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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)***€15,000,000,000****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 €15,000,000,000 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 €15,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

In addition, the minimum denomination for any Notes issued under the Programme shall be €1,000, or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €1,000.

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.

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 10th July, 2005 on prospectuses for securities 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 Luxembourg Stock Exchange’s regulated market and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a Final Terms (the **Final Terms**) which, with respect to Notes 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, will be filed with the CSSF.

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 1st April, 1996 (as the same may be amended or supplemented from time to time) where the Notes are held by a Noteholder resident for tax purposes in a country which does not allow for a satisfactory exchange of information with Italy and otherwise in the circumstances described in Condition 8.

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

Arrangers**JPMORGAN**

BARCLAYS CAPITAL

CABOTO

JPMORGAN

UNICREDIT GROUP (UBM)

Dealers**LEHMAN BROTHERS**

BNP PARIBAS

CAPITALIA S.p.A.

DEUTSCHE BANK

LEHMAN BROTHERS

MEDIOBANCA S.p.A.



This EMTN Programme Prospectus comprises two base prospectuses for the purposes of Article 5.4 of the Prospectus Directive: (i) the base prospectus of Telecom Italia; and (ii) the base prospectus of TI Finance.

The Issuers and the Guarantor (the *Responsible Persons*) accept responsibility for the information contained in this EMTN Programme Prospectus. 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.

Copies of the Final Terms and the EMTN Programme Prospectus will be available free of charge from the registered office of the Issuers and the specified office set out below of each of the Paying Agents (as defined below), and on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this 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.

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



This 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, 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*”.

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

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s) in the applicable Final Terms) may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and/or listed on the official list of the Luxembourg Stock Exchange, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) 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 persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final 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.



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PROSPECTUS

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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. A summary 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 endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Prospectus and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this 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 15,000,000,000 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 Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original principal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) 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.



SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this EMTN Programme Prospectus and any decision to invest in any Notes should be based on a consideration of this EMTN Programme Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (an “EEA State”) no civil liability will attach to the Responsible Persons in any such EEA State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this EMTN Programme Prospectus. Where a claim relating to information contained in this EMTN Programme Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the EMTN Programme Prospectus before the legal proceedings are initiated.

The following summary 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 Finance S.A.
- 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 ability to fulfil its obligations under Notes issued under the Programme. There are also certain factors that may affect the Guarantor’s ability to fulfil its obligations under the Guarantee. 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”).
- Description:** Euro Medium Term Note Programme
- Arrangers:** J.P. Morgan Securities Ltd.
Lehman Brothers International (Europe)
- Dealers:** Barclays Bank PLC
BNP Paribas
Banca Caboto S.p.A.
Capitalia S.p.A.
Deutsche Bank AG, London Branch
J.P. Morgan Securities Ltd.
Lehman Brothers International (Europe)
Mediobanca – Banca di Credito Finanziario S.p.A.
UniCredit Banca Mobiliare S.p.A.
and any other Dealers appointed in accordance with the Programme Agreement.
- 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:	JPMorgan Chase Bank, N.A.
Trustee:	BNY Corporate Trustee Services Limited.
Programme Size:	Up to €15,000,000,000 (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.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro.
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 “ <i>Form of the Notes</i> ”.
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:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none">(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both.



Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree.

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 in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

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:

The minimum denomination for any Notes issued under the Programme shall be €1,000 or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €1,000.

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 admitted to trading on a regulated market within the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (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 further described in Condition 10.

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.

Listing and admission to trading:

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

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the 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*".



RISK FACTORS

Each of the Issuers and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

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.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or, in respect of the Notes issued by TI Finance, the Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this EMTN Programme Prospectus and reach their own views prior to making any investment decision.

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).

Strong competition in Italy may further reduce the Telecom Italia Group's core market share of domestic and international traffic and may cause further reductions in prices and margins.

