EMTN PROGRAMME PROSPECTUS

This document constitutes two base prospectuses: (i) the base prospectus of Telecom Italia S.p.A. and (ii) the base prospectus of Telecom Italia Finance S.A. (together, the “EMTN Programme Prospectus”).

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)

€20,000,000,000
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 €20,000,000,000 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 €20,000,000,000 (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 EMTN Programme Prospectus 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.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the Commission de Surveillance du Secteur Financier (the CSSF) in its capacity as competent authority under the Luxembourg Act dated 10 July, 2005 on prospectuses for securities, as amended (the Prospectus Act 2005) to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this EMTN Programme Prospectus or the quality or solvency of either Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the official list of the Luxembourg Stock Exchange.

References in the two base prospectuses to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange’s regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a Final Terms document (the Final Terms) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets 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 1 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 “Terms and Conditions of the Notes — Taxation”.

TI Finance has a right of substitution as set out in “Terms and Conditions of the Notes — Meeting of Noteholders, Modification, Waiver, Authorisation, Determination and Substitution”. The Trustee may at any time agree, without the consent of the Noteholders or Couponholders (all as defined in “Terms and Conditions of the Notes”), to the substitution, in place of TI Finance, of Telecom Italia or any Subsidiary (as defined in “Terms and Conditions of the Notes”) of Telecom Italia as principal debtor under the Notes and the Coupons (as all as defined in “Terms and Conditions of the Notes”). Telecom Italia shall indemnify each Noteholder and Couponholder against (A) any tax, assessment or governmental charge which is imposed on such Noteholder or Couponholder by (or by any authority in or of) the Republic of Italy (Italy) with respect to any Note 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 admitted to trading on the Luxembourg Stock Exchange’s regulated market and/or listed on the official list of the Luxembourg Stock Exchange, in the case of such substitution, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement to this EMTN Programme Prospectus will be prepared and the Noteholders will be notified in accordance with the provisions of “Terms and Conditions of the Notes — Notices”.

Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union (the EU) and registered under Regulation (EC) No 1060/2009 on credit rating agencies (as amended) (the CRA Regulation) will be disclosed in the relevant Final Terms. A security rating is not a recommendation to buy,
sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to “Credit ratings may not reflect all risks” in the “Risk Factors” section of this EMTN Programme Prospectus.

Arranger
J.P. MORGAN
Dealers

BANCA IMI
BNP PARIBAS
CRÉDIT AGRICOLE CIB
J.P. MORGAN
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING

BARCLAYS
CITIGROUP
DEUTSCHE BANK
MEDIOBANCA S.p.A.
UNICREDIT BANK

The date of this EMTN Programme Prospectus is 26 June, 2013.
IMPORTANT INFORMATION

This EMTN Programme Prospectus comprises two base prospectuses for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the Prospectus Directive): (i) the base prospectus of Telecom Italia; and (ii) the base prospectus of TI Finance.

The Issuers and the Guarantor accept responsibility for the information contained in this EMTN Programme Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this EMTN Programme Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This EMTN Programme Prospectus 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 EMTN Programme Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this EMTN Programme Prospectus.

Save for the Issuer, no other party has separately 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus when deciding whether or not to purchase any Notes.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS EMTN PROGRAMME PROSPECTUS AND OFFERS OF NOTES GENERALLY

This EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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, unless specifically indicated to the contrary in the applicable Final Terms, 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 EMTN Programme Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this EMTN Programme Prospectus 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 EMTN Programme Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this EMTN Programme Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this EMTN Programme Prospectus and the offer or sale of Notes in the United States, the United Kingdom, Italy, The Netherlands, Japan and the European Economic Area. See “Subscription and Sale”.

This EMTN Programme Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisors, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this EMTN Programme Prospectus;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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”).

PRESENTATION OF INFORMATION

All references in this EMTN Programme Prospectus document 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 all references to U.S. dollars, U.S.$ and $ refer to United States dollars.

References to the “Telecom Italia Group” refer to Telecom Italia and its consolidated subsidiaries as they exist at the date of this EMTN Programme Prospectus.
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STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.
OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this EMTN Programme Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this overview.

Issuers:

Telecom Italia S.p.A.

Telecom Italia was incorporated as a joint stock company under the laws of Italy on 20 October, 1908, and its duration is until 31 December, 2100. Telecom Italia’s registered office is Piazza degli Affari 2, 20123 Milan, Italy.

Telecom Italia Finance S.A.

TI Finance was incorporated on 2 June, 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a société anonyme. TI Finance’s registered office and postal address is 12 rue Eugène Ruppert, L-2453 Luxembourg.

Guarantor:

Telecom Italia S.p.A. (in respect of Notes issued by TI Finance)

Risk Factors:

There are certain risk factors that may affect the Issuer’s and/or the Guarantor’s ability to fulfil its obligations under Notes issued under the Programme and/or the Guarantee.

These include:

Risks related to the Telecom Italia Group

- Telecom Italia’s business will be adversely affected if it is unable to successfully implement its strategic objectives. Factors beyond its control may prevent it from successfully implementing its strategy.

- Telecom Italia’s leverage is such that any deterioration in cash flow can change the expectations of Telecom Italia Group’s ability to repay its debt and the inability to reduce its debt could have a material adverse effect on Telecom Italia’s business. Continuing volatility in the international credit markets may limit Telecom Italia’s ability to refinance its financial debt.

Risks related to the telecommunications industry and financial markets

- Since Telecom Italia operates in a heavily regulated industry, regulatory decisions and changes in the regulatory environment could materially adversely affect its business.
Strong competition in Italy or other countries may reduce Telecom Italia’s core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on its results of operations and financial condition.

In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme (see “Risk Factors”) and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular issue of Notes and certain market risks.

**Description:**

Euro Medium Term Note Programme

**Arranger:**

J.P. Morgan Securities plc

**Dealers:**

Banca IMI S.p.A.
Barclays Bank PLC
BNP PARIBAS
Citigroup Global Markets Limited
Crédit Agricole Corporate and Investment Bank
Deutsche Bank AG, London Branch
J.P. Morgan Securities plc
Mediobanca – Banca di Credito Finanziario S.p.A.
Société Générale
UniCredit Bank AG

and any other Dealers appointed in accordance with the Programme Agreement.

**Certain Restrictions:**

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 “Subscription and Sale”) including the following restrictions applicable at the date of this EMTN Programme Prospectus.

**Notes having a maturity of less than one year**

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 FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See “Subscription and Sale”.

**Issuing and Principal Paying Agent:**

Deutsche Bank AG, London Branch
Trustee: Deutsche Trustee Company Limited

Programme Size: Up to €20,000,000,000 (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.

Distribution: Notes may be distributed on a syndicated or non-syndicated basis.

Currencies: Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.

Maturities: 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.

Issue Price: Notes may be issued as specified in the relevant Final Terms 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.

Form of Notes: The Notes will be issued in bearer form as described in “Form of the Notes”.

Fixed Rate Notes: 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.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

(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 2006 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

(b) on the basis of the reference rate set out in the applicable Final Terms.

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.

Floating Rate Notes may also have a Maximum Rate of
Interest, a Minimum Rate of Interest or both.

Interest on Floating Rate 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.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than 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.

Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution. See “Certain Restrictions — Notes having a maturity of less than one year” above.

Denomination of Notes:

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 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 and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). See “Certain Restrictions — Notes having a maturity of less than one year” above.

Taxation:

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.

Restrictions on Security Interests:

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.

Cross Default:

The terms of the Notes will contain a cross default provision as
Status of the Notes:
The Notes will constitute unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will 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.

Guarantee:
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 pari passu 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.

Rating:
The Programme has been rated Baa3 by Moody's Investors Service España S.A. (Moody's), BBB- by Standard & Poor's Credit Market Services France SAS (S&P) and BBB by Fitch Ratings Limited (Fitch). Moody's, S&P and Fitch are established in the EU and registered under the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Listing:
Application has been made to the CSSF to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange.

Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s).

Governing Law:
The Notes, the Coupons and the Trust Deed and any non-contractual obligations arising out of or in connection with
them, will be governed by, and construed in accordance with,
English law, save, in respect of Notes issued by Telecom Italia,
for the provisions contained in Condition 15 of "Terms and
Conditions of the Notes" and the provisions of the Trust Deed
concerning the meeting of Noteholders and the appointment of
the rappresentante comune are subject to compliance with
Italian law. The provisions of Articles 86 to 94-8 of the
Luxembourg law on commercial companies of 10 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 European Economic Area, the United
Kingdom, Italy, The Netherlands and Japan, 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”.

United States Selling Restrictions
Regulation S, Category 2. TEFRA C or D/TEFRA not
applicable, as specified in the applicable Final Terms.
RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuers and the Guarantor may become insolvent or otherwise unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuers or the Guarantor becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuers and the Guarantor may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside of the Issuers' and the Guarantor's control. The Issuers and the Guarantor have identified in this EMTN Programme Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Factors that may affect the Issuers’ ability to fulfil their obligations under Notes issued under the Programme — Factors that may affect the Guarantor’s ability to fulfil its obligations under the Guarantee (for the purposes of these risk factors “Telecom Italia” means Telecom Italia S.p.A. and/or its consolidated subsidiaries as they exist as at the date of this EMTN Programme Prospectus).

RISKS RELATED TO THE TELECOM ITALIA GROUP

Telecom Italia’s business will be adversely affected if it is unable to successfully implement its strategic objectives. Factors beyond its control may prevent it from successfully implementing its strategy.

On 8 February 2013, Telecom Italia presented its updated 2013-2015 business and strategic plan (the 2013-2015 Plan). The 2013-2015 Plan sets out its primary strategic objective as well as a number of strategic priorities to achieve this objective over the next three years:

- continued deleveraging to reduce its net financial debt, through:

  - a focus on strategic markets - Italy, Brazil and Argentina - with the goal of stabilising consolidated revenues through the contribution from Latin America;

  - technological developments in fixed-line telephony and mobile telephony in Italy, mobile telephony in Brazil and network capacity in Argentina to take advantage of growing demand for data;

  - extension and acceleration of its cost reduction policy in order to contribute to the financing of the above mentioned technological developments;

  - sustainable shareholder remuneration. Telecom Italia has announced its intention to revise its dividend policy in order to bring it into line with the continuing policy of deleveraging the Group.

Telecom Italia’s ability to implement and achieve this strategic objective and the priorities described above may be influenced by certain factors, including factors outside of its control, such as:

- regulatory decisions and changes in the regulatory environment in Italy, Brazil and Argentina or in the other countries in which Telecom Italia operates;

- increasing number of competitors in its principal markets which could cause Telecom Italia to lose further market share;
increasing and stronger market competition in its principal markets with a consequent decline in the prices of services;

increasing competition from global and local over-the-top (OTT) players (operators offering content and services on the internet without owning their own proprietary telecommunications network infrastructure);

the success of “disruptive” new technologies which could cause significant reductions in revenues from fixed and mobile telephony;

the continuing effects of the weak global economy, in particular continuing weak gross domestic product (GDP) growth in Italy and in the other markets in which Telecom Italia operates, including the effects on its customers and their ability to purchase or continue to purchase its services;

the effect of exchange rate fluctuations, particularly in Brazil and Argentina, on Telecom Italia’s operating revenues, margins and financial management;

Telecom Italia’s ability to strengthen its competitive position in Italy and in international markets, particularly in Brazil and Argentina;

Telecom Italia’s ability to develop and introduce new technologies which are attractive in its principal markets, to manage innovation, to supply value added services and to increase the use of its fixed and mobile networks;

Telecom Italia’s ability to manage and reduce costs;

Telecom Italia’s ability to refinance existing indebtedness when due in the capital and bank markets which remain volatile and subject to disruption;

any difficulties which Telecom Italia may encounter in its supply and procurement processes, including as a result of the insolvency or financial weaknesses of its suppliers; and

the costs Telecom Italia may incur due to unexpected events, in particular where its insurance is not sufficient to cover such costs.

As a result of these uncertainties there can be no assurance that the business and strategic objectives identified by Telecom Italia’s management can effectively be attained in the manner and within the time-frames described. Furthermore, if Telecom Italia is unable to attain its strategic priorities, its goodwill may be further impaired which could result in further significant write-offs.

The global economic crisis and the continuing weakness of the Italian economy over the past several years has adversely affected Telecom Italia’s business and continuing global economic weakness and volatility in the Eurozone could further adversely affect its business and therefore have a negative impact on its operating results and financial condition.

Since the modest recovery in GDP in Italy in 2010 and 2011 following the sharp declines that had been triggered by the global financial crisis, GDP declined in 2012, with a negative growth of -2.4 per cent. The continuing weakness of the Italian economy is attributable in part to fiscal tightening (a mix of spending cuts and tax increases), aimed at reinforcing the multi-year budget deficit reduction plan and balancing the structural deficit by 2013; this process is expected to continue under the “Fiscal Compact” rules.\footnote{The Fiscal Compact is an intergovernmental treaty introduced as a new and stricter version of the previous Stability and Growth Pact. The treaty entered into force on 1 January 2013 for those Member States of the European Union which had completed ratification prior to this date. Under the Fiscal Compact, ratifying Member States are required to have enacted laws requiring their national budgets to be in balance or in surplus within the treaty’s definition within one year after the Fiscal Compact enters into force for them. The laws must also...}
policy should result in structural adjustments and sustainability in the long term, but it has contributed to the weakness in domestic demand experienced by the Italian market during 2012, which is expected to continue in the coming years.

Weakness in the Italian economy, Telecom Italia’s core market and, in particular, low or negative GDP growth and increasing levels of unemployment, have had and, if such economic weakness persists, may continue to have a direct negative impact on the spending patterns of customers, both in terms of the products and services they subscribe for and the extent to which they use such products and services. During periods of deteriorating economic conditions and high unemployment, retail customers generally have less discretionary income with which to purchase products and services. Telecom Italia’s consumer segments are most directly impacted by a reduction in discretionary income, and as a result of continued economic weakness in Italy, it may be more difficult to attract new customers, or retain existing customers, and its revenues and Average Revenue Per User (ARPU), particularly in consumer segments, may continue to decline.

Additionally, Telecom Italia’s business and corporate customers are also affected by general economic conditions and consumer spending, and therefore an extended recession, or public perception of declining economic conditions, is and could continue to substantially decrease telecommunications and IT expenditures among Telecom Italia’s business and corporate customers, which would in turn adversely affect its revenues in its business and corporate segments. In addition to the economic weakness, the competitive environment is expected to continue to place downward pressure in telecommunications service prices leading to a negative impact on its domestic revenues.

The continuing global economic weakness could also adversely affect Telecom Italia’s businesses in its principal international markets of Brazil and Argentina which may also have a negative impact on its operating results and financial condition.

If Telecom Italia fails to successfully implement its plans to improve efficiency and optimise expenditures, its results of operations and financial condition could be adversely affected.

*Telecom Italia’s leverage is such that deterioration in cash flow can change the expectations of the Telecom Italia Group’s ability to repay its debt and the inability to reduce its debt could have a material adverse effect on Telecom Italia’s business. Continuing volatility in the international credit markets may limit Telecom Italia’s ability to refinance its financial debt.*

Telecom Italia’s consolidated gross financial debt was 40,241 million euros at 31 December 2012 compared with 41,951 million euros at 31 December 2011. Consolidated net financial debt was 29,053 million euros at 31 December 2012 compared with 30,819 million euros at 31 December 2011. Telecom Italia’s high leverage has been a factor in its strategic decisions for a number of years and the reduction of its leverage remains a key strategic objective. As a result, however, the business is reliant on cost cutting and free cash flow to finance critical technology improvements and upgrades to its network.

Due to the competitive environment and continuing weak economic conditions, there could be deterioration in Telecom Italia’s income statement and statement of financial position measures used by investors and rating agencies in determining Telecom Italia’s credit quality. Ratios derived from these statements are used by rating agencies, such as Moody’s, S&P and Fitch, who base their ratings on Telecom Italia’s ability to repay its debt.

Although rating downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine interest expense, or on its relative
cost to Telecom Italia, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs.

Factors which are beyond Telecom Italia’s control such as deterioration in performance by the telecommunications sector, unfavourable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions at the sovereign level as a result of the continuing effects of the economic and financial crisis could have a significant effect on Telecom Italia’s ability to reduce its debt, or its ability to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of Telecom Italia’s strategy, the failure to reduce debt could be viewed negatively and adversely affect Telecom Italia’s credit ratings.

The management and further development of Telecom Italia’s business will require it to make significant further capital and other investments. If the business is unable to finance its capital investment as described above, additional debt may be required in order to finance such investment. Telecom Italia’s future results of operations may be influenced by its ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside of its control. In addition, if such transactions increase Telecom Italia’s leverage it could adversely affect its credit ratings.

Telecom Italia is continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties and is the subject of a number of investigations by judicial authorities. The ultimate outcome of such proceedings is generally uncertain. If any of these matters are resolved against Telecom Italia, they could, individually or in the aggregate, have a material adverse effect on Telecom Italia’s results of operations, financial condition and cash flows in any particular period.

Telecom Italia is subject to numerous risks relating to legal, tax, competition and regulatory proceedings in which it is currently a party or which could develop in the future. Telecom Italia is also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, tax, competition and regulatory proceedings and investigations in which Telecom Italia is, or may become, involved (or settlements thereof) may, individually or in the aggregate, have a material adverse effect on Telecom Italia’s results of operations and/or financial condition and cash flows in any particular period. Furthermore, Telecom Italia’s involvement in such proceedings and investigations may adversely affect its reputation.

Operational risks could adversely affect Telecom Italia’s reputation and its profitability.

Telecom Italia faces numerous operational risks inherent in its business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly, loss or disclosure of critical or commercially sensitive data or personally identifiable information or systems failures. These events can result in direct or indirect losses and adverse legal and regulatory proceedings, and harm Telecom Italia’s reputation and operational effectiveness.

Telecom Italia has in place risk management practices designed to detect, manage and monitor at a senior level the evolution of these operational risks. However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that Telecom Italia faces and such failures could have a material adverse effect on its results of operations and could harm its reputation.

Risks associated with Telecom Italia’s ownership chain.

Telco S.p.A. (Telco) — a company in which interests are held by the Generali group (Generali) (30.58 per cent.), Intesa Sanpaolo S.p.A. (Intesa Sanpaolo) (11.62 per cent.), Mediobanca S.p.A. (Mediobanca) (11.62 per cent.), and Telefónica S.A. (Telefónica) (46.18 per cent.) — is Telecom Italia’s largest shareholder, holding an interest of approximately 22.38 per cent. of the voting rights.
On 29 February 2012, Telefónica, Intesa Sanpaolo, Mediobanca, and Generali entered into a renewal agreement (the **2012 Shareholders Agreement**) in which they agreed to enter into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original shareholders’ agreement dated as of 28 April 2007, as subsequently amended and supplemented.

The 2012 Shareholders Agreement sets out the criteria for drawing up the list of candidates for the appointment of the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco’s share capital, will be entitled to designate two candidates; and
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the list, of which three candidates would be appointed unanimously and the others on a proportional basis.

Based on the foregoing, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors. In the shareholders’ meeting held on 12 April 2011, 12 out of 15 Board members were elected from a list proposed by Telco, while the remaining three Directors were elected from a list proposed by a group of asset management companies and international institutional investors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia’s other ordinary shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco.

In addition, Telefónica is the largest shareholder of Telco. Presently, Telefónica and its associated companies (the **Telefónica Group**) and the Telecom Italia Group are direct competitors outside of their respective domestic markets, including Brazil and Argentina; nevertheless, the 2012 Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group will be managed autonomously and independently. The 2012 Shareholders Agreement provides, among other things, that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at Board of Directors’ meetings which discuss matters relating to companies of the Telecom Italia Group in countries where the Telefónica Group and the Telecom Italia Group compete. Specific additional matters have been agreed with respect to the Telecom Italia Group’s operations in Brazil and Argentina. The presence of Telefónica in Telco could, however, result in legal or regulatory proceedings or affect regulatory decisions in countries where the Telecom Italia Group may wish to operate if the Telefónica Group is also an operator or competitor in such jurisdictions.

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

*The Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia.*

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia’s bylaws pursuant to compulsory legal provisions.

On 26 March 2009, the European Court of Justice (the **ECJ**) declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the ECJ’s ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury’s special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on 20 May 2010, the
Italian Government amended the criteria under which it may exercise such special powers although the ruling by the ECJ did not have any immediate or direct impact on Telecom Italia’s bylaws.

In May 2012 regulations relating to the special powers on share ownership in the sectors of defence and national security, and regarding activities of strategic importance in the energy, transport and communications sectors were published and became effective. The regulations provide that, at the moment the Prime Ministerial implementing decrees come into force with respect to “the networks and systems, goods and relationships of strategic importance for the communications […] sector”, the clauses in the company’s bylaws on special powers will cease to have effect and will be replaced by these regulations. In brief, the new regulations will provide:

- the Italian Government with the authority to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser’s home jurisdiction;

- a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company’s bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to Telecom Italia (whether by merger or otherwise) more difficult to achieve, if at all, or discourage certain bidders from making an offer relating to a change of control that could otherwise be beneficial to shareholders.

System failures could result in reduced user traffic and reduced revenue and could harm Telecom Italia’s reputation.

Telecom Italia’s success largely depends on the continued and uninterrupted performance of its information technology, network systems and of certain hardware and data centres that Telecom Italia manages for its clients. Telecom Italia’s technical infrastructure (including Telecom Italia’s network infrastructure for fixed-line and mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at Telecom Italia’s facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of Telecom Italia’s services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could negatively affect Telecom Italia’s levels of customer satisfaction and harm its reputation.

Telecom Italia’s business depends on the upgrading of its existing networks.

Telecom Italia must continue to maintain, improve and upgrade its existing networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets. A reliable and high quality network is necessary to manage churn by sustaining Telecom Italia’s customer base, to maintain strong customer brands and reputation and to satisfy regulatory requirements, including minimum service requirements. The maintenance and improvement of Telecom Italia’s existing networks depends on its ability to:

- upgrade the functionality of its networks to offer increasingly customised services to Telecom Italia’s customers;
increase coverage in some of Telecom Italia’s markets;

- expand and maintain customer service, network management and administrative systems;

- expand the capacity of existing fixed copper and mobile networks to cope with increased bandwidth usage; and

- upgrade older systems and networks to adapt them to new technologies.

In addition, due to rapid changes in the telecommunications industry, Telecom Italia’s network investments may prove to be inadequate or may be superseded by new technological changes. Telecom Italia’s network investments may also be limited by market uptake and customer acceptance. If Telecom Italia fails to make adequate capital expenditures or investments, or to properly and efficiently allocate such expenditures or investments, the performance of Telecom Italia’s networks, both in real terms and in relative terms as compared to its competitors, could suffer, resulting in lower customer satisfaction, diminution of brand strength and increased churn.

Many of these tasks are not entirely under Telecom Italia’s control and may be affected by applicable regulation. If Telecom Italia fails to maintain, improve or upgrade its networks, its services and products may be less attractive to new customers and Telecom Italia may lose existing customers to competitors, which could have a material adverse effect on Telecom Italia’s business, financial condition and results of operations.

**RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS**

_The value of Telecom Italia’s operations and investments may be adversely affected by political and economic developments in Italy or other countries. Continuing global economic weakness could reduce sales of Telecom Italia’s products and services and adversely affect Telecom Italia’s results of operations, cash flows and financial condition._

Telecom Italia’s business is dependent to a large degree on general economic conditions in Italy and in its other principal markets, Brazil and Argentina, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect Telecom Italia’s business and results of operations. The weak economic conditions of the last several years have had an adverse impact on its business, particularly in Italy.

The economic recession that the Italian market has been experiencing in recent years has weighed, and may continue to weigh heavily, on the development prospects of Telecom Italia’s domestic market.

Continuing uncertainty in respect of global economic conditions poses a significant risk as consumers and businesses postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for Telecom Italia’s products and services. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or affect the timing of purchases of Telecom Italia’s products and services. A loss of customers or a reduction in purchases by Telecom Italia’s current customers could have a material adverse effect on Telecom Italia’s financial condition, results of operations and cash flow and may negatively affect Telecom Italia’s ability to meet its targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

Telecom Italia may also be adversely affected by political developments in Italy and in the countries where Telecom Italia has made significant investments. Certain of these countries have political and legal systems that are less predictable than in Western Europe.
Political or economic upheaval or changes in laws or in their application in the countries outside Italy where Telecom Italia has significant investments may harm the operations of the companies in which Telecom Italia has invested and impair the value of these investments.

In particular, in recent years the Argentine Government has taken action to re-nationalise a number of concessions and public service companies that were privatised in the 1990’s, such as Aguas Argentinas S.A. and Aerolineas Argentinas S.A. Additionally, in May 2012, Law n. 26,741 established the expropriation of 51 per cent. of the capital stock of YPF S.A. and 51 per cent. of the capital stock of YPF GAS S.A., which were directly or indirectly owned by Repsol YPF S.A. (Repsol). To date, the Argentine Government has not compensated any of the expropriated investors. These actions had a negative effect on the market. Telecom Italia cannot provide any assurance that the Argentine Government will not take similar action in respect of other private companies or other sectors in the near future.

In the past, the Argentine Government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Between the end of 2001 and 2002, the Argentine Government implemented a unified exchange market (Mercado Único y Libre de Cambios—"MULC") with significant regulations and restrictions for the purchase and transfer of foreign currency.

Since late 2011, the Argentine Government has implemented a series of measures aimed at increasing controls on foreign trade and capital flows. To that end, certain measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the Administración Federal de Ingresos Públicos (Argentine Federal Tax Authority—"AFIP") for any purchase of foreign currency made by private companies and individuals for savings purposes. In addition, the Banco Central de la Republica Argentina (BCRA) expanded the controls and measures to make payments abroad accessing the local foreign exchange market, regarding trade payables and financial debt, and also established demanding procedures that must be met to pay certain trade payables with related parties. Although there are no regulations that prohibit making dividend payments to foreign shareholders, in practice authorities have substantially limited any purchase of foreign currency to pay dividends since these exchange controls were implemented. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors, or dividend payments to foreign shareholders, which would limit Telecom Italia’s ability to comply in a timely manner with payments related to Telecom Italia’s liabilities to foreign creditors or non-resident shareholders.

Pursuing the same objective, in October 2011, Decree No. 1,722 eliminated an exception for oil, gas and mining companies, and thus requires these companies to liquidate all their export receipts in the local foreign exchange market. Moreover, also in October 2011, the National Insurance Bureau also issued Resolution No. 36,162 imposing an obligation on insurance companies to repatriate all investments and liquid assets located outside Argentina. Telecom Italia cannot ensure that similar measures will not be implemented for other private companies or other sectors in the future.

In addition, starting in February 2012, all import operations of goods and services must be filed and approved in advance by AFIP. Such procedure could negatively affect the provision of imported products and services within Telecom Italia’s Argentinean supply chain.

Since Telecom Italia operates in a heavily regulated industry, regulatory decisions and changes in the regulatory environment could materially adversely affect its business.

Telecom Italia’s fixed and mobile telecommunications operations, as well as its broadband services and television broadcasting businesses, are subject to regulatory requirements in Italy. In addition, Telecom Italia’s international operations are subject to regulation in their host countries. In Italy, Telecom Italia is the only operator subject to universal service obligations, which requires Telecom Italia to provide fixed line
public voice telecommunications services in non-profitable areas. As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The last review of the EU common regulatory framework was approved at the end of 2009 and was transposed into law in Italy in 2012.

In compliance with the regulatory framework, the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sectors (AGCom) has to identify operators with “significant market power” (SMP) based on market analyses in relevant retail and wholesale markets, identified in an EC Recommendation. The framework established criteria and procedures for identifying remedies applicable to operators with SMP in various markets. An operator designated by a national authority as having SMP will be subject to a set of obligations necessary to safeguard competition. AGCom’s regulatory approach is mainly focused on the regulation of Telecom Italia’s wholesale business, while the regulation of retail markets is being gradually withdrawn.

Regulatory uncertainty and regulatory changes imposed on Telecom Italia can have an adverse effect on its revenues as well as making it difficult to make important decisions on investments. In September 2012, AGCom launched the third round of market analysis which should have set wholesale access fees for local loop unbundling (LLU), WLR and Bitstream services on the copper and fibre-based networks for the 2013-2015 period. However, AGCom decided to set the fees for the above mentioned copper-based access services only for the year 2013 while postponing the decision regarding the fees for the 2014-2016 period. This approach has created uncertainty because the 2013 fees have been fixed without a market analysis and for the following 2014-2016 period only the range of the final year (2016) access charges has been submitted for public consultation.

In addition the Council of State (Consiglio di Stato) has published two judgments on both fixed and mobile termination rates: the first judgment upheld the complaint filed by Fastweb (one of Telecom Italia’s main competitors in the fixed line market) and revoked the symmetry of 2012 Time Division Multiplexing (TDM) fixed termination tariffs among operators; the second one upheld the complaint filed by H3G (the fourth mobile operator in Italy) and revoked the decrease of termination fees on the H3G network in the period November 2008-June 2009. As a result, Telecom Italia’s costs for fixed and/or mobile termination services could be expected to increase.

The regulatory framework of the Next Generation Access Network (NGAN) is not yet completely defined. Regulatory activity is underway to establish NGAN regulation with a view to introducing: (i) a cost model for the pricing of passive and active wholesale services and the definition of “NGAN competitive areas” where the price of fibre-based bitstream and virtual access services are not subject to the cost orientation obligation; (ii) symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segments; and (iii) potential amendments to the regulation of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fibre to the Cabinet-Very High-Speed Digital Subscriber Line (FTTCab-VDSL) accesses. As NGAN will require significant investment, the regulatory approach regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on cash flows and financial condition potentially hampering future investments.

On 4 April 2012, the Italian parliament approved a law mandating AGCom to impose the obligation on Telecom Italia to separately offer ancillary services (activation and maintenance) for the LLU lines so that they might be provided also by third parties. However, in July 2012, the EU Commission formally opened an infringement procedure against Italy, in relation to the possible breach of the EU regulatory framework stating the principle of independence and autonomy of national authorities by the above mentioned law. From a technical point of view, granting the possibility for third parties to manage the maintenance of the incumbent’s network may cause serious negative effects on the quality of the service, on the security and integrity of the network as well as on the efficient deployment of the infrastructure to the detriment of end-users. In February 2013, the EU Commission issued a reasoned opinion concluding that the Italian government had infringed the European legislation. As a consequence, the Italian government was required to change the law within two months and therefore the law aimed at the transposition into Italian law of the
EU rules (Legge Comunitaria 2013), preliminarily discussed in March 2013, includes a specific provision aimed at withdrawing the obligation for AGCom to impose on Telecom Italia the disaggregated offer of its LLU ancillary services. The formal approval of this law by the Italian parliament will end the infringement procedure by the EC.

Telecom Italia’s Brazilian and Argentinean Business Units are subject to extensive regulation in their respective countries. Telecom Italia’s international operations, therefore, confront similar regulatory issues to those faced in Italy, including the possibility for regulators to impose obligations and conditions on how Telecom Italia operates its businesses in these countries as well as taking decisions that can have an adverse effect on its results, including setting, and in particular, reducing the rates Telecom Italia can charge or, as is the case in Argentina, freezing, since 2002, the rates Telecom Italia can charge for basic fixed line telephony services. As a result, the decisions of regulators or the implementation of new regulations in Brazil and Argentina, and the costs of Telecom Italia’s compliance with any such decisions or new regulations, may limit Telecom Italia’s flexibility in responding to market conditions, competition and changes in Telecom Italia’s cost base which could individually or in the aggregate have a material adverse effect on Telecom Italia’s business and results of operations.

For example, in 2012 the Argentine Government cancelled the auction for the 850 MHz and 1900 MHz spectrum bands that were returned by Telefónica Móviles Argentina S.A. These spectrum bands were returned due to the spectrum cap restrictions of 50 MHz.

In December 2012 the Argentine President announced the launching of a new state owned mobile company branded “libre.ar”. The government’s dual-role, as both regulator and competitor, creates several risks for Telecom Italia’s Argentine mobile business including possible adverse changes in the regulatory framework and the current market rules. The lack of allocation of additional frequency bands is negatively affecting the quality of service of all the Argentinean mobile operators. It could also adversely affect Telecom Italia’s competitive position in mobile telephony and may require higher capital expenditure to continue providing high quality mobile services to Telecom Italia’s customers.

In Brazil, Telecom Italia operate under authorisations granted by the Brazilian Government. As a result, Telecom Italia is obliged to maintain minimum quality and service standards. Telecom Italia’s failure to comply with all the requirements imposed by the Regulatory Agency for Telecommunications—Agência Nacional de Telecomunicações (ANATEL) and by the Brazilian Government may result in the imposition of fines or other government actions, including the suspension of marketing activities for a given period.

Due to the continuous evolution of the regulatory regime affecting various parts of Telecom Italia’s business in Italy and in its international operations, clear predictions cannot be made in respect of the impact of any proposed or potential changes in the regulatory environment in which Telecom Italia operates both in Italy and internationally. Regulations in the telecommunications industry are constantly changing to adapt to new competition and technology. Changes in laws, regulation or government policy could adversely affect Telecom Italia’s business and competitiveness. In particular, the ability to compete effectively in existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which it is subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of Telecom Italia’s authorisations, or those of third parties, could adversely affect future operations in Italy and in other countries where it operates.

There is also a general risk related to the possible imposition of fines by the competent authorities for violations of regulations to which Telecom Italia are subject.

**Telecom Italia operates under authorisations granted by government authorities.**

Many of Telecom Italia’s activities require authorisations from governmental authorities. These authorisations specify the types of services the operating company holding such authorisation may provide. The continued existence and terms of Telecom Italia’s authorisations are subject to review by regulatory
authorities and to interpretation, modification or termination by these authorities. Although authorisation renewal is not usually guaranteed, most authorisations do address the renewal process and terms that, however, may be affected by political and regulatory factors.

