intermediary must (i) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (ii) intervene, in any way, in the collection of interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any entity paying interest to a Noteholder.

#### *Non-Italian resident Noteholders*

Where the Noteholder is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with the Republic of Italy; or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is incorporated in a country which allows for a satisfactory exchange of information with the Republic of Italy, even if it does not possess the status of a taxpayer in its own country of residence.

The *imposta sostitutiva* will be applicable at the rate of 12.5 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree 12th December, 2001, as subsequently amended.

#### *Early Redemption*

Without prejudice to the above provisions, in the event that the Notes issued by Telecom Italia are redeemed, in full or in part, prior to 18 months from their issue date, Telecom Italia will be required to pay a tax equal to 20

per cent. of the interest and other amounts accrued from the relevant issue date up to the time of the early redemption. Such payment will be made by Telecom Italia and will not affect the amounts to be received by the Noteholder by way of interest or other amounts, if any, under the Notes.

#### *Notes with an original maturity of less than 18 months*

Interest payments relating to Notes issued with an original maturity of less than 18 months are subject to a withholding tax levied at the rate of 27 per cent.

Where the Noteholder is (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are connected, (iv) an Italian commercial partnership, or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including where the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. In case of non-Italian resident Noteholders, the withholding tax rate may be reduced by the applicable double tax treaty, if any.

#### ***Tax treatment of Notes issued by TI Finance***

Decree 239 also provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by non-Italian resident issuers.

#### *Italian resident Noteholders*

Pursuant to Decree 239, an *imposta sostitutiva* equal to (i) 12.5 per cent. in relation to Notes issued with an original maturity of not less than 18 months and (ii) 27 per cent. in relation to Notes issued with an original maturity of less than 18 months, is applied on any payment of interest, premium and other income accrued during the relevant holding period in respect of the Notes issued by TI Finance if payments are made to (i) an Italian individual, (ii) an Italian non-commercial partnership, (iii) an Italian non-commercial private or public institution, or (iv) an Italian investor exempt from Italian corporate income taxation. If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva* but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to IRAP, the regional tax on productive activities).

Where an Italian resident Noteholder is an Italian real estate investment fund to which the provisions of Law Decree No. 351, as subsequently amended, apply, interest, premium and other income relating to the Notes will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund.

Where an Italian resident Noteholder is a Fund, a SICAV or a pension fund and the Notes are issued for an original maturity of not less than 18 months, the applicable tax treatment is the one described above, under paragraph "*Tax treatment of the Notes issued by Telecom Italia — Italian resident Noteholders*" with regard to the same categories of Noteholders.

If the Notes are issued for an original maturity of less than 18 months, the 27 per cent. *imposta sostitutiva* is also applied to any payment of interest or premium relating to the Notes made to (i) Italian pension funds, (ii) Italian open-ended or a closed-ended investment funds, and (iii) Italian SICAVs.

Without prejudice to the above provisions, in the event that Notes issued by TI Finance are redeemed prior to 18 months from their issue date, the Italian resident Noteholders will be required to pay, by way of a withholding to be applied by the Italian intermediary responsible for payment of interest or the redemption of the Notes, an amount equal to 20 per cent. of the interest and other amounts accrued up to the time of the early redemption.

### *Non-Italian resident Noteholders*

No Italian *imposta sostitutiva* is applied on payments to a non-Italian resident Noteholder of interest, premium and other income relating to the Notes issued by TI Finance provided that, if such Notes are held in Italy, the non-Italian resident Noteholder declares itself to be non-Italian resident according to Italian tax regulations.