Strong domestic 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 businesses. The use of the single European currency and the liberalisation of the Italian telecommunication market (since January 1998) have intensified competition by facilitating international operators' entry into the Italian market and direct competition with Telecom Italia's fixed line and mobile telephony businesses, particularly in the local and long-distance markets. As of 30th September, 2006, there were a number of significant competitors offering fixed-line services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. This competition may increase further due to the consolidation and globalisation of the telecommunications industry in Europe, including Italy, and elsewhere. Telecom Italia anticipate that in the short to medium term there may be a stronger entry of peer-level international competitors into markets with existing operators, including Italy, increasing the direct competition Telecom Italia faces in its Italian domestic fixed line and mobile telephony businesses and in the local and long-distance markets.

Although Telecom Italia has taken a number of steps to realise additional efficiencies and introduce innovative and value added services over its networks, and although its plans take into account that it will face significant competition from a number of operators in all the markets in which it operates, continuing pressures on prices due to competition and further erosion in market shares could adversely affect its results of operations.

Telecom Italia's business may be adversely affected and it may be unable to increase its revenues if it is unable to continue the introduction of new services to stimulate increased usage of its fixed and wireless networks.

In order to sustain growth in revenues despite increased competition and lower prices, particularly in Telecom Italia's core Italian domestic market, its strategy has been to introduce new services in its fixed-line and wireless businesses to increase traffic on its networks and find alternative revenue sources, in addition to carrying voice traffic on its networks.

These strategic initiatives have required and will continue to require substantial expenditures and commitment of human resources. Although these initiatives are core to Telecom Italia's strategy, it may be unable to introduce commercially these new products and services, and even if it introduces them, there can be no assurance they will be successful.



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 ability to achieve its strategic goals and targets may be influenced by several factors, including without limitation:

- its ability to manage costs;
- its ability to attract and retain highly-skilled and qualified personnel;
- the effect of foreign exchange fluctuations on its results of operations;
- the entry of new competitors in the liberalised Italian telecommunications market and the other principal markets in which it operates, which may result in it losing market share in Italy and internationally;
- its ability to strengthen its competitive position based on its specialised skills and technical resources;
- its ability to successfully develop and introduce new technologies to meet market requirements, to manage innovation, to provide value-added services and to increase the usage of its fixed and mobile networks;
- the need to establish and maintain strategic relationships;
- declining prices for some of its services and increasing competition;
- the effect of adverse economic trends on its principal markets; and
- the success of new "disruptive" technologies that could cannibalise fixed and mobile revenues.

There can be no assurance that its objectives will be effectively implemented in the planned timeframes.

Regulatory decisions and changes in the regulatory environment could adversely affect Telecom Italia's business.

Telecom Italia's fixed and mobile telecommunications operations, as well as its broadband services businesses, are subject to extensive regulatory requirements in Italy and its international operations and investments are subject to regulation in their host countries.

As a member of the European Union (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 EU Commission approved a new electronic communications framework in March 2002, which has been effective in Italy since September 2003.

Included within this new framework is the obligation on the part of the Italian regulator responsible in Italy for the regulation of the telecommunications, radio and television broadcasting sector (the "National Regulatory Authority" or "NRA") to identify operators with "significant market power" based on a market analysis in eighteen separate retail and wholesale markets, in which it is considered necessary to intervene to protect free competition. The new framework establishes criteria and procedures for identifying remedies applicable to operators with "significant market power". The NRA is expected to complete and publish the analyses over the next months and the implementation of these revised telecommunications regulations, and possible future decisions relating thereto, may change the regulatory environment in a manner adverse to Telecom Italia, particularly if such analysis relates to new services which are not currently part of the eighteen identified markets.

In Italy, Telecom Italia is subject to universal service obligations, which require it to provide fixed line public voice telecommunications services in non-profitable areas.

In addition, the NRA has identified it as an operator having significant market power in most relevant markets. As a result, it is, and, if it continues to be identified as having significant market power in most relevant markets, will be, subject to a number of regulatory constraints, including:

- a requirement to conduct its business in a transparent and non-discriminatory fashion;
- a requirement to have its prices for fixed voice telephony services and Reference Interconnection Offer, the tariff charged to other operators to utilise its network, subject respectively to a price cap and a network cap mechanism. This cap mechanism places certain limits on its ability to change its prices for certain services; and



- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-orientated prices. These services include allowing other operators to connect to its network and transport traffic through the network as well as offering certain services related to its local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from it.