Many of these authorisations are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over Telecom Italia’s operating companies require it to meet specified network build-out requirements and schedules. In particular, Telecom Italia’s existing authorisations typically require it to satisfy certain obligations, including minimum specified quality, service and coverage conditions. Failure to comply with these obligations could result in the imposition of fines or even in the revocation or forfeiture of the authorisation. In addition, the need to meet scheduled deadlines may require Telecom Italia to expend more resources than otherwise budgeted for a particular network build-out.

Additional authorisations may also need to be obtained if Telecom Italia expands its services into new product areas, and such authorisations may be related to auctions (such as the assignment or the right of use of spectrum) or otherwise prove expensive or require significant cash outlays, or have certain terms and conditions, such as requirements related to coverage and pricing, with which the business may not have previously had to comply. If Telecom Italia is unable to obtain such authorisations within the expected timeframe, at a commercially acceptable cost, or at all, or if the authorisations includes onerous conditions, it could have a material adverse effect on Telecom Italia’s business, financial condition and results of operations.

The Pesification and freezing of rates may continue to adversely affect Telecom Argentina’s revenues.

In accordance with the Argentine Public Emergency Law, in January 2002, rates for basic telephone services and long distance services were converted to Argentine pesos and fixed at an exchange rate of P$1.00=U.S.$1.00 (the Pesification). The rates that Telecom Argentina S.A. (Telecom Argentina) may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine Government.

In March 2006, Telecom Argentina executed a letter of understanding (the 2006 Letter of Understanding) with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework.

The 2006 Letter of Understanding contemplated the signing and effectiveness of certain “Minutes of Agreement of the Renegotiation” upon the fulfilment of certain necessary steps, which as of the date of this Annual Report have yet to occur. Although Telecom Argentina expects such fulfilment to occur, Telecom Italia cannot guarantee if or when this will happen. Telecom Italia is unable to predict the outcome of the negotiations with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, Telecom Argentina is unable to predict whether the Argentine Government will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether Telecom Argentina will be able to satisfy them.

In addition, in early 2013 the Argentine Government adopted certain initiatives in order to reduce current inflation rates, including price agreements with certain non-regulated sectors such as supermarkets and retailers. In this context and considering the increasing demands of service quality improvements that all Argentine mobile operators are facing, Telecom Italia’s mobile subsidiary “Personal” decided not to implement the rate increases announced in the fourth quarter of 2012 (to be effective as from March 2013) for post-paid and “cuentas claras” customers. Although mobile telephony is a non-rate regulated industry, Telecom Italia cannot predict whether current or new factors—including governmental initiatives in order to reduce inflation rates—would negatively impact Personal’s ability to apply rate increases, thus negatively affecting the profit margins and the level of requested funds for capital expenditures to maintain or increase the quality of the service.
Rate restrictions for regulated services of Telecom Argentina may continue for a number of years and may continue affecting revenues from fixed line and other services. In a high inflation environment this may continue to significantly affect Telecom Argentina’s financial results.

Strident competition in Italy or other countries may reduce Telecom Italia’s core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on its results of operations and financial condition.

Strong competition exists in all of the principal telecommunications business areas in Italy in which Telecom Italia operates, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. Competition has been intense since the liberalisation of the Italian telecommunications market in 1998 and there is now entrenched competition from international operators’ who have been present in the Italian market for some time and direct competition with Telecom Italia’s fixed-line and mobile telephony businesses and for broadband services.

As of the date of this Prospectus, there are a number of significant competitors offering fixed-line and broadband services and three operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. In addition, some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which “originated” from fixed line operators.

Moreover, convergence enables lateral competition from IT, media and devices/consumer electronics players. This competition may further increase due to the consolidation and globalisation of the telecommunications industry in Europe, including Italy, and elsewhere. Telecom Italia faces competition from international competitors who have entered local markets to compete with existing operators as well as from local operators, each of which has increased the direct competition Telecom Italia faces in its Italian domestic fixed-line, mobile telephony and broadband businesses.

Competition in Telecom Italia’s principal lines of business has led, and could lead, to:

- price and margin erosion for its products and services;
- a loss of market share in its core markets;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs and payback period related to investments in new technologies that are necessary to retain customers and market share; and
- difficulties in reducing debt and funding strategic and technological investments if Telecom Italia cannot generate sufficient profits and cash flow.

Although Telecom Italia has taken a number of steps to realise additional efficiencies and to rebalance revenue mix through the continuing introduction of innovative and value added services, if any or all of the events described above should occur, the impact of such factors could have a material adverse effect on its results of operations and financial condition.
In addition to competitive pressures, as a result of the increasing substitution of data services in place of traditional voice and SMS communications, Telecom Italia’s traditional voice and SMS markets have also been decreasing and are expected to continue to decrease due to increasing competition from alternative modes of telecommunications.

Telecom Italia faces increasing competition from non-traditional data services on new voice and messaging over the internet technologies, in particular over the top OTT applications, such as Skype, Google Talk, FaceTime and WhatsApp. These applications are often free of charge, other than for data usage, accessible via smartphones, tablets and computers and allow their users to have access to potentially unlimited messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as short message service (SMS) which have historically been a source of significant revenues for fixed and mobile network operators such as Telecom Italia. With the growing share of smartphones, tablets and computers in Italy as well as Telecom Italia’s international markets of Brazil and Argentina, an increasing number of customers are using OTT applications in substitution for traditional voice or SMS communications.

Historically, Telecom Italia has generated a substantial portion of its revenues from voice and SMS services, particularly in Telecom Italia’s mobile business in Italy, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on its revenues and profitability. As a result of these and other factors, Telecom Italia faces a mobile market in which price pressure has been increasing.

All mobile network operators, including Telecom Italia, are currently competing with OTT application providers who leverage on existing infrastructures and who generally do not operate capital-intensive business models associated with traditional mobile network operators like Telecom Italia. OTT application service providers have recently become more sophisticated competitors, and technological developments have led to a significant improvement in the quality of service, in particular speech quality, delivered via data communications applications such as OTT. In addition, players with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT application services. In the long term, if non-traditional mobile voice and data services or similar services continue to increase in popularity, as they are expected to do, and if Telecom Italia and other mobile network operators are not able to address this competition, this could contribute to further declines in ARPU and lower margins across many of Telecom Italia’s products and services, thereby having a material adverse effect on Telecom Italia’s business, results of operations, financial condition and prospects.

Telecom Italia’s business and revenues may be negatively affected if it is unable to continue to introduce new services, stimulating increased usage of Telecom Italia’s fixed and wireless networks.

The maturity of telecommunications markets (particularly in Telecom Italia’s core Italian market) and the rapidly changing competitive landscape (for example, the rise of global platform/networks of organisations (an “ecosystem”) delivering a specific product or service through both competition and cooperation) have resulted in a continuous erosion in traditional service revenues for telecommunications operators.

In this context, Telecom Italia’s strategy has led to integration of its core offering portfolio with new services outside traditional telecommunications domains (e.g. Cloud Services, Digital Media, M2M services), which are able to generate new revenue streams and at the same time stimulate increased usage of Telecom Italia’s fixed and wireless networks. A deep knowledge of customers’ needs and preferences, the ability to respond rapidly to their changes and a thorough understanding of the specialised needs of certain industries are particularly important for exploiting such opportunities.

Failing to exploit these business opportunities and to identify an appropriate role in the relative ecosystems may have a material adverse effect on Telecom Italia’s revenue streams.
Continuing rapid changes in technologies could increase competition, reduce usage of traditional services or require Telecom Italia to make substantial additional investments.

Many of the services Telecom Italia offers are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. Telecom Italia’s markets are characterised by rapid and significant changes in technology, customer demand and behaviour, and as a result feature a constantly changing competitive environment. In addition, as the convergence of services accelerates, Telecom Italia makes and will have to make substantial additional investment in new technologies to remain competitive. The new technologies Telecom Italia chooses may prove to be commercially unsuccessful. Moreover, Telecom Italia may not receive the necessary authorisations to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavourable regulation regarding the usage of these technologies. Furthermore, Telecom Italia’s most significant competitors in the future may be new entrants to Telecom Italia’s markets who do not have to maintain an installed base of older equipment.

As a result, if Telecom Italia is unable to effectively anticipate, react to or access technological changes in its telecommunications markets, it could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base or to maintain revenues from such customer base, all of which could have a material adverse effect on Telecom Italia’s business, financial condition and results of operations.

The mobile communications markets have matured and competition has increased.

Although mobile communications markets have reached maturity levels in Telecom Italia’s domestic market in the voice services segment, the mobile broadband business continues to grow. However such change has had an adverse effect on revenues from Telecom Italia’s mobile services.

The evolution of the mobile telecommunications markets in which Telecom Italia operates will depend on a number of factors, many of which are outside its control. These factors include:

- the activities of its competitors;
- competitive pressures and regulations applicable to retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and their attractiveness to its customers; and
- the success of new disruptive or substitute technologies.

In addition, as Telecom Italia’s core domestic Italian market has become increasingly saturated there is a growing focus on customer retention. Such focus could result in increased expenses to retain customer loyalty or, if Telecom Italia is unable to satisfactorily offer better value to its customers, its market share and revenues could decline. The main mobile competitors in Italy, including Telecom Italia, suffered higher levels of churn in 2012 compared to recent years. Such a high level of churn is indicative of the intense competition in this market. Furthermore, during the first months of 2013 Telecom Italia has experienced a significant deterioration in the Italian mobile market, with a strong increase in the level of competition and nearly unprecedented price pressure in comparison with prior periods; a continuation of such price pressure could have an adverse effect on Telecom Italia’s current and future revenues and results of operations.

If the mobile telecommunications markets in which Telecom Italia operates perform worse than expected, or if Telecom Italia is unable to retain its existing customers or stimulate increases in customer usage, its financial condition and results of operations may be harmed. In particular, Telecom Italia’s goodwill may be further impaired which could result in further significant write-offs.
Telecom Italia may be adversely affected if it fails to successfully implement its Internet and broadband strategy.

The continuing development of Internet and broadband services is an important part of Telecom Italia’s strategic objectives which aims to increase the use of its networks in Italy and abroad. Telecom Italia’s strategy includes the development of broadband and value added services in order to offset the decline of traditional voice services. The ability to successfully implement this strategy may be affected if:

- internet usage in Italy continues to grow more slowly than anticipated, for reasons such as changes in Internet users’ preferences or lower than expected penetration rate growth for PCs, tablets, smartphones and other Internet connected devices;
- broadband penetration does not grow as expected;
- competition increases, for reasons such as the entry of new competitors (telecoms companies, OTT players or players from adjacent markets), consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that it can offer; and
- it experiences any network interruptions or related problems with network infrastructure.

Any of the above factors may adversely affect the successful implementation of Telecom Italia’s strategy, its business and results of operations.

Telecom Italia’s business may be adversely affected if it fails to successfully implement its Information and Communications Technology (ICT) strategy.

Telecom Italia intends to continue focusing on IT-TLC convergence by addressing the ICT market, offering network and infrastructure management, as well as application management.

Moreover as the use of cloud IT services matures and their adoption grows, Telecom Italia may take advantage of the new cloud opportunities especially in the Business customer segment providing a full range of services (from “core” infrastructure to software as a service through partners’ ecosystems) integrated with a wide range of connectivity options and end-to-end SLAs. Telecom Italia expects to experience increasing competition in this market as additional competitors (mainly communications operators through acquisition and partnership with IT operators) also enter this market.

There is no assurance that the services offered will be successful; as a result Telecom Italia’s revenues could be negatively affected.

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

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but to date there is no scientific evidence of harmful effects on health. Telecom Italia cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Telecom Italia’s mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.
Fluctuations in currency exchange and interest rates may adversely affect the Telecom Italia Group’s results.

In the past, Telecom Italia has made substantial international investments, primarily in U.S. dollars, and has significantly expanded its operations outside of the Euro zone, particularly in Latin America.

Telecom Italia generally hedges its foreign exchange exposure, but does not cover translation risk relating to its foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular the Brazilian Real and Argentine Peso) may adversely affect its consolidated results. In particular, with respect to Argentina, Telecom Italia cannot predict whether, and to what extent, the value of the peso may depreciate against the U.S. dollar, the Euro or other foreign currencies, in such a form that it will capture partially or totally the current gap between the official exchange rate and the implicit exchange rate. A rise in the value of the Euro relative to other currencies in certain countries in which Telecom Italia operates or has made investments will reduce the relative value of the revenues or assets of Telecom Italia’s operations in those countries and, therefore, may adversely affect its operating results or financial position.

In addition, Telecom Italia has raised, and may raise in an increasing proportion in the future, financing in currencies other than the Euro, principally the U.S. dollar and British pound. In accordance with Telecom Italia’s risk management policies, Telecom Italia generally hedges the foreign currency risk exposure related to non-Euro denominated liabilities, through cross currency and interest rate swaps.

Furthermore, an increase of sovereign spreads, and of the default risk it reflects, in the countries where Telecom Italia operates, may affect the value of its assets in such countries.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE NOTES ISSUED UNDER THE PROGRAMME.

Risks related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common features:

Risks applicable to all Notes.

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.
The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

*If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

*Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

*Risks related to Notes generally.*

Set out below is a description of material risks relating to the Notes generally.

*The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.*

The Conditions contain provisions for convening meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.
The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Withholding under the EU Savings Directive.

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, subject to a procedure whereby on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under EC Council Directive 2003/48/EC.

The European Commission has proposed certain amendments to EC Council Directive 2003/48/EC, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State of the EU which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Each Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EC Council Directive 2003/48/EC.

FATCA Withholding
Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the ICSDs), in all but the most remote circumstances, it is not expected that the Foreign Account Tax Compliance Act provisions of the Hiring Incentives to Restore Employment Act of 2010 (FATCA) will affect the amount of any payment received by the ICSDs as more fully detailed in “Taxation – FATCA Withholding”. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The relevant Issuer’s obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as holder of the Notes) and the relevant Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries.

The value of the Notes could be adversely affected by a change in English law or administrative practice.

The Conditions are based on English law in effect as at the date of this EMTN Programme Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this EMTN Programme Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally.

Set out below is a description of the material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

The Notes may have no established trading market when issued, and one may never develop. If a market does not develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet
the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

*If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.*

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency equivalent yield on the Notes, (2) the Investor’s Currency equivalent value of the principal payable on the Notes and (3) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuers, the Guarantor to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

**The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.**

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

**Credit ratings assigned to the Issuers, the Guarantor or any Notes may not reflect all the risks associated with an investment in those Notes.**

One or more independent credit rating agencies may assign credit ratings to the Issuers, the Guarantor or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this EMTN Programme Prospectus.
Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.
GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuers may from time to time issue Notes denominated in any currency, subject as set out herein. An overview of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the terms and conditions of the Notes (the Conditions) endorsed on, attached to, or incorporated by reference into, the Notes, as modified by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “Form of the Notes” below.

This EMTN Programme Prospectus and any supplement to this EMTN Programme Prospectus will only be valid for admission of the Notes to trading on the regulated market of the Luxembourg Stock Exchange and listing of the Notes on the official list of the Luxembourg Stock Exchange during the period of 12 months from the date of this EMTN Programme Prospectus in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €20,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate principal amount of Notes issued under the Programme from time to time:

(a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) shall be determined, at the discretion of the relevant Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the euro equivalent of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.
DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been or are published simultaneously with this EMTN Programme Prospectus and have been filed with the CSSF shall be deemed to be incorporated in, and to form part of, this EMTN Programme Prospectus:

- the Terms and Conditions contained in the EMTN Programme Prospectus dated 26 June 2012, pages 73 to 102 (inclusive), prepared by the Issuer in connection with the Programme;
- the audited consolidated annual financial statements for each of the financial years ended 31 December, 2012 and 2011 of the Telecom Italia Group (the 2012 Telecom Italia Annual Report and the 2011 Telecom Italia Annual Report, respectively);
- the unaudited consolidated interim financial information as at and for the three months ended 31 March, 2013 of the Telecom Italia Group (the Telecom Italia Group’s Quarterly Report at 31 March, 2013); and
- the audited unconsolidated annual financial statements for each of the financial years ended 31 December, 2012 and 2011 of TI Finance,

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 EMTN Programme Prospectus 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 EMTN Programme Prospectus. The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Prospectus Regulation.

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 EMTN Programme Prospectus. In addition, such documents will be available free of charge at the principal office in Luxembourg of Deutsche Bank (Luxembourg) S.A. for Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange and will be available on the website of the Luxembourg Stock Exchange: www.bourse.lu.

The Issuers and (in the case of Notes issued by TI Finance) the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this EMTN Programme Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this EMTN Programme Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Notes.

The following information from Telecom Italia’s and TI Finance’s annual and interim reports is incorporated by reference, and the following cross-reference lists are provided to enable investors to identify specific items of information so incorporated:
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<td>Telecom Italia’s Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December, 2011</td>
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<td>Location</td>
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<td>Telecom Italia Group’s Quarterly Report as at 31 March, 2013</td>
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<td>Document</td>
<td>Information incorporated</td>
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<tr>
<td>TI Finance’s Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31 December, 2011</td>
<td>Financial information concerning TI Finance’s assets and liabilities, financial position and profits and losses:</td>
<td></td>
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<td>Balance sheet</td>
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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 Final Terms, a permanent global note (a Permanent Global Note) which, in either case, will

(i) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the Common Safekeeper) for Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, société anonyme (Clearstream, Luxembourg); and

(ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the Common Depositary) for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

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 if the Temporary Global Note is not intended to be issued in NGN form) 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, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), 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 if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms 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, interest coupons and talons attached upon the occurrence of an Exchange Event. 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 1 year and on all 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 or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes 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 on a date subsequent to the Issue Date of such further Tranche, 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 such time as the Tranches are consolidated and form a single Series, which shall not be prior to 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 Final Terms.

No Noteholder 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.

The Issuers and the Guarantor may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplement to the EMTN Programme Prospectus or a new EMTN Programme Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.
APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least €100,000 (or its equivalent in another currency).

[Date]

[TELECOM ITALIA S.p.A.]

[TELECOM ITALIA FINANCE, société anonyme]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by TELECOM ITALIA S.p.A.]
under the €20,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the Conditions) set forth in the EMTN Programme Prospectus dated 26 June, 2013 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the EMTN Programme Prospectus). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the EMTN Programme Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the EMTN Programme Prospectus. The EMTN Programme Prospectus has been published at www.telecomitalia.it and www.bourse.lu and copies may be obtained free of charge from the Issuer [or the Guarantor] at [its/their respective] registered office[s]. In addition, the EMTN Programme Prospectus will be available from the specified office of each of the Paying Agents.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the Conditions) set forth in the EMTN Programme Prospectus dated 26 June, 2012 which are incorporated by reference in the EMTN Programme Prospectus dated 26 June, 2013. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the EMTN Programme Prospectus dated 26 June, 2013 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the EMTN Programme Prospectus), including the Conditions incorporated by reference in the EMTN Programme Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the EMTN Programme Prospectus. The EMTN Programme Prospectus has been published at www.telecomitalia.it and www.bourse.lu and copies may be obtained from the Issuer [or the Guarantor] at [its/their respective] office[s] as well as from the specified office of each of the Paying Agents.]

[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 Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.]
[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) Series Number: [ ]
   (b) Tranche Number: [ ]
   (c) Date on which the Notes will be consolidated and form a single Series:
       The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 20 below, which is expected to occur on or about [date]][Not Applicable]

2. Specified Currency or Currencies: [ ]

3. Aggregate Nominal Amount of Notes admitted to trading:
   (a) Series: [ ]
   (b) Tranche: [ ]

4. Issue Price: [ ]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]

5. (a) Specified Denominations: [ ]

   (N.B. Notes must have a minimum denomination of EUR 100,000 (or equivalent))

   (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:

   “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)

   (b) Calculation Amount: (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

6. (a) Issue Date: [ ]
   (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]

   (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

7. Maturity Date: [Fixed rate - specify date/Floating rate - Interest Payment Date falling in or nearest to [specify month and year]]
8. Interest Basis: [[ ]]% Fixed Rate
[[[ ] month [LIBOR/EURIBOR] +/- [ ]]% Floating Rate
[Zero Coupon]
(see paragraph 13/14/15 below)

9. Redemption/Payment Basis: [Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount]

10. Change of Interest Basis: [Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 13 and 14 below and identify there][Not Applicable]

11. Put/Call Options: [Investor Put]
[Issuer Call]
[(see paragraphs 16/17 below)]

12. [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [ ] [and [ ], respectively]]

(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Rate(s) of Interest: [ ]% per annum payable in arrear on each Interest Payment Date

(b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date

(Amend appropriately in the case of irregular coupons)

(c) Fixed Coupon Amount(s): [ ] per [ ] Calculation Amount

(Not Applicable)

(d) Broken Amount(s): [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ][Not Applicable]

(e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]

(f) Determination Date(s): [[ ] in each year][Not Applicable]

[Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or


Floating Rate Note Provisions

14. [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:

(c) Additional Business Centre(s):

(d) Manner in which the Rate of Interest and Interest Amount is to be determined:

(e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):

(f) Screen Rate Determination:

(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 TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR) (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(g) ISDA Determination:

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

(h) Margin(s):

(+) [% per annum]

(i) Minimum Rate of Interest:

(+) [% per annum]

(j) Maximum Rate of Interest:

(+) [% per annum]

(k) Day Count Fraction:

[Actual/Actual (ISDA)][Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
15. Zero Coupon Note Provisions: [Applicable/Not Applicable]  
    (If not applicable, delete the remaining subparagraphs of this paragraph)  
    (a) Accrual Yield: [ ]% per annum  
    (b) Reference Price: [ ]  
    (c) Day Count Fraction in relation to Early Redemption Amounts: 
        [30/360] [Actual/360] [Actual/365] 

PROVISIONS RELATING TO REDEMPTION 

16. Issuer Call: [Applicable/Not Applicable]  
    (If not applicable, delete the remaining subparagraphs of this paragraph)  
    (a) Optional Redemption Date(s): [ ]  
    (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): 
        [ ] per Calculation Amount  
    (c) If redeemable in part:  
        (i) Minimum Redemption Amount: [ ] per Calculation Amount  
        (ii) Maximum Redemption Amount: [ ] per Calculation Amount  
    (d) Notice periods): [ ]  
        (N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 business days’ notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)  

17. Investor Put: [Applicable/Not Applicable] 
    (If not applicable, delete the remaining subparagraphs of this paragraph)
<table>
<thead>
<tr>
<th>(a) Optional Redemption Date(s):</th>
<th>redemption</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Optional Redemption Amount:</td>
<td>[ ] per Calculation Amount</td>
<td></td>
</tr>
<tr>
<td>(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes)</td>
<td></td>
<td></td>
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<tr>
<td>(c) Notice periods:</td>
<td>Minimum period: [ ] days</td>
<td></td>
</tr>
<tr>
<td>Maximum period: [ ] days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)</td>
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</tbody>
</table>

18. Final Redemption Amount: [ ] per Calculation Amount

19. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Calculation Amount

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

20. Form of Notes:

<table>
<thead>
<tr>
<th>(a) Form:</th>
<th>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]</td>
</tr>
<tr>
<td></td>
<td>[Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]</td>
</tr>
</tbody>
</table>
|           | (Ensure that this is consistent with the wording in the “Form of the Notes” section in the EMTN Programme Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]."
Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.) |

| (b) New Global Note: | [Yes][No] |
21. Additional Financial Centre(s): [Not Applicable/give details]  
(Note that this item relates to the place of payment and not Interest Period end dates to which sub-paragraph 14(c) relates)

22. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No.]

[Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer: [Signed on behalf of the Guarantor:]

By: ____________________________ By: ____________________________

Duly authorised Duly authorised
PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing and Admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [    ].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [    ].] [Not Applicable.]

(ii) Estimate of total expenses related to admission to trading:

[    ]

2. RATINGS

[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].

Each of [defined terms] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the CRA Regulation).]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business - Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]]

4. YIELD (Fixed Rate Notes only)

[    ]
5. HISTORIC INTEREST RATES *(Floating Rate Notes only)*

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].

6. OPERATIONAL INFORMATION

(i) ISIN Code: [ ]

(ii) Common Code: [ ]

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): [ ]

(vi) Deemed delivery of clearing system notices for the purposes of Condition 14: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

(vii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
7. **DISTRIBUTION**

(i) Method of distribution: [Syndicated/Non-syndicated]

(ii) If syndicated, names of Managers: [Not Applicable/give names]

(iii) Date of [Subscription] Agreement: [ ]

(iv) Stabilising Manager(s) (if any): [Not Applicable/give name]

(v) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]

(vi) U.S. Selling Restrictions: [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA Not Applicable]
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 Final Terms 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 Final Terms (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 the Final Terms 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 26 June, 2013 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 Deutsche Trustee Company 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 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 26 June, 2013 and made between Telecom Italia (in its capacity both as an Issuer and as the Guarantor), TI Finance, the Trustee, Deutsche Bank AG, London Branch 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).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the Conditions). References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Notes have interest coupons (Coupons) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, 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. Global Notes do not have Coupons or Talons attached on issue.

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) and
the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Tulons), 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 admission to trading) 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 26 June, 2013 at Winchester House, 1 Great Winchester Street, London EC2N 2DB, England and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)), are available for viewing at [www.telecomitalia.it](http://www.telecomitalia.it) and copies may be obtained from the Issuer or (in the case of Notes issued by TI Finance) the Guarantor at their respective registered offices, as well as from the specified office of each of the Paying Agents, save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms 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, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders 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 Final Terms 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 Final Terms 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 Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. **FORM, DENOMINATION AND TITLE**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. 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 or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

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 a duly authorised representative of TI Finance in the case of Notes issued by TI Finance.

Subject as set out below, title to the Notes 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 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. (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 Part B of the applicable Final Terms 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 related 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 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% 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 50% 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 and Couponholders against (A) any tax, assessment or governmental charge imposed on any such Noteholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder 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 admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, in the case of such merger or consolidation, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement to this EMTN Programme Prospectus 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 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.
If the Notes are in definitive form, except as provided in the applicable Final Terms, 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 Final Terms, 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.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, 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. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**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 (ICMA)” is specified in the applicable Final Terms:

(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 Final Terms) 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 Final Terms, 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 means, with respect to euro, one cent.

5.2 **Interest on Floating Rate Notes**

(a) **Interest Payment Dates**

Each Floating Rate Note bears interest 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 Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms 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. In the Conditions, **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 a Business Day Convention is specified in the applicable Final Terms 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 in 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 Final Terms; 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 (TARGET2) System (the TARGET2 System) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms 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 Final Terms) 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 2006 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 Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is the day specified in the applicable Final Terms.

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.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.
(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms 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 0.00005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either the London interbank offered rate (LIBOR) or the Euro-zone interbank offered rate (EURIBOR), as specified in the applicable Final Terms) 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 Final Terms) 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.

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

If the applicable Final Terms 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 Final Terms 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 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.

The Agent will calculate the amount of interest (the Interest Amount) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;
and, in each case, 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. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

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

(i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, 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 Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, 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 Final Terms, 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 Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

\[
\text{Day Count Fraction} = \frac{360 \times (Y_2 - Y_1) + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}
\]

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;
(vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

\[
\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}
\]

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

\[
\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}
\]

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(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 are for the time being listed in accordance with
the rules of such stock exchange 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 promptly be notified to each stock exchange on which the relevant Floating Rate 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 defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above, 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 Final Terms), 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.

(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 other Paying Agents and all Noteholders 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 or the Couponholders shall attach to the Agent or, if applicable, the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 **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 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 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the Code) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.2 Presentation of definitive Notes 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)).

Fixed Rate Notes in definitive form (other than 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 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 or otherwise in the manner specified in the relevant Global Note, where applicable 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, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

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 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) in the case of definitive Notes only, the relevant place of presentation;
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 Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(f) 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 will be redeemed by the relevant Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

7.2 Redemption for tax reasons

Subject to Condition 7.5, 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 not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate 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

(ii) any Additional Financial Centre specified in the applicable Final Terms; 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 (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 TARGET2 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:
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 to make available at its specified office to the Noteholders (i) 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 (ii) 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 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 as being applicable in the applicable Final Terms, the relevant Issuer may, having given (unless otherwise specified in the Final Terms) 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 Final Terms 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 Final Terms. 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 (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal
amount, at their discretion), 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 admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of 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. 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 Final Terms, 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 Final Terms, 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 or common safekeeper, as the case may be, 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 the terms of which require presentation for recording changes to its nominal amount, 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) 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 the
applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, 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 the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 30-day months) 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 will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days 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 will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days 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 will be 365).

### 7.6 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 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.

### 7.7 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured 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 7.6 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

### 7.8 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 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 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 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 or Coupon presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Note or Coupon by reason of his having some connection with a Relevant Jurisdiction other than the mere holding of such Note 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 26-27 November, 2000; or

(c) in respect of any Note 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 or Coupon to another Paying Agent in a Member State of the European Union; or

(d) in respect of any Note 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 or Coupon for or on account of imposta sostitutiva pursuant to Italian Legislative Decree No. No. 239 of 1 April, 1996 (Decree No. 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 No. 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 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 or Coupon pursuant to Decree No. 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 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 No. 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 any Note 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 subdivision 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 and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five 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; or

(ii) the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor fails to fulfill 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 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 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 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, COUPONS AND TALONS

Should any Note, 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, 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. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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 places as the rules of the relevant stock exchange require (which, if the relevant stock exchange is the Luxembourg Stock Exchange, shall be Luxembourg); and

(c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

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. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer 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 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 (a) if published in a leading English language daily newspaper of general circulation in London (it is expected that such publication will be made in the Financial Times in London) and (b) if and for so long as the Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange if published on the website of the Luxembourg Stock Exchange: www.bourse.lu or in another manner of publication in accordance with the Luxembourg laws and regulations implementing Directive 2004/109/EC and, if so required, in accordance with the rules of such exchange. The relevant Issuer shall also ensure that notices are duly published in a manner which complies with any applicable laws and regulations and 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. 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 trading 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 such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and 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 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% 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 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 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 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, 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 and Couponholders against (A) any tax, assessment or governmental charge imposed on any such Noteholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder 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 admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, in the case of such a substitution, TI Finance will advise the Luxembourg Stock Exchange, a supplement to this EMTN Programme Prospectus 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 and Couponholders against (A) any tax, assessment or governmental charge imposed on any such Noteholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder 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 laws, legislation, rules and regulations of the Republic of Italy (including without limitation Legislative Decree No. 58 of 24 February 1998, as amended) for convening meetings of the Noteholders to consider any matter affecting their interests, including any modifications of the Conditions or of any provisions of the Trust Deed. The above provisions are subject to compliance with mandatory laws, rules and regulations of the Republic of Italy in force from time to time.

The quorum and the majorities for passing resolutions at any such meetings are established by Article 2415 of the Italian Civil Code, Legislative Decree No. 58 of 24 February 1998 and Telecom Italia’s bylaws.

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 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, 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 admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, in the case of such a substitution, Telecom Italia will advise the Luxembourg Stock Exchange, a supplement to this EMTN Programme Prospectus 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 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 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 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 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 subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder 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 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 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 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 Securities and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law, except for Condition 15 and the provisions of the Trust Deed concerning the meeting of Noteholders and the appointment of the rappresentante comune in respect of the Notes are subject to compliance with Italian law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August, 1915, as amended, are excluded.

19.2 Submission to jurisdiction

(a) Subject to Condition 19.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes and/or the Coupons including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons (a Dispute) and accordingly each of the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Trustee and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(b) For the purposes of this Condition 19.2, each of the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), the Trustee and any Noteholders or Couponholders in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(c) This Condition 19.2(c) is for the benefit of the Trustee, the Noteholders and the Couponholders only. To the extent allowed by law, the Trustee, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) 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) Issuer irrevocably appoints Telecom Italia United Kingdom Ltd at 100 New Bridge Street, London EC4V 6JA, as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Telecom Italia United Kingdom Ltd being unable or unwilling for any reason so to act, it will immediately appoint another person approved by the Trustee as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process 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. If in respect of an issue there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.
DESCRIPTION OF TELECOM ITALIA

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia was incorporated as a joint stock company under the laws of Italy on 29 October 1908, and its duration is until 31 December 2100. Telecom Italia is registered with the Company Register in Milan under registration number 00488410010.

The registered office of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. Its telephone number is +39-02-85951. Headquarters and secondary office are at Corso d’Italia 41, Rome, Italy.

Telecom Italia complies with applicable Italian corporate governance rules. For additional details on corporate governance of the Telecom Italia Group, reference should be made to the corporate website: www.telecomitalia.com, where, in the “Corporate” channel (under “Governance” – “Governance system”), the Annual report on corporate governance is available.

Telecom Italia’s business objects can be found in article 3 of its Bylaws.

Overview of the Telecom Italia Group’s Major Business Areas

Telecom Italia is the parent company of the Telecom Italia Group.

Telecom Italia Group’s Business Units as of 31 March 2013 were as follows.


** With reference to the sale of La7 S.r.l., please see the section “Recent Developments” included on page 83 of this Base Prospectus.

Overview

their wholly owned subsidiary Telco S.p.A. (Telco), completed the purchase of the entire share capital of Olimpia S.p.A., which held approximately 18 per cent. of the share capital, from Pirelli & C. S.p.A. and Sintonia S.p.A.

5.6 per cent. of the ordinary share capital of Telecom Italia was contributed on the same date by Mediobanca and companies of the Generali group to Telco. As of 25 October 2007, the total investment held by Telco equalled 23.595 per cent. of Telecom Italia’s ordinary share capital.

Telco was held by Generali (28.1 per cent.), Intesa Sanpaolo (10.6 per cent.), Mediobanca (10.6 per cent.), Sintonia (8.4 per cent.) and Telefónica (42.3 per cent.).

On 20 March 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia’s ordinary share capital to 24.5 per cent.