### *Payments made by an Italian resident guarantor*

With respect to payments on the Notes made to certain Italian resident Noteholders by an Italian resident guarantor, in accordance with one interpretation of Italian tax law, any payment of liabilities equal to interest and other proceeds from the Notes may be subject to an advance withholding tax at a rate of 12.5 per cent. pursuant to Presidential Decree No. 600 of 29th September, 1973, as subsequently amended. In case of payments to non-Italian resident Noteholders, a final withholding tax may be applied at (i) 12.5 per cent. if the payment is made to non-Italian resident Noteholders other than those mentioned under (ii); or (ii) 27 per cent. if the payment is made to non-Italian resident Noteholders who are resident in Tax Haven countries pursuant to Italian tax law. Double taxation treaties entered into by Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax. In accordance with another interpretation, any such payment made by the Italian resident guarantor will be treated, in certain circumstances, as a payment by the relevant Issuer and will thus be subject to the tax regime described in the previous paragraphs of this section.

### *Atypical securities*

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 27 per cent. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

In the case of Notes issued by Telecom Italia, where the Noteholder is (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are connected, (iv) an Italian commercial partnership, or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, the withholding tax is a final withholding tax.

If the Notes are issued by a non-Italian resident Issuer, the 27 per cent. withholding tax mentioned above does not apply to interest payments made to a non-Italian resident Noteholder and to an Italian resident Noteholder which is (i) a company or similar commercial entity (including the Italian permanent establishment of foreign entities), (ii) a commercial partnership, or (iii) a commercial private or public institution.

### *Capital gains tax*

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the “status” of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is an individual holding the Notes not in connection with an entrepreneurial activity and certain other persons, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 12.5 per cent. Noteholders may set-off losses with gains.

In respect of the application of the *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (“*regime della dichiarazione*”), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta*

*sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the “*risparmio amministrato*” regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (ii) an express election for the “*risparmio amministrato*” regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the “*risparmio amministrato*” regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the “*risparmio amministrato*” regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called “*risparmio gestito*” regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 12.5 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the “*risparmio gestito*” regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the “*risparmio gestito*” regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains realised by a Noteholder who is an Italian open-ended or a closed-ended investment fund or a SICAV will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 12.5 per cent. or 5 per cent. substitute tax.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by articles 14, 14<sup>ter</sup> and 14<sup>quater</sup>, paragraph 1, of Legislative Decree No. 124 of 21st April, 1993) will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11 per cent. substitute tax.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Note is connected, from the sale or redemption of Notes traded on regulated markets are not subject to the *imposta sostitutiva*.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Note is connected, from the sale or redemption of the Notes not traded on regulated markets are not subject to the *imposta sostitutiva* provided that the effective beneficiary: (i) is resident in a country which allows for a satisfactory exchange of information with Italy; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) is an institutional investor which is resident in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of residence.

If none of the conditions described above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of the Notes not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 12.5 per cent.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double tax treaty with Italy providing that capital gains realised upon the sale or redemption of the Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of the Notes.

Gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by TI Finance (whether or not traded on regulated markets) are not subject to Italian taxation, provided that the Notes are held outside Italy.

### ***Italian gift tax***

Italian inheritance tax has been abolished by Law No. 383 of 18th October, 2001 in respect of gifts made or succession proceedings started after 25th October, 2001. Transfers of the Notes by reason of gift to persons other than the spouse, siblings, ascendants and descendants or relatives within the fourth degree will be subject to the transfer taxes ordinarily applicable to the relevant transfer for consideration, if due, in respect of the value of the gift received by each person exceeding €180,759.91.

### ***Transfer tax***

Pursuant to Italian Legislative Decree No. 435 of 21st November, 1997, which partly amended the regime set forth by Royal Decree No. 3278 of 30th December 1923, the transfer of the Notes may be subject to the Italian transfer tax, which is currently payable at a rate between a maximum of €0.0083 and a minimum of €0.00465 per €51.65 (or fraction thereof) of the price at which the Notes are transferred. Where the transfer tax is applied at a rate of €0.00465 per €51.65 (or fraction thereof) of the price at which Notes are transferred, the transfer tax cannot exceed €929.62.