Telecom Italia is unable to predict the impact of any proposed or potential changes in the regulatory environment in which it operates both in Italy and internationally, as well as the consequences of the above described separation of the Company's network for local wired access. Changes in laws, regulation or government policy could adversely affect its business and competitiveness. In particular, its ability to compete effectively in its 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 licences, to it or to third parties, could adversely affect Telecom Italia's future operations in Italy and in other countries where it operates.

Changes in the rules relating to radio and televisions broadcasting could adversely affect the development of Telecom Italia's activities in this field.

Telecom Italia may not achieve the expected return on its significant investments and capital expenditures made in its international activities due to the competitive environments in these markets.

In recent years, Telecom Italia has repositioned its international strategy, sold significant non-core international assets, and elected to focus its international strategy on:

- developing its international investments in high-growth market segments;
- strengthening its role as a strategic partner in existing investments, by increasing the transfer of its technological expertise and marketing know-how; and
- rationalising its existing international portfolio by divesting minority shareholding in non-strategic geographical markets.

Continuing rapid changes in technologies could increase competition or require Telecom Italia to make substantial additional investments.

Many of the services Telecom Italia offers are technology-intensive and the development of new technologies may render such services non-competitive or reduce prices for such services. Telecom Italia makes and will have to make substantial additional investments in new technologies to remain competitive. The new technologies it chooses may not prove to be commercially successful. In addition, it may not receive the necessary licences to provide services based on new technologies in Italy or abroad. Furthermore, its most significant competitors in the future may be new entrants to its markets who do not have to maintain an installed base of older equipment. As a result, it could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base.

The value of Telecom Italia's operations and investments may be adversely affected by political and economic developments in Italy or other countries.

Telecom Italia's business is dependent on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect its business and results of operations. It may also be adversely affected by political and economic developments in other countries as well where it has made significant investments. Some of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which Telecom Italia has invested and impair the value of these investments.

Fluctuations in currency exchange and interest rates may adversely affect Telecom Italia'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 may adversely affect



consolidated results. A rise in the value of the Euro relative to other currencies in certain countries in which it operates or has made investments will reduce the relative value of the revenues or assets of its 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. It systematically hedges the foreign currency risk exposure relating to non-Euro denominated liabilities, through cross-currency and interest rate swaps.

Furthermore, it enters into derivative transactions to hedge its interest exposure and to diversify debt parameters in order to reduce debt cost and volatility within predefined target boundaries. However, no assurance that fluctuations in interest rates will not adversely affect its results of operations can be given.

The mobile communications markets have matured in recent years and competition has increased.

In recent years, Telecom Italia's consolidated revenues have grown or remained stable in large part because of the rapid growth in the mobile communications business which has offset substantially flat revenues in its Italian fixed line business. However, as a result of this growth, the mobile communications markets are approaching maturity levels in the voice services segment while the data and value-added services segments are growing.

Telecom Italia has acquired a third generation mobile telephone, or UMTS, licence to provide UMTS services in Italy for €2,417 million and has made significant investments, in accordance with the terms and conditions of its licences, to create the infrastructure to offer UMTS services. It commenced offering UMTS services in Italy in the second half of 2004 and has made, and will have to continue to make in the future, significant investments in promotional activities relating to its UMTS services. Given the substantial costs of upgrading its existing networks to support UMTS, the ongoing costs to market and support these new services, and the significant competition among operators who offer these new services, including one operator only offering 3G services, it may not be able to recoup its investments, as planned if at all.

Continued growth in 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 customers;
- the success of new disruptive or substitutive technologies; and
- the development of the mobile communications markets.

If the mobile telecommunications markets in which it operates does not continue to expand, or it is unable to retain its existing customers or stimulate increases in customer usage, its financial condition and results of operations may be harmed.

Telecom Italia may be adversely affected if it fails to successfully implement its Internet and broadband strategy in Italy and internationally.