On 22 December 2009 Telco and Sintonia executed a purchase and sale agreement pursuant to which Sintonia acquired from Telco shares representing approximately 2.06 per cent. of Telecom Italia’s share capital and Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia’s Telco shares and Sintonia left the shareholder group which controls Telco.

On 29 February 2012, Telefónica, Intesa Sanpaolo, Mediobanca and Generali entered into a new shareholders’ agreement for a period of three years on the same terms and conditions set out in the original Shareholders’ Agreement dated as of 28 April 2007 as it had been subsequently amended and supplemented (the 2012 Shareholders Agreement).

Currently Telco interests are held by Generali (30.58 per cent.), Intesa Sanpaolo (11.62 per cent.), Mediobanca (11.62 per cent.) and Telefónica (46.18 per cent.).

Telecom Italia Shareholder Agreement

The information contained herein regarding shareholders’ agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

On 29 February 2012 the shareholders of Telco (Generali Group with a 30.58 per cent. stake, Intesa Sanpaolo with a 11.62 per cent. stake, Mediobanca with a 11.62 per cent. stake and Telefónica with a 46.18 per cent. stake) terminated the New Shareholders’ Agreement (the last version of an agreement initially made on 28 April 2007, and then amended on 25 October 2007, 19 November 2007, 28 October 2009, 11 January 2010 and 10 December 2010), and entered into the 2012 Shareholders’ Agreement, on the same terms and conditions as the pre-existing one, with a duration until 28 February 2015.

The 2012 Shareholders’ Agreement defines, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco’s share capital, will be entitled to designate two candidates;
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the slate, of whom three candidates unanimously and the others on a proportional basis.

The 2012 Shareholders’ Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings that
examine proposals and resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions regarding Brazil and Argentina take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (Anatel) and by the Brazilian Antitrust Commission (CADE) and (ii) of the “Compromiso” signed before the Comisión Nacional de Defensa de Competencia of Argentina (CNDC) on 6 October 2010 by the contracting parties, by Telco and – as intervening parties in order to execute the obligations assumed – by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Moviles SA.

Consistently with the provisions of the agreement, board members Alierta and Linares undertook at the time of their appointment not to participate in the discussion and voting of the Board of Directors (as well as of the Executive Committee) of Telecom Italia when matters are proposed or discussed that relate to the activities of the Company and its subsidiaries in the telecommunications markets of Brazil and Argentina, as well as, in general, in all cases where there could be possible prejudice to the Telecom Italia Group.

As indicated above, the 2012 Shareholders’ Agreement has a duration until 28 February 2015. Each party:

- may request the de-merger of Telco by sending a communication to the other parties between 1 August and 28 August 2014, with an obligation to give effect to the de-merger within the subsequent six months;
- may withdraw from the agreement and request the de-merger of Telco by sending a communication to the other parties in the period between 1 September and 28 September 2013, with an obligation to give effect to the de-merger within the subsequent six months.

At the same time as signing the 2012 Shareholders’ Agreement, on 29 February 2012 Telco and Telefónica renewed and extended to 28 February 2015 the option to purchase shares in the Company initially agreed on 6 November 2007 and then amended on 28 October 2009. In accordance with the existing agreements, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

**Share Capital**

The table below contains a breakdown of the share capital of Telecom Italia as at 31 March 2013:

<table>
<thead>
<tr>
<th>Number of Shares(1)</th>
<th>Value (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13,416,839,374</td>
<td>7,379,261,655.70</td>
</tr>
<tr>
<td>6,026,120,661</td>
<td>3,314,366,363.55</td>
</tr>
<tr>
<td><strong>19,442,960,035</strong></td>
<td><strong>10,693,628,019.25</strong></td>
</tr>
</tbody>
</table>

Note:

(1) Each share has a par value of €0.55.
Recent developments

Sale of La7 S.r.l.

On 30 April 2013, having received the necessary regulatory authorisations, Telecom Italia Media S.p.A. (TI Media) completed the sale of La7 S.r.l. to Cairo Communication Group, on the terms and conditions already communicated to the market in March 2013. In particular, TI Media received a sale consideration of €1 million.

Before the sale, La7 S.r.l. was recapitalised by TI Media for a sufficient amount to ensure a positive net financial position, at the sale date, of no less than €88 million. This recapitalisation also contributed to reaching the agreed level of equity of €138 million.

As a result of the transaction, Telecom Italia has waived intragroup financial receivables, due from TI Media, for a total amount of €100 million.

Based on the agreements reached and also taking account of the expected performance of La7 S.r.l. up to the time of sale, an additional negative impact on TI Media’s income statement is expected for the year 2013, of around €130 million, before accounting for amounts due to non-controlling interests.

This transaction is part of a broader corporate restructuring of the TI Media group which started in 2012.

Employee stock ownership plan

The Extraordinary Shareholders’ Meeting of Telecom Italia, held on 17 April 2013, approved an employee stock ownership plan which makes available a total of 54,000,000 ordinary shares at a 10 per cent. discount from the market price and in any case at not less than the par value. Individuals who hold shares for one year, and providing they remain employees, will be granted one free bonus ordinary share for every three shares purchased. To service the plan, the Extraordinary Shareholders’ Meeting granted the Board of Directors powers to increase share capital by a total of €39,600,000, partly paid and part without charge, via the assignment of profits or profit reserves.

Potential Combination with 3 Italia and Network Spin-off Project

On 11 April 2013, the Board of Directors of Telecom Italia established an internal committee made up of independent directors (the Committee) with the task of making a preliminary assessment of the viability (from regulatory and antitrust perspectives) of a possible merger with 3 Italia S.p.A. (3 Italia) and the overall value (industrial and financial) for Telecom Italia, in order to report to the Board of Directors with a non-binding recommendation.

On May 8 2013, the Committee agreed with the recommendation of the full Board of Directors to more carefully consider the proposal.

In carrying out its activities, the Committee has been supported by senior management and the financial, tax and legal advisors of Telecom Italia, and has been advised by Crédit Suisse. In particular, the assessment has focused on comparable combinations in the mobile telecommunications sector; the historical financial statements of 3 Italia; the business targets of 3 Italia; the potential synergies deriving from the transaction; tax aspects related to the transaction; regulatory and anti-trust issues; and a preliminary evaluation of the companies involved.

On the basis of the assessment performed, which was based on limited information, the Committee acknowledged that there were no impediments to starting a discussion with Hutchison Whampoa Limited (Hutchison Whampoa), the owner of 3 Italia, regarding a possible transaction and suggested that the Board of Directors of Telecom Italia ask the senior management team to verify with Hutchison Whampoa whether
it would be possible to achieve an acceptable balance between the parties’ positions on the valuations of the
two companies, recommending the conclusion of this second phase of analysis within a 30-day period
following 8 May 2013.

As a result of the importance of the transaction, the Board of Directors has adopted procedures that would
apply to a related party transaction. As a result, the Committee has also carried out its own preliminary
analysis. As such, the Committee (composed of the Lead Independent Director Luigi Zingales, and Directors
Lucia Calvosa, Massimo Egidi and Mauro Sentinelli) have been mandated to consider the Company’s
interest in completing the transaction and the advantages and substantial fairness of its conditions.

The Committee, which selected as its advisor Greenhill & Co. International LLP, agreed with the
recommendation to more carefully consider the proposal that was adopted on 8 May 2013 by the full Board
of Directors. On June 5, 2003, Telecom Italia announced that the Board of Directors has postponed a
decision relating to the potential merger with 3 Italia to a future meeting.

With respect to the access network spin-off project, an examination of the results of the management analysis
was initiated on 8 May 2013 by the Board of Directors of Telecom Italia. On 23 May 2013, the Board of
Directors further considered the feasibility plans to spin-off the access network but did not make a final
decision.

On 30 May 2013, the Board of Directors resolved to turn the access network into a separate company.
Telecom Italia announced that the assets and resources for developing and managing the passive access
network (both copper and fibre) and the active components of the fiber consisting of OLT (Optical Line
Termination) and cabinet will be spun off to a new company. The new structure is intended to guarantee all
operators (other local operators and Telecom Italia) access to the fixed-line network, in application of the
“Equivalence of Input” model of equality of treatment. Telecom Italia has informed AGCom, the Italian
telecommunications regulatory authority, of its voluntary plan to spin-off its access network.

The activities and analysis carried out by the management and their advisors included an assessment of the
competitive regulatory framework of the access network in Italy compared to the European scenario; the
perimeter of the potential spin-off; the separation procedures, with a comparative assessment of the effects of
the different solutions on Telecom Italia, from a perspective of value creation; and financial statement impact
and timing of the transaction.

The timing of completion of the voluntary spin-off of the access network cannot currently be determined.
One critical factor is the requirement to obtain necessary regulatory approvals. AGCom, the Italian
telecommunications regulatory authority, will have to analyse the market situation deriving from the
proposed spin-off and subsequently decide whether to confirm, remove or change the current regulatory
obligations of Telecom Italia.

As Telecom Italia has only initiated discussions with AGCom in early June 2013, it is not yet possible to
determine whether or when any regulatory modifications will be required or agreed. In accordance with the
law, Telecom Italia may withdraw this proposal at any time.

It should be noted that the effects of the project are not included in the business plan for the period 2013-
2015, approved by the Board of Directors on 8 February 2013.

The impact on the level of Telecom Italia’s financial indebtedness of the possible combination of 3 Italia
with Telecom Italia and the proposed network spin-off can only be quantified once the terms of each of these
transactions have been defined in detail. As there is no assurance that either or both transactions will be
consummated, any assessment of the impact on the Telecom Italia Group and its ability to support its
financial indebtedness would therefore be premature. However, in light of the quarterly results and the
business outlook, the Board of Directors on 8 May 2013 confirmed the sustainability of the Group’s financial
indebtedness in the business plan for the period 2013-2015. In particular, given the liquidity margin at 31
March 2013, equal to €13.9 billion (made up of €7.2 billion of cash and cash equivalents as well as €6.7 billion of unused irrevocable credit lines), the financial liabilities falling due by their terms over a period exceeding the next 24 months are fully covered.

**Partial spin-off of Telecom Italia Sparkle**

The Board of Directors has approved the partial spin-off of Telecom Italia Sparkle, via transfer to the parent Telecom Italia of the “Network Operations” business unit to ensure: (i) for the Sparkle network the delivery, operation and management of customer services and technical support as well as the operation of departmental networks and Network & Service Management systems; (ii) the protection of relations with the judicial authorities and the continuation of international services. The spin-off is expected to be concluded by the third quarter of 2013.

**Cash Tender Offer for outstanding notes issued by Telecom Italia Capital S.A.**

On 15 May 2013, Telecom Italia announced the commencement of a cash tender offer for up to $750,000,000 in aggregate principal amount of notes (the Offer) issued by Telecom Italia Capital S.A. (TI Capital).


On 30 May 2013, Telecom Italia announced that, as a result of the tenders received in relation to the Offer, it had increased the tender cap for TI Capital notes that may be purchased from $750,000,000 to $1,577,027,000 and increased the series maximum tender amount for the 5.25% Notes due 2015 that may be purchased from $500,000,000 to $634,797,000.

Telecom Italia also announced that it had elected to exercise its right to cause an early settlement of the Offer, subject to certain closing conditions. Early settlement of the Offer occurred on 3 June 2013. Because the Offer was oversubscribed, Telecom Italia did not accept for purchase any additional TI Capital notes.

The Offer has been part of Telecom Italia’s balance sheet management and was aimed at proactively managing its forthcoming debt maturities. Telecom Italia used available cash resources to fund the Offer.

**Business Unit**

*Key financial data prepared in accordance with IFRS for the three-month period ended 31 March 2013*

At 31 March 2013, the Telecom Italia Group was organised by business segment as follows:

(i) **Domestic Business Unit**: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (international wholesale) as well as the relative support activities;

(ii) **Brazil Business Unit**: includes mobile (Tim Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;

(iii) **Argentina Business Unit**: includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;

(iv) **Media Business Unit**: includes television network operations and management;
Olivetti Business Unit: includes manufacturing operations for products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;

Other Operations: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Starting from the first half of 2012 the Telecom Italia Group adopted early and retrospectively applied the revised version of IAS 19 (Employee Benefits). Accordingly, the comparative figures of the three month period ended 31 March 2012 have been restated on a consistent basis.

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Media, Olivetti, Other Operations, adjustments and eliminations</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues(^{(1)})</td>
<td>Three months ended 31 March 2013</td>
<td>4,024</td>
<td>1,786</td>
<td>917</td>
<td>6,796</td>
</tr>
<tr>
<td></td>
<td>Three months ended 31 March 2012</td>
<td>4,477</td>
<td>1,928</td>
<td>901</td>
<td>7,392</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>Three months ended 31 March 2013</td>
<td>1,093</td>
<td>209</td>
<td>128</td>
<td>(148)</td>
</tr>
<tr>
<td></td>
<td>Three months ended 31 March 2012</td>
<td>1,304</td>
<td>232</td>
<td>143</td>
<td>(54)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>Three months ended 31 March 2013</td>
<td>578</td>
<td>178</td>
<td>112</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Three months ended 31 March 2012</td>
<td>586</td>
<td>234</td>
<td>121</td>
<td>13</td>
</tr>
<tr>
<td>Number of employees(^{(2)})</td>
<td>As of 31 March 2013</td>
<td>53,147</td>
<td>11,549</td>
<td>16,748</td>
<td>1,497</td>
</tr>
<tr>
<td></td>
<td>As of 31 December 2012</td>
<td>53,224</td>
<td>11,622</td>
<td>16,803</td>
<td>1,535</td>
</tr>
</tbody>
</table>

Notes:
(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).
(2) The number of employees at period-end excludes employees relating to the consolidated companies considered as “Discontinued operations/Non-current assets held for sale”, and includes personnel with temporary work contracts.

As of 31 March 2013, the Telecom Italia Group Business Units were engaged in the following activities:

(a) The Domestic Business Unit operates as the consolidated market leader in Italy in providing telephone and data services on fixed-line and mobile networks for final retail voice customers and other wholesale operators. In the international field, the Domestic Business Unit develops fibre optic networks for wholesale customers (in Europe, the Mediterranean and in South America).

The principal operating and financial data of the Domestic Business Unit is reported according to two cash-generating units (CGU):

- **Core Domestic**

  Core Domestic includes all telecommunications activities conducted within the Italian market. Revenues are divided according to the net contribution of each market segment to the CGU’s results, excluding intrasegment transactions. The sales market segments are defined using of the “customer centric” organisational model and are as follows:

  - **Consumer**

    Consumer comprises voice and internet services and products managed and developed for individuals and families in the fixed and mobile telecommunications markets and public telephony;

  - **Business**
Business comprises voice, data, internet and ICT solutions services and products managed and developed for SMEs, SOHOs (Small Office Home Office), Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets. The Business segment has expanded since the beginning of 2013 with the integration of the Top segment;

- **National Wholesale**

  National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile telecommunications operators in the Italian domestic market; and

- **Other (support structures)**

  (i) **Technology & IT**

  Services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding client services in addition to the development and operation of information services; and

  (ii) **Staff & Other**

  Services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.

- **International Wholesale**

  International Wholesale includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

(b) **The Brazil Business Unit.** The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded such that it now offers both fibre optic data transmission using full IP technology such as DWDM and MPLS and residential broadband services.

(c) **Argentina Business Unit.** The Telecom Italia Group operates in the fixed and mobile telecommunications sector in Argentina mainly through Telecom Argentina and Telecom Personal (Personal), respectively. In addition, the Telecom Italia Group conducts mobile telecommunications operations in Paraguay through Núcleo. Telecom Argentina is one of the largest private-sector companies in Argentina. Telecom Argentina has a non-expiring licence to provide fixed-line telecommunications services and also provides other telephone related services such as an international long-distance service, data transmission, IT solutions outsourcing and internet services. Personal has a non-expiring licence to provide mobile services in Argentina and Núcleo has a renewable licence to provide mobile services in Paraguay.

(d) **Media Business Unit.** The Media Business Unit operates in the business segments of television broadcasting through La7, La7d and MTV group, the production of multimedia music platforms and
satellite channels and also the management of analogue and digital broadcasting networks, as well as accessory services and television broadcasting platforms.

(e) **Olivetti Business Unit.** The Olivetti group mainly focuses on the manufacturing of office products and services for information technology. It functions as a solution provider to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. The Olivetti Business Unit operates mainly in European, Asian and South American markets.

**Strategy**

**Strategic Priorities and Objectives of the 2013-2015 Plan**

On 8 February 2013, Telecom Italia presented its updated 2013-2015 Plan. The 2013-2015 Plan sets out the Telecom Italia Group’s primary strategic objective as well as a number of strategic priorities aimed at achieving this objective over the next three years:

- continued deleveraging to reduce its net financial debt, through:
  - focus on strategic markets – Italy, Brazil and Argentina—with the goal of stabilising consolidated revenues through the contribution from Latin America;
  - technological developments in fixed-line telephony and mobile telephony in Italy, mobile telephony in Brazil and network capacity in Argentina to take advantage of the growing demand for data;
  - extension and acceleration of the Group’s cost reduction policy in order to contribute to the financing of the above mentioned technological developments; and
  - sustainable shareholder remuneration. Telecom Italia announced its intention to revise its dividend policy in order to bring it into line with the continuing policy of deleveraging the Group.

**Domestic market**

In the Domestic market Telecom Italia, leveraging on its fixed and mobile network infrastructure, intends to:

- stabilise revenues;
- defend market share on traditional services through quality of service;
- grow innovative services leveraging both access and applications services such as Cloud services; and
- develop UBB (UltraBroadband) networks taking into account further developments in the regulatory framework and technological changes.

**Brazil**

Tim Brasil’s strategic priorities are to:

- expand its customer base through FMS (Fixed Mobile Substitution);
- pursue high potential in mobile broadband penetration;
continue network evolution, mainly through the increase of coverage and quality on 3G and the roll out of the 4G network; and

satisfy the growing demand for Internet services, while optimising capital expenditure.

Argentina

Telecom Argentina Group’s strategic priorities are to:

- continue to build on its market share and its fixed and mobile platforms;
- enlarge its network capacity;
- support premium positioning on mobile to boost value added services’ revenues; and
- fully exploit the high demand for data traffic.

Capital expenditures

In the first three months of 2013, consolidated capital expenditures amounted to €878 million euros, a decrease of €76 million in comparison with the first three months of 2012.

The capital expenditures planned for the 2013-2015 period at the Telecom Italia Group level, will be approximately €16 billion, excluding the acquisition of Spectrum licenses.

In particular:

- **Domestic Business Unit**: cumulative capital expenditures for the 2013-2015 period will be kept at €9 billion with such expenditure employed to continue the strengthening of the network infrastructure with a strong focus on fibre optic and LTE deployment. The objective of such expenditure is to support the continuing growth in demand for data, ensuring quality, and excellent performance in the provision of fixed and mobile access. The increase in innovative capital expenditures will be balanced by efficiencies and controlled spending in other areas;

- **Brazil Business Unit** (Tim Brasil): cumulative capital expenditures will stand at BRL 10.7 billion in the 2013-2015 period, with a focus on increasing the network capacity and quality improvement; and

- **Argentina Business Unit**: capital expenditures will be 4.7 billion Argentine pesos in 2013 (17 per cent. capital expenditures on revenues, excluding Spectrum acquisition). The capital expenditure/revenue trend will grow in 2013-2015 period compared to 2012. The focus of such capital expenditures is to deliver better network service quality, extending reach and capacity of mobile access, especially for mobile data, and to accelerate FTTC deployment.

The Telecom Italia Group expects to fulfil its future commitments for capital expenditures primarily through the use of cash generated from operations.

Competition in the Domestic Market

The market

The Italian telecommunications market continues to be highly competitive with significant pricing pressure, which has led to an on-going decline in the traditional service components, particularly voice services.
In this context, the key element in the evolution of the market continues to be the increased penetration of broadband, particularly mobile, facilitated by the greater penetration of next-generation handsets.

The development of broadband has also led to an increase in competition, with greater interaction between players active in different markets. This has opened the field to competition from non-traditional operators (in particular OTTs and producers of electronic and consumer devices), and has also given traditional telecommunication operators the opportunity, to develop new “network based” services (mainly in the IT and Media fields).

For the legacy telecommunications operators, in addition to the core competition from the other traditional operators in the sector, there has been increased competition from OTTs and device producers taking advantage of their superior understanding of the evolution of consumer trends, consumer electronics and software environments and who operate entirely in the digital world, basing strategies on competition approaches that are completely different to those of telecommunications operators.

Over time, therefore, the traditional players’ business models have had to adapt to meet challenges presented by new entrants and to exploit new opportunities:

- in Media, broadcasters, who are vertically integrated players, continue to dominate the scene; however, with the Web becoming increasingly important as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies and OTTs;

- in IT (where Italy continues to have a level of investment relative to its GDP significantly lower than that of the United States and other European countries), the decline in revenues is driving the various players towards the Cloud computing “growth oasis” as a way of protecting market shares in their respective core businesses. Telecommunications operators are expected to strengthen in this sector, including through partnerships;

- in the Consumer Electronics market, producers can develop services that can be used through the internet, building on handset ownership and management of the user experience, loosening or breaking the relationship between customers and telecommunications operators and competing with the media and OTTs, through games consoles and set-top boxes, for the role of net enabler through the living room screen; and

- OTTs have, for some time now, been leading the transformation of the methods of use of telecommunications services (including voice), increasingly integrating them with Media and IT.

Conversely, with regard to the positioning of the telecommunications operators in converging markets, there are a number of innovations at varying levels of development:

- initiatives involving innovative services in the IT market with the expansion of Cloud services for business and retail consumers;

- new wireless applications such as Machine-to-Machine (MTM) and mobile payment; and

- significant presence as enablers of online digital content delivered to the consumer through OTT TV multidevice solutions.

**Competition in Fixed-Line Telecommunications**

The fixed-line telecommunications market is characterised by the rapid decline in voice revenues due to reduction in prices and the progressive shift of voice traffic to mobile. In recent years all the operators have attempted to offset this phenomenon by concentrating mainly on the ability to innovate their offering by
developing the penetration of ADSL and introducing bundled voice, broadband and services deals (double play), in a highly competitive environment with consequent pricing pressure.

The evolution of the competitive product offering has also been influenced by consolidation, among competitors, of an approach based on the control of infrastructure (above all LLU). The main fixed operators are now also offering mobile services, as MVOs.

In 2012, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat) due to the widespread penetration of personal computers and tablets. For years, both for retail consumers and small and medium sized businesses, mature traditional voice services have been replaced by value-added content and services based on the internet protocol. This shift has been facilitated by the use of the internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.

The competitive scenario in the Italian fixed telecommunications market is characterised by the presence, in addition to Telecom Italia, of a number of operators such as Wind-Infostrada, Fastweb, Vodafone-TeleTu and BT Italia that have different business models focused on different segments of the market.

At the end of 2012, fixed accesses in Italy aggregated to approximately 21.4 million, slightly down from 2011. The growing competition in the access market has led to a gradual reduction in Telecom Italia’s market share.

In the broadband market, at 31 December 2012 fixed broadband customers in Italy aggregated to approximately 13.6 million with a penetration rate on fixed accesses of about 63 per cent.

The spread of broadband is driven not only by the penetration of personal computers, but also by the growing demand for speed and access to new IP based services (voice over IP, content, social networking services, online gaming, IP Centrex, etc.). In 2012, however, the slowdown in growth of the fixed-line broadband market continued, due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the continuing weakness of the macroeconomic environment.

The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to reduction in average prices.

**Competition in Mobile Telecommunications**

The mobile market, although saturated and mature in its traditional component of voice services, continues to see growth in the number of mobile lines, driven by the increase in multiSIM/multidevice customers and in non-human lines (lines which operate with a SIM card but are not used for voice services such as an Apple iPad) (at 31 December 2012, mobile lines in Italy aggregated to approximately 97 million with growth of about 1 per cent. over 2011 and with a penetration rate of approximately 159 per cent. of the population).

Along with the progressive contraction in traditional service components, such as voice and messaging, which also reflect the increasing spread of “communication apps”, there has been significant growth in the mobile broadband market, which, in the last few years has been, and in the future will continue to be, the main opportunity for the strategic and commercial growth of the mobile telecom industry, this growth will be facilitated by the launch of Ultra Broadband LTE.

In 2012, the growth in mobile broadband customers continued, both for large and small screen, with a high penetration rate on mobile lines as a result of the increasing spread of smartphones and tablets.
Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile Apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as mobile payment.

In the Italian mobile telecommunications market, competition is dominated by Telecom Italia and also by the infrastructured operators (Vodafone, Wind and H3G) which are focused on different segments of the market or have different strategies.

In addition to these operators, the field also includes MVOs, of which PosteMobile is the most important player. These operators currently have a limited share of the market, but continue to enjoy significant growth compared to infrastructured operators.

**Competition in the Brazilian Market**

At the end of 2012, the Brazilian mobile market reached 261.8 million lines. This is 8.1 per cent. more than at the end of 2011 and a penetration of 132.7 per cent. of the population (123.9 per cent. in 2011). Net total increases for 2012 amounted to 19.5 million lines, 19.7 million less lines than for the prior year.

**Competition in the Argentine Market**

The telecommunications markets in Argentina and Paraguay continue to show strong demand for new services and higher access speeds in a fiercely competitive environment across the different business segments.

Specifically, in the mobile segment in Argentina, Personal is one of three operators offering services at the national level and competes with Claro (America Móvil group) and Movistar (Telefónica group). Following the introduction of number portability in 2012 competition has intensified. The acquisition and retention of high-value customers will continue to be central to Personal’s strategy, which intends to lend support to mobile use through the launch of new products and services that not only enable retention of existing customers, but also put Personal in the position of being the preferred operator in the mobile sector in Argentina.

In Paraguay, Núcleo operates in a market featuring strong competition, especially following the implementation of number portability in Paraguay in November 2012. Its main competitor is Tigo (Millicom group).

In the broadband segment, the Argentina Business Unit operates through the Arnet brand and its competitors are mainly ADSL Speedy (Telefónica group), Fibertel (Clarín group), which offers broadband access services using cable modems, and Telecentro, which offers triple play plans.
THE REGULATORY FRAMEWORK

The EU regulatory framework

Telecom Italia’s operations in the European Union (EU) are subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and communications. As such, being a member of the EU, Italy is required to implement the directives issued by the EU. Regulations, however, adopted at the EU level have general application and are binding and directly applicable in each EU Member State without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although politically important.

The European Commission (EC) began liberalising the telecommunications market to competition in the late 1980s and early 1990s. In Italy, as well as in all the main EU Member States, liberalisation opened up competition of public voice telephony and public network infrastructure in 1998.

The need for a revision of the 1998 framework emerged from the growing convergence between telecommunications, broadcasting and information technology. A new EU regulatory framework (consisting of five directives: the framework; access and interconnection; authorisation; the universal service and users’ rights; privacy and data protection directives) was adopted in 2002, regulating all forms of fixed and wireless telecommunications, data transmission and broadcasting.

A recommendation adopted in February 2003, on relevant product and service markets susceptible to ex ante regulation, completed this set of legal instruments. In December 2007, the EC amended this first recommendation on relevant markets, reducing the previous 18 markets susceptible to ex ante regulation to seven: retail access at a fixed location (market one) and, at wholesale level, call origination at a fixed location (market two); call termination at a fixed location (market three); wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market four); wholesale broadband access (market five); wholesale terminating segments of leased lines (market six) and voice call termination on mobile networks (market seven).

The EU regulatory framework obliges National Regulatory Authorities (NRAs, in Italy AGCom) to run market analyses before imposing appropriate obligations on individual operators having Significant Market Power SMP according to specific EU guidelines. A company is deemed to have SMP if, either individually or jointly with others, such company enjoys a position equivalent to dominance, that is to say a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers. Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25 per cent. are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40 per cent. and market shares in excess of 50 per cent. are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The market analyses carried out by NRAs are subject to the assessment of the EC which, to a certain extent, can challenge the NRAs findings, having a “veto power” on the definition of the market and on the identification of SMP operators. As per the choice of remedies the EC has no veto power but can raise serious doubts after which the “Body of European Regulators for Electronic Communications (BEREC)” is required to give an opinion. The EC, BEREC and the NRA involved then have to cooperate to find a solution within three months. Neither the EC nor BEREC are able to make a binding intervention. Should a NRA decide not to amend or withdraw a draft measure after the EC expresses serious doubts, it shall provide a “reasoned justification”.

The EU legal framework was revised in 2009, with the aim of defining a new European regulatory framework for the sector.
The revision of the framework established a set of rules composed of the Better Regulation Directive (Directive 2009/140/EC, amending the Framework, Access and Authorisation directives) and the Citizens’ Rights Directive (Directive 2009/136/EC amending the Universal Service and E-Privacy directives and Regulation 2006/2004 on Consumer Protection Cooperation) to be transposed into national laws of the 27 EU Member States by 25 May 2011 and by the Regulation—which was directly applicable—establishing the new European Telecoms Authority BEREC.

The revised directives were transposed into the Italian legal framework by means of the Legge Comunitaria 2010 which was published in the Italian Official Journal on 2 January 2012; the Italian Government was delegated to adopt (within three months) measures aiming at transposing the revised directives. The Legislative Decrees of 28 May 2012 (n. 69 and 70) transposing the EU 2009 regulatory framework entered into force on 1 June 2012.

**Telecommunication Regulatory Framework in Italy**

The legal basis for the electronic communications sector in Italy is as follows:

(i) Law 36 of 22 February 2001 aimed at protecting the population from the effects of exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree (Decreto del Presidente del Consiglio dei Ministri—DPCM) of 8 July 2003, which sets up “Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz;

(ii) the Electronic Communications Code (ECC), which transposed into national law the EU Access, Authorisation, Framework and Universal Service directives;

(iii) the Data Protection Code;

(iv) the Consolidated Law on Radio-Television containing the principles regulating the organisation of radiotelevision system and its convergence with different means of interpersonal and mass communications;

(v) the Consumer Code;

(vi) Legislative Decree 3 October 2006, n. 262 which contained urgent measures regarding tax and financial issues and, partially amended the sanctions’ regime set by the ECC by introducing further examples of administrative offences, a generalised increase in the fines for each sanction and the elimination of the partial cash settlements of fines;

(vii) Decree Law 31 January 2007, n. 7 containing urgent measures for the protection of consumers, for the promotion of competition and for the development of economic activities. The above mentioned law impacts the electronic communications sector by prohibiting top-up charges and the expiration of phone traffic for prepaid phone cards;

(viii) Legislative Decree 30 May 2008, n. 109 transposing into national law the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks;

(ix) Law 18 June 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fibre networks (Article 1 “Broadband”);

(x) Decree Law 6 July 2011, n. 98, enacted by Law 15 July 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt);
the 2011 Budget Law (Law 13 December 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies’ rights of use;

Decree Law 18 October 2012 n. 179 (enacted by Law 17 December 2012 n. 221) providing for further broadband network funding to cancel the digital divide, measures to accelerate the roll-out of mobile fourth generation networks and administrative simplifications for optical fibre layout;

Decree Law 9 February 2012 n. 5 (enacted by Law 4 April 2012 n. 35) imposing on Telecom Italia two further obligations: (a) the disaggregation of maintenance costs for lines in unbundling; and (b) the possibility for OLOs to buy ancillary services from third parties;

the 2013 Budget Law (“Legge di Stabilità 2013”) modifying art. 96 of the Italian Communication Code regarding mandatory services required by public authorities to telecom operators for crime prevention and punishment purposes.

Furthermore, the ECC confirmed the responsibilities of the Ministry of Communications and of AGCom as set by the previous legislation. In particular:

- the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;

- AGCom is an independent regulatory authority granting fair competition among operators and protecting consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

TELECOMMUNICATION REGULATION IN ITALY

In July 2008, Telecom Italia proposed to AGCom several undertakings related to its access network (the Undertakings) aimed at integrating and strengthening the non-discrimination obligations (imposed by AGCom in 2002) amongst Telecom Italia’s own retail divisions and other operators in the provision of wholesale access network services.

- AGCom approved the Undertakings, which are divided into 14 main groups and pursue four main goals:
  - offering additional guarantees of equal treatment amongst Telecom Italia’s commercial divisions and other electronic communications operators (Operators) purchasing wholesale access services from Telecom Italia;
  - providing benefits to Operators and final users, through the improvement in the quality of the fixed access network and of related services;
  - making the evolution of Telecom Italia’s fixed access network more transparent for Operators; and
  - ensuring the maintenance of competitive conditions in the migration towards new generation networks.

- Following the AGCom approval of the Undertakings, a number of proceedings which could have resulted in sanctions against Telecom Italia were suspended.

At the beginning of 2008, Telecom Italia created an “Open Access” department, a separate business unit focusing its activities on the implementation of the Undertakings. To ensure equal treatment for its own retail
divisions and those of the Operators (“internal-external equal treatment”), Telecom Italia undertook a set of activities focused on three main areas:

- technical-organisational domain: solutions for the improvement of internal delivery processes and to assure that SMP services were adopted;
- cultural-behavioural domain: a Code of Conduct has been adopted and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment; and
- economic-regulatory domain: service contracts were drafted and transfer charges adopted to implement equality of economic treatment.

The implementation of the Undertakings, their complexity and their impact on the stakeholders’ system, required the creation of a governance system. In particular, the following bodies were set up: an independent body (the Supervisory Board), the AGCom Undertakings’ Monitoring Group for the monitoring of the work in progress (GMI) and the Italian Office of Telecommunications Adjudicator (OTA Italia), whose mission is to prevent and settle disputes amongst Operators and the Next Generation Network Committee submitting possible solutions to technical, organisational and economic issues raised by the transition to the Next Generation Network.

In November 2011, three years after the formalisation of the Undertakings, AGCom recognised that Telecom Italia had fully implemented all the Undertakings and terminated certain proceedings against Telecom Italia that were suspended following the approval of the Undertakings.