However, the transfer tax does not apply, *inter alia*, to: (i) contracts entered into on regulated markets relating to the transfer of securities, including contracts between the intermediary and its principal or between qualified intermediaries; (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into (a) between banks, SIMs or other financial intermediaries regulated by Decree No. 415 of 23rd July, 1996 as superseded by Decree No. 58 of 24th February, 1998, or stockbrokers; (b) between the subjects mentioned in (a) above, on the one hand, and non-Italian residents, on the other hand; (c) between the subjects mentioned in (a) above, even if non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public offering (*offerta pubblica di vendita*) aimed at the listing on regulated markets, or involving financial instruments already listed on regulated markets, (iv) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

### ***Tax monitoring***

Pursuant to Law Decree No. 167 of 28th June, 1990, ratified and converted by Law No. 227 of 4th August, 1990, as amended, individuals, non-commercial partnerships and non-commercial entities which are resident in Italy for tax purposes and, at the end of the year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the tax authorities. This obligation does not exist in cases where the overall value of the foreign investments or financial activities at the end of the year, and the overall value of the transactions carried out during the relevant year, does not exceed €12,500.

## **Luxembourg**

### ***Tax Residency***

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

### ***Withholding tax***

Under Luxembourg tax law currently in effect, there is no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax payable on payments received upon redemption, repayment of the principal or upon an exchange of the Notes.

A Luxembourg withholding tax on payments to individual Noteholders (resident in an EU country other than Luxembourg) may in the future be required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.



It is expected that Luxembourg withholding tax may also in the future be introduced for interest payments made to Luxembourg residents.

### ***Taxation of the Noteholders***

#### *Taxation of Luxembourg non-residents*

Noteholders who are non-residents of Luxembourg and who do not hold the Notes through a permanent establishment in Luxembourg are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Notes, or realise capital gains on the sale of any Notes.

#### *Taxation of Luxembourg residents — General*

Noteholders who are residents of Luxembourg, or non-residents Noteholders who have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must, for income tax purposes include any interest received in their taxable income. They will not be liable to any Luxembourg income tax on repayment of principal.

#### Luxembourg resident individuals

Luxembourg resident individual Noteholders or non-resident individual Noteholders who have a fixed base of business with which the holding of Notes is connected are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon a repurchase, redemption or exchange of the Notes, individual Luxembourg resident holders or non-resident individual Noteholders who have a fixed base of business with which the holding of the Notes is connected must however include the portion of the repurchase, redemption or exchange price corresponding to accrued but unpaid interest in their taxable income.

#### Luxembourg resident companies

Luxembourg resident companies (*société de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold, redeemed or exchanged.

#### Luxembourg resident companies benefiting from a special tax regime

Noteholders who are holding companies subject to the law of 31st July, 1929 or undertakings for collective investment subject to the law of 20th December, 2002 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax).

#### *Net Wealth Tax*

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is a Luxembourg resident or (ii) such Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or (iii) the Notes are attributable to a fixed base of business in Luxembourg.

### ***Other Taxes***

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.



No gift, estate or inheritance taxes is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

### **European Union Savings Directive**

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States will be required, if a number of important conditions are met and from a date not earlier than 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a paying agent (within the meaning of the Directive) within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 23rd January, 2004 agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuers have agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;

- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor; and
- (d) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Italy**

The offering of the Notes has not been cleared by *Commissione Nazionale per le Società e la Borsa* (CONSOB) (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, each of the Dealers has represented and agreed and each further Dealer will be required to represent and agree, that it will not offer, sell or deliver any Notes or distribute copies of this Offering Circular or of any other document relating to the Notes in the Republic of Italy, except to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998 (**Regulation No. 11522**), as amended.

Moreover and subject to the foregoing, each Dealer has represented and agreed, and each further Dealer will be required to represent and agree, that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy under the paragraph above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993, as amended (the **Banking Act**), Regulation No. 11522, Regulation No. 11971 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in accordance with all relevant Italian securities, tax and exchange controls and any other applicable laws and regulations.

### **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### **Luxembourg**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold, directly or indirectly, to the public in or from Luxembourg, and no information memorandum nor any circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in, or from or published in, Luxembourg, except for the sole purpose of the listing of the Notes on the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities in Luxembourg.