The introduction of Internet and broadband services is an important element of Telecom Italia's growth strategy and means to increase the use of its networks in Italy and expand its operations outside of Italy, particularly in Europe. Its strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Its ability to successfully implement this strategy may be affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users' preferences;
- broadband penetration in Italy and other European countries does not grow as Telecom Italia expects;
- competition increases, for reasons such as the entry of new competitors, 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.



Outside of Italy its ability to implement this strategy will depend on whether it is able to acquire assets or networks or utilise networks of incumbent operators that will allow it to offer such services.

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

As a result of the Merger, the cash tender offer for TIM shares and the merger of TIM into Telecom Italia, Telecom Italia remains highly leveraged.

Telecom Italia's gross financial debt was €47,945 million at 30th September, 2006 compared with €52,101 million at 31st December, 2005, and its total net financial debt was €39,504 million as of 30th September, 2006 compared with €39,858 million at 31st December, 2005.

Telecom Italia's goal is to reduce its net financial debt during 2006 through significant cash flow generation. Factors beyond its control, including but not limited to, deterioration in general economic conditions, could significantly affect its ability to generate cash to reduce debt or to refinance existing debt through further borrowing.

The management and further development of its business require the implementation of significant investment plans. It may therefore incur additional debt or refinance existing debt taking advantage of conditions on financial markets. Its future results of operations may be influenced by its ability to enter into such transactions, which is in turn determined by market conditions and external factors.

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

Various reports have alleged that certain radio frequency emissions from wireless handsets and transmission equipment may be linked to various health concerns and may interfere with various electronic devices. 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 requires 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.

Risks associated with Telecom Italia's ownership chain.

Although, as a result of the Merger, no shareholder controlled Telecom Italia, because of the so-called "voto di lista" system for the election of directors, currently 13 out of 20 of Telecom Italia directors (of whom 12 are considered independent) were elected from a slate of candidates proposed by Olimpia, which is currently the largest shareholder in Telecom Italia with an interest of approximately 18 per cent.

Although Olimpia does not and will not own a controlling interest in Telecom Italia voting shares, Olimpia may exert a significant influence on all matters to be decided by a vote of shareholders. In addition, as a result of its proposal of a majority of the present Telecom Italia Board members, Olimpia may be able to influence certain corporate actions. In principle, the interests of Olimpia 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 Olimpia.

Olimpia is in effect a holding company and the sole full operating company in which it holds shares is Telecom Italia. Therefore, if Olimpia were unable to obtain additional funding from new or existing shareholders or from other sources, Olimpia would be entirely dependent on dividends paid on its Telecom Italia shares for its funding needs, including to reimburse its existing debt. Under such circumstances, among the Telecom Italia corporate decisions that could be influenced by the needs of Olimpia would be the level of dividends payable by Telecom Italia to its shareholders.



Telecom Italia's financial position is not directly related to Olimpia and — as such — Telecom Italia does not have any obligations with respect to such debt since they are separate legal entities. Notwithstanding the foregoing, since certain rating agencies might view Telecom Italia's financial position as linked in some way to that of Olimpia, such a view could affect its debt ratings, which might adversely affect Telecom Italia's financial flexibility and its cost of capital.

Although no shareholder controls Telecom Italia and thus 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: specifically the so-called "Golden Share" still provides for the Italian State's authority to oppose the acquisition of material interests in its share capital (which is defined as 3 per cent. of the voting share capital). Currently, the exercise of special powers by the Italian State with respect to privatised companies (including Telecom Italia) is governed by ad hoc rules, but it is possible that the Italian State's Golden Share could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer.

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

Telecom Italia's technical infrastructure (including its network infrastructure for fixed-line and mobile telecommunication 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 its facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of its services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm its reputation.

Identification of significant deficiencies or material weaknesses as a result of Telecom Italia's implementation of procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 relating to evaluation of its internal control over financial reporting may have an adverse impact on its financial condition and results of operations and the trading price of its securities.