At the end of 2012, 45 Operators had joined in the “New Delivery Process” (NDP) for Bitstream, 17 Operators for LLU and 12 Operators for “Wholesale Line Rental” (WLR).

GMI continues to monitor the implementation of the Undertakings.

After AGCom’s positive assessment and the notification to the EC, the access network operational separation model adopted by Telecom Italia can be considered a new European regulatory model and a viable alternative to the access network functional separation adopted by British Telecom (Open Reach).

Telecom Italia’s operational separation model will further continue to ensure quality of treatment (both in economic and technical terms), the promotion of an “Equivalence Culture”, through personnel training programs, and transparency to alternative network operators (AltNets) for both copper and fibre access network.

In July 2012, Telecom Italia submitted to AGCom the undertakings to be applicable to new generation access network services.

On 11 April 2013, Telecom Italia’s Board of Directors mandated its management to establish a feasible roadmap for the separation of Telecom Italia’s access network. Further to that mandate, on 30 May 2013, Telecom Italia’s Board of Directors, chaired by Franco Bernabè, resolved to turn the access network into a separate company. The assets and resources for developing and managing the passive access network (both copper and fiber) and the active components of the fiber consisting of OLT (Optical Line Termination) and cabinet will be spun off to a new company. The new structure is intended to guarantee all operators (other local operators and Telecom Italia) access to the fixed-line network, in application of the European-denominated “Equivalence of Input” model of equality of treatment.

The Board of Directors also mandated management to comply with the formalities contemplated by article 50 ter, Legislative Decree of 1 August 2003, n. 259 (the Electronic Communications Code) on voluntary separation by a vertically integrated company.
Telecom Italia has informed AGCom, the Italian telecommunications regulatory authority, of its voluntary plan to spin-off its access network.

The timing of completion of the voluntary spin-off of the access network cannot currently be determined. One critical factor is the requirement to obtain necessary regulatory approvals. AGCom, the Italian telecommunications regulatory authority, will have to analyse the market situation deriving from the proposed spin-off and subsequently decide whether to confirm, remove or change the current regulatory obligations of Telecom Italia.

As Telecom Italia has only initiated discussions with AGCom in early June 2013, it is not yet possible to determine whether or when any regulatory modifications will be required or agreed. In accordance with the law, Telecom Italia may withdraw this proposal at any time.

Market analyses

Following a first round (2006-2007) and a second round (2008-2009) of market analyses, in December 2010, AGCom started the third round of market analysis reviewing the mobile termination market to define the relevant market, identifying SMP operators and setting regulatory obligations on SMP operators. The final decision was published in November 2011 containing the new glide path for mobile termination rates (MTRs) for the period from 1 July 2012 to 1 July 2013. With respect to fixed markets, the third round of market analysis on wholesale and retail access markets was launched in September 2012 and the first step of the public consultation on the AGCom proposal (Decision 238/13/CONS) ended on 31 May 2013.

The main developments regarding markets in the electronic communications sector that occurred in 2012 and in the first five months of 2013 are described below.

Retail-fixed markets

As a result of the first round of fixed retail market analyses, AGCom identified Telecom Italia as an SMP operator and imposed regulatory obligations, including a price cap mechanism and price control.

In particular, the relevant retail fixed regulated markets included: access to the public telephone network provided at a fixed location for residential and business customers (markets one and two); local, national and fixed-mobile services markets - retention component only - for residential and non-residential customers (markets three and five, removed from the revised 2007 Recommendation); international telephone services, for residential and non-residential customers, provided at a fixed location (markets four and six, removed from the revised 2007 Recommendation); leased lines market (market seven, removed from the revised 2007 Recommendation).

At the end of 2009, AGCom concluded the second round of assessment of the international calls market and of the minimum set leased lines market and deregulated both markets withdrawing all ex ante obligations on Telecom Italia starting from 2010.

In 2010 AGCom concluded the second round of market analysis of the national retail fixed voice services. As a consequence, AGCom decided to withdraw all regulatory obligations starting from six months after the publication of its final decision. In the transitional six-month period (until 12 January 2011), AGCom maintained the obligation of prior notification of new tariffs. Since 12 January 2011 Telecom Italia has been allowed to fix retail tariffs without prior notification to or approval by AGCom.

In September 2010, AGCom set new rules for the assessment of Telecom Italia’s retail offers, including non-standard offers (public tender and tailored top business offers) and bundles (multiple-play offers). The new price test methodology is based on a replicability test developed on the basis of the following key principles: (i) a single replicability test valid for offers marketed in different (both traditional and innovative) contexts, reference to the most efficient technology and network architecture that could be used by AltNets to replicate
Telecom Italia’s offers and, hence, to a combination of wholesale inputs (LLU, WLR, bitstream, etc.); (ii) the evaluation of network and downstream AltNets’ costs on the basis of avoidable or long run incremental costs; (iii) application of the price test to the whole bundle, taking into account the overall cost of provisioning without considering whether each component of the bundle may be replicated by an alternative operator; (iv) ad hoc assessment of offers within tenders, taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context. Following the publication of the AGCom document “Circolare Attuativa” (8 July 2011), Telecom Italia asked for its revision. AGCom started a preliminary investigation and, in June 2012, rejected Telecom Italia’s requests, stating that its on-going practice allowed the termination of the critical procedural aspects claimed by Telecom Italia.

In 2012, Telecom Italia introduced a set of measures to simplify the tariff structure of the basic offers for both consumer and business customers. The last step of this simplification path is the new pricing schemes that Telecom Italia introduced early in 2013. For business customers, starting from 1 January 2013, the basic offer will consist of a single charge for all national calls, a price reduction for fixed-to-mobile calls and a change in the connection fee. For the consumer customers’ basic offer, starting from 1 April 2013 Telecom Italia introduced price simplification based on the introduction of a single price for all national and fixed-to-mobile calls, a change in the connection fee and the introduction of a discount equal to 50 per cent. for all national calls lasting more than three hours (the pricing is per 60 seconds’ telephone fees charged in advance).

With respect to the retail access market, AGCom reduced regulatory constraints removing, starting from 2010, the price cap mechanism used to control residential and business subscriber monthly fees, now subject only to a price test, in order to ensure replicability by an efficient operator. At the same time, AGCom maintained the obligation to notify prices and conditions 30 days in advance of the commercial launch (instead of the previous 60 days), but a clause of “tacit approval” at the end of the notice period was introduced. As for bundling services, the previous prohibition has been withdrawn as a consequence of the increased demand for Telecom Italia’s WLR offer.

Starting from 1 April 2013, an increase of the RTG consumers monthly fee entered into force. Starting from 1 April 2013, Telecom Italia also introduced a single fee for the termination of the contract after the first 12 months. This fee applies to all customers (consumer and business), whenever the resolution of the contract is not due to Telecom Italia.

With the aim of ensuring the start-up of Telecom Italia’s commercial optical fibre retail offers, pending the implementation of NGA regulation (see the “Wholesale fixed markets” paragraph for further details), in December 2012 AGCom authorised Telecom Italia to launch NGAN retail offers in areas where NGAN services were already offered by other operators. It provided that: (i) the service should be offered only in towns where comparable offers by other alternative operators were already in place (Milan, Rome, Turin, Bologna, Genoa, Naples and Bari); (ii) the maximum number of Telecom Italia connectable customers’ premises should be 40,000 units; and (iii) wholesale ultra broadband offers shall be provided at prices based on the retail price reduced by a given percentage in the ranges of 20-30 per cent. (retail minus approach). On 28 February 2013, AGCom approved with modifications Telecom Italia’s first NGA Reference Offers for passive infrastructure access and wholesale broadband access and after 60 days from this approval, Telecom Italia notified to AGCom the new NGA retail offer to be assessed in terms of technical replicability. Telecom Italia NGA retail offers are subject to the replicability obligation (under Decision 1/12/CONS) and on 31 May 2013, AGCom launched a public consultation (Decision 332/13/CONS) on the guidelines for the assessment of the economic replicability of Telecom Italia NGA retail offers.

**Wholesale fixed markets**

The first round of market analyses for fixed wholesale markets was concluded in 2006. In particular, the following markets were analyzed: call origination (market eight); call termination (market nine); transit services (market ten, removed from the revised 2007 Recommendation); unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services (market...
eleven); broadband access (market twelve); terminating segments of leased lines (market thirteen) and Trunk segments of leased lines (market fourteen, removed from the revised Recommendation).

As a result of market analyses, AGCom in 2006 imposed on Telecom Italia, as a SMP operator, regulatory measures including price control in the form of a network cap (except for the wholesale broadband access market).

The network cap mechanism was applied to calculate the prices of wholesale call origination, termination and transit services and of unbundled network-access services (i.e. Local Loop Unbundling and Shared Access). This mechanism was also applied to circuits, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance circuit segments.

Following the conclusion of the second round of market analyses of the wholesale access market, in December 2009, AGCom confirmed the current regulatory regime applicable to wholesale access obligations on copper infrastructure (unbundling and bitstream), whereas, with regard to price setting, for the period 1 May 2010 to 31 December 2012 a network cap mechanism based on a Bottom-Up Long-Run Incremental Cost (BU-LRIC) model was re-introduced. Following the adoption of the above-mentioned cost model, in November 2010 AGCom set new wholesale rates for the following wholesale services: unbundling, bitstream and WLR and the value of weighted average cost of capital (WACC) related to wholesale access services to be applied from May 2010 to December 2012. The WACC was set at a value equal to 9.36 per cent. AGCom set the following LLU monthly fees: €8.70/month as of 1 May 2010; €9.02/month as of 1 January 2011; and €9.28/month as of 1 January 2012. The increases in the LLU monthly fee and in other wholesale services for the 2011-2012 periods were, however, conditioned on the assessment, by AGCom, of the parameters related to network quality improvement and to the updating of Telecom Italia’s access network. Following evaluation by an external auditor, AGCom’s assessments were positive and, therefore, Telecom Italia was allowed to increase the intended wholesale prices.

Referring to the WLR service, AGCom required Telecom Italia to provide the service, only in the areas where disaggregated access services are not offered. The price for the service was calculated according to the network cap method, for the period from 1 May 2010 to 31 December 2012, based on a BU-LRIC model (see above), instead of the previous retail-minus regime. However, at the end of May 2012, AGCom approved the 2012 WLR Reference Offer with reference to the technical conditions launching a public consultation at national level on the WLR monthly fee. The above procedure did not imply any market analysis in contrast, according to Telecom Italia, to the regulatory certainty principle. In this procedure, AGCom proposed a monthly rental fee equal to €11.90/month which should be applied from 1 June 2012 versus the €12.88/month previously established. The AGCom introduced this reduction on the basis of new market conditions which would make the AltNets’ retail offers based on WLR (in areas not suitable for LLU) unprofitable. In addition to AGCom failing to utilise proper market analysis in establishing the amendment of the 2012 WLR monthly rental mentioned above, Telecom Italia reiterated to AGCom the absence of competitive issues in the areas not suitable for LLU, in the light of the fact that, despite a decline in the fixed line market, the WLR service availability was continuously increasing. At the end of December 2012, AGCom with Decision 643/12/CONS set a monthly rental fee equal to €11.70/month to be applied from 1 June 2012.

In September 2012, AGCom launched the third round of market analysis on wholesale and retail access markets. As a result, a new network cap for wholesale access services over copper was supposed to be set for the 2013-2015 period. However, the decision aimed at defining the new network caps obliged AGCom to impose on Telecom Italia the obligation to break down the costs of maintenance services for the supply of LLU lines and the acquisition of maintenance services from third parties. However, AGCom itself underlined—within the above decision—that the EC had formally opened an infringement procedure against Italy, in relation to the possible breach of the Framework Directive (July 2012) since the abovementioned law violates the autonomy and independence of the NRA. On 21 February 2013, the EC issued a reasoned opinion in which it considered this matter and stated that it considered the comments received from the Italian Government as unpersuasive. As a consequence, the Italian Government was obliged to comply with
the EU reasoned opinion and change the law accordingly within two months. The Italian Government discussed this matter in March 2013 and will approve - within the decree law aimed at transposing the EU rules into Italian law (“Legge Comunitaria 2013”) - a specific provision aimed at withdrawing the AGCom obligation to impose on Telecom Italia the disaggregated offer for its LLU ancillary services independently of its autonomous decision based on a market analysis procedure. The formal approval of this law by the Italian Parliament is expected to end the infringement procedure by the EC. In the draft decision on the third round of market analysis on wholesale and retail access markets under public consultation (Decision 238/13/CONS), AGCom stated that “presently the Authority does not find significant benefits, either in economic terms or in terms of process, which an “outsourcing” of such assets could entail”.

Pending the conclusion of the third round of market analyses on the wholesale and retail access markets, AGCom extended the economic conditions of the wholesale access services published in the Reference Offers approved for the year 2012 (LLU, Bitstream and WLR services).

However, on 20 December 2012 (having interpreted a statement from the European Commission to make the cost positioning between the LLU, WLR and Bitstream fixed line wholesale services consistent), the NRA launched two public consultations on the 2013 pricing of WLR services and of Bitstream services, anticipating the results of the analysis to be carried out during the third round of market analyses in the retail and wholesale access markets up to 2013. As to LLU, on 27 March 2013 a public consultation was opened aimed at defining 2013 prices. Following the above public consultation the new prices for shared access, sub-loop unbundling as well as a first increase of WACC will also be defined (AGCom decided to submit for public consultation the following ranges of prices relating to the monthly rental fees: 8.62 € - 9.25 € for LLU -9.28 € in 2012- 5.75 € - 6.17 € for sub-loop unbundling -6.19 € in 2012- and 0.96 € for shared access -1.35 € in 2012-, including a WACC value of 9.83% - currently at 9.36%). As a consequence, due to the above, the third round of market analysis on the wholesale access market (Decision 238/13/CONS) focuses on setting prices and WACC value for the 2014-2016 period (instead of the 2013-2015 period). In particular, as for LLU, AGCom decided to submit for public consultation a band of prices from 8.88-9.29 €/month for 2016, whilst it proposed, for the period 2014-2016, a WACC pre-tax value of 10.40 %.

In the meantime (25 March 2013), the Council of State granted the requests filed by Eutelia and WIND, and issued a decision on the 2010-2012 market analysis setting the fees for WLR and Naked Bitstream services. The Council of State focused on the AGCom decision to anchor the network cap mechanism for the above mentioned fees on a retail minus method rather than on a cost orientation one, stating that the decision lacks proper ground and rationale. AGCom has to issue a new statement; however the new decision may not necessarily be different from the previous one, i.e. AGCom can confirm the previous decision providing more sound legal and economic arguments.

In order to complete the NGAN set of rules published, in February 2012, AGCom opened three proceedings aimed at introducing: (i) a cost model for the pricing of passive and active wholesale services and the definition of the so called “NGAN competitive areas” where price of fibre based bitstream and virtual access services are not subject to the cost orientation obligation; (ii) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fibre To The Cabinet - Very High speed Digital Subscriber Line (FTTCab-VDSL) accesses; and (iii) the perspective enforcement of symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segment. In February 2013, the foregoing proceedings were included in the third round market analysis procedure on wholesale and retail access markets while on 28 March 2013 a new public consultation was opened on symmetric regulation for the access to fibre vertical wiring and to building connection segment.

On 28 February 2013, AGCom approved with modifications Telecom Italia’s first NGA Reference Offers for passive infrastructure access and wholesale broadband access. For 2012 AGCom approved, among other things, lower than initially proposed monthly fees for the new local level ethernet bitstream access product (VULA).
In Decision 238/13/CONS relating to the third round of market analysis on the wholesale and retail access markets, AGCom recognized the possibility for Telecom Italia to differentiate fibre bitstream pricing on the basis of the different competitive conditions observed in different geographical areas (“cost-based” where there is no NGAN infrastructural competition; commercially negotiated values in others). However, this differentiation was not applied in Telecom Italia’s 2012 Reference Offers but will be in discussion from 2013 (post AGCom’s assessment of the geographical areas). The above mentioned decision also provides the identification of a specific risk premium applicable to wholesale NGAN services rates, as well as the definition of a specific cost model. Moreover, in Decision 238/13/CONS, AGCom proposed the prices for the access to NGA networks on a time horizon up to 2016 (for 2014 and 2015 values will result from the linear trend between values approved for 2013 and for 2016 respectively) and, in particular, the FTTC VULA price proposed for 2016 is in the range 16.99 - 17.04 €/month, lower than the value approved for the 2012 (21.51 €).

On 23 May 2013, AGCom launched a public consultation on 2013 NGAN prices (dark fibre and bitstream) and End to End service. The 2013 NGAN prices do not differ significantly to the 2012 NGAN prices.

With respect to migration between operators, AGCom revised fixed-line customer migration rules, substantially reducing the processing times (reduced to five days as of March 2010) for the donating operator to verify the recipient’s migration request (so called “Phase II”). Moreover, in cases where migration is not requested, the user will have the right to restore, free of charge, the previous configuration within five working days. Furthermore and starting from February 2011, in order to prevent the activation of services not requested by retail customers, fixed-line operators introduced an individual security code provided to the customer when they sign the contract for the access service. Finally, with Decision 62/11/CIR, published on July 2011, the daily capacity of each operator for the migration order management has been increased by 60 per cent.

The regulatory framework should gradually reduce the above-mentioned timeframe.

With reference to fixed call termination and origination, in April 2011, AGCom approved fixed interconnection charges from 1 July 2011 to the end of 2013 (prices provided for call origination were set equal to the ones for call termination). In particular, with respect to fixed termination rates (FTRs) of both Telecom Italia and AltNets having SMP, AGCom set 2011 prices at the same level as 2010, therefore maintaining AltNet’ asymmetric prices equal to Telecom Italia’s termination charge for the SGT level. Moreover, AGCom deferred to 2012 the application of symmetric termination tariffs, equal to Telecom Italia’s tariff at local exchange level (SGU), among the AltNets and Telecom Italia itself. AGCom, finally, decided that, starting from 2013, only IP termination would be regulated, with a single symmetric tariff for Telecom Italia and for other fixed network operators, resulting from the BU-LRIC model to be developed consistent with EU Recommendation 2009/396/EC on termination rates. In 2012, AGCom approved Telecom Italia’s reference offer for fixed services offered in TDM mode, setting a value of € cent 0.272/min for local level (SGU) termination. Moreover, on 31 October 2012, Telecom Italia published its reference offer for the year 2013 for interconnection services in both TDM and IP technology in line with the applicable regulatory framework so that the tariffs for IP termination service were regulated while TDM services were provided on commercial basis. Following a public consultation, in January 2013, AGCom notified to the EC the IP interconnection glide path for the 2012–2015 period, setting the origination service trend separated from the termination one; previously a unique value was applicable to both the origination and termination services. AGCom proposes to apply a glide path until 1 January 2015 in order to allow operators to reach the efficiency required by the application of the pure LRIC model; only starting from that date will tariffs defined through a pure BU-LRIC model be applied to fixed termination rates. With a letter dated 7 February 2013, the EC opened a Phase II investigation into the fixed IP termination rates proposed by the Italian regulator, because the fully cost oriented rate (€cent 0.043/min) based on a bottom-up pure long run incremental cost (pure LRIC) model would not be reached before 1 January 2015 contrary to the EC’s guidelines. The EC’s Phase II investigation suspended the adoption of AGCom’s draft measure on IP FTRs for three months. In the meantime, due to the delay in setting the technical specifications of IP interconnection, the migration towards IP could not be achieved by 2012 as envisaged by AGCom. The
“specifica tecnica ST769” was published on MiSE’s website only on 8 January 2013. As a consequence, the Authority started a proceeding to set regulated rates for TDM services for the year 2013. Following the serious doubts expressed by the EC (Phase II investigation), on 16 April 2013 AGCom announced the withdrawal of the measure related to the fixed IP termination rates. On 21 May 2013, AGCom published Decision 333/13/CONS, which stated that the two proceedings about IP and TDM interconnection are to be merged into one single proceeding and on 4 June, 2013 AGCom launched a new public consultation (Decision 356/12/CONS) on the implementation of a cost model for setting the interconnection services prices on the fixed network for the period 2013-2015. In the above mentioned decision, rates for TDM and IP traffic are the same, in accordance with the principle of technological neutrality and independently from the interconnection level. As for the termination services, the proposed rates are applicable to all operators, in accordance with the principle of tariff symmetry and the initial drop of the price level proposed by AGCom for the period 2013-2015 in the above proceeding is now steeper than in the one proposed in the withdrawn measures but the cost oriented rate (0.043 €cents/min) would be reached six months later, on 1 July 2015.

The legal dispute over fixed termination prices’ asymmetry between Telecom Italia and AltNets for the period June 2010-June 2011 was decided on 15 May 2012. The Third Section of the Council of State admitted the appeals filed by some of the alternative operators and by AGCom against the ruling of the Administrative Court of Lazio which overruled decisions regarding 2010 and 2011 tariffs and overcoming the asymmetries between the reverse termination tariffs applied by AltNets and the ones applied by Telecom Italia. In brief, the Council of State, revising the Administrative Court ruling, agreed with the alternative operators’ claims that the differences existing between Telecom Italia’s network architecture and the alternative architectures, determine different costs. Fastweb recently appealed against the Council of State decision since, in its opinion, the Court did not deal with its appeal against the symmetry of termination rates at local level for the year 2012 and should have cancelled 2012 symmetry. The hearing on the appeal was held on 25 January 2013 and the Council of State upheld the complaint filed by Fastweb and revoked the application of symmetry of TDM 2012 termination tariffs among operators. Consequently, AGCom with Decision 187/13/CONS restored symmetry at national level (SGT) retroactively for 2012; Telecom Italia therefore, shall pay to terminate on AltNets’ networks 0.361 eurocent/min instead of 0.272 eurocent/min.

Concerning transit services, in April 2010, AGCom identified two markets: (i) local conveyance and transit market (which includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service) and (ii) national conveyance and transit market (including transit services between two or more switches located in different telephone districts, also when provided jointly with the originating or terminating service). While the regulation for the national conveyance and transit service markets has been withdrawn, AGCom maintained the regulation for the local conveyance and transit market.

Regarding the wholesale markets for trunk segments of leased lines and for terminating segments of leased lines, AGCom, in January 2010, stated that the market for trunk services was competitive and removed all ex ante obligations. As to the terminating services market, AGCom identified the following two separate markets:

- circuits provided between a Telecom Italia node and end user’s premises (market A); and
- circuits provided between a Telecom Italia node and a mobile operator’s base station (market B). AGCom decided to deregulate market B, removing existing ex ante obligations starting from 31 December 2010. AGCom, however, identified Telecom Italia as a SMP in Market A and imposed a network cap for the years 2010-2012.

**Mobile markets**

In February 2009, AGCom confirmed that the wholesale market for access and call origination on mobile networks should not be subject to ex ante regulation.
With respect to the wholesale market for voice call termination on mobile networks, AGCom introduced in November 2008 a four year gradual decline in tariffs, setting the mobile termination rate (MTR) for each SMP mobile network operator and the elimination of asymmetry enjoyed by the third entrant (WIND) in July 2011 (5.3 eurocents/min) and by the last entrant (H3G) in July 2012 (4.5 eurocents/min).

Following this decision, AGCom developed a new cost model for MTRs taking into account the May 2009 EU Recommendation on the regulation of termination rates. The new cost model was used in the third round of market review in order to update the values of the glide path (multiyear mechanism of price control) set for mobile termination rates.

In November 2011, AGCom published its final decision on wholesale prices for voice call termination on individual mobile networks. The new glide path, based on half-monthly (instead of annual) variations, started from 1 July 2012 and expires on 1 July 2013 with the commencement of a symmetric termination rate for all mobile operators (0.98 eurocents/min).

AGCom’s final decision on wholesale prices was challenged before the Administrative Court by Vodafone, Wind and H3G complaining that it introduced a very steep reduction of MTR; Telecom Italia appealed only against the provision stating that asymmetry for H3G should end as of 1 July 2013. On January 2013, AGCom, after providing evidence of the rationale of the above asymmetry in favor of H3G, following two TAR sentences, confirmed the application of asymmetry to H3G up to 30 June 2013. Telecom Italia has challenged this decision with the Regional Administrative Court of Lazio.

In February 2013, the Council of State accepted the appeals filed by H3G, revoked the original 2008 decision to reduce certain termination rates “due to lack of justification and ad hoc proceeding”. The Council of State concluded that the termination price decrease introduced by AGCom for H3G in the period November 2008-June 2009 from €cent 16.26/min to €cent 13.00/min was not legitimate. Several operators, including Telecom Italia, asked for the revocation of the above decision but in April 2013, the action for revocation of Wind (seconded by Vodafone and Telecom Italia) was declared inadmissible by the Council of State.

Concerning the wholesale market for SMS termination, as a consequence of a public consultation concluded in October 2012, AGCom decided not to regulate the above mentioned market because it tends towards competition over time, and therefore the second criterion of the three criteria test for ex ante regulation could not be considered as met. Consequently the SMS termination prices continue to be commercially negotiated on a reciprocity basis among operators.

### Mobile number portability (MNP)

On 7 January 2011 AGCom published Decision 147/11/CIR on “Amendment to the regulations on mobile number portability”. The Decision, among other things, provides that:

- MNP should be set up by 8.30 a.m. of the second working day following input of the customer’s request in the recipient operator’s systems;

- from 1 January 2013, the recipient operator must refund the customer, upon request, in case of delays in the activation of the MNP, for a minimum of 2.5 euros for each working day of delay, up to a maximum of 50 euros. The refund is not due for delays up to two working days; for delays over two working days, the refund calculation takes into account all the days late including the first two; and

- the data of the customers who request the MNP activation is to be treated by the donating operator with confidentiality and used only for the activation of the service.
International roaming

The new roaming Regulation (Regulation 531/2012, the so called “Roaming III Regulation”) was approved by the European Parliament and the Council in June 2012 and entered into force on 1 July 2012.

The Roaming III Regulation provides for the following measures applicable to roaming services within the EU (extended to European Economic Area countries):

- caps on retail and wholesale prices of voice, SMS and data services. The retail caps will remain in force until 2017 and the wholesale caps until the expiry of the new regulation in 2022;
- transparency measures (such as a cut off limit to prevent “bill shock” and info SMS on the applied retail tariffs);
- the unbundling/decoupling of the roaming services from the domestic services starting from July 2014 (structural solution). With the structural solution, the customer will be able to buy the roaming services separately from the domestic services and from an alternative roaming provider (mobile network operator (MNO) or mobile virtual network operator (MVNO) or reseller). The definition of the structural solution was delegated to an Implementing Regulation by the EC; and
- the obligation to provide wholesale roaming access to MNO/MVNO/resellers at regulated prices.

In December 2012 the EC published the Implementing Regulation indicating Single IMSI (international mobile subscriber identity) and LBO (local break out) as the structural solutions to be implemented for decoupling.

In January 2013, the EC established an industry forum, chaired by BEREC and comprising operators, vendors and standardisation organizations, to define the technical specifications of the above decoupling solutions.

The digital agenda target on roaming provides that “the difference between roaming and national tariffs should approach zero by 2015”. On 29 May 2013, a resolution aimed at eliminating roaming surcharges by 2015 was discussed by the ITRE committee of the European Parliament.

The resolution proposed by Jens Rodhe, ITRE Vice President, did not appear to be consistent with the Roaming III Regulation which fixes retail caps until 2017 and obliges operators to invest in the implementation of a structural solution in 2013-2014. The resolution will be voted on by the European Parliament in September 2013.

Long Term Evolution (LTE) Frequencies

The so-called “digital dividend” is the allocation of a portion of the broadcasting frequency band to other telecommunication services. AGCom published guidelines for the frequency national plan aiming at fostering the release of the digital dividend band (as required by the EC Recommendation 2009/848/EC of 28 October 2009) at present allocated to a large number of local broadcasters (about 600).

On 7 December 2010, following the approval of the 2011 Financial Bill, ACGom and the Ministry for the Economic Development—Communications Department launched the process to award, by means of a tender, radio frequencies’ rights of use to be assigned to broadband mobile electronic communication services.

On 10 June 2011, AGCom published its decision regulating the procedures aiming at issuing the 800, 1800, 2000 and 2600 MHz frequencies’ rights of use. Finally, on 27 June 2011, the Ministry for Economic Development published the “invitation to tender” for the award of the frequencies’ rights of use.
The Ministry for the Economic Development granted Telecom Italia the right to file offers for the use of frequencies.

On 3 October 2011, the Ministry for the Economic Development—Communications Department awarded Telecom Italia two 2x5 MHz standard blocks at 800 MHz each, a 2x5 MHz block at 1800 MHz and three 2x5 MHz standard blocks at 2600 MHz each. Telecom Italia’s total investment amounts to 1.223 million euro, net of a 38 million euros discount due to Telecom Italia’s commitment to implement the new networks using more than 50 per cent. environmental sustainable equipment. Given this discount, a specific credit guarantee was set up.

On 3 November 2011, Telecom Italia made a payment of 767 million euros for the award of the above-mentioned frequency blocks and established a five-year guarantee of the remaining 456 million euros to be paid.

The rights of use, formally awarded by the Ministry on 3 October 2011, were allocated on February 2012.

The 2600 MHz band can be used starting from 1 January 2013; at the beginning of January 2013, the Ministry communicated that the 800 MHz band is also available to be used.

Quality of services of broadband internet access at fixed location

Since November 2008, the operators have been required to provide information about the service level of internet access services at a fixed location:

- operators must state their minimum standards of service quality (including the minimum connection speed) and other information about the characteristics of the access. Subscribers can terminate their contract if the quality of their connection is below the claimed minimum standards;
- operators shall undertake statistical measurements at regional level (for example speed data transmission; delay; rate of packet loss). At present, this activity has been taken in 15 regions and will be gradually extended to all 20 Italian regions.

Since the autumn of 2010, customers have been able to measure the quality of their broadband connections.

AGCom has also introduced a super-partes agency verifying operators’ measurements.

Quality of services of broadband internet access within mobile network

In February 2011, the NRA launched a working group with operators to measure the quality of data service provided by mobile networks.

The working group developed “drive test” campaigns to be performed every six months in the main cities of all Italian regions. In the June—October 2012 period an experimental campaign was conducted aimed at refining the data gathering process. Currently the first campaign is in progress and the results will be available by September.

Universal Service

The universal service (USO) is a minimum set of services of a certain quality, which shall be made available to all customers, regardless of their geographical location and shall be offered at a reasonable price, taking into account the specific national conditions. To date, Telecom Italia is the only operator with the obligation to provide the USO throughout Italy.
A fund, set up by the Ministry of Communications, is used to contribute to finance the net cost for the provision of USO. All the main companies in the sector including Telecom Italia contribute to the above fund.

The net cost of providing the USO is calculated as the difference between the company’s net cost when it is subject to the obligation of providing the USO and the net cost of the same operation should the obligation not exist. It is AGCom’s responsibility to verify the net cost of the USO.

In March 2008, AGCom published a Decision introducing a new method of calculating the net cost based on historical cost accounting (the previous was based on current cost accounting) in order to reduce the net cost for the provision of USO. Such a calculation affects credits related to the USO net cost for the years 2004, 2005 and 2006 which have been re-calculated and submitted to AGCom under the new methodology.

With Decision 153/11/CIR, AGCom assessed the 2004 net cost for USO. The Authority decided the applicability of the sharing mechanism and assessed the net cost for the year 2004 at 25.9 million euros. The contribution rate due by other operators (Vodafone, Wind and Fastweb, Teletu Italia and BT) amounts to 8.7 million euros.

With Decision 139/12/CIR, AGCOM completed the process for the evaluation of the 2005 net cost of USO. The Authority established the applicability of the sharing mechanism and determined the net cost for the year 2005 at 25.6 million euros. The contribution rate due by other operators (Vodafone, Wind and Fastweb, Italy TeleTu and BT) amounted to 10.3 million euros.

A public consultation in relation to the 2006 Universal Service contribution is ongoing. The decision about the level of the contribution rate is expected at the end of July 2013.


In September 2011, with Decisions 106, 107, 108 and 109/11/CIR, AGCom confirmed the amounts to be paid by Vodafone for the years 1999-2003. Vodafone filed new appeals against those decisions with the Council of State (Consiglio di Stato) and with the Administrative Court of Lazio. The sums in discussion (except for the amount for 2001 which is not the subject of appeal) amounted to approximately 37 million euros.

With Decision 153/11/CIR AGCom completed the 2004 USO net cost evaluation process. Vodafone and Fastweb filed an appeal with the administrative regional court. The date of the hearings to deal with the merits have not been fixed yet.

**Public Telephony**

In April 2010 AGCom confirmed that the criteria regarding the distribution of public telephones on the national territory was no longer consistent with current social needs and removed “quantitative” obligations for Telecom Italia. As a result, Telecom Italia was authorised to remove public telephones after consultation with local municipalities and interested citizens. Since 2010, approximately 25,000 public telephones have been removed. At the end of 2012 the total number of public telephones in place amounted to around 90,000.

**Accounting separation and fixed network cost accounting**

SMP Operators are required to have a transparent accounting system as to their costs. These operators shall provide AGCom annually with both a description and a report on their cost accounting system to assess their compliance with the requirements of the electronic telecommunications regulatory framework. Moreover,
SMP fixed and mobile operators must keep a separate accounting system separating the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic market analyses.

The “rules” on regulatory accounting in Italy are set in accordance with EC Recommendations, particularly with Recommendation on “Cost Accounting and Accounting Separation”, issued on September 2005.

Changes in the regulation on cost accounting and accounting separation follow detailed rules set out in periodical market analyses.

The weighted average cost of capital employed was set by the AGCom at 9.36 per cent. nominal pre-tax in December 2010; Telecom Italia stated that this underestimated the cost and caused regulated services costs to be undervalued and asked that the decision be reviewed.

Since 2008 the regulatory asset base includes Telecom Italia’s goodwill which amounts (according to the 2012 statement of financial position) to 30.6 billion euros (approximately 45.8 per cent. of the total assets).