### **The Netherlands**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes with a denomination of less than €50,000 (or its foreign

currency equivalent) other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) unless one of the other exemptions from or exceptions to the prohibition contained in article 3 of the Dutch Securities Transactions Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*) is applicable and the conditions attached to such exemption or exception are complied with.

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuers, the Guarantor (in the case of Notes issued by TI Finance), the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Guarantor (in the case of Notes issued by TI Finance), the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

**Certain of the Dealers and/or their affiliates may have engaged in various general financing and banking transactions with, and provided financial advisory services to, the Telecom Italia Group and/or its affiliates in the past and may do so again in the future.**

## GENERAL INFORMATION

### Authorisation

The establishment and update of the Programme and the giving of the Guarantee in respect of Notes issued by TI Finance have been duly authorised by a resolution of the Board of Directors of Telecom Italia dated 10th October, 2003.

The issue of each Tranche of Notes by Telecom Italia under the Programme will be required to be authorised by a resolution of the Board of Directors of Telecom Italia.

The establishment and update of the Programme and the issue of Notes under the Programme by TI Finance have been duly authorised by a resolution of the Board of Directors of TI Finance dated 16th December, 2003.

### Listing of Notes

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuers are being lodged with the Luxembourg trade and companies register (*Registre de Commerce et des Sociétés, Luxembourg*) where such documents may be examined and copies obtained.

The Luxembourg Stock Exchange has allocated the number 12964 to the Programme for listing purposes.

### Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of each Issuer and from the specified offices of the Paying Agents for the time being in Luxembourg:

- (a) the constitutional documents (with an English translation thereof) of each of Telecom Italia and TI Finance;
- (b) the consolidated and unconsolidated audited financial statements of Olivetti (now Telecom Italia) in respect of the financial years ended 31st December, 2001 and 31st December, 2002 (with an English translation thereof) as well as the consolidated and unconsolidated audited financial statements of Telecom Italia for the financial year ended 31st December, 2003 (with an English translation thereof);
- (c) the consolidated and unconsolidated 2004 first half report of Telecom Italia (with an English translation thereof). Telecom Italia prepares its half-yearly interim reports on an unconsolidated as well as consolidated basis both subject to a limited review, as required by CONSOB. Its first and third quarter interim reports are prepared on a consolidated basis only, as required by CONSOB;
- (d) the consolidated and unconsolidated audited financial statements of Old Telecom Italia in respect of the financial years ended 31st December, 2001 and 31st December, 2002 (with an English translation thereof);
- (e) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31st December, 2001, 31st December, 2002 and 31st December, 2003 (with an English translation thereof);
- (f) the most recently published audited annual financial statements of each of Telecom Italia and TI Finance and the most recently published unaudited interim financial statements (if any) of each of Telecom Italia and TI Finance (in each case with an English translation thereof). Telecom Italia currently prepares consolidated and unconsolidated audited financial statements for the 12 month period to 31st December in each year and consolidated unaudited interim financial statements on a quarterly basis. TI Finance currently prepares unconsolidated audited financial statements for the 12 month period to 31st December in each year. According to Luxembourg law, TI Finance is not obliged to publish interim accounts although such accounts are prepared on an unconsolidated and unaudited basis only for the requirements of Telecom Italia;
- (g) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (h) a copy of this Offering Circular;
- (i) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (j) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

**Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

**Significant or Material Change**

Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of each of Telecom Italia and its subsidiaries taken as a whole since 30th September, 2004 and there has been no material adverse change in the financial position or prospects of each of Telecom Italia and its subsidiaries taken as a whole since 31st December, 2003.

**Litigation**

There are no legal or arbitration proceedings (including any proceedings which are pending or threatened of which the relevant Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of such Issuer or any of their respective subsidiaries taken as a whole.

**Auditors**

The financial statements of Olivetti for the financial years ended 31st December, 2001 and 31st December, 2002 as well as the financial statements of Telecom Italia (formerly Olivetti, that as the surviving company in the Merger changed its name to Telecom Italia S.p.A.) for the financial year ended 31st December, 2003 were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., independent public accountants.