Commencing with its annual report for the year ending 31st December, 2006, Telecom Italia will include a report from its management relating to their evaluation of Telecom Italia's internal control over financial reporting as required under Section 404 of the U.S. Sarbanes-Oxley Act of 2002. As a consequence of systems and procedures currently being reviewed and implemented to comply with these requirements, it may uncover circumstances that may be determined to be significant deficiencies or material weaknesses, or that may otherwise result in disclosable conditions. Although it intends to take prompt measures to remediate any such identified significant deficiencies or material weaknesses in its internal control structure, measures of this kind may involve significant effort and expense, and any disclosure of such significant deficiencies, material weaknesses or other disclosable conditions may result in a negative market reaction.

TI Finance is not an operating company and relies, in part, upon other members of the Telecom Italia Group for its financing.

TI Finance is not an operating company. TI Finance's financial condition depends upon the results of its financing and investment activities, as well as upon the receipt of funds provided by other members of the Telecom Italia Group. The ability of TI Finance to meet its obligations to make payments on Notes issued by it will depend, in part, upon the receipt by it of funds provided by other members of the Telecom Italia Group. No assurance can be given that TI Finance will be successful in its financing and investment activities or that it will receive adequate funding to maintain its financial condition. These factors could materially and adversely affect TI Finance's ability to make payments on the Notes.



Factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in the light of its own circumstances. In particular, each potential investor should:

- (i) have 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 or any applicable supplement;
- (ii) have 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) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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 such features.

Notes subject to optional redemption by the Issuer

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.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;



- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate 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, 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, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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

Risks related to Notes generally.

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

Modification, waivers and substitution

The conditions of the Notes 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 of the Notes also provide that the Trustee may, without the consent of 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 of the conditions of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

Change of law

The conditions of the Notes 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.

Notes where denominations involve integral multiples: definitive Notes

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 brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

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. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

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. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to 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 or withdrawn by the rating agency at any time.

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 (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 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.

**DOCUMENTS INCORPORATED BY REFERENCE**

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

- the audited consolidated and unconsolidated annual financial statements for the financial year ended 31st December, 2005 of Telecom Italia (the **Telecom Italia Annual Report**);
- the audited unconsolidated annual financial statements for each of the financial years ended 31st December, 2005 and 2004 of TI Finance;
- the audited consolidated and unconsolidated annual financial statements for the financial year ended 31st December, 2004 of Telecom Italia;
- the unaudited consolidated and unconsolidated interim financial data of Telecom Italia as at and for the six months ended 30th June, 2006 (**Telecom Italia Group's 2006 First Half Report**);
- the unaudited consolidated interim financial data of Telecom Italia as at and for the nine months ended 30th September, 2006 (**Telecom Italia Group's Third Quarter 2006 Report**);
- the unconsolidated interim financial data of TI Finance as at and for the six months ended 30th June, 2006; and
- the reviewed statements of cash flow of TI Finance for each of the financial years ended 31st December, 2005 and 2004,

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. Any information not listed in the table below but included in the documents incorporated by reference is provided for information purposes only.

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 J.P. Morgan Bank Luxembourg S.A. for Notes admitted to trading on the Luxembourg Stock Exchange's regulated market 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 reports is incorporated by reference, and the following cross-reference lists are provided to enable investors to identify specific items of information so incorporated:

<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31st December, 2004	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 212-213
	Income statement	pp. 214-215
	Statement of cash flows	p. 37
	Accounting policies	pp. 218-223
	Explanatory notes	pp. 216-280
	Independent Auditors' report	p. 281



<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
Telecom Italia's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December 2004	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance Sheet	pp. 284-285
	Income Statement	pp. 286-287
	Statement of cash flows	p. 54
	Accounting policies	pp. 289-292
	Explanatory notes	pp. 288-344
	Independent Auditors' report	p. 345
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31st December, 2005	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 129-130
	Income statement	p. 131
	Statement of cash flows	pp. 134-135
	Accounting policies	pp. 138-151
	Explanatory notes	pp. 136-274
	Independent Auditors' report	pp. 275-276
Telecom Italia's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2005	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 312-313
	Income statement	pp. 314-315
	Statement of cash flows	p. 380
	Accounting policies	pp. 316-321
	Explanatory notes	pp. 316-380
	Independent Auditors' report	p. 381
Telecom Italia's Interim Consolidated Financial Statements for the Six Months Ended 30th June, 2006	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 100-101
	Income statement	p. 102
	Statement of cash flows	pp. 104-105
	Explanatory notes	pp. 106-166
	Independent Auditors' Review Report	pp. 180-181
	Telecom Italia's Interim Unconsolidated Financial Statements for the Six Months Ended 30th June, 2006	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:
Balance sheet		p. 169
Income statement		p. 170