Since the services provided by Telecom Italia are capital intensive, decisions related to the perimeter and the cost of capital are material: as a matter of fact, according to the regulatory accounting for 2010 (the last published) the average employed capital for the sole regulated wholesale services amounts to approximately 11 billion euros. As a consequence, increasing WACC by 1 per cent. would increase by 110 million euros the reference cost base for the calculation of prices for wholesale services.

During the first half of 2012, the independent auditors appointed by AGCom to review Telecom Italia’s accounting separation of the fixed network services for the year 2010 completed their audit and delivered the requested audit reports to AGCom. Reports of the auditors are approved by means of an AGCom decision; regulatory accounts and accounting methodology are also published by Telecom Italia on its website.

The regulatory accounting report for the year 2011 was produced during 2012 and delivered to AGCom in January 2013 meeting AGCom’s final approval (December 2012) of new accounting rules regarding internal contracts, transfer charges and further reporting requirements aimed at complying with the “equivalence” principle.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

Accounting separation and mobile network cost accounting

In connection with AGCom’s second round of market analyses concerning the “market for the termination of voice calls on individual mobile networks”, AGCom requested SMP Operators to produce economic and quantitative data related to regulatory accounting methodologies for the purpose of setting new network cap values. Consultation on the main assumptions of Mobile LRIC model was closed in November 2010.

During 2011, AGCom started a new round of market analyses and stated a new glide path for MTRs for the 2012-2015 period. AGCom also:

(A) updated the glide path in three steps: 7 January 2012, 1 January 2013 and 7 January 2013 in order to speed up the process towards symmetric rates; and

(B) clarified the rules to be applied for regulatory accounting.

During 2012:

- auditing activities regarding accounts at historical costs for the year 2010 ended in March 2012;
- reports of the auditor were published by AGCom on December 2012;
A regulatory accounting report for the year 2011 was delivered to AGCom in January 2013, in compliance with AGCom’s Decisions.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

**AGCom 2011-2012 fee**

In January 2011, AGCom carried out an assessment of the compliance by Telecom Italia and all other telecommunications companies with respect to their obligation to pay annual fees to the Authority for the years 2006 through 2010. On 1 March 2011, AGCom notified Telecom Italia that it had not fully paid its operating expenses due for the relevant periods, listing additional accounting items which, in its opinion, should have been included in the cost basis used to make the calculation. Telecom Italia was therefore required by AGCom to pay an extra sum for amounts not paid in the five years 2006-2010. Telecom Italia appealed this decision with the Lazio Regional Administrative Court which suspended the terms of the payment until the end of the proceeding.

On 3 March 2011, AGCom published its decision on the payment of the annual fee for the year 2011 with which the Authority raised the contribution share from 1.5‰ to 1.8‰ of 2009 communications sector revenues. On 30 April 2011, Telecom Italia paid (with reservation) an amount equal to 24.2 million euros, calculated consistently with the reasoning on which it calculated its fees for the 2006-2010 period and, at the same time, contested the 2011 decision with the Lazio Regional Administrative Court in relation both to the increase in the level of the contribution and to the broadening of the accounting items to be considered in the cost basis.

With respect to the two appeals filed by Telecom Italia, two orders were published by the II Section of the Lazio Regional Administrative Court in December 2011. These orders suspended the above-mentioned rulings and referred to the EU Court of Justice a preliminary question, i.e. the assessment of AGCom’s national financing system consistency with the principles deriving from the EU sectorial Directives. This decision is pending.

On 28 March 2012, AGCom published its decision on the payment of the fee for the year 2012 (Decision 650/11/CONS), setting the calculation methodology at 2.0 per cent. of 2010 revenues of the communications sector. On 30 April 2012, Telecom Italia paid (with reservation) an amount equal to 23.0 million euros and challenged Decision 650/11/CONS before the Regional Administrative Court of Lazio. On 5 March 2013, AGCom published its decision on the payment of the fee for the year 2013 (Decision 478/12/CONS), setting the calculation methodology at 1.9 per cent. of 2011 revenues of the communications sector. On 30 April 2013, Telecom Italia paid (with reservation) an amount equal to 20.2 million euros and challenged Decision 478/12/CONS before the Regional Administrative Court of Lazio.

**Broadband and digital divide**

Over the last few years, Italy has introduced several measures aimed at endorsing the development of fixed and mobile broadband through the provision of simplified procedures to deploy the relevant networks.

Particularly important in this respect were laws introducing:

- a lighter authorisation procedure for the deployment of broadband mobile equipment; and,
- simplified rules for the use of innovative digging techniques (mini-trench) for the deployment of optical fibre equipment.

In 2010 the simplification process also affected the authorisation procedure for the deployment of electronic communication equipment in protected areas. Since half of Italy is considered as a protected area (“area di
conservazione”), provisions aiming at accelerating digging authorisations are important levers for broadband expansion throughout the country.

In 2011 new laws were implemented to simplify the administrative procedure for the expansion of small mobile equipment (0.5 sq. area) and of low power equipment (7 watt). The deployment of mobile equipment falling within the above-mentioned thresholds was actually exempted from the DIA regime (“Denuncia di Inizio Attività”—“Commencement Notice”) previously provided for by the Electronic Communications Code and subject to a simple notification, to be made at the time of commencement of the works.

Further important measures to promote the development of fixed and mobile networks were recently introduced by means of art. 14 of the Decree Law 179/2012 “Further urgent measures for the economic development of the Country” enacted by Law 221/2012. Particularly - regarding the deployment of optical fibre and cables – the introduction of this legislation:

- reduced the terms already established by the Code of the Electronic Communications for the release of authorisations to dig (copper and fibre both) reducing the period of the administrative procedure since it introduced the tacit approval principle;
- modified the rules of the roads (“Codice della Strada”) introducing the use of techniques aimed at limiting the environmental impact by reducing the depth of excavations;
- established the right of telecommunication operators to access common parts of buildings, without the consent of the condominium, in order to lay optical fibre; and
- provided for the implementation by the Ministry for the Economic Development of a national regulation to define univocal technical specifications for the digging out and the restoration of pavement for the purpose of laying Broadband and Ultrabroadband infrastructures.

With reference to the diffusion of the mobile digital technologies, art. 14 modified the criteria for calculation of electromagnetic field allowing a better use of the electromagnetic power available. The implementation of this rule is subject to the adoption of a further regulation which is, at present, in discussion.

The new law also improved the simplification introduced by the L.211/11 granting the possibility to install equipment up to 10 watts after the provision to City Hall and Arpa of a mere self-certification of activation.

**PRIVACY AND DATA PROTECTION**

Telecom Italia must comply with Italy’s Personal Data Protection Code (Legislative Decree 30 June 2003 n. 196, hereinafter the Privacy Code), which came into force on 1 January 2004.

The Privacy Code is divided into three parts: (i) general data protection principles; (ii) additional measures applicable to organisations in certain areas, including electronic communications services; and (iii) sanctions and remedies.

The Privacy Code applies to all data processing within Italy and also affects organisations not based in Italy but using equipment located in Italy, such as computer-based systems.

According to the Privacy Code, personal data must be processed lawfully and fairly, retained accurately and kept up to date and must not be excessive or stored for a longer period than needed. Therefore, information systems shall be configured in order to minimise the use of personal data.

The “data subject” (any natural person that is the subject of the personal data) and the “subscriber” (any natural or legal person who or which is party to a contract with the provider of publicly available electronic communications services, or is the recipient of such services by means of pre-paid cards) shall receive
preliminary information on the purposes and modalities of data processing. Consent of the data subject is necessary to process personal data, except in specific cases in which consent is not required (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.

Italy’s Privacy Provisions Related to Specific Processing Operations in the Electronic Communications Sector

With respect to data retention, communications service providers (CSPs) are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

Traffic data must be kept and controlled in compliance with general provisions issued by the Italian Data Protection Authority (“Garante per la protezione dei dati personali”), which requires electronic communication operators to adopt strict security measures.

Customer profiling in the electronic communications sector is regulated by the Italian Data Protection Authority. CSPs must obtain the consent of the data subject for profiling based on individual and detailed personal data, while prior approval of the Italian Data Protection Authority is needed to process aggregated personal data without the data subject’s consent.

In respect of direct marketing activities, the general rule is the “opt-in system”. Nevertheless the Privacy Code also allows the processing of personal data obtained from directories of subscribers, in order to carry out operator assisted telephone calls for commercial purposes; such processing is possible in respect of any entities (i.e. subscriber) that have not exercised their right to object by having the respective telephone numbers entered in a public “opt-out register”, which came into force on 1 February 2011.

At present, OTT players are benefitting from the current regulation. This is especially true with regards to privacy legislation: indeed, as opposed to telecom operators, OTTs, particularly those based in the USA, have significantly fewer constraints in collecting personal data and using it for marketing purposes. Such a situation provides OTTs with an important competitive advantage over Telco operators.

Recent amendments

Legislative decrees that transposed the EU 2009 regulatory framework into Italian law, including the revised e-Privacy Directive, entered into force on 1 June 2012.

The two decrees amended the Privacy Code and the Electronic Communications Code.

These amendments, inter alia, state that storing information, or accessing information already stored in the terminal equipment of the subscriber/user (i.e. by cookies) shall only be permitted on condition that the subscriber/user has given his consent, after being informed by simplified arrangements, that are not yet defined by the Italian Data Protection Authority. Such simplified arrangements will result from the outcome of a public consultation (closed last 19 March 2013), taking into account the proposals put forward by consumer associations and other stakeholders (i.e. industry associations involved). Consent may be given through the use of specific computer programs or devices which may be easily managed by the users.

Cookies are exempted from the requirement of informed consent, if they satisfy any of the following criteria: (i) are used exclusively for the purpose of carrying out the transmission of a communication on an electronic communications network; or (ii) are strictly necessary to the provider of an information society service that has been explicitly requested by the subscriber/user to provide the above service.
The Privacy Code requires providers of publicly available electronic communications services to adopt technical and organisational measures that are adequate in the light of the existing risk, in order to safeguard the security of their services and to take measures when breaches of personal data occur. Such measures must protect personal data against the risk of their accidental or unlawful destruction or loss and of unauthorised access to the data or of processing operations that are either unlawful or inconsistent with the purposes for which the data have been collected.

Under the Privacy Code, in case of a “personal data breach” (a security breach leading, accidentally or not, to the destruction, loss, alteration, unauthorised disclosure of or access to personal data transmitted, stored or otherwise processed in the context of the provision of a publicly available communications service), the provider shall inform without delay the Italian Data Protection Authority. Currently the Italian Data Protection Authority specifies a maximum period of 24 hours (after the detection of the data breach) for the communication and, if needed, a further three days for the communication of further details in respect of the personal data breach. Moreover, where the breach is likely to adversely affect the personal data or privacy of a subscriber or other individuals, the provider must also inform them without delay; currently the Italian Data Protection Authority specifies a maximum period of 3 days (after the detection of the data breach) for this communication.

According to the new article 70 of the amended Communications Code regarding the information that should be included in the contract at the user’s request, the provider shall include information on:

- any procedures put in place to measure and shape traffic in a network “in compliance with the right of protection of personal data of the user” so as to avoid saturation of the network; and
- on how those procedures could impact service quality.

ANTITRUST IN ITALY

Legislation on competition

Telecom Italia is subject to Italian competition law.

On 10 October 1990, Law n. 287 (“Provisions aiming at protecting competition and the market”) set up the Autorità Garante della Concorrenza e del Mercato, or Antitrust Authority.

The Antitrust Authority is responsible for:

(i) applying Law 287/1990 and supervising: (a) anticompetitive agreements among undertakings; (b) abuses of dominant position; and (c) mergers control;

(ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e. Articles 101 and 102 of the Treaty on the Functioning of the EU);

(iii) applying Legislative Decree 6 September 2005 n. 206 concerning unfair commercial practices; and

(iv) monitoring conflicts of interest in the case of individuals holding government positions.

In addition, the Antitrust Authority may (i) adopt interim measures; and (ii) enforce commitments binding upon the proposing parties in order to dispel identified anti-competitive concerns closing the investigation without any finding of a violation.
Antitrust Proceedings

For a discussion of the significant antitrust proceedings to which the Telecom Italia Group is a party please see “Description of Telecom Italia - Litigation”.

ANTITRUST ISSUES AT THE EUROPEAN LEVEL

Legislation on competition

Telecom Italia is subject to European competition law. European competition policy was developed from the three central rules set out in the Treaty on the Functioning of the EU:

1. agreements between two or more independent market operators which restrict competition are prohibited by Article 101 of the Treaty on the Functioning of the EU (TFEU or Treaty)). This provision covers both horizontal agreements (between actual or potential competitors operating at the same level of the supply chain) and vertical agreements (between firms operating at different levels, i.e. agreement between a manufacturer and its distributor). Only limited exceptions are foreseen in the general prohibition. The most flagrant example of illegal conduct infringing Article 101 is the creation of a cartel between competitors (which may involve price-fixing and/or market sharing).

2. Article 102 of the Treaty prohibits firms holding a dominant position on a determined market to abuse that position, for example by charging unfair prices, by limiting production, or by refusing to innovate to the prejudice of consumers.

3. State aid distorting competition and trade within the EU are prohibited (art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 107 of the Treaty and do not constitute State aid. Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a functioning and equitable economy stating some exceptions and sector specific rules. The “Guidelines for the application of State aid rules in relation to rapid deployment of broadband networks” state that public funding of broadband projects is not considered state aid if one of three possible exemption routes is used: (i) the public authority invests under the same conditions that would be applied to a private investor (MEIP principle); (ii) the public contribution is limited to the compensation of the provision of a service of general economic interest (SGEI principle); or (iii) it meets certain conditions (promoting the economic development of underdeveloped areas, promoting the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State, facilitating the development of certain activities or areas, promoting culture and heritage conservation.

The EC is empowered by the Treaty to apply these prohibition rules and holds a number of investigative powers to that end (e.g. inspection at business and non-business premises, written requests for information etc.). It may also impose fines on undertakings which violate the EU antitrust rules. The main rules on procedures are set out in Council Regulation (EC) 1/2003.

Since 1 May 2004, all National Competition Authorities have also been empowered to fully apply EU Antitrust rules (i.e. Articles 101 and 102 of the TFEU) in order to ensure that competition is not distorted or restricted. National courts may also apply these provisions in order to protect the individual rights conferred on citizens by the Treaty.

State aids rules, on the contrary, can only be applied by the EC.
As part of the overall enforcement of EU competition law, the EC has also developed and implemented a policy on the application of EU competition law to actions for damages before national courts. It also cooperates with national courts in order to ensure the coherent application of the EU competition rules within the Member States.

**Main antitrust proceedings pending in front of the EC**

On February 2011, Telecom Italia and the Autonomous province of Trento (PAT) signed a memorandum of understanding (MoU) to establish a public-private partnership for NGAN (fibre optics) deployment in the Trentino region (around 150,000 households). The public-private partnership is based on a market-driven approach (no state aid) and should allow a shorter time to deployment for the Trentino region an area where only one broadband network operator is present. The project foresees the participation of PAT, Telecom Italia and other industrial partners. A newly established corporation (Newco) (the Trentino NGN Joint Venture) will deploy a fibre network (dark fibre) based on a FTTH 3-GPON architecture and will sell accesses to any Telco/ISP operator based on equivalence principles. Telecom Italia will confer network assets useful for NGAN deployment and will have the possibility to acquire a majority stake or 100 per cent. stake of Newco by exercising a call option awarded to it by a shareholders’ agreement that will govern the public-private partnership.

On 25 July 2012, the EC opened an investigation aiming at assessing compliance of the Trentino NGN Joint Venture with European rules on State aid.

The proceedings are aimed at assessing the compliance of the project with the MEIP principle as was in the intentions of the parties. The parties, in fact, have not notified it as State aid nor are they interested in an assessment concluding that the project results in State aid compatible with EU rules. The purpose of the investigation is to assess whether there is State aid (Phase I) and, in case it is concluded that there is State aid, whether such aid is compatible with the relevant EU Rules (Phase II).

The parties are not interested in going to Phase II, therefore either the EC states that the project is MEIP compliant (thus not State aid) in which case the proceedings will stop at Phase I; or, the EC considers that the project is not MEIP compliant thus implying State aid. In this latter case the EC should normally go to Phase II but this would not happen in this case because the parties would withdraw the project before the conclusion of Phase I.

Accordingly, if the EC concludes that the project complies with the MEIP principle, it will close the investigation and declare that there is no State aid.

If, on the other hand, the EC assessment recognises the existence of an economic advantage for Telecom Italia and, hence, State aid, it would normally further evaluate whether the aid is compatible with the internal market. In this case, if the EC concludes that there is State aid the parties will withdraw the project. This has little impact on the business of Telecom Italia as a whole as the project is a pilot which could be replicated in case of positive outcome but would not have negative consequences in case of withdrawal.

PAT submitted its brief on the EC’s assessment on 22 November 2012. Telecom Italia requested an extension of the deadline and submitted its brief on 3 December 2012. Telecom Italia explained its position to the EC in an ad hoc meeting on 5 December 2012.

PAT has subsequently had access to the complainants’ objections on the EC’s assessment on 29 January 2013. PAT filed with the EC its reply to the latter objections on 1 March 2013. The parties are confident that their submissions will dispel the EC’s concerns and will be available to provide any further information and/or clarification on this issue, being also available to discuss with the EC possible modifications of the project to overcome EC’s eventual residual doubts on the applicability of the MEIP principle.

**TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL**
Telecom Italia Group’s operations in Brazil are subject to the 1997 General Law on Telecommunications (Lei Geral de Telecomunicações—“LGT”) and to a comprehensive regulatory framework for the provision of telecommunications services adopted by ANATEL.

ANATEL is responsible for the regulation and implementation of national policies in matter of telecommunications. It is a quasi-independent body (the relationship with the Ministry of Communication is institutional, but not hierarchical) enjoying financial and operational autonomy and a wide range of functions and powers, to ensure competition and to avoid concentration of services. The board members have a fixed term, are selected and appointed by the President under approval by the Senate.

ANATEL has the power to impose restrictions, limitations or conditions on concessions, permits or authorisations. ANATEL has the authority to propose and issue legally binding regulations on telecommunications service providers. The rules issued by ANATEL are subject to periodic updates. Any proposed regulation or action by ANATEL is subject to a period of public consultation, which may include public hearings, and can be challenged in Brazilian courts.

ANATEL privatised the former public monopolistic operator and progressively opened the market to competition, in addition to promoting universal access to basic telecommunications services.

With regard to the operational activity of TIM, Intelig and TIM Fiber, ANATEL developed regulations for mobile communication services, personal mobile services, fixed communications services and data transmission and multimedia services.

In October 2008, ANATEL approved the proposed “General Update Plan in Telecommunications Regulation” (PGR) aiming at planning the actions to be promoted by ANATEL for the next ten years, in order to update the regulation of telecommunications in Brazil. Implementation of the Local Loop Unbundling and Virtual Mobile Operators were included in the expected short-term actions by the PGR.

Number portability was introduced in Brazil beginning in September 2008 and became fully operational in March 2009.

The exploitation of mobile services by Mobile Virtual Operators, based on commercial agreements between established operators and virtual operators was introduced in 2010.

**Authorisations**

ANATEL carried out the privatisation of the former public monopoly operator and gradually opened the sector to competition, in addition to fostering universal access to basic telecom services. According to the General Telecommunications Law and to the regulations issued by ANATEL, licenses to provide telecommunications services are granted either under the public regime, by means of a Concession or a Permission, or under the private regime, by means of an Authorisation. Only certain fixed-line service providers are currently operating under the public regime (Telefónica, Embratel and Oi, commonly referred to as “Concessionaires”). All the other telecommunications services providers in Brazil are currently operating under the private regime, including all the mobile and data service providers.

Since the launch of the global system for mobile communications (GSM) in 2002, four main players operate in the mobile market and compete nationwide: Claro, Vivo, Oi and TIM. Third generation mobile services deployment started in 2008 while the deployment of fourth generation mobile services started in 2012.

The authorisations for fixed and mobile services give the Telecom Italia Group (which operates under the brand names TIM, TIM Fiber and Intelig) coverage of the whole of Brazil allowing it to provide fixed, mobile, long distance and multimedia services.
According to Brazilian law, Internet access is considered a value-added service, and providers of Internet services are not considered to be telecommunications operators. The rules require that all telecommunications services’ operators allow network access to any interested party to provide value-added services, without discrimination, unless technically impossible. The voice service providers can also provide value-added service through their own networks.

**Interconnection rules**

Telecommunication operators must publish a public interconnection offer highlighting both economic and technical conditions and are subject to the “General Interconnection Regulatory Framework” enforced by ANATEL in 2005.

The interconnection charges for fixed network amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20 per cent. the one applied by the incumbents.

The values of mobile interconnection rates are freely negotiated by operators. The NRA has, however, arbitration power in case of disagreement being able to determine a reference value according to criterion set up by regulation.

Interconnection agreements are subject to prior approval by ANATEL.

**National Broadband Plan**

In May 2010, the Brazilian government approved a National Broadband Programme to extend national broadband coverage by 2014. The plan includes the reactivation of Telebras, responsible for managing and operating a national fibre network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of “entry level” broadband residential connections.

Other measures in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries.

**Main regulatory developments**

**Fixed Termination Rates**

In May 2012, ANATEL approved a new regulation on fixed termination rates setting local interconnection rates in the event of a traffic imbalance of at least 75 per cent. of traffic exchanged amongst fixed network operators. Fixed networks will only remunerate each other when there is a 75 per cent.-25 per cent. imbalance of interconnection traffic (previously, it was 55 per cent. versus 45 per cent.). Below that threshold a system of “bill and keep” applies.

ANATEL also decided that starting from January 2014, the bill and keep system will generally apply, i.e. all operators take rights of tariffs generated on their networks, and no interconnection remuneration will be in place.

**Leased Lines**

In May 2012, ANATEL approved new regulations on Wholesale Leased Lines (EILD).

Operators holding significant market power are obliged to provide EILD at a reference price 30 per cent. lower than the one previously practiced. The provision of “special” leased lines, at a higher price than the standard lines, should be amply justified and limited to requests requiring larger investments or, only in case
of copper lines, when the premises are located far from the central offices. Existing contracts shall be adapted to the new ANATEL provisions.

**Suspension of new sales because of alleged service complaints**

In July 2012 ANATEL suspended the sales of new mobile plans by the three main carriers in certain states, because of alleged consumer complaints about dropped calls and poor coverage. ANATEL imposed the suspension of new sales in various states to Oi (in 5 states), TIM (19 states) and America Movil SA’s Brazilian unit Claro (3 states). Together, the three companies represent about 70 per cent. of Brazil’s mobile market.

The suspension was an unusually strong sanction and one of the toughest measures ever taken by ANATEL.

The companies had 30 days to present investment plans to regulators showing how they will improve service. Only after approval of the plans were sales resumed.

The operators committed themselves to investing in improving the quality level of mobile services in the next two years. The plans submitted by the operators cover all states and the Federal District, and include investments in network improvements, improved customer service and reduced service interruptions. The providers showed improvement proposals detailed state by state, including measures to ensure quality of service and networks.

As a consequence, in August 2012 ANATEL lifted the ban on new sales of mobile phone plans for the three carriers, considering satisfactory the investment plans to ensure better service and coverage.

In February 2013 ANATEL released the first quarterly review of the National Action Plan to Improve the Provision of Personal Mobile Service. The above review includes the assessment of the first three months of long-term plans submitted by providers to ANATEL to improve services. The evaluation will be continuous over two years.

The report was released after detailed analysis of the results presented between August and October last year.

**Assignment of frequencies in the 2.5GHz and 450MHz bands**

In June 2012, the auction for the allocation of radio frequencies in the 2.5GHz band was held. Together with the 2.5GHz frequencies, enabling 4G/LTE applications, a portion of frequencies in the range of 450MHz was assigned.

Since no bidder was interested in separately acquiring frequencies in the 450MHz band, because of the lack of standards and the burdensome coverage obligations, frequencies were then assigned, along with coverage obligations, to the 2.5GHz frequency winners.

TIM Brasil was awarded a 10MHz block of national spectrum and 6 regional licenses in the 2.5GHz band bidding approximately €148 million.

Telefónica Brazil (Vivo) was the largest bidder in the auction, agreeing to pay approximately €407 million for 20MHz of national 2.5GHz spectrum.

Claro was awarded 20 MHz and 19 regional licenses vis-à-vis a fee of approximately €383 million.

Oi, part-owned by Portugal Telecom, was awarded a 10MHz block of national spectrum along with 11 regional licenses bidding approximately €154 million.

Coverage obligations:
• 450MHz: by 31 December 2015, rural areas within 30 km from the City Hall covered with voice and data services.

• 2.5 GHz: by 31 December 2016, gradual coverage by means of 4G services of the cities with more than 100,000 inhabitants (starting from the cities involved in the 2014 FIFA World Cup).

**Cost models’ implementation**

In 2005, ANATEL issued a ruling for “Accounting Separation and Cost Accounting”, introducing on license holders and groups holding Significant Market Power in the offering of fixed and/or mobile network interconnection and wholesale leased lines (Exploração Industrial De Linha Dedicada) the obligation to present the Accounting Separation and Allocation Document (“Documento de Separação e Alocação de Contas”). Starting from 2006 (for fixed operators) and 2008 (for mobile operators), operators (TIM included) are providing ANATEL with the requested information.

In August 2011, ANATEL launched a project called “Modelo de Custos”, setting up a consortium of consultants (Advisia, Analysys Mason, Grant Thornton) in charge of developing, within two years, the cost model for fixed and mobile networks for communications services.

Between July and August 2012, ANATEL held a public consultation on the conceptual approach and recommendations for the construction of the Long Run Incremental Cost model for fixed and mobile networks.

ANATEL is currently consulting stakeholders on a set of proposed modifications to applicable regulation in relation to cost accounting methodologies. The public consultation deadline is 24 June 2013.

By 2014, when the cost model will be available, ANATEL should have an instrument for the effective application of the obligation of cost orientation for the development of regulated wholesale services.

**General Competition Target Plan (PGMC)**

In November 2012, ANATEL published the General Competition Target Plan (PGMC), introducing tools for market analysis, for the identification of operators with market power and for the consequent imposition of asymmetric measures.

The approval of the PGMC represents a milestone in the development of Brazilian regulation, which is gradually evolving towards a model based on market analysis and towards the application of ex ante regulatory obligations in response to obstacles to the development of competition.

The decision opens significant market power operators’ fixed networks to unbundling and wholesale broadband access, and improves transparency measures by the creation of a Supervisory Board to ensure the respect of the wholesale service quality levels.

Fixed networks in fibre optics will benefit from a regulatory holiday of nine years, which will have to be confirmed in four years, when the PGMC will be revised.

In each market, ANATEL has imposed a set of asymmetrical obligations to operators having significant market power.

The most important measure imposed in the fixed access market is the further opening of wholesale fixed networks through the introduction of access obligations on copper networks (eg, leased lines, bitstream unbundling) for the vertically integrated, fixed operators having significant market power: Oi, Telefônica and Telmex.
TIM Brasil was identified as a significant market power operator in the wholesale markets of mobile termination, national roaming and the access to ducts and trenches. The measures applied to the significant market power operator in those markets include:

- a glide path on mobile termination rates for the 2013-2015 period, based on a price cap system, with a decrease of almost 50 per cent. in the next three years;
- the obligation to offer the service of national roaming to operators not having significant market power: regional licensed operator CTBC and Sercomtel and national licensed operator Nextel; and
- the obligation to offer access to ducts and trenches.

Mobile interconnection rate glide path

As a result of the November 2012 decision by ANATEL on market analysis (PGMC), the “full billing” of the exchanged traffic was maintained amongst the undertakings considered as having significant market power in the market of mobile interconnection (Claro, Oi, TIM and Vivo), whereas the partial bill and keep will be applied amongst operators being designated as having significant market power and operators not designated (Sercomtel, CTBC and Nextel).

The imbalance between incoming and outgoing traffic over which the termination fee will be paid amongst operators being designated as having significant market power and operators not being designated as such, will be 80 per cent. from January 2013 to February 2015. From that date, it will decline to 60 per cent. until February 2016, when the “full billing” methodology will be applied again.

ANATEL also modified the October 2011 “glide path” to be applied to the reference value of the mobile termination for calls coming from the fixed networks.

Proposal on new allocation of the 700 MHz band

A public consultation proposed by ANATEL on the new allocation of the 700 MHz band was held from 21 February to 14 April 2013. The draft “Regulation on Conditions for Use of Radio Frequencies” concerns the allocation of the range of frequency from 698MHz to 806MHz (the so called 700 MHz band), allowing the allocation of the band for the provision of fourth generation telecommunication services and high speed internet.

Currently, the 700 MHz band is used for broadcasting. The new destination will be possible due to the transition from analogue TV to digital TV, which allows greater density in the frequency range dedicated to broadcasting, freeing up more space for the provision of telecommunications services.

The decision should be approved and released in the first half of 2013. The auction for the allocation of the frequencies to the mobile operators is expected by the first half of 2014.

TELECOMMUNICATION REGULATORY FRAMEWORK IN ARGENTINA

Telecom Argentina and Telecom Personal operate in a regulated industry. Regulation not only covers rates and service conditions, but also the terms under which various licensing and technical requirements are imposed.

Telecom Argentina’s and Telecom Personal’s activities are supervised and controlled by the “Comisión Nacional de Comunicaciones” (CNC), a governmental agency under the supervision of “Secretaria de Comunicaciones” (SECOM), which is embodied within the Ministry of Federal Planning, Public Investments & Services. The SECOM develops, enforces and implements policies which are applicable to
telecommunications services, reviews the applicable legal regulatory framework, approves major technical plans and resolves administrative appeals filed against CNC resolutions.

The main features of the Argentinean regulatory framework are:

1. the Privatisation Regulations, including the List of Conditions and the Transfer Agreement;
2. the Licenses granted to Telecom Argentina and its subsidiaries;
3. the Agreements on Rates; and,
4. various governmental decrees, including Decree n. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management, Public emergency law (Law n. 25,561) dated 6 January 2002 (regarding, among others, rules freezing fixed telephony rates).

**Regulatory Authorities abroad**

Núcleo, Telecom Personal’s Paraguayan controlled company, is supervised by the “Comisión Nacional de Telecomunicaciones”, the National Communications Commission of Paraguay.

Telecom Argentina USA, Telecom Argentina’s subsidiary, is supervised by the Federal Communications Commission.

**Authorisations**

In March 1998, the Argentinean government issued Decree n. 264/98 (**Decree 264**), introducing a plan for the liberalisation of the Argentinean telecommunications industry.

Decree 264 provided for the extension of the period of exclusivity with respect to the provision of basic telephone services until sometime between 8 October 1999 and 8 November 1999, depending on the particular region. The plan also provided for: (i) the liberalisation of public telephone services and (ii) the liberalisation of telephone service in rural areas. In addition, the plan contemplated that in January 1999, data transmission services within the countries included in Mercosur would be open to competition, subject to some conditions established therein.

Finally, the full liberalisation of local, domestic and international long-distance services took place in November 2000 under Decree n. 764/00. By means of Decree 264, a new general regulation for full liberalisation of telecommunication services was established, with the approval of new rules for licenses, interconnection, universal services and radio-frequencies spectrum control, allowing each new licensed company to launch its services in November 2000.

Decree 264 established a new Regulation of Licenses based on a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international services. It also established a new Interconnection Regulation that includes the obligation to give transparent networks interconnection and to publish a “reference interconnection offer” including the infrastructure elements and services that the dominant operator is required to provide. The commercial conditions for interconnection are defined by free agreement between the parts, while costs for basic interconnection elements are established in this regulation.

The main licensees providing local and/or fixed long-distance telephone services in Argentina are, among others, Telmex, Global Crossing, Comsat, IPlan, Telephone2, Telefónica de Argentina and Telecom Argentina.
Telecom Argentina has been granted non-expiring licenses to provide the following services in Argentina: local fixed telephony; public telephony; domestic and international long-distance telephony; domestic and international point-to-point link services; domestic and international telex services; value added services, data transmission, videoconferencing and broadcasting signal transport services; and internet access.

Telecom Personal, the affiliated company dedicated to mobile services under the brand Personal, has been granted a non-exclusive and non-expiring license to provide mobile telecommunication services.

Núcleo, in Paraguay, has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as Personal Communications Services and Internet access in specific areas of the country.

The freezing of rates for fixed telephony

The “price cap” regime was the methodology originally applied to calculate changes in Telecom Argentina’s basic services rates.

Following the 2001 economic crisis, the Public Emergency Law 25561 froze, from January 2002, all tariffs for fixed telephony services (provided under a concession regime by Telecom Argentina and Telefónica de Argentina), and explicitly prohibited rate adjustments. In accordance with this law, in January 2002, rates for basic telephone services and long-distance services were converted to pesos and fixed at an exchange rate of P$1.00=U.S.$1.00. The rates Telecom Argentina may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine government.

In accordance with the abovementioned Public Emergency Law, a “Renegotiation Unit” was created, with the task of renegotiating the rates of all public services.

In May 2004 a MoU between the Government and each operator was agreed; the MoU maintained till December 2004 the same tariff level, and granted the continuity of other contractual rights.

In March 2006, Telecom Argentina executed a Letter of Understanding (the Letter of Understanding 2006) with the Argentine government pursuant to which Telecom Argentina will be permitted to raise the termination charge for international incoming calls, increase the time bands for peak-hour rates applied to local and domestic long-distance calls and incorporate certain modifications to the current regulatory framework.

The Letter of Understanding 2006 contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary administrative steps.

As of the date of this Prospectus, such fulfilment has yet to occur, and the Public Emergency Law has been subsequently extended through 31 December 2013. Also, the freeze of regulated rates still remain in force. Therefore, the price cap regime is suspended and it is unknown if and when it will come back into effect or be replaced by other rate regulation procedures.