The auditors of TI Finance are Ernst & Young, who have audited TI Finance's financial statements, without qualification, in accordance with generally accepted auditing standards in Luxembourg for the financial years ended 31st December, 2002 and 31st December, 2003. The financial statements of TI Finance for the financial year ended 31st December, 2001 were audited by Arthur Andersen in accordance with generally accepted auditing standards in Luxembourg, without qualification.

**Trustee's Reliance on Certificates and Reports**

The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of any Issuer or, as the case may be, the Guarantor, or any other expert provided to the Trustee (whether or not addressed to the Trustee) in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein notwithstanding that any such certificate or report or any engagement letter or other document entered into by the Trustee and such auditors or such other expert in connection therewith contains any limit on the liability of such auditors or such other expert.



**REGISTERED AND HEAD OFFICE OF  
TELECOM ITALIA S.p.A.**

Piazza degli Affari, 2  
20123 Milan  
Italy

**REGISTERED AND HEAD OFFICE OF  
TELECOM ITALIA FINANCE S.A.**

287-289 route d'Arlon  
L-1150 Luxembourg

**TRUSTEE**

**J.P. Morgan Corporate Trustee Services Limited**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
England

**ISSUING AND PRINCIPAL PAYING AGENT**

**JPMorgan Chase Bank, N.A.**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
England

**LUXEMBOURG PAYING AGENT**

**J.P. Morgan Bank Luxembourg S.A.**

6 route de Trèves  
L-2633 Senningberg  
(Municipality of Niederanven)  
Luxembourg

**LEGAL ADVISERS**

*To the Issuers as to English law*

**Linklaters**  
One Silk Street  
London EC2Y 8HQ  
England

*To the Issuers as to Italian law*

**Gianni, Origoni, Grippo & Partners**

Via delle Quattro Fontane 20  
00184 Rome  
Italy

*To the Dealers as to English and Italian law  
and the Trustee as to Italian law*

**Allen & Overy**  
Corso Vittorio Emanuele II, 284  
00186 Rome  
Italy

*To the Issuers as to Luxembourg law*

**Linklaters Loesch**  
4 Rue Carlo Hemmer  
B.P. 1107 Luxembourg  
L-1011 Luxembourg

*To the Issuers as to Italian tax law*

**Maisto e Associati**  
Piazza Filippo Meda, 5  
20121 Milan  
Italy

*To the Trustee as to English law*

**Allen & Overy**  
One New Change  
London EC4M 9QQ  
England

**AUDITORS**

*To Telecom Italia S.p.A.*

**Reconta Ernst & Young S.p.A.**

Via G. Romagnosi 18/A  
00196 Rome  
Italy

*To Telecom Italia Finance S.A.*

**Ernst & Young**  
6 Rue Jean Monnet  
L-2180 Luxembourg

## DEALERS

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
England

**Banca Caboto s.p.a.**  
Via Boito, 7  
20121 Milan  
Italy

**J.P. Morgan Securities Ltd.**  
125 London Wall  
London EC2Y 5AJ  
England

**MCC S.p.A. - Capitalia Gruppo Bancario**  
Via Piemonte, 51  
00187 Rome  
Italy

**UniCredit Banca Mobiliare S.p.A.**  
Via Tommaso Grossi, 10  
20121 Milan  
Italy

**BNP PARIBAS**  
10 Harewood Avenue  
London NW1 6AA  
England

**Deutsche Bank AG London**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
England

**Lehman Brothers International (Europe)**  
25 Bank Street  
Canary Wharf  
London E14 5LE  
England

**Mediobanca - Banca di Credito Finanziario S.p.A.**  
Piazzetta Enrico Cuccia, 1  
20121 Milan  
Italy

## LUXEMBOURG LISTING AGENT

**J.P. Morgan Bank Luxembourg S.A.**  
6 route de Trèves  
L-2633 Senningberg  
(Municipality of Niederanven)  
Luxembourg