Universal Service (SU) Regulation

The obligation to pay contributions to the SU has been in force since January 2001 by the regulation approved by Decree No. 764/00 (Decree 764) but could not be implemented.

The SU regime created by Decree 764 was modified in April 2008 by Decree 558/08. In defining SU the new regulation established two categories: (i) areas with uncovered or unsatisfied needs; and (ii) customer groups with unsatisfied needs. It also determined that the Secretary of Communication (SC) would have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for its interpretation and application.
The new regime established that the SC will review SU programs which were established under the previous regulation, granting the continuity of SU programs already being administered and implementing programs that had been under review. The financing of SU ongoing programs which were recognised as such will be determined by the SC, whereas telecommunications providers appointed to participate in future SU programs will be selected by competitive bidding.

Decree 764 requires telecommunications service providers to contribute 1 per cent. of their revenues (from telecommunication services, net of taxes) to the SU Fund and keeps the “pay or play” mechanism for compliance with the mandatory monthly contribution to the U.S. Fund or to claim the correspondent receivable, as the case may be.

On 11 November 2010, the SC issued Resolution No. 154/10 adopting the methodology for the deposit of the SU contributions to the trustee’s escrow account. The Resolution includes several provisions related to the determination of the contributions that correspond to the periods before and after Decree No. 588/08 was issued. It also states that telecommunication providers may discount the amounts incurred in the implementation of the SU initial programs from the contributions to the SU Fund until the SC determines if those Initial Programs qualify as such. However, if as a result of the SC’s verification some amounts are not recognised as “initial programs,” those amounts would have to be contributed into the SU Fund or would have to be allocated to develop U.S. projects previously approved by the SC.

On 26 January 2011, the SC issued Resolution No. 9/11 establishing the “Infrastructure and Equipment Program”. The Resolution provides that telecommunication service providers can contribute to the projects in this program only the amounts corresponding to their pending SU contributions under Decree No. 764/00, before the effective date of Decree No. 558/08.

Incumbent operators have not yet received any set-offs for the services rendered under the SU regime since 2001, and the resolution by the SC of the appeals filed by Telecom Argentina are still pending.

In compliance with Resolution No. 154/10 Telecom Personal contributes to the SU Fund monthly.

In March 2011, Personal submitted to the SC an investment project, pursuant to SC Resolution No. 9/11, for the development of network infrastructure in locations in the Northern Region of Argentina with no mobile coverage. This program is still pending the approval of the SC.

“Argentina Conectada” Plan

In October 2010, the Government approved the Plan “Argentina Conectada” setting up a commission for the coordination of various initiatives to promote digital inclusion and broadband connectivity throughout the country.

The objectives of the plan are:

1. the extension of broadband services to the majority of the country by 2015;
2. the deployment and management by Arsat (public operator that so far has offered satellite services) of a new backbone network, renting fibre from existing operators or by sharing agreements (“swaps”) of optical fibre;
3. the allocation of public funds of approximately 8 billion pesos (about 1.4 billion euros) within 3 years;
4. the financing of broadband connectivity in schools and libraries through the Universal Service Fund.
Main regulatory developments

New quality requirements on mobile operators in Argentina

On 6 June 2013, Argentina’s President Cristina Fernandez ordered the Ministry of Communications to set, within one month, requirements of quality for the provision of mobile services.

The new regulation will give authorities the power to take “preventive measures” such as suspending the marketing and activation of new lines and services by telecom operators.

The Government warned that between February and April 2013 complaints from mobile users for prepaid credits increased by 86.41%; complaints for data services increased by 70.65%; complaints for charging and billing increased by 24.72%; complaints for short messaging services increased by 10.16%; and complaints for unavailability of the service increased by 6.54%.

Industry sources attributed many of the quality issues to difficulties in the installation of antennas and the withdrawal of the radio spectrum auctions.

The radio spectrum for mobile services was last auctioned in 1999, at a time when Argentina had only 4 million mobile lines (now approximately 59 million) and when there were no text messages or data traffic.

Spectrum

In May 2011 a tender for the allocation of frequencies in the 1900 band (called PCS) and 850 MHz bands was published. The frequencies were returned by Movistar (Telefónica Group), following the merger with Bell South in 2005 which resulted in it exceeding the limit of 50MHz (spectrum cap) applicable in each region (North, South, Greater Buenos Aires).

Personal took part in the spectrum auction process and expected to acquire additional spectrum to complete its “spectrum cap” throughout Argentina, but, on 5 September 2012, SC notified Personal Resolution No. 71, by which, as provided for in Article 10 of the List of Conditions, the auction approved by SC Resolution No. 57/11 was cancelled for reasons of opportunity, merit and convenience of the Argentine Government.

Later in December 2012 two presidential decrees regarding spectrum were issued (Decree 2426 and Decree 2427), whose application will result in:

- The direct allocation to the state-owned company ARSAT of the frequencies that should be awarded, by means of a mandate to the NRA (SECOM);
- The creation of the virtual mobile operator commercial concept;
- The allocation of the 700MHz (698MHz to 806MHz) and AWS (Advanced Wireless Services - 1710-1755 MHz uplink, 2110-2155MHz downlink) bands to mobile telecommunication terrestrial services;
- The declaration of public interest of the Federal Wireless Network, managed by the Ministry of Federal Planning, Public Investment and Services, to be executed through ARSAT, under the National Telecommunication Plan “Argentina Conectada”, which provides the infrastructure necessary for this purpose, according to the general guidelines established in annexes to Decrees 2426 and 2427; and
- The instruction to the “Ministerio de Planificación Federal” (Ministry of Federal Planning) being the majority shareholder of AR-SAT, to adopt the necessary actions and the business decisions of its
responsibility for the execution and delivery of the services required as a result of the development of the federal wireless network.

Also, on 21 December 2012, SC published in the Official Bulletin Resolution No. 222/09 which assigned ARSAT the telecommunication services license authorising the state company to provide any kind of telecommunication services with or without owned infrastructure. It also provided the authorisation for the provision of value-added services, data transmission and transportation of audio and video signals.

By Resolution No. 9/13, published on 7 February 2013, the SC granted ARSAT the registration of mobile services and national and international long distance services and the provision of telecommunication facilities.

**Mobile Number Portability Implementation**

Mobile number portability was implemented from March 2012; a new Data Base Administrator was set up to track the number portability.

Portability of mobile numbers are to be completed within 10 working days.

**BROADCASTING REGULATORY FRAMEWORK IN ITALY**

**Consolidated Act on Broadcasting (Legislative Decree 177, 31 July 2005) and Legislative Decree 44, 15 March 2010**

Broadcasting activity in Italy is mainly regulated by the Consolidated Act on Broadcasting (Legislative Decree 31 July 2005 n. 177), amended by Legislative Decree 15 March 2010 n. 44 (Decree 44/10), implementing the Audio Visual Media Services Directive, which came into force on 30 March 2010.

Decree 44/10 introduced changes in the audio-visual legislation in the areas of advertising and product placement, promotion of European works, short extracts rights, protection of minors, and extends regulation to non-linear audio-visual services.

AGCom implemented the new rules through regulation, including the adjustment of authorisations already released prior to these new rules.

On 30 June 2011, AGCom approved a new regulation (Decision 353/11/CONS) for digital terrestrial broadcasting activities (both concerning network operators and content providers).

**Logical Channel Numbering (LCN) Plan**

On 31 August 2012, the State Council issued four judgments cancelling the existing method for numbering channels, the “Automatic Numbering Plan” and, in particular, the assignment to La7 and to MTV of—respectively—numbers seven and eight. The State Council objected to the assignment of numbering eight to MTV, considering the latter not a generalist but a thematic channel. There were no objections to La7 retaining its number seven.

With a resolution published in October 2012, AGCom launched a public consultation for the new numbering plan together with a new survey on users habits. As a consequence of the above public consultation, with a Resolution adopted on 21 March 2013 AGCom confirmed the assignment of the numbers seven, eight, and nine to generalist channels defined as former analogic channels with programming and informative obligations (Decision 237/13/CONS). Such a decision leaves to La7 and MTV numbers seven and eight on the TV remote control.
The Switch off completion

As of 4 July 2012, the process of switch-off (complete move to digital broadcasting) across the country was completed.

Digitalisation of broadcasting networks and frequencies

In response to the infringement procedure 2005/5086 filed by the EC against Italy, in June 2008 the Government passed Law n. 101, replacing the special licencing regime for digital terrestrial network operators with an authorisation regime compliant with the Code of Electronic Communications and the relevant EU Directives.

As a consequence, the licences granted have been converted to general authorisations lasting 20 years.

The EC approved the changes introduced by Law 101/08, but asked for more spectrum resources to be assigned to new entrants (the Digital Dividend). In response to these further requests, AGCom set up the criteria for the complete digital conversion of the television terrestrial networks.

AGCom established the “National Plan of Assignment of the Frequencies” (PNAF) which will provide for 21 national “digital video broadcasting-terrestrial” (DVB-T) networks with 80 per cent. coverage of national territory and 4 “digital video broadcasting-handheld” (DVB-H) national networks. Out of the 25 networks, five DVBT and one DVBH will constitute the Digital Dividend to be assigned on the basis of competitive bidding procedures.

The Ministry for Economic Development—Communication Department—assigned to the Telecom Italia Media group only three DVB-T networks (out of the four networks managed by the Group). Telecom Italia Media group appealed against this decision in order to safeguard its interests.

Concerning the Digital Dividend, in November 2010 AGCom issued a Decision on the criteria to be adopted in the tenders for the assignment of the Digital Dividend based on a beauty contest via a notice published in August 2011.

In 16 December 2011, the new Government suspended the beauty contest procedure and cancelled it in April 2012.

On 16 April 2012, the Government approved a provision establishing that frequencies will be assigned by the Ministry for Economic Development through a bidding auction within 120 days from the approval of such provision, on the basis of criteria defined by the Italian Authority. The provision was approved on 2 May 2012.

Telecom Italia Media group participated in the public consultation on the regulation for the competitive procedure for the assignment of frequencies economic, which ended on 17 December 2012, through TIMB, the network operator.

Following the scheme in consultation, 3 lots of frequencies below 700 MHz (LOTS L) should be assigned for a period of 20 years as well as three lots of frequencies above 700 MHz (LOTS U) expiring on 31 December 2017. The starting price of the bid is not defined.

TIMB is excluded from participating to the bid for LOTS L, having been treated in the same way as RAI and Mediaset, the incumbent operators on the Italian TV market.
PNAF and digital dividend for mobile services

In order to assign the frequencies in the digital switch off areas and for the DVB-T Digital Dividend AGCom issued a decision enforcing the “National Plan for the Assignment of Frequencies”.

Furthermore, this decision provided a Digital Dividend for mobile service in the band 790-862 MHz (channels 61-69 ultra high frequency) after the switch off of analogue broadcasting. The Italian Budget Law established that those frequencies, previously assigned to local television, should be used for mobile services. The tender took place in the summer 2011, with 4 billion euro revenues.

At the end of 2012 channels 61-69 were released by local broadcasters and assigned to mobile services. 175 million euros have been allocated to compensate local broadcasters who were the assignees of channel 61-69 in Piemonte, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna, Lazio and Campania.
LITIGATION

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved as of the date of this EMTN Programme Prospectus are presented below.

The Telecom Italia Group has set aside provisions totalling 285 million euros at 31 December 2012 and 227 million euros at 31 March 2013, for those disputes described below where the risk of loss has been considered probable.

Significant disputes and pending legal actions

Telecom Italia Sparkle—Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Public Prosecutor’s Office of Rome

The trial of a number of the defendants currently subject to precautionary measures (including the former chief executive officer and two former employees of Telecom Italia Sparkle) continues. The prosecutor has accused the Telecom Italia defendants of cross-border criminal conspiracy and tax evasion. The charge of cross-border criminal conspiracy is a possible offence that may entail administrative liability for a corporation, pursuant to Legislative Decree no. 231/2001.

In relation to this trial, Telecom Italia Sparkle filed an application to bring a civil action against all the defendants. The Court ruled this application inadmissible in its hearing on 18 December 2010, since it considered such an action incompatible with the company’s position as a subject of investigation pursuant to Legislative Decree no. 231/2001.

Given the complexity of the proceeding, and since it is not yet possible to have full knowledge of all the documentation related to the proceedings, Telecom Italia Sparkle cannot yet determine its final outcome. However, while an unfavourable outcome cannot be ruled out in principle, Telecom Italia Sparkle will pursue its defence with the utmost vigour to prove its innocence in the matters at issue. Regarding the effects of a conviction under Legislative Decree no. 231/2001, in addition to the administrative fines (the amount of which would be low) and injunctive measures, the proceeds of the crime would be seized. According to the case made by the prosecutor, and without considering the effect of Telecom Italia Sparkle’s defence arguments, such illegal profits would be 72 million euros. As this sum was guaranteed by bond and recorded as a provision in the 2009 consolidated financial statements, and based on the information available, the company does not believe it is exposed to material loss in excess of the 72 million euros provision previously recognised in the consolidated financial statements and/or already seized; 10 million euros are currently still under seizure for guarantees related to the proceedings.

There remains some residual tax risk. As far as indirect taxes are concerned, in July 2010 Telecom Italia Sparkle paid the fines—equal to 25 per cent. of the sum imposed—the whole of the VAT considered to be non-deductible, plus applicable interest, for an aggregate of 418 million euros. As far as direct tax is concerned, a possible claim of liability relating to the applicability in this case of rules regarding the non-deductibility of the costs associated with the criminal activity and/or costs for phantom transactions remain pending. Based on the uncertainty regarding the interpretation of these rules officially expressed by the tax authorities as well as the fact that the Italian Parliament was considering whether to amend these rules (as subsequently implemented by enacting Law n. 44 of 2012) which seemed not to be in line with the constitutional principles (with regard to this the Constitutional Court issued an interlocutory judgment), the company considered the related risk to be only a possibility and did not make any provision in its 2010 and 2011 accounts.

In December 2012, the Italian Tax Revenue Agency (Agenzia delle Entrate) issued three formal notifications to Telecom Italia Sparkle of fines relating to the years 2005, 2006 and 2007. The fines were based on the assumption that the telephone traffic in the “carousel fraud” did not exist. “Carousel fraud” relates to the
practice of importing goods and services from a country where they are not subject to VAT, selling them with VAT added, and subsequently deliberately not paying the VAT to the government.

The amount of these fines – 25 per cent. of the “crime related costs” considered not deductible by the Italian Tax Revenue Agency—in aggregate equalled 280 million euros. Although settlement discussions had begun, after an in-depth investigation and assessment based on the opinions of tax experts, Telecom Italia Sparkle decided not to settle, and filed defence arguments with the Italian Revenue Agency. In light of the investigations carried out the company believes that the risk of additional taxes becoming payable is possible rather than probable and therefore no provision has been made in its 2012 accounts.

National tax disputes

As set out in the 2010 annual report:

- in October 2010, the Italian Tax Revenue Agency (Agenzia delle Entrate) issued a formal notice of assessment to the subsidiary Olivetti Multiservices S.p.A. (OMS), which contested the invalid deduction of VAT in the tax years 2005 and 2006 totalling approximately 198 million euros, after recalculation of the so-called “pro-rata of non-deductibility”;

- in December 2010, the Italian Tax Revenue Agency served Telecom Italia and OMS, as jointly obliged parties, two assessment notices relating to property transfers made in December 2005 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 61 million euros including interest and fines; and

- in March 2011, the Italian Tax Revenue Agency served Telecom Italia and OMS with assessment notices relating to property transfers made in March 2006 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 10 million euros in tax and interest.

With respect to the assessment notices for stamp duty and mortgage tax, since these notices were final, the companies have filed an appeal to the Milan Provincial Tax Commission, applying for the cancellation of the notices as well as for the suspension of the collection proceedings currently underway. The companies have also filed an application for an internal review and suspension of the claims with the competent offices of the Milan Revenue Agency.

In February 2012, the Italian Tax Revenue Agency filed a brief with the Milan Tax Commission in which it notified its full cancellation of all the assessment notices, declaring the consequent termination of matters in dispute.

With respect to the VAT claims described above, in November 2012 Telecom Italia reached a pre-trial agreement with the Italian Tax Revenue Agency in which it undertook to pay a total sum of approximately 43 million euros in interest. As a result of this settlement, the remaining disputes are now closed.

International tax and regulatory disputes

On 22 March 2011 Tim Celular received a notice of tax assessment issued by the Brazilian Federal Tax Authorities for a total amount, at the date of the claim, of 1,265 million Reais (approximately 550 million euros), including fines and interest, upon completion of a tax audit covering the financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A. (formerly Maxitel S.A.), companies which have been progressively merged in several steps into Tim Celular for the purpose of simplifying the corporate structure in Brazil.

The notice of tax assessment contains a number of matters, the most significant of which are:
the disallowance of the fiscal effects of the merger between Tim Nordeste Telecomunicações S.A. and Maxitel S.A.; and

the disallowance of the deduction of amortisation of goodwill related to the acquisition of Tele Nordeste Celular Participações S.A.

The adjustments raised in the notice of tax assessment have been challenged by Tim Celular, at the administrative level, with the filing of an initial defence document on 20 April 2011. On 20 April 2012, Tim Celular was notified of the first level decision which upheld the assessments; Tim Celular filed an appeal against this decision on 21 May 2012 which appeal is pending.

The management of Tim Celular and Tim Participações, as supported by legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.

With regard to Tim Participações’ Brazilian subsidiaries, other tax disputes are on-going, including claims for significant amounts. The most relevant cases are related to the tax deductibility of goodwill amortisation, several matters of indirect taxation (mainly related to ICMS—a kind of Brazilian VAT—and the composition of its basis of calculation and the possibility to account for tax credits) and regulatory contributions to ANATEL and two Brazilian Ministry of Communications public funds, Fundo de Universalização dos Serviços de Telecomunicações and Fundo Para o Desenvolvimento Tecnológico das Telecomunicações. Based on legal opinions issued to the aforementioned companies, management assesses the risk of loss as not probable for the aforementioned companies.

Investigation by the Public Prosecutor’s Office of Monza

Criminal proceedings are currently pending before the Public Prosecutor’s Office of Monza as part of the preliminary investigation of a number of subjects, including allegations against employees of Telecom Italia, with respect to the supply under lease and/or sale of assets transactions which would constitute various offences committed against Telecom Italia, among others.

On 16 December 2011 Telecom Italia, the injured party in the aforesaid criminal proceedings, filed a complaint against persons unknown with the Public Prosecutor’s Office of Monza.

Following a tax investigation of the above matter, the Monza Tax Police (Guardia di Finanza) served a notice of assessment on Telecom Italia in December 2012 with findings pertaining to direct taxation and VAT for the years 2007, 2008 and 2009. In particular, the findings related to the existence of phantom transactions between Telecom Italia and a supplier as well as between Telecom Italia and a leasing company, resulting in associated costs being partially non-deductible for income tax purposes and the respective transactions being inadmissible for VAT purposes. Telecom Italia reached an agreement with the Tax Revenue Agency (Agenzia delle Entrate) of Milan pursuant to which it accepted the findings under dispute; the total amount due is approximately 4 million euros.

Taking account of the potential risks related to other transactions still under investigation, together with the matters that have been agreed, the total provision set aside in the 2012 financial statements is 11 million euros.

Administrative offence charge pursuant to Legislative Decree 231/2011 for the so-called Telecom Italia Security Affair

In December 2008, Telecom Italia received a notice of commencement of proceedings for administrative offences under articles 21 and 25, paragraphs 2 and 4 of Legislative Decree 231/2001, following the investigation, by the Public Prosecutor of Milan, of former Telecom Italia employees and consultants charged with a series of crimes, including—among others—the offence, under Legislative Decree 231/2001, of bribing public officials to obtain information from confidential archives. In May 2010, the Judge
concluded that the 400,000 euro fine that Telecom Italia had agreed to pay was adequate: after this judgment, Telecom Italia was no longer a defendant in the criminal trial. At the same time, the Judge approved the motion for settlement of the proceedings (plea bargaining) presented by many other defendants, including ex-employees of the Telecom Italia Group.

In a preliminary hearing before Section One of the Milan Court of Assizes held in 2011, Telecom Italia acted in the dual role of suing civil party and civilly liable party. On the one hand Telecom Italia was admitted as a civil party permitted to establish claims against all the defendants, and on the other hand Telecom Italia was also cited as the party with civil liability for the actions of the defendants in relation to 32 civil parties. The companies Telecom Italia Latam and Telecom Italia Audit and Compliance Services (now merged into Telecom Italia) also participated in the hearing as civil parties, having filed appearances since the preliminary hearing and brought charges against the defendants for hacking.

After lengthy evidential hearings—which lasted more than a year—22 civil parties filed claims for compensation, against Telecom Italia as civilly liable party, for over 60 million euros (over 42 million euros of which was requested by a single civil party). Telecom Italia itself, as civil party, also through its claims against the defendants, requested that they be found liable for all the damages suffered as a result of the facts of the case.

On 13 February 2013 the Milan Court of Assizes issued its judgment, sentencing certain of the defendants to terms of imprisonment ranging from seven years and six months to a suspended sentence of one year’s imprisonment.

The Court also recognised that there had been non-monetary damage to some of the civil parties as a consequence of the alleged activities, and sentenced the defendants, jointly and severally with civilly liable party Telecom Italia, to compensate said civil parties in an amount totalling 270,000 euros (of which 170,000 euros are to be paid jointly and severally by Pirelli & C. S.p.A.).

At the same time, the Court ordered certain of the defendants to pay compensation for monetary and non-monetary damage suffered by Telecom Italia, making a provisional award to Telecom Italia of 10 million euros. The Court also recognised the existence of non-monetary damages to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, ordering the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each of the companies.

In many proceedings described in the paragraph below, in addition to the amount that has been accrued, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Telecom Italia Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage of their development or where claimants seek substantial or indeterminate damages.

Therefore as permitted by paragraph 91 of IAS 37 Telecom Italia has not disclosed an estimate of the financial effect, and the other information required by IAS 37 paragraph 86 (b) because it was not practicable to do so.

In each of the material legal proceedings and investigations, review and proceedings described below, unless specifically noted otherwise, it is not possible to reliably estimate with any certainty the liability, if any, or the effect these proceedings, investigations and reviews, and any related developments, may have on the Telecom Italia Group. Moreover, in the case in which the disclosure of information with respect to a particular dispute or proceeding could seriously prejudice the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.
Antitrust Case A428

On 23 June 2010, prompted by complaints filed by Wind and Fastweb, AGCM started an investigation into two alleged abuses of dominant position by Telecom Italia. According to Wind, Telecom Italia allegedly hindered or delayed the activation of access services, by means of unjustified and spurious refusals. Moreover, according to both complainants, Telecom Italia allegedly offered its access services to final customers at economic and technical conditions that could allegedly not be matched by competitors purchasing wholesale access services from Telecom Italia itself, only in those geographic areas of the country where unbundled access services to the local network are available, and hence where other operators can compete more fiercely with the company.

In any case, with reference to one of the offers complained of (relating to an invitation to tender issued by the Florence municipal authority), on 1 February 2011, AGCom closed its investigation after verifying that the economic terms of Telecom Italia’s offer with regard to traffic services could be matched by its competitors.

While reiterating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns advanced in the AGCM decision to open the investigation. AGCM initially published the proposal (in August 2011), inviting comments from interested parties, and then rejected it by decision served in March 2012. The company appealed the rejection decision before the Administrative Court (TAR) for Lazio.

Following the communication of its preliminary findings in December 2012, AGCM served the final decision on Telecom Italia on 10 May 2013. AGCM found Telecom Italia responsible for two distinct abusive behaviours: (i) a constructive refusal to supply, in having opposed an unjustifiably high number of refusals to requests for the activation of wholesale services by OLOs in the three year period 2009-2011; and (ii) the margins squeeze through the application of economic conditions in the areas open to unbundling that could not be replicated by an equally efficient competitor from 2009 to July 2011.

AGCM imposed a fine of € 88.182 million and € 15.612 million, respectively, for the constructive refusal to supply and the margins squeeze.

The decision can be appealed within 60 days before the Administrative Tribunal (TAR) for Lazio.

Antitrust Case I757

On 12 September 2012, AGCM started an investigation against Telecom Italia, Wind and Vodafone to ascertain the existence of an anticompetitive agreement aimed at excluding from the market the new operator BIP Mobile S.r.l.

BIP Mobile S.r.l., which intends to present itself as the first “lowcost” virtual operator, does not have its own sales network, since it accesses the market using the multibrand distribution channel. According to the complaint it submitted to AGCM, the company has been faced with cancellations by retailers that distribute mobile telephony products of various operators, allegedly induced by pressures that were supposedly “the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind”.

The investigation is scheduled to be completed by 30 September 2013. Since the procedure is still at an early stage, an assessment of its outcome would be premature.

Dispute relative to “adjustments on license fees” for the years 1994-1998

Relating to the disputes filed by Telecom Italia and Tim (now merged with Telecom Italia) relating to the Ministry of Communications’ request for payment of the balance of the amounts paid in concession charges for the years 1994-1998, the Administrative Court (TAR) for Lazio rejected Telecom Italia’s appeal against the Ministry for payment of the sum of approximately 11 million euros for the balance of the charges for the
1994 financial year, 9 million euros of which related to revenues not received due to bad debts. Telecom Italia has appealed this TAR decision to the Council of State (Consiglio di Stato).

**Fastweb**

In January 2011 Fastweb appointed an arbitrator in relation to its request for 146 million euros in damages, allegedly suffered after the breach by Telecom Italia of the contract for the supply of the LLU. In particular, Fastweb complained that, in the period from July 2008 to June 2010, Telecom Italia had refused, unlawfully, to execute approximately 30,000 requests to migrate customers to the Fastweb network. Telecom Italia has filed a counterclaim.

**H3G**

As part of a broader agreement with H3G, in June 2012 the following civil disputes were settled by mediation—without additional costs other than those for which provision had already been made:

- a case brought by H3G for compensation for damages of 122 million euros alleging presumed discriminatory behaviour and unfair competition by Telecom Italia against H3G in relation to fixed-mobile termination tariffs in the period 2008/2010. Telecom Italia had filed an appearance contesting the claims and submitting, alternatively, a counterclaim for 465 million euros;

- a case brought by Telecom Italia for compensation of 230 million euros for damages related to the termination charges applied to it by H3G that were higher than those applied to other operators in the period between September 2005 and February 2008;

- a case brought by H3G for compensation for presumed damages arising from the alleged discriminatory behaviour by Telecom Italia in the market for calls from its mobile network to H3G network customers. In particular, according to the complainant, Telecom Italia was accused of applying to its own sales divisions fees lower than those applied to H3G from April 2008. The damages claimed were quantified as approximately 120 million euros. Telecom Italia had filed a reply contesting the claims and submitting a counterclaim for 260 million euros;

- a challenge by Telecom Italia before the Rome Appeal Court against the arbitration awards on the subject of mobile-mobile termination tariffs for the period between September 2005 and December 2007;

- a case started by H3G claiming compensation for alleged damages arising from the alleged violation of the mobile customer portability procedures. The damages claimed were quantified as approximately 60 million euros. Telecom Italia had filed a reply contesting the claims and submitting a counterclaim for 20 million euros; and

- an injunction sought by Telecom Italia to recover approximately 21 million euros for additional costs paid to H3G for the period from July 2010 to February 2011, after the repricing of the termination tariffs on the H3G mobile network (resolution 667/08/Cons).

**Federazione Anti Pirateria Audiovisiva**

In June 2010, antipiracy group Federazione Anti Pirateria Audiovisiva (FAPAV) commenced proceedings against Telecom Italia in the Rome Court claiming 320 million euros of damages allegedly resulting from its non-prevention of the illicit downloading of films by customers of Telecom Italia accessing certain websites. According to the claimant, Telecom Italia did not adopt the necessary technical and administrative measures to prevent the illegal use of its network. FAPAV also asked that Telecom Italia provide the Judicial Authorities with information that identifies the customers involved in the alleged unlawful activities.
These proceedings follow a precautionary procedure at the end of which the Rome Court excluded both any liability of Telecom Italia for the information it carries, and the obligation to suspend the internet access service of which Telecom Italia is merely supplier. The Court ordered Telecom Italia only to supply all the information in its possession on the alleged unlawful activity and other information that identifies the subjects involved.

Telecom Italia, which has complied with the order filed a reply asking that the claims of the other party be rejected in their entirety. The Italian association of authors and publishers (SIAE) has joined these proceedings to support FAPAV’s position.

**Wind**

In a writ issued in January 2012, Wind commenced proceedings against Telecom Italia claiming damages of 90 million euros arising from alleged unfair competition caused by Telecom Italia’s refusal to activate service requests in the period July 2009 - October 2010; the plaintiff’s main complaint alleges that such strategy of unfair competition was enacted by Telecom Italia both through alleged “technical boycotting” of service activation requests, and through offers and discounts tailored to customers interested in Wind’s offers. Such conduct, with which Telecom Italia has been charged, has previously been the subject of complaints by Wind and Fastweb before the AGCM, which initiated proceedings A428. Telecom Italia filed a reply challenging the claims made by Wind.

**Eutelia and Voiceplus**

In June 2009, Eutelia and Voiceplus filed a complaint alleging Telecom Italia’s abuse of dominant position in the premium service market (involving the offering to the public of services through so-called non geographical numbers). Plaintiffs sought compensation of approximately 730 million euros for losses suffered.

The case follows a precautionary procedure in which Milan Court of Appeals prohibited certain behaviours and issued an injunction ordering Telecom Italia to cease the alleged abuses in Telecom Italia’s business relations with Eutelia and Voiceplus, relating to the non geographical numbers for which Telecom Italia managed the revenues from the end customers on behalf of such OLOs and according to regulatory requirements. Telecom Italia filed a reply, asking that the request for damages be rejected in its entirety.

**Teleunit**

On 29 October 2009 Teleunit filed a complaint before the Court of Appeal of Milan alleging Telecom Italia’s abuse of dominant position in the premium service market (involving the offering to the public of services through so called non geographical numbers and Telecom Italia’s regulatory obligation to collect payments, on behalf of these OLOs, from end users). Plaintiff sought damages of approximately 362 million euros for the losses incurred. Telecom Italia has filed a formal reply to dispute plaintiff’s claims.

**Irregular sale of handsets to companies in San Marino—Investigation by the Public Prosecutor’s Office of Forlì**

In June 2012, the company was notified of a search warrant issued by the Public Prosecutor’s Office of Forlì, as part of a proceeding in which one employee, subsequently suspended, and three former employees of the company were the subject. The alleged charges were criminal conspiracy associated with “false declaration through the use of invoices or other documents for non-existent transactions” and of “issuing invoices or other documents for non-existent transactions”, in reference to an alleged system of “carousel fraud” carried out during 2007-2009 by employees of Italian and San Marino companies. In particular, the criminal fraud claims relate to the sale of mobile telephony handsets and accessories, allegedly in place among various companies operating in Italy and San Marino.
The allegations were subject to investigation as part of the Greenfield Project, the results of which were subsequently made available to the investigating Judicial Authority of Bologna which, initially, had been in charge of the investigations. In this regard, as a result of the Greenfield Project findings, Telecom Italia’s autonomously and voluntarily regularised certain invoices issued to San Marino companies for which the tax obligations had not been fully discharged. The documentation relating to this voluntary regularisation was also sent to the Public Prosecutor’s Office of Bologna which, in 2011, ordered the case to be dismissed. Telecom Italia has also provided the Public Prosecutor’s Office of Forlì with all the material provided to the Public Prosecutor’s Office of Bologna.

The investigation continues and, to date, the company has not received any further notices; a proper assessment of the outcome of the proceedings is therefore premature.

**Poste**

Certain action brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, in relation to non-payment by Poste for services rendered under contracts to supply IT goods and services are still pending. The outcome of the lower court’s judgments was partially favourable to Telecom Italia. The judgments have been appealed by Poste in individual hearings.

Following these rehearsings, a judgment of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, while another judgment of the same Court voided one of the disputed contracts. After this judgment, Poste filed a claim for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgment of the Italian Supreme Court considering amendment of the above judgment was still pending. Telecom Italia opposed and appealed for suspension of execution, arguing that it had not been ordered to pay specific restitution at that time, and hence there was no valid right to execute the judgment. Accepting this argument, the Rome Court suspended execution, as requested.

After this judgment of the Supreme Court that quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter at issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected. The judgment was resubmitted to another section of the Rome Appeal Court.

**Gruppo Elitel Telecom S.p.A.**

A proceeding was started in Rome by the receivership of Elinet S.p.A. (an alternative telecommunications operator) against its former administrators, auditors and auditing companies as well as against Telecom Italia, in which claims were formulated regarding the alleged performance by Telecom Italia, of management and co-ordination activities of the Elitel Group (a group in which Telecom Italia has never had any type of interest), allegedly also implemented through improper trade receivables management in connection with a significant existing loan owed to Telecom Italia by the Elitel Group. The receiverships of Elitel s.r.l. and of Elitel Telecom S.p.A. (at the time the parent company of the Elitel Group) are also party to these proceedings. The monetary claims advanced by the three receiverships amount to a total of 282 million euros. Telecom Italia filed a reply, challenging the claims of the plaintiffs.

**Greece—Delan**

In 2009, Carothers Ltd., as successor of Delan Cellular Services SA, started legal proceedings, seeking interim injunctive measures and on the merits, against Wind Hellas before the Greek courts. Wind Hellas in turn served Telecom Italia International with an injunction for compulsory intervention, allegedly on the basis of the indemnification obligations contained in the stock purchase agreement for the sale of the Greek subsidiary by Telecom Italia. The hearing for the pleading of the cases against Wind Hellas and against Telecom Italia International on the basis of the indemnity provisions was held on 1 June 2011. After a hearing on the merits of both the case commenced by Carothers Ltd. against Wind Hellas and the case commenced by Wind Hellas against Telecom Italia International based on the alleged indemnification
obligations contained in the related stock purchase agreement for the sale of Wind Hellas by Telecom Italia, in April 2012, the Judge of First Instance determined that the court lacked jurisdiction over Telecom Italia International (whose contractual indemnification obligation is governed by the law of New York and subject to arbitration), while ordering Wind Hellas to pay damages to Carothers for an overall amount of approximately 85 million euros (including costs and interests accrued). The judgment has been appealed by Wind Hellas, which subsequently dropped its claims against Telecom Italia International.

Subsequently, Wind Hellas served Telecom Italia International with a request for international arbitration, seeking a declaratory judgment asserting Wind Hellas’ right to be held harmless from any possible negative outcome arising from the on-going appeal proceedings. In August 2012, Telecom Italia International filed the answer to the request for arbitration and counterclaim, requesting—among other things—compensation for damages as a result of breach of the arbitral clause contained in the Stock Purchase Agreement executed in 2005 in connection with the notice of joinder to Telecom Italia International as guarantor before the Greek Courts. Following the first procedural hearing, during the month of March 2013, Wind Hellas has filed a Statement of Claim together with the relevant documentation (including testimony and appraisal) in compliance with the rules of court.

**Brazil—Opportunity Group Arbitration**

In May 2012, Telecom Italia and Telecom Italia International were served with an arbitration claim brought by the Opportunity Group, claiming compensation for damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement executed in 2005. Based on claimant’s allegations, such damages related to matters that have become publicly known as a result of the criminal proceedings pending before the Court of Milan regarding, among others, certain conduct of former employees of Telecom Italia’s Security Department. Currently, the request for arbitration does not provide any specific indication relating to the damages claimed or evidence supporting the demand.

In August 2012, Telecom Italia and Telecom Italia International filed their joint answer, counterclaiming for breach of the settlement agreement executed in 2005 in connection with the civil action filed by Daniel Dantas and certain Opportunity Group companies in the aforementioned criminal proceedings before the Court of Milan. The Opportunity Group filed its answer on 10 September 2012 to the counterclaim for compensation for damages.

**Brazil—DOCAS/JVCO Arbitration**

In March 2013, the Brazilian companies Docas Investimentos S.A. (Docas) and JVCO Participações Ltda. commenced arbitration proceedings against TIM Brasil Serviços e Participações S.A. (TIM Brasil), TIM Participações S.A. (TIM Part) and Intelig Telecomunicações Ltda. (Intelig) claiming (i) the restitution of TIM Part’s shares owned by TIM Group as guarantee of the indemnification obligations assumed by Docas Group at the time of the merger for incorporation of Intelig (company controlled by Docas Group) in TIM Part (ii) compensation for damages for an alleged breach of the merger agreement and (iii) compensation for alleged offences by TIM Part in the determination of the share swap ratio between TIM Part’s shares and Intelig’s shares. On 13 May 2013, TIM Brasil, TIM Part and Intelig filed their joint answer counterclaiming for reparation and damages. Meanwhile, the claimants were granted an injunction by the Courts of Brazil to prevent TIM Brasil from selling the shares under point (i) above, pending the appointment of an Arbitral Tribunal, in order to protect any future arbitral award. The Arbitral Tribunal was constituted in June 2013 and shall decide on the matter.

**Other information**

**Mobile telephony—criminal proceedings**

With reference to the prepaid SIM cards activated during 2005-2008 and incorrectly associated with a customer identity document, recovery activities were completed on 30 June 2012 through either the
regularisation or termination of the remaining cards still in existence on that date. At the start of these recovery activities, around 5.5 million SIM cards had not correctly been associated with an identity document.

On 21 March 2012, Telecom Italia was served notice of the conclusion of preliminary enquiries, which set forth that Telecom Italia was under investigation within the meaning of Legislative Decree n. 231/2001 by the Public Prosecutor of Milan relating to charges of handling stolen goods (pursuant to art. 648 of the Criminal Code) and of counterfeiting (pursuant to art. 491-bis of the Criminal Code) committed, according to the allegations, by fourteen employees who were at the time members of the then existing so-called “ethnic channel,” a former sales function within Telecom Italia, with the concurrent participation of a number of dealers (a total of 99 persons are being investigated for having activated approximately 109,000 SIM cards), for the purpose of obtaining unearned commissions from Telecom Italia. As the injured party damaged by such conduct, Telecom Italia brought two legal actions in 2008 and 2009, respectively, and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defence, together with a technical report by its own specialist, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against Telecom Italia be brought against the other defendants. On 19 December 2012, the Public Prosecutor’s Office filed a request for 89 natural persons and Telecom Italia itself to be remanded for trial; Telecom Italia is awaiting the notice informing it of the date set for the preliminary hearing. As an injured party, Telecom Italia will set out the grounds of its defence in the preliminary hearing. The date of the preliminary hearing has yet to be scheduled.

A criminal proceeding is pending against a former Executive Director (Mr. Riccardo Ruggiero) and two former managers who are charged with “preventing the public supervisory authorities from performing their functions” with respect to the communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards topped up with 0.01 euros, and the activation of 1,042,447 SIM cards deemed irregular and not topped up in the twelve months after activation. This proceeding initially included Telecom Italia, pursuant to Legislative Decree n. 231/01. Telecom Italia, however, agreed a plea bargain and at the same time a motion for the declaration of the statute of limitations for the acts committed up until 31 May 2007, and was admitted to the trial as a civil party against the three natural persons charged.

During the hearing of 10 July 2012 the judge for the Preliminary Hearing declared that the statute of limitations applied to Telecom Italia only, for the actions committed up until 31 May 2007; approved the plea bargain of Telecom Italia and ordered it to pay a fine of 600 thousand euros, acknowledging that from 2008 Telecom Italia had adopted an organisational model suitable to prevent the commission of acts similar to those committed; and set the date for the hearing against the three former managers charged before the third Criminal Section of the Milan Court for 8 October 2012.

During the first preliminary evidential hearing held on 17 December 2012 Telecom Italia filed a further motion to be admitted as a civil party to the trial of the three defendants. Telecom Italia then withdrew its application to be admitted to the proceedings against Mr. Riccardo Ruggiero after the approval by the Telecom Italia shareholders’ meeting (and the consequent completion) of a settlement agreement with the former Executive Director charged.

During the hearing on 11 February 2013, the Milan Court, taking the opposing view to the Judge at the abovementioned preliminary evidential hearing, declared that it did not have jurisdiction, and ordered that the case be transferred to the Rome Public Prosecutor’s Office.

**Dispute concerning the license fee for 1998**

Telecom Italia has initiated civil proceedings against the Prime Minister’s Office (Presidenza del Consiglio dei Ministri) before the Rome Court for damages caused by the Italian State through appeal judgment No.
by the Council of State (Consiglio di Stato) that, according to Telecom Italia, violates the principles of EU law.

The main claim is based on EU case law that recognises the right to claim liability of the State for violation of rights protected by EU law and breached by a final judgment, in respect of which no other remedy may be applied. The aforementioned final appeal judgment denied Telecom Italia’s right to restitution of the license fee for 1998 (386 million euros for Telecom Italia and 143 million euros for Tim, plus interest). Telecom Italia’s request had already been rejected by the Lazio Regional Administrative Court despite the favourable binding opinion of the ECJ on 23 February 2008. The ECJ acknowledged the existence of a conflict between (i) EC Directive 97/13 on general authorisations and individual licenses in the telecommunications services industry, and (ii) the national regulations deferring for 1998 the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The damages claimed are around 529 million euros, plus legal interest and revaluation.

The Italian Attorney General (Avvocatura di Stato) filed a challenge and submitted a counterclaim for the same sum. As regards the main claim (damages for manifest breach of EU law pursuant to law 117/88), the case was preliminarily reviewed by the Rome Court, which declared the inadmissibility of Telecom Italia’s main claim. Upon an appeal by Telecom Italia, the Court’s decision was overturned by the Court of Appeals of Rome, which declared Telecom Italia’s claim admissible. As a consequence, the proceedings will continue on both claims made by Telecom Italia.

Teletu

In 2012 Telecom Italia commenced proceedings in the Rome Court against the telecommunication operator Teletu. Telecom Italia is claiming damages of approximately 93 million euros arising from the alleged unlawful refusal by Teletu to have Teletu clients activate accounts with Telecom Italia.

Other Liabilities Connected With Sales Of Assets And Investments

Under the contracts for the sale of assets and companies, the Telecom Italia Group has guaranteed compensation generally commensurate to a percentage of purchase price to buyers for liabilities deriving mainly from legal, tax, social security and labor-related issues.

In connection with these contingent liabilities, totaling about 1,100 million euros, only for those cases in which an outflow of resources is considered probable, an amount of 85 million euros has been accrued in the provision for risks.

Moreover, the Telecom Italia Group is committed to provide further compensation for certain specific contractual provisions under agreements for the sale of assets and companies, for which the contingent liabilities cannot at present be determined.
TELECOM ITALIA GROUP — SUMMARY OF SELECTED FINANCIAL INFORMATION AND
STATISTICAL OPERATING DATA

Financial Information prepared in accordance with IFRS as of and for the Years Ended 31 December
2012 and 2011

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of
and for each of the years ended 31 December 2012 and 2011, which have been extracted or derived from the
audited Consolidated Financial Statements of the Telecom Italia Group included in the 2012 Telecom Italia
Annual Report (which is incorporated by reference) and which have been audited by
PricewaterhouseCoopers S.p.A., as independent auditors.

In 2012, the Telecom Italia Group applied accounting policies on a basis consistent with those of the
previous years, except for:

• the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (Employee
Benefits). The early adoption of such amendments resulted in the restatement of the 2011 separate
consolidated income statements and consolidated statements of comprehensive income; and
• the new standards and interpretations adopted by the Group since 1 January 2012 (IAS 12 (Income
Taxes) and IFRS 7 (Disclosures – Transfers of Financial Assets)), that did not have any effect on the
consolidated financial statements as of and for the year ended 31 December 2012.

The financial information described below should be read in conjunction with the 2012 Telecom Italia
Annual Report.

Amounts presented in this section are prepared in accordance with International Financial Reporting
Standards issued by the International Accounting Standards Board and endorsed by the EU (IFRS).

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2012</th>
<th>2011(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(millions of euros, except percentages, ratios, employees and per share amounts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Separate Consolidated Income Statement Data:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>29,503</td>
<td>29,957</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>1,926</td>
<td>(680)</td>
</tr>
<tr>
<td>Profit (loss) before tax from continuing operations</td>
<td>(44)</td>
<td>(2,743)</td>
</tr>
<tr>
<td>Profit (loss) from continuing operations</td>
<td>(1,279)</td>
<td>(4,353)</td>
</tr>
<tr>
<td>Profit (loss) from Discontinued operations/Non-current assets held for sale</td>
<td>2</td>
<td>(13)</td>
</tr>
<tr>
<td>Profit (loss) for the year</td>
<td>(1,277)</td>
<td>(4,366)</td>
</tr>
<tr>
<td>Profit (loss) attributable to owners of the Parent(2)</td>
<td>(1,627)</td>
<td>(4,811)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>5,196</td>
<td>6,095</td>
</tr>
<tr>
<td>Financial Ratios:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit (loss)/Revenues (ROS)</td>
<td>6.5%</td>
<td>—</td>
</tr>
</tbody>
</table>

(1) Restated

(2) Including the post-tax proceeds from the disposal of shares of the Parent company

(3) Operating profit (loss)/Revenues (ROS) in per cent
Employees, average number in the Group, including personnel with temporary work contracts:

Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number): .................................................. 78,564 78,369

Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number): ........................................ — —

Basic and Diluted earnings per Share (EPS)(3):

Ordinary Share ................................ ................................ .................... (0.08) (0.25)
Savings Share ................................ ................................ ...................... (0.08) (0.25)

Of which:

- From continuing operations:
  Ordinary Share ........................................................................ (0.08) (0.25)
  Savings Share ........................................................................ (0.08) (0.25)

- From Discontinued operations/Non-current assets held for sale:
  Ordinary Share ........................................................................ — —
  Savings Share ........................................................................ — —

Dividends:

per Ordinary Share ........................................................................ 0.020(4) 0.043
per Savings Share ........................................................................ 0.031(4) 0.054

Consolidated Statement of Financial Position Data:

Total Assets ........................................................................ 77,555 83,886

Equity:

Equity attributable to owners of the Parent .................................... 19,378 22,790
Non-controlling interests ............................................................. 3,634 3,904
Total Equity ........................................................................ 23,012 26,694

Total liabilities ........................................................................ 54,543 57,192

Total equity and liabilities ........................................................... 77,555 83,886

Share capital(5) ........................................................................ 10,604 10,604

Net Financial Debt carrying amount(6) ........................................ 29,053 30,819

Adjusted Net Financial Debt(6) .................................................... 28,274 30,414

Employees, number in the Group at year-end, including personnel with temporary work contracts:

Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end): .................................................. 83,184 84,154

Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end): ........................................ — —
### Statistical Data:

#### Domestic (Italy) Business Unit

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical accesses</td>
<td>21,153</td>
<td>21,712</td>
</tr>
<tr>
<td>Of which retail physical accesses</td>
<td>13,978</td>
<td>14,652</td>
</tr>
<tr>
<td>Broadband accesses</td>
<td>8,967</td>
<td>9,089</td>
</tr>
<tr>
<td>Of which retail broadband accesses</td>
<td>7,020</td>
<td>7,125</td>
</tr>
<tr>
<td>Mobile lines</td>
<td>32,159</td>
<td>32,227</td>
</tr>
</tbody>
</table>

#### Brazil Business Unit

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile lines</td>
<td>70,362</td>
<td>64,070</td>
</tr>
</tbody>
</table>

#### Argentina Business Unit

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-line network connections</td>
<td>4,128</td>
<td>4,141</td>
</tr>
<tr>
<td>Broadband accesses</td>
<td>1,629</td>
<td>1,550</td>
</tr>
<tr>
<td>Mobile lines</td>
<td>21,276</td>
<td>20,342</td>
</tr>
</tbody>
</table>

**Notes:**

1. Starting from 2012, the Telecom Italia Group has adopted early and retrospectively applied the revised version of IAS 19 (Employee Benefits); therefore, the comparative figures for 2011 have been restated on a consistent basis. The adoption of IAS 19 does not have any effect on the Telecom Italia Group’s statement of financial position other than certain reclassifications under “Equity.”

2. For the purposes of IFRS, “Parent”, as used in this EMTN Programme Prospectus and in the Telecom Italia Annual Report, means Telecom Italia S.p.A.

3. In accordance with IAS 33 (Earnings per share), basic earnings per Ordinary Share is calculated by dividing the Telecom Italia Group’s profit available to shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2 per cent. of the par value of shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

- Ordinary Shares was 13,277,621,082 for the year ended 31 December 2012 and 13,264,375,078 for the year ended 31 December 2011;

- Savings Shares was 6,026,120,661 for the years ended 31 December 2012 and 2011.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Telecom Italia Group’s profit (loss) is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

4. Telecom Italia’s dividend coupons for the year ended 31 December 2012, were clipped on 22 April 2013, and were payable from 25 April 2013.

5. Share capital represents share capital issued net of the par value of treasury shares.

6. Starting from the first half of 2009, in order to present a more realistic analysis of net financial debt, a new performance measure has been introduced, in addition to the usual indicator (renamed “Net financial debt carrying amount”), denominated “Adjusted net financial debt” which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. Net Financial Debt is one of the alternative performance measures presented in addition to the conventional financial performance measures established by IFRS for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Specifically, Telecom Italia believes that Net Financial Debt provides an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. Net Financial Debt is also used in presentations to investors and analysts. Adjusted Net Financial Debt as of 31 December 2012 and 31 December 2011 is calculated as follows:
### As of 31 December

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>(millions of euros)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>34,091</td>
<td>35,860</td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>6,150</td>
<td>6,091</td>
</tr>
<tr>
<td><strong>Gross Financial Debt (A)</strong></td>
<td>40,241</td>
<td>41,951</td>
</tr>
<tr>
<td>Non-Current Financial Assets (B)</td>
<td>(2,496)</td>
<td>(2,949)</td>
</tr>
<tr>
<td><strong>Current financial assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Securities other than investments</td>
<td>(754)</td>
<td>(1,007)</td>
</tr>
<tr>
<td>– Financial receivables and other current financial assets</td>
<td>(502)</td>
<td>(462)</td>
</tr>
<tr>
<td>– Cash and cash equivalents</td>
<td>(7,436)</td>
<td>(6,714)</td>
</tr>
<tr>
<td><strong>Total Current Financial Assets (C)</strong></td>
<td>(8,692)</td>
<td>(8,183)</td>
</tr>
<tr>
<td><strong>Financial Assets (D = B + C)</strong></td>
<td>(11,188)</td>
<td>(11,132)</td>
</tr>
</tbody>
</table>

|                | 2012       | 2011       |
|                | 29,053     | 30,819     |

|                              |            |            |
| Reversal of fair value measurement of derivatives and related financial liabilities/assets | (779)      | (405)      |
| **Adjusted Net Financial Debt** | 28,274     | 30,414     |

(7) Physical accesses include Broadband accesses and exclude OLO full infrastructure and WIMAX.

(8) Broadband accesses exclude OLO ULL and naked, satellite, full infrastructure and WIMAX.

### Financial Information prepared in accordance with IFRS as of, and for the three months ended, 31 March 2013 and 2012

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as follows:

(ii) with respect to the separate consolidated income statement information, the unaudited financial data for the three month periods ended 31 March 2013 and 2012; and

(i) with respect to the statement of financial position information, the unaudited financial data as of 31 March 2013 and the audited financial data as of 31 December 2012.

Following in the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (Employee Benefits) the unaudited separate consolidated income statement data for the three-month period ended 31 March, 2012 have been restated. In particular, this has resulted in the reclassification from employee benefit expenses to finance expenses of the “time value” component in actuarial calculations, amounting to 10 million euros.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of the Telecom Italia Group reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Telecom Italia Group’s consolidated results of operations for the unaudited interim periods. Results for the three month period ended 31 March 2013 are not necessarily indicative of results that may be expected for the entire year.

Furthermore in the three month period ended 31 March 2013 there were no material events or transactions (e.g. business combinations, disposals, significant transactions with related parties, including intragroup transactions) which would have required specific disclosure in this EMTN Programme Prospectus.
### Separate Consolidated Income Statement Data:

<table>
<thead>
<tr>
<th></th>
<th>2013 (Unaudited)</th>
<th>2012 (Restated Unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>6,796</td>
<td>7,392</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,282</td>
<td>1,625</td>
</tr>
<tr>
<td>Profit before tax from continuing operations</td>
<td>791</td>
<td>1,173</td>
</tr>
<tr>
<td>Profit from continuing operations</td>
<td>448</td>
<td>718</td>
</tr>
<tr>
<td>Profit (loss) from Discontinued operations/Non-current assets held for sale</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>448</td>
<td>718</td>
</tr>
<tr>
<td>Profit attributable to owners of the Parent(^{(1)})</td>
<td>364</td>
<td>605</td>
</tr>
</tbody>
</table>

### Capital expenditures

878

### Financial Ratios

- Operating profit/Revenues (ROS)(%) 18.9% 22.0%

### Employees, average number in the Group, including personnel with temporary work contracts:

Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number) 77,914 78,085

Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number) - -

### Basic and Diluted earnings per Share (EPS)\(^{(2)}\):

<table>
<thead>
<tr>
<th></th>
<th>Ordinary Share</th>
<th>Savings Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.02</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>0.03</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Of which:

- From continuing operations:
  - Ordinary Share 0.02 0.03
  - Savings Share 0.03 0.04

- From Discontinued operations/Non-current assets held for sale:
  - Ordinary Share - -
  - Savings Share - -
### Consolidated Statement of Financial Position Data:

<table>
<thead>
<tr>
<th></th>
<th>As of 31 March 2013 (Unaudited)</th>
<th>As of 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>76,413</td>
<td>77,555</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Equity attributable to owners of the Parent</td>
<td>19,943</td>
<td>19,378</td>
</tr>
<tr>
<td>— Non-controlling interests</td>
<td>3,815</td>
<td>3,634</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>23,758</td>
<td>23,012</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>52,655</td>
<td>54,543</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>76,413</td>
<td>77,555</td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td>10,604</td>
<td>10,604</td>
</tr>
<tr>
<td><strong>Net Financial Debt carrying amount</strong></td>
<td>29,516</td>
<td>29,053</td>
</tr>
<tr>
<td><strong>Adjusted Net Financial Debt</strong></td>
<td>28,767</td>
<td>28,274</td>
</tr>
<tr>
<td><strong>Employees, number in the Group at period-end, including personnel with temporary work contracts:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at period-end)</td>
<td>82,941</td>
<td>83,184</td>
</tr>
<tr>
<td>Employees relating to the consolidated companies considered a Discontinued operations/Non-current assets held for sale (number at period-end)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Statistical Data:

<table>
<thead>
<tr>
<th></th>
<th>As of 31 March 2013</th>
<th>As of 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic (Italy) Business Unit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical accesses&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>21,016</td>
<td>21,153</td>
</tr>
<tr>
<td>Of which retail physical accesses</td>
<td>13,777</td>
<td>13,978</td>
</tr>
<tr>
<td>Broadband accesses&lt;sup&gt;(6)&lt;/sup&gt;</td>
<td>8,878</td>
<td>8,967</td>
</tr>
<tr>
<td>Of which retail broadband accesses</td>
<td>6,984</td>
<td>7,020</td>
</tr>
<tr>
<td>Mobile lines</td>
<td>31,858</td>
<td>32,159</td>
</tr>
<tr>
<td><strong>Brazil Business Unit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile lines</td>
<td>71,218</td>
<td>70,362</td>
</tr>
<tr>
<td><strong>Argentina Business Unit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed-line network connections</td>
<td>4,109</td>
<td>4,128</td>
</tr>
<tr>
<td>Broadband accesses</td>
<td>1,626</td>
<td>1,629</td>
</tr>
<tr>
<td>Mobile lines</td>
<td>21,449</td>
<td>21,276</td>
</tr>
</tbody>
</table>

**Notes:**

1. For the purposes of IFRS, “Parent”, as used in this EMTN Programme Prospectus, means Telecom Italia S.p.A.
2. In accordance with IAS 33 (Earnings per share), basic earnings per Ordinary Share is calculated by dividing the Telecom Italia Group’s profit available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2 per cent. of the par value of shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:
• Ordinary Shares was 13,278,472,713 for the three months ended 31 March 2013 and 13,267,508,877 for the three months ended 31 March 2012; and
• Savings Shares was 6,026,120,661 for the three months ended 31 March 2013 and 2012.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Telecom Italia Group’s profit is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(3) Share capital represents share capital issued net of the par value of treasury shares.

(4) Starting from the first half of 2009, in order to present a more realistic analysis of net financial debt, a new performance measure has been introduced, in addition to the usual indicator (renamed “Net financial debt carrying amount”), denominated “Adjusted net financial debt” which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. Net Financial Debt is one of the alternative performance measures presented in addition to the conventional financial performance measures established by IFRS for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Specifically, Telecom Italia believes that Net Financial Debt provides an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. Net Financial Debt is also used in presentations to investors and analysts. Adjusted Net Financial Debt as of 31 March 2013 and 31 December 2012 is calculated as follows:

<table>
<thead>
<tr>
<th></th>
<th>As of 31 March 2013</th>
<th>As of 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current financial liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>34,138</td>
<td>34,091</td>
</tr>
<tr>
<td>Gross Financial Debt (A)</td>
<td>39,646</td>
<td>40,241</td>
</tr>
<tr>
<td>Non-Current Financial Assets (B)</td>
<td>(2,354)</td>
<td>(2,496)</td>
</tr>
</tbody>
</table>

Current financial assets:
- Securities other than investments (736) (754)
- Financial receivables and other current financial assets (564) (502)
- Cash and cash equivalents (6,476) (7,436)
Total Current Financial Assets (C) (7,776) (8,692)
Financial Assets (D = B + C) (10,130) (11,188)
Net Financial Debt Carrying Amount (A + D) (29,516) (29,053)
Reversal of fair value measurement of derivatives and related financial liabilities/ assets (749) (779)
Adjusted Net Financial Debt (28,767) (28,274)

(5) Physical accesses include Broadband accesses and exclude OLO full infrastructured and WIMAX.
(6) Broadband accesses exclude OLO ULL and naked, satellite, full infrastructured and WIMAX.
DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS

Directors

On 12 April 2011, the Shareholders’ Meeting of Telecom Italia elected the current Board of Directors of Telecom Italia.

The Board is composed of 15 Directors appointed for a three year term, until the Shareholders’ Meeting which will approve the financial statements of Telecom Italia for the year ended 31 December 2013. The overall annual remuneration for the Board of Directors is 2,200,000 euros (divided amongst Directors pursuant to resolutions adopted by the Board). Directors are authorised to continue their external activities specified in their respective curricula vitae, and have been freed from any restrictions on competition pursuant to Article 2390 of the Italian Civil Code.

On 13 April 2011, the Board of Directors elected Franco Bernabè as Executive Chairman of the Board and Chief Executive Officer of Telecom Italia S.p.A., Aldo Minucci as Deputy Chairman and Marco Patuano as Domestic Managing Director and Chief Operating Officer of Telecom Italia.

Following resignation on 6 June 2011 of Ferdinando Beccalli Falco and termination on 16 November 2011 of the appointment of Francesco Profumo (who was appointed Italian Minister of Education on the same date), the Board of Directors proposed Lucia Calvosa and Massimo Egidi as company directors, respectively at the meetings of 4 August 2011 and of 1 December 2011. On 15 May 2012, the Shareholders’ Meeting confirmed the appointment of Lucia Calvosa and Massimo Egidi as directors, for a term up until the shareholders’ meeting approving the financial statements for the year ending 31 December 2013.

Consequently, the Board of Directors of Telecom Italia is composed of the following:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position</th>
<th>Appointed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franco Bernabè</td>
<td>64</td>
<td>Executive Chairman and Chief Executive Officer/Director</td>
<td>2011</td>
</tr>
<tr>
<td>Aldo Minucci</td>
<td>66</td>
<td>Deputy Chairman/Director</td>
<td>2011</td>
</tr>
<tr>
<td>Marco Patuano</td>
<td>48</td>
<td>Domestic Managing Director and Chief Operating Officer/Director</td>
<td>2011</td>
</tr>
<tr>
<td>César Alierta Izuel</td>
<td>68</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Tarak Ben Ammar</td>
<td>64</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Lucia Calvosa(1)</td>
<td>51</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Elio Cosimo Catania(1)</td>
<td>66</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Massimo Egidi(1)</td>
<td>70</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Jean Paul Fitoussi(1)</td>
<td>70</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Gabriele Galateri di Genola</td>
<td>66</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Julio Linares López</td>
<td>67</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Gaetano Micciché</td>
<td>62</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Renato Pagliaro</td>
<td>56</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Mauro Sentinelli(1)</td>
<td>66</td>
<td>Director</td>
<td>2011</td>
</tr>
<tr>
<td>Luigi Zingales(1)</td>
<td>50</td>
<td>Director</td>
<td>2011</td>
</tr>
</tbody>
</table>

Note:
(1) Independent Directors.
Description of Directors’ Outside Interests (in companies that (i) are listed and included in the FTSE/MIB index, (ii) operate prevalently in the financial sector on a public basis (and are entered in the lists referred to in Articles 106 and 107 of 1 September 1993, Legislative Decree n. 385) or (iii) engage in banking or insurance).

**Tarak Ben Ammar**

Tarak Ben Ammar is an Independent Director of Mediobanca S.p.A.

**Jean Paul Fitoussi**

Jean Paul Fitoussi is an independent member of the Supervisory Board of Banca Intesa San Paolo S.p.A.

**Gabriele Galateri di Genola**

Gabriele Galateri di Genola is Chairman of Assicurazioni Generali S.p.A. and Director of SAIPEM S.p.A.

**Gaetano Miccichè**

Gaetano Miccichè is a member of the Management Board of Intesa SanPaolo S.p.A. and Chief Executive Officer of Banca IMI S.p.A.

**Aldo Minucci**

Aldo Minucci is Chairman of GENERTEL S.p.A.

**Renato Pagliaro**

Renato Pagliaro is Chairman of Mediobanca S.p.A. and Director of Pirelli & C. S.p.A.

**Executive Officers**

As of the date of this EMTN Programme Prospectus, the executive officers of Telecom Italia and their respective functions were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position</th>
<th>Appointed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franco Bernabè</td>
<td>64</td>
<td>Executive Chairman and Chief Executive Officer(1)</td>
<td>2011</td>
</tr>
<tr>
<td>Marco Patuano</td>
<td>48</td>
<td>Domestic Managing Director and Chief Operating Officer(1)</td>
<td>2011</td>
</tr>
<tr>
<td>Managers:</td>
<td></td>
<td>Head of Business</td>
<td>2012</td>
</tr>
<tr>
<td>Simone Battiferri</td>
<td>45</td>
<td>Dirección General Ejecutiva (CEO) Telecom Argentina</td>
<td>2013</td>
</tr>
<tr>
<td>Stefano De Angelis</td>
<td>45</td>
<td>Head of Public &amp; Regulatory Affairs</td>
<td>2011</td>
</tr>
<tr>
<td>Franco Brescia</td>
<td>51</td>
<td>Head of Business Support Office</td>
<td>2013</td>
</tr>
<tr>
<td>Paolo Vantellini</td>
<td>51</td>
<td>Head of Legal Affairs</td>
<td>2008</td>
</tr>
<tr>
<td>Antonino Cusimano</td>
<td>48</td>
<td>Chief Financial Officer and Head of Administration Finance and Control</td>
<td>2012</td>
</tr>
<tr>
<td>Piergiorgio Peluso</td>
<td>45</td>
<td>Head of Human Resources and Organisation</td>
<td>2008</td>
</tr>
<tr>
<td>Antonio Migliardi</td>
<td>54</td>
<td>Head of Technology</td>
<td>2011</td>
</tr>
<tr>
<td>Giuseppe Roberto Opilio</td>
<td>54</td>
<td>Head of Consumer</td>
<td>2011</td>
</tr>
<tr>
<td>Luca Rossetto</td>
<td>51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Age</td>
<td>Position</td>
<td>Appointed</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----</td>
<td>---------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Alessandro Talotta</td>
<td>46</td>
<td>Head of National Wholesale Services</td>
<td>2011</td>
</tr>
<tr>
<td>Rodrigo Abreu</td>
<td>44</td>
<td>CEO Tim Participacoes</td>
<td>2013</td>
</tr>
</tbody>
</table>

Note:
(1) Appointed by the Board of Directors on 13 April 2011.

### Board of Statutory Auditors

On 15 May 2012 the Shareholders’ Meeting appointed the present Board of Statutory Auditors, that will remain in office until approval of the 2014 annual financial statements.

On 18 September 2012 the Standing Auditor Sabrina Bruno resigned and was substituted by Roberto Capone, previously appointed as Substitute Auditor by the Shareholders’ Meeting on 15 May 2012. Roberto Capone was confirmed as Standing Auditor at the Shareholders’ Meeting held on 17 April 2013 and concurrently, at the same meeting, Fabrizio Riccardo Di Giusto was appointed as new Substitute Auditor.

The following table lists the members of the Telecom Italia Board of Statutory Auditors:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Appointed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrico Maria Bignami</td>
<td>Chairman</td>
<td>2012</td>
</tr>
<tr>
<td>Gianluca Ponzellini</td>
<td>Acting Auditor</td>
<td>2012</td>
</tr>
<tr>
<td>Roberto Capone</td>
<td>Acting Auditor</td>
<td>2013</td>
</tr>
<tr>
<td>Salvatore Spiniello</td>
<td>Acting Auditor</td>
<td>2012</td>
</tr>
<tr>
<td>Ferdinando Superti Furga</td>
<td>Acting Auditor</td>
<td>2012</td>
</tr>
<tr>
<td>Fabrizio Riccardo Di Giusto</td>
<td>Alternate Auditor</td>
<td>2013</td>
</tr>
<tr>
<td>Franco Patti</td>
<td>Alternate Auditor</td>
<td>2012</td>
</tr>
<tr>
<td>Vittorio Giacomo Mariani</td>
<td>Alternate Auditor</td>
<td>2012</td>
</tr>
<tr>
<td>Ugo Rock</td>
<td>Alternate Auditor</td>
<td>2012</td>
</tr>
</tbody>
</table>

Note:
(1) Elected by minority shareholders.

Below is a list of the functions held by members of the Board of Statutory Auditors in other listed companies:

- Salvatore Spiniello, Member of the Board of Auditors of Telecom Italia Media S.p.A. and Risanamento S.p.A.
- Ferdinando Superti Furga, Chairman of the Board of Auditors of Arnoldo Mondadori S.p.A. and Saras S.p.A.

Pursuant to Italian law, the Board of Statutory Auditors supervises compliance by the company with the law, the bylaws, the principles of proper administration and controls and the suitability of the structure and the functioning of the company’s management, administrative and accounting functions. The Board of Statutory Auditors additionally supervises suitability of the instructions given by Telecom Italia to its subsidiaries. The Board of Statutory Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors in relation to the company’s business and significant transactions performed by the company and its subsidiaries, including related parties transactions. The Board of Statutory Auditors must inform CONSOB of any irregularity they find in the course of their duties and are required to attend meetings of the Shareholders, the Board of Directors and the Executive Committee. In addition, pursuant to Legislative Decree 231/2001, the Board of Auditors carries out the function of the Supervisory Committee.
Telecom Italia has adopted “Procedures for Information to Directors and Auditors”, in order to make available to the Board of Auditors the necessary information.

Legislative Decree no. 39/2010, implementing directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, imposes on listed Italian companies the obligation to establish Internal Control and Audit Committees. Since Telecom Italia adopted the Italian “traditional” system of administration and control, the role of this Committee is performed by the Board of Statutory Auditors. Pursuant to Legislative Decree no. 39/2010, the Board of Statutory Auditors is responsible for monitoring: (i) the financial reporting process; (ii) the suitability of internal control, internal audit and risk management systems; (iii) the statutory audit of the annual and consolidated accounts; and (iv) the independence of the statutory auditor or independent audit firm, particularly insofar as non-audit services are concerned.

In addition, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Statutory Auditors has been identified to act as Telecom Italia’s Audit Committee. The Board of Statutory Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Statutory Auditors is appointed pursuant to applicable Italian law and Telecom Italia’s bylaws;
- pursuant to Italian law, the Board of Statutory Auditors is independent from the Board of Directors;
- the Board of Statutory Auditors is not elected by the management of Telecom Italia and no executive officer is a member of the Board of Auditors;
- each member of the Board of Statutory Auditors meets specific independence requirements with respect to the company and its Group, the management and the auditing firm, in compliance with the law;
- the Board of Statutory Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposals to the shareholders’ meeting) and oversight of the work of Telecom Italia’s external auditors appointed to prepare and deliver the auditors’ report on the annual financial statements;
- the Board of Statutory Auditors is authorised to appoint independent counsels and other advisers, as it deems appropriate; and
- the Board of Statutory Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian Law and the obligations deriving from U.S. law, the Board of Auditors has adopted a complaints procedure for receiving, retaining and treating the “reports” it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;
- complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and
- confidential, possibly anonymous submissions of “concerns” by employees of Telecom Italia or the Telecom Italia Group regarding questionable accounting or auditing matters.
Potential Conflicts of Interest

The shareholder’s meeting held on 12 April 2011, appointing the current Board of Directors, authorised such directors to pursue the activities listed in their respective curriculum vitae, and at all events be unfettered by the prohibition on competition, so far as is permitted by Article 2390 of the Italian Civil Code.

Some of the Directors and Statutory Auditors of Telecom Italia, in addition to their functions in Telecom Italia, hold management and/or supervisory functions in other companies and/or institutions (see “Directors”, “Description of Directors’ Outside Interests” and “Board of Statutory Auditors”). Consequently, it cannot be excluded that potential conflicts of interests may arise in the future, should any of these companies and/or institutions enter into commercial or other types of transactions with Telecom Italia which are not at arms’ length and within the ordinary course of business and/or are capable of influencing significantly the profits and losses, assets and liabilities and financial situation of Telecom Italia or the Telecom Italia Group.
DESCRIPTION OF TI FINANCE

The legal and commercial name of the company is Telecom Italia Finance.

TI Finance was incorporated on 2 June 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a société anonyme, governed by the Luxembourg law of 10 August 1915 on commercial companies, as amended, and is a 100 per cent.-owned subsidiary of Telecom Italia. Olivetti Holding BV and Telecom Italia Finance Ireland Limited are 100 per cent.-owned by TI Finance and are the only subsidiaries of TI Finance. One of TI Finance’s principal purposes as a subsidiary of Telecom Italia is to raise funds for the Telecom Italia Group. TI Finance is registered with the Registre de Commerce et des Sociétés of Luxembourg under B-76448. TI Finance’s Articles of Incorporation were published in the Mémorial C, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations n. 773 on 21 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 17 November 2008 and were published in the Mémorial C, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations n. 2899 on 4 December 2008.

TI Finance’s registered office and postal address is 12 rue Eugène Ruppert, L-2453 Luxembourg, and its telephone number is +352 45 60601.

Capitalisation

The subscribed share capital of TI Finance is €542,090,241, 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 financial assistance to Telecom Italia, as well as to companies in which Telecom Italia has a direct or indirect interest. Such assistance includes the providing of loans and the granting of guarantees or securities of any kind or in any form. The object of TI Finance is further to provide domiciliation and administration services to companies forming part of the Telecom Italia Group and to exercise any activity in relation thereto as provided in the law of 31 May 1999 on the domiciliation of companies, as amended. 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 of any kind or in any form. TI Finance may participate in the creation and development of any other companies and entities and provide them with financial assistance of any kind or in any form. TI Finance may borrow in any form whatsoever and may issue bonds or notes. TI Finance may carry out any commercial, industrial or financial transaction which it may deem useful in the development and accomplishment of its purposes.

TI Finance’s activities are 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 mandate of all Board members shall expire at the shareholders’ general meeting to be called to approve the TI Finance financial statements for the year ended 31 December 2013. TI Finance complies with applicable Luxembourg corporate governance rules.

The following are the directors of TI Finance:

- Mr Andrea Balzarini, Chairman, resident in Milan, Italy – Manager.
Mr Adriano Trapletti, Managing Director, resident in Luxembourg – Manager.

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

Ms Gigliola Bonino, Director, resident in Turin, Italy – Manager.

Mr Antonio Sica, Director, resident in Hesperange, Luxembourg – 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. No Director has an interest in the share capital of TI Finance.

The business address of each of the Directors is c/o Telecom Italia Finance S.A., 12 rue Eugène Ruppert, L-2453, Luxembourg.

Description of Directors’ Outside Interests

Mr Andrea Balzarini and Ms Gigliola Bonino are managers of Telecom Italia S.p.A. Mr Adriano Trapletti and Mr Antonio Sica are managers of TI Finance. Mr Jacques Loesch is a lawyer at the law firm Linklaters LLP.

Independent Auditor

Telecom Italia Finance’s approved audit firm (“cabinet de révision agréé”) is PricewaterhouseCoopers, Société coopérative.

Potential Conflicts of Interest

No potential conflicts of interest exist between (i) any duties to Telecom Italia Finance of the Telecom Italia Finance Directors and (ii) the private interests, and/or other duties, of such persons.

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 31 December 2000. TI Finance is required to prepare and publish 6 month interim financial statements under the Luxembourg law dated 11 January 2008, implementing Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

According to the evaluation of the Board of Directors, none of TI Finance’s subsidiaries has a material interest for the purposes of art. 319 (paragraph 3) of the Law dated 10 August 1915, as amended. TI Finance is therefore exempted under art. 317 of the aforesaid law from preparing consolidated financial statements.

The unconsolidated financial statements are available at the offices of the Luxembourg Paying Agent (Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, L-1115 Luxembourg).

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

On 24 January 2013 the €677,938,000.00 6.875 per cent. Notes matured and were repaid reducing by the same amount TI Finance’s cash deposits with banks.
### SELECTED FINANCIAL INFORMATION OF TI FINANCE FOR THE YEARS ENDED 31 DECEMBER, 2012 AND 2011

#### Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>As of 31 December 2012</th>
<th>As of 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Formation expenses</td>
<td>4,934,771.48</td>
<td>5,755,176.31</td>
</tr>
<tr>
<td>B) Fixed assets</td>
<td>26,953.13</td>
<td>39,502.58</td>
</tr>
<tr>
<td>Tangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Shares in affiliated undertakings</td>
<td>1,461,259,754.52</td>
<td>1,483,904,598.68</td>
</tr>
<tr>
<td>— Loans to affiliated undertakings</td>
<td>2,213,450,486.96</td>
<td>1,664,974,454.04</td>
</tr>
<tr>
<td>— Shares in undertakings with which the company is linked by virtue of participating interests</td>
<td>37,350.87</td>
<td>223,493.66</td>
</tr>
<tr>
<td>— Investments held as fixed assets</td>
<td>9,780,068.36</td>
<td>11,909,826.07</td>
</tr>
<tr>
<td>Total B)</td>
<td>3,684,554,613.84</td>
<td>3,146,051,875.03</td>
</tr>
<tr>
<td>C) Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Amounts owed by affiliated undertakings</td>
<td>1,140,390,429.92</td>
<td>202,485,366.41</td>
</tr>
<tr>
<td>— Other debtors</td>
<td>108,271,590.86</td>
<td>89,814,969.75</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Shares in affiliated undertakings and in undertakings with which the company is linked by virtue of participating interests</td>
<td>2,595,210,040.98</td>
<td></td>
</tr>
<tr>
<td>— Other investments</td>
<td>532,862,890.84</td>
<td>373,473,743.51</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>3,057,887,741.97</td>
<td>2,986,133,910.32</td>
</tr>
<tr>
<td>Total C)</td>
<td>4,839,412,653.59</td>
<td>6,247,118,030.97</td>
</tr>
<tr>
<td>D) Prepayments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>240,415.24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,528,902,038.91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9,399,165,497.55</td>
</tr>
</tbody>
</table>

#### Shareholders’ Equity and Liabilities

<table>
<thead>
<tr>
<th>Shareholders’ Equity and Liabilities</th>
<th>As of 31 December 2012</th>
<th>As of 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Capital and reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscribed capital</td>
<td>542,090,241.00</td>
<td>542,090,241.00</td>
</tr>
<tr>
<td>Reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Legal reserve</td>
<td>14,659,704.79</td>
<td>11,163,715.87</td>
</tr>
<tr>
<td>— Other reserves</td>
<td>865,769,812.13</td>
<td>865,769,812.13</td>
</tr>
<tr>
<td>Profit or loss brought forward</td>
<td>248,424,403.36</td>
<td>182,000,613.97</td>
</tr>
<tr>
<td>Result for the financial year</td>
<td>21,062,061.10</td>
<td>69,919,778.31</td>
</tr>
<tr>
<td>Total A)</td>
<td>1,692,006,222.38</td>
<td>1,670,844,161.28</td>
</tr>
<tr>
<td>B) Provisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for taxation</td>
<td>1,166,356.47</td>
<td>68,350.32</td>
</tr>
<tr>
<td>Other provisions</td>
<td>1,598,158.09</td>
<td>2,413,800.61</td>
</tr>
<tr>
<td>Total B)</td>
<td>2,765,514.56</td>
<td>2,482,150.93</td>
</tr>
<tr>
<td>C) Not subordinated debts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non convertible notes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— becoming due and payable after less than 1 year</td>
<td>796,124,147.12</td>
<td>1,084,447,898.86</td>
</tr>
<tr>
<td>— becoming due and payable after more than 1 year</td>
<td>1,191,215,316.21</td>
<td>1,973,462,987.15</td>
</tr>
<tr>
<td>Amounts owed to credit institutions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— becoming due and payable after less than 1 year</td>
<td>533,016,464.71</td>
<td>283,995,538.39</td>
</tr>
<tr>
<td>— becoming due and payable after more than 1 year</td>
<td>176,040,841.48</td>
<td>449,370,979.10</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>132,344.04</td>
<td>123,147.72</td>
</tr>
<tr>
<td>Amounts owed to affiliated undertakings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— becoming due and payable after less than 1 year</td>
<td>2,704,242,833.70</td>
<td>2,553,776,871.95</td>
</tr>
<tr>
<td>— becoming due and payable after more than 1 year</td>
<td>1,379,989,211.74</td>
<td>1,360,715,910.12</td>
</tr>
<tr>
<td>Social security</td>
<td>33,057.55</td>
<td>28,455.88</td>
</tr>
<tr>
<td>Other creditors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— becoming due and payable after less than 1 year</td>
<td>21,032,044.84</td>
<td>12,827,861.87</td>
</tr>
<tr>
<td>— becoming due and payable after more than 1 year</td>
<td>37,350.87</td>
<td>223,493.66</td>
</tr>
<tr>
<td>Total C)</td>
<td>6,834,093,932.01</td>
<td>7,725,703,804.33</td>
</tr>
<tr>
<td>D) Deferred income</td>
<td>36,369.96</td>
<td>35,381.01</td>
</tr>
<tr>
<td></td>
<td>8,528,902,038.91</td>
<td>9,399,165,497.55</td>
</tr>
</tbody>
</table>
### Income Statements

<table>
<thead>
<tr>
<th>As of 31 December 2012</th>
<th>As of 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>(<strong>€</strong> )</td>
</tr>
<tr>
<td>Net turnover</td>
<td>157,702.61</td>
</tr>
<tr>
<td>Income from financial fixed assets:</td>
<td></td>
</tr>
<tr>
<td>— derived from affiliated undertakings</td>
<td>117,398,035.74</td>
</tr>
<tr>
<td>— other income from participating interests</td>
<td>23,946.15</td>
</tr>
<tr>
<td>Income from financial current assets:</td>
<td></td>
</tr>
<tr>
<td>— derived from affiliated undertakings</td>
<td>—</td>
</tr>
<tr>
<td>— other income</td>
<td>12,517,956.06</td>
</tr>
<tr>
<td>Other interest and other financial income:</td>
<td></td>
</tr>
<tr>
<td>— derived from affiliated undertakings</td>
<td>406,880,083.47</td>
</tr>
<tr>
<td>— other interest receivable and similar income</td>
<td>456,910,110.29</td>
</tr>
<tr>
<td><strong>Extraordinary income</strong></td>
<td>22,363.96</td>
</tr>
<tr>
<td><strong>Loss for the financial year</strong></td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>993,910,198.28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As of 31 December 2012</th>
<th>As of 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td>(<strong>€</strong> )</td>
</tr>
<tr>
<td>Raw materials and consumables</td>
<td>9,556.67</td>
</tr>
<tr>
<td>Other external charges</td>
<td>1,054,287.32</td>
</tr>
<tr>
<td>Staff costs:</td>
<td></td>
</tr>
<tr>
<td>— Wages and salaries</td>
<td>756,220.56</td>
</tr>
<tr>
<td>— Social security costs</td>
<td>82,280.05</td>
</tr>
<tr>
<td>— Social security costs relating to pensions</td>
<td>32,423.02</td>
</tr>
<tr>
<td>— Other social security costs</td>
<td>2,974.40</td>
</tr>
<tr>
<td>Value adjustments:</td>
<td></td>
</tr>
<tr>
<td>— on formation expenses and on tangible and intangible fixed assets</td>
<td>844,080.00</td>
</tr>
<tr>
<td>Other operating charges</td>
<td>89,338.08</td>
</tr>
<tr>
<td>Value adjustments and fair value adjustments on financial fixed assets</td>
<td>25,853,244.65</td>
</tr>
<tr>
<td>Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities</td>
<td>21,062,061.10</td>
</tr>
<tr>
<td><strong>Interest payable and similar charges</strong></td>
<td></td>
</tr>
<tr>
<td>— concerning affiliated undertakings</td>
<td>323,515,687.94</td>
</tr>
<tr>
<td>— other interest payable and similar charges</td>
<td>614,586,617.09</td>
</tr>
<tr>
<td><strong>Extraordinary charges</strong></td>
<td>960.77</td>
</tr>
<tr>
<td><strong>Tax on profit or loss</strong></td>
<td>184,486.36</td>
</tr>
<tr>
<td>Other taxes not included in the previous caption</td>
<td>1,515,995.00</td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>21,062,061.10</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>993,910,198.28</td>
</tr>
</tbody>
</table>
TAXATION

The following summary contains a description of certain Italian, EU and Luxembourg tax consequences in respect of the purchase, ownership and disposal of the Notes. This summary is based on the laws in force in Italy, the EU and Luxembourg as of the date of this EMTN Programme Prospectus (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 subscribe for, 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.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Italian taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Italy, though it is not intended to be, nor should it be constructed to be, legal or tax advice. It does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, 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. 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 statements herein regarding Italian taxation are based on the laws in force in Italy as of the date of this EMTN Programme Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The taxation of financial instruments, including the Notes, has been recently reformed and is further described below. Given that the reform is very recent, it cannot be excluded, however, that in the near future, the Italian tax authorities may further amend or clarify the tax treatment of interest and capital gains on Notes.

Tax treatment of Notes issued by Telecom Italia

Decree No. 239 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.

Italian resident Noteholders

Where an Italian resident Noteholder is (i) an individual not engaged in entrepreneurial activity to which the Notes are connected (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 20%.
If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, imposta sostitutiva applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, 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 Noteholder, also to regional tax on productive activities).

Under the current regime provided by Law Decree No. 351 of 25 September, 2001 (Decree No. 351) converted into law with amendments by Law No. 410 of 23 November, 2001, as clarified by the Italian Revenue Agency through Circular No. 47/E of 8 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 24 February, 1998 or pursuant to Article 14-bis of Law No. 86 of 25 January, 1994 are subject neither to substitute tax nor to any other income tax at the level of the real estate investment fund, but a withholding or substitute tax of 20% will apply, in certain circumstances, to income realised by unitholders or shareholders in case of distributions, redemption or sale of the units or shares (the Real Estate Investment Fund Tax).

Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund (a Fund) or a SICAV established in Italy and either (i) the fund or SICAV or (ii) their manager is subject to the supervision of a regulatory authority and the Notes are deposited with an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to imposta sostitutiva, but must be included in the management results of the Fund or the SICAV. The Fund or SICAV will not be subject to taxation on such result, but a withholding or substitute tax of 20% will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the Collective Investment Fund Tax).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of the Legislative Decree No. 252 of 5 December, 2005) 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 an 11% substitute tax.

Pursuant to Decree No. 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 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, 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 without a permanent establishment in Italy to which the Notes are connected, an exemption from 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.

*Imposta sostitutiva* will be applicable at the rate of 20% (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders which do not fall in any of the above mentioned categories.

Please note that, according to the Law No. 244 of 24 December, 2007 (*Budget Law 2008*), a Decree still to be issued will introduce a new ‘white list’ replacing the current ‘white list’ contained in Ministerial Decree 4 September, 1996.

In order to ensure gross payment, non-Italian resident Noteholders must (i) be the beneficial owners of the payments of interest, premium or other income, (ii) deposit 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 (iii) 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 the *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 the Ministerial Decree of 12 December, 2001, as subsequently amended.

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

Decree No. 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 No. 239, an *imposta sostitutiva* equal to 20% 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, *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 Noteholder, also to regional tax on productive activities).

Where an Italian resident Noteholder is an Italian real estate investment fund to which the provisions of Decree No. 351, as subsequently amended, apply, a Fund, a SICAV or a pension fund, 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.
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 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 20% pursuant to Presidential Decree No. 600 of 29 September, 1973, as subsequently amended. In case of payments to non-Italian resident Noteholders, the withholding tax may be applied at 20%. 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 20%. 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. For non-Italian resident Noteholders, the withholding tax rate may be reduced by any applicable tax treaty.

If the Notes are issued by a non-Italian resident Issuer, the 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 the purposes of the regional tax on productive activities) if realised by an Italian company or a similar commercial entity including the permanent establishment in Italy 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 (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non commercial partnership, (iii) a non commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to imposta sostitutiva, levied at the current rate of 20%. Noteholders may set off losses with gains.
In respect of the application of *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, *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 20% 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 real estate fund to which the provisions of Law Decree No. 351 as subsequently amended, apply will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund, but the Real Estate Investment Fund Tax will apply, in certain circumstances, to income realised by unitholders or shareholders in case of distributions, redemption or sale of the units or shares.

Any capital gains realised by an Italian Noteholder who is a Fund or a SICAV will not be subject to *imposta sostitutiva*, but will be included in the result of the relevant portfolio. Such result will not be taxed with the Fund or SICAV, but income realised by unitholders or shareholders in case of distributions, redemption or sale of the units or shares, may be subject to the Collective Investment Fund Tax.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December, 2005) will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11% 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 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 imposta sostitutiva provided that the effective beneficiary: (i) is resident for income tax purposes 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 incorporated 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. Please note that, according to the Budget Law 2008, a Decree still to be issued will introduce a new 'white list' replacing the current ‘white list’ contained in Ministerial Decree 4 September, 1996.

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 imposta sostitutiva at the current rate of 20%.

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.

**Inheritance and gift taxes**

The transfers of any valuable asset (including the Notes) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

(i) transfers in favour of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4% on the value of the inheritance or the gift exceeding €1,000,000 (per beneficiary);

(ii) transfers in favour of the brothers or sisters are subject to an inheritance and gift tax applied at a rate of 6% on the value of the inheritance or the gift exceeding €100,000 (per beneficiary);

(iii) transfers in favour of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6% on the entire value of the inheritance or the gift; and

(iv) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8% on the entire value of the inheritance or the gift.

If the beneficiary of any such transfer is a disabled individual, whose handicap is recognised pursuant to Law No. 104 of 5 February 1992, the tax is applied only on the value of the assets (including the Instruments) received in excess of € 1,500,000 at the rates illustrated above, depending on the type of relationship existing between the deceased or donor and the beneficiary.
With respect to listed Notes, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued meanwhile). With respect to unlisted Notes, the value for inheritance and gift tax purposes is determined by reference to the value of listed debt securities having similar features or based on other certain elements.

**Wealth Tax**

According to Article 19 of Decree of 6 December, 2011, No. 201 (Decree No. 201/2011), converted with Law of 22 December, 2011, No. 214, Italian resident individuals holding financial assets – including the Notes – outside of the Italian territory are required to pay a wealth tax at the rate of 0.15 per cent (the tax is determined in proportion to the period of ownership). The tax applies on the market value at the end of the relevant year or – in the lack of the market value – on the nominal value or redemption value of such financial assets held outside of the Italian territory. Taxpayers are enabled to deduct from the tax a tax credit equal to any wealth taxes paid in the State where the financial assets are held (up to the amount of the Italian wealth tax due).

**Stamp taxes and duties**

According to Article 19 of Decree No. 201/2011, a proportional stamp duty applies on a yearly basis at the rate of 0.15 per cent on the market value or – in the lack of a market value – on the nominal value or the redemption amount of any financial product or financial instruments (including the Notes). The stamp duty cannot be lower than €34.2 and, as of year 2013, it cannot exceed €4,500, for taxpayers different from individuals. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Finance on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 9 February 2011) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

**Transfer tax**


Following the repeal of the Italian transfer tax, as from 31 December, 2007, contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarised deeds are subject to fixed registration tax at rate of €168; (ii) private deeds are subject to registration tax only in case of use or voluntary registration.

**Tax monitoring**

Pursuant to Law Decree No. 167 of 28 June, 1990, ratified and converted by Law No. 227 of 4 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 €10,000.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member
State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, subject to a procedure whereby on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April, 2005 (Decree No. 84). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State or in a dependent or associated territory under the relevant international agreements, Italian qualified paying agents (i.e. banks, SIMs, fiduciary companies, SGRs resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) shall report details of the relevant payments and personal information on the individual beneficial owner to the Italian Tax Authorities. Such information is transmitted by the Italian Tax Authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

In certain circumstances, the same reporting requirements must be complied with also in respect of interest paid to an entity established in another EU Member State, other than legal persons (with the exception of certain Finnish and Swedish entities), whose profits are taxed under general arrangements for business taxation and, in certain circumstance, UCITS recognised in accordance with Directive 85/611/EEC.

Either payments of interest on the Notes or the realisation of the accrued interest through the sale of the Notes would generally constitute “payments of interest” under Article 6 of the Directive and, as far as Italy is concerned, Article 2 of Decree 84/2005. Accordingly, such payment of interest arising out of the debt securities would fall within the scope of the EU Savings Directive being the Notes issued after 1 March, 2001.

Luxembourg taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be constructed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisors as to the effect of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (contribution au fonds pour l’emploi) as well as personal income tax (impôt sur le revenu) generally. Investors may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an
individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

**Withholding tax**

*(i) Luxembourg non-resident Noteholders*

Under Luxembourg tax law currently in effect and subject to the laws of 21 June, 2005, as amended (the **Savings Laws**) implementing the EU Savings Directive on taxation of savings income in the form of interest payments and ratifying several agreements concluded between Luxembourg and certain dependent and associated territories of the EU Member States (the **Territories**), there is no Luxembourg withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Savings Laws, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to (or under certain circumstances for the immediate benefit of) an individual beneficial owner or a residual entity, as defined by the Savings Laws, which are resident in, or established in, another EU Member State or some of the Territories will be subject to a withholding tax, unless the beneficiary of the interest payments elects for the exchange of information procedure or, in the case of an individual beneficial owner, for the tax certificate procedure.

Where withholding tax is applied, it is levied at a current rate of 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Luxembourg Savings Laws are currently subject to withholding tax of 35%.

On 10 April 2013, the Prime Minister of Luxembourg announced Luxembourg’s intention to abolish the withholding tax procedure with affect as of January 2015 in favour of the automatic exchange of information procedure, as provided for by the Savings Directive. The final form of the announced measure is still unknown.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

*(ii) Luxembourg resident Noteholders*

Under the Luxembourg tax law currently in effect and subject to the law of 23 December 2005, as amended (the **Relibi Law**), there is no withholding tax on payments of principal, premium or interest made to Luxembourg individual residents or to certain residual entities holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residential entity (within the meaning of the Savings Laws) established in an EU Member State (other than Luxembourg) or one of the territories and securing such payments for the benefit of such beneficial owner will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi law will be subject to 10% Luxembourg withholding tax.
**Income Taxation**

(i) **Taxation of Luxembourg non-residents**

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, nor a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to pay any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption, repurchase of the Notes, or realise capital gains on the sale of any Notes.

Non-resident corporate Noteholders or individual Noteholders acting in the course of the management of a professional or business undertaking, who have a permanent establishment or permanent representative in Luxembourg to which or to whom such Notes are attributable, are subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

(ii) **Taxation of Luxembourg residents**

(a) Luxembourg resident individuals

Luxembourg resident individuals, acting in the course of the management of their private wealth, are subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts, under the Notes, except if (i) withholding tax has been levied on such payments in accordance with the Relibi Law, or (ii) the individual Noteholder has opted for the application of a 10% (self applied) tax in full discharge of income tax in accordance with the Relibi Law, which applies if a payment of interest has been made or ascribed by a paying agent established in an EU Member State (other than Luxembourg), a Member State of the European Economic Area (other than an EU Member State), or in a state or territory which has concluded an international agreement directly related to the EU Savings Directive. Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes owned in the framework of the management of their private wealth, 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. However, any portion of such gain corresponding to accrued but unpaid interest income will be subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Relibi Law.

Luxembourg resident individual Noteholders receiving interest as business income must include interest income in their taxable basis. If applicable, the 10% Luxembourg withholding tax levied in accordance with the Relibi Law will be credited against their final income tax liability.

(b) Luxembourg resident companies

Luxembourg resident company Noteholders or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest income (including accrued but unpaid interest) and the difference between the sales price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or converted.

A corporate Noteholder that is governed by the law of 11 May, 2007 on family estate management companies, as amended, or by the law of 17 December, 2010 on undertakings for collective investment, as amended, or by the law of 13 February, 2007 on specialised investment funds, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.
**Net wealth taxation**

A corporate Noteholder, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which/whom such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the Noteholder is governed by (i) the law of 11 May, 2007 on family estate management companies, as amended, or (ii) the law of 17 December, 2010 on undertakings for collective investment, as amended or (iii) the law of 13 February, 2007 on specialised investment funds, as amended, or (iv) the law of 22 March, 2004 on securitisation, as amended, or (v) the law of 15 June, 2004 on venture capital vehicles, as amended.

An individual Noteholder, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

**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.

However, a fixed or *ad valorem* registration duty may be due upon the registration of the Notes in Luxembourg in the case of legal proceedings before Luxembourg courts or in case the Notes are produced before an official Luxembourg authority, or in the case of a registration of the Notes on a voluntary basis.

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, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.
The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

**FATCA Withholding**

Pursuant to FATCA, non-U.S. financial institutions that enter into agreements with the IRS (IRS Agreements) or become subject to provisions of local law intended to implement an intergovernmental agreement (IGA legislation) entered into pursuant to FATCA, may be required to identify “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable laws in its jurisdiction, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information or documentation made on or after (i) January 1, 2014 in respect of certain US source payments, (ii) January 1, 2017, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce US source interest or dividends and (iii) January 1, 2017 (at the earliest) in respect of “foreign passthru payments” and then only on “obligations” that are not treated as equity for U.S. federal income tax purposes and that are issued or materially modified on or after (a) January 1, 2014, and (b) if later, in the case of an obligation that pays only foreign passthru payments, the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance), any paying agent and the common depositary or common safekeeper, given that each of the entities in the payment chain beginning with the relevant Issuer and ending with the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.
SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the Programme Agreement) dated 26 June, 2013 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated 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.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this EMTN Programme Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a Non-exempt Offer), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State.
State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the issuer has consented in writing to its use for the purpose of that Non-exempt offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

(i) the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;

(ii) the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State; and

(iii) the expression 2010 PD Amending Directive means Directive 2010/73/EU.

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 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;

(b) 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

(c) 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.
Republic of Italy

The offering of the Notes has not been registered 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, promote, advertise or deliver any Notes or distribute copies of this EMTN Programme Prospectus or of any other document relating to the Notes in Italy, except:

(i) to qualified investors (investitori qualificati), as referred to in Article 100 of Legislative Decree No. 58 of 24 February, 1998, as amended (the Financial Services Act), and defined in Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May, 1999, as amended from time to time (Regulation No. 11971); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Moreover, each of the Dealers has represented and agreed and each further Dealer will be required to represent and agree, that any offer, sale, promotion, advertising or delivery of the Notes or distribution of copies of this EMTN Programme Prospectus or any other document relating to the Notes in Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September, 1993, as amended (the Banking Act);

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and

(c) in each case in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Any investor purchasing the Notes is solely responsible for ensuring that any offer or resale of the Notes by such investor occurs in compliance with applicable Italian laws and regulations.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the FIEA) 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 (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

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 EMTN Programme Prospectus 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.

**Dealers Transacting with the Issuers**

Certain Dealers and/or their affiliates (including parent companies) 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.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or the Guarantor, or the Issuers’ or the Guarantor’s affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers or the Guarantor routinely hedge their credit exposure to the Issuers or the Guarantor consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.
GENERAL INFORMATION

Authorisation

The establishment and update of the Programme and the giving of the Guarantee in respect of the Notes issued by TI Finance have been duly authorised by a resolution of the Board of Directors of Telecom Italia dated 10 October, 2003, 21 December, 2005, 25 February, 2010 and 17 January, 2013.

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 issue of the Notes by Telecom Italia under the Programme, up to a maximum aggregate amount equal to euro 4 billion and until 28 February, 2014, has been duly authorised by a resolution of the Board of Directors of Telecom Italia dated 17 January, 2013.

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 16 December, 2003, 24 January, 2006 and 4 May, 2010.

Manager responsible for financial reporting

The manager responsible for preparing the corporate financial reports of Telecom Italia (Piergiorgio Peluso – Head of Administration, Finance and Control) declares, pursuant to paragraph 2 of art. 154-bis of the Consolidated Law on Financial Intermediation (Legislative Decree No. 58 of 24 February, 1998), that the accounting information contained in this EMTN Programme Prospectus corresponds to the documents results, book and accounting records.

Listing, admission to trading and approval

Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated 10 July, 2005 on prospectuses for securities, as amended, to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this EMTN Programme Prospectus to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg’s Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents Available

For the period of 12 months following the date of this EMTN Programme Prospectus, copies of the following documents will be available from the registered office of each Issuer and from the specified office of the Paying Agent 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 2012 Telecom Italia Annual Report and the 2011 Telecom Italia Annual Report;

(c) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31 December, 2011 and 31 December, 2012;

(d) the Telecom Italia Group’s Quarterly Report at 31 March, 2013;
(e) the Programme Agreement, the Trust Deed, the Agency Agreement, the Guarantee and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;

(f) a copy of this EMTN Programme Prospectus, free of charge;

(g) in the case of each issue of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document) and the Final Terms relating to such Notes, which shall be available free of charge; and

(h) in the case of each issue of Notes which is neither admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, the Final Terms, which shall be available free of charge but only to a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer or the Paying Agent, as the case may be, as to its holding of Notes and identity.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

Save as disclosed in the section “Description of Telecom Italia – Recent developments” on page 83 of this Base Prospectus, there has been no significant change in the financial or trading position of Telecom Italia since 31 March, 2013 and save as disclosed in the section “Description of TI Finance – Recent developments” on page 152 of this Base Prospectus there has been no significant change in the financial or trading position of TI Finance since 31 December, 2012. There has been no material adverse change in the financial position or prospects of each of the Issuers since 31 December, 2012.

Legal and Arbitration Proceedings

Save as disclosed in the section “Description of Telecom Italia — Litigation” on pages 127 to 137, neither Telecom Italia nor any of its subsidiaries (including TI Finance) is or has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this EMTN Programme Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Telecom Italia, TI Finance or the Telecom Italia Group.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Auditors

The consolidated financial statements of Telecom Italia for the financial years ended 31 December, 2011 and 31 December, 2012, prepared under IFRS, were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by PricewaterhouseCoopers S.p.A. at via Monte Rosa 91,
20149 Milan, Italy, independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein.

PricewaterhouseCoopers S.p.A. is registered under No. 43 in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance, and set out at Article 161 of the Unified Text of the Rules for the Capital Markets (Testo Unico delle Disposizioni in materia di mercati finanziari) and under No. 119644 in the Register of Accountancy Auditors (Registro dei Revisori Contabili), in compliance with the provisions of the Legislative Decree No. 88 of 27 January, 1992. PricewaterhouseCoopers S.p.A. is also a member of ASSIREVI, the Italian association of auditing firms and it is registered at the Public Company Accounting Oversight Board (PCAOB) in the United States.

The TI Finance unconsolidated financial statements at 31 December, 2011 and 31 December, 2012 were audited, without qualification and in accordance with generally accepted auditing standards in Luxembourg by PricewaterhouseCoopers, Société coopérative at 400 route d’Esch, L-1471 Luxembourg, Luxembourg, independent auditors réviseur d’entreprises agréé, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein. PricewaterhouseCoopers, Société coopérative is a member of the Institut des Réviseurs d’Entreprises and is on the public register report by the Commission de Surveillance du Secteur Financier. For the avoidance of doubt, the cash flow statements for the 12 months ended 31 December, 2011 and the 12 months ended 31 December, 2012 were audited by PricewaterhouseCoopers, Société coopérative.

Trustee’s Reliance on Certificates and Reports

The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of either 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.

12 rue Eugène Ruppert
L-2453 Luxembourg

TRUSTEE

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London EC2N 2DB
England

ISSUING AND PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch
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London EC2N 2DB
England

LUXEMBOURG PAYING AGENT

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To the Issuers as to English and Italian law

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