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<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
	Statement of cash flows	p. 172
	Explanatory notes	pp. 173-179
Telecom Italia's Interim Consolidated Financial Statements for the Nine Months Ended 30th September, 2006	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	p. 21
	Income statement	p. 12
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TI Finance's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2004	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses.	
	Balance sheet	p. 6
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TI Finance's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2005	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses.	
	Balance sheet	pp. 7-9
	Income statement	pp. 10-12
	Accounting policies	pp. 14-15
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	Independent Auditors' report	p. 24
TI Finance's Interim Unconsolidated Financial Statements for the Six Months Ended 30th June, 2006	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses.	
	Balance Sheet	p. 1
	Income Statement	p. 2
	Explanatory notes	pp. 3-13
TI Finance's Statements of Cash Flow for the Financial Years Ended 31st December, 2004 and 31st December, 2005	Cash Flow Statements of TI Finance for the Years Ended 31st December, 2004 and 2005	p. 3
	Letter of Review in respect of Cash Flows of TI Finance dated 13th December, 2006	p. 2



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

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable 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 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, receipts, 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 365 days and on all receipts and interest coupons relating to such Notes:

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

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

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



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

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

No Noteholder, Receipholder 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.



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.

[Date]

TELECOM ITALIA S.p.A.

TELECOM ITALIA FINANCE, société anonyme

(having its registered office at 12 Rue Eugène Ruppert, L-2453 Luxembourg Grand Duchy of Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-76, 448)

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by TELECOM ITALIA S.p.A.]
under the €15,000,000,000
Euro Medium Term Note Programme**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the EMTN Programme Prospectus dated [date] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). 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 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 is available for viewing 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, this EMTN Programme Prospectus will be available from the specified office of each of the Paying Agents.

This document constitutes the Final Terms relating to the issue of Notes described herein.

[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 Conditions (the **Conditions**) set forth in the Prospectus⁽¹⁾ dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [current date] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [current date] and [original date]. Copies of such Prospectuses are available for viewing 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 financial 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) Issuer: | Telecom Italia S.p.A.
Telecom Italia Finance S.A. |
| (b) Guarantor: | Telecom Italia S.p.A. <i>(in the case of Notes issued by TI Finance only)</i> |
| 2. (a) Series Number: | [] |
| (b) Tranche Number: | [] |

(1) This should reflect the name of the document.



(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)

- 3. Specified Currency or Currencies: []
- 4. Aggregate Nominal Amount of Notes admitted to trading:
 - (a) [Series: []
 - (b) [Tranche: []
- 5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
- 6. (a) Specified Denominations: []
[]

(Note – where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed:

“€50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000. No Notes in definitive form will be issued with a denomination above €99,000.”)

(N.B. The minimum denomination must be €1,000 or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €1,000)

(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.)

- 7. (a) Issue Date: []
- (b) Interest Commencement Date: []
- 8. Maturity Date: [Fixed rate - specify date/
Floating rate - Interest Payment Date falling in or nearest to [specify month]]
- 9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
- 10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]



11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: *[Investor Put]*
[Issuer Call]
[(further particulars specified below)]
13. Status of the Notes: *[Senior/[Dated/Perpetual]]*
[Status of the Guarantee: [Senior/[Dated/Perpetual]]
[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)
14. Method of distribution: *[Syndicated/Non-syndicated]*



PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition [Interest])
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
(N.B. This will need to be amended in the case of long or short coupons)
- (c) Fixed Coupon Amount(s): [] per [] Calculation Amount
- (d) Broken Amount(s): [per Calculation Amount payable on the Interest Payment Date falling [in/on] []]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [] in each year
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination: []
Reference Rate: *(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)*



- Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
Floating Rate Option: []
Designated Maturity: []
Reset Date: []
- (h) Margin(s): [+/-] [] per cent. per annum
- (i) Minimum Rate of Interest: [] per cent. per annum
- (j) Maximum Rate of Interest: [] per cent. per annum
- (k) Day Count Fraction:
[Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition [Interest] for alternatives)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Any other formula/basis of determining amount payable: []
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions [Redemption and Purchase – Early Redemption Amounts] (c) and [– Late Payment on Zero Coupon Notes] apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [Give annex details, including the name of the index and a description of the index if it is composed by the Issuer, or, if it is not composed by the Issuer, where information about the Index can be obtained; a description of any market disruption or settlement disruption events that affect the Index; and adjustment rules relating to events concerning the Index]



- (b) Name and address of Calculation Agent responsible for calculating the interest due: []
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Specified Period(s)/Specified Interest Payment Dates: []
- (e) Business Day Convention: *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]*
- (f) Additional Business Centre(s): []
- (g) Minimum Rate of Interest: [] per cent. per annum
- (h) Maximum Rate of Interest: [] per cent. per annum
- (i) Day Count Fraction: []
- 19. Dual Currency Interest Note Provisions: *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*
 - (a) Rate of Exchange/method of calculating Rate of Exchange: *[Give or annex details]*
 - (b) Calculation Agent, if any, responsible for calculating the interest payable: []
 - (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
 - (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

- 20. Issuer Call: *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [] per Calculation Amount
 - (c) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []
 - (d) Notice period (if other than as set out in the Conditions): [] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee])*
- 21. Investor Put: *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*



- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (c) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee])

22. Final Redemption Amount: [] per Calculation Amount/specify other/see Appendix [Give annex details, including the name of the Index and a description of the Index if it is composed by the Issuer, or, if it is not composed by the Issuer, where information about the Index can be obtained; a description of any market disruption or settlement disruption events that affect the Index; and adjustment rules relating to events concerning the Index]

23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition [Redemption and Purchase - Early Redemption Amounts]): [] per Calculation Amount/specify other/see Appendix

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
(Ensure that this is consistent with the wording in the "Form of the Notes" section in the EMTN Programme Prospectus and the Notes themselves)

25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate)

26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]



- 28. Details relating to Instalment Notes:
 - (a) [Instalment Amount(s): [Not Applicable/give details]
 - (b) [Instalment Date(s): [Not Applicable/give details]
- 29. Redenomination applicable: Redenomination [not] applicable
 [(If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]
- 30. Other final terms: [Not Applicable/give details]
 (When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive)

DISTRIBUTION

- 31. (a) If syndicated, names [and addresses]** of Managers [and their underwriting commitments]**: [Not Applicable/give names [and addresses and underwriting commitments]**]
 (Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)**
- (b) Date of [Subscription] Agreement:** []**
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name(s) and addresses]
- 32. If non-syndicated, name [and address]** of relevant Dealer: [Name [and address]**]
- 33. Date of the underwriting agreement: [Date]
- 34. Total commission and concession:** [] per cent. of the Aggregate Nominal Amount**
- 35. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
- 36. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €15,000,000,000 Euro Medium Term Note Programme of Telecom Italia S.p.A. and Telecom Italia Finance S.A.]

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

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

Share capital at the Issue Date [].

Reserves at the Issue Date [].

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



RESPONSIBILITY

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

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: [Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].]
[Not Applicable.]
*[(Where documenting a fungible issue need to indicate that original securities are already admitted to trading)]***
- (iii) Estimate of total expenses related to trading: []*

2. RATINGS

The Notes to be issued have been rated:
 [S & P: []]
 [Moody's: []]
 [[Other]: []]
*[(Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider)]***
(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. NOTIFICATION

The [*name of competent authority in home Member State*] [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the EMTN Programme Prospectus has been drawn up in accordance with the Prospectus Directive.

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

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.—*Amend as appropriate if there are other interests*]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer []
(See [“Use of Proceeds”] wording in EMTN Programme Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here)
- (ii) Estimated net proceeds: []
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)
- (iii) Estimated total expenses: []
*[Expenses are required to be broken down into each principal intended “use” and presented in order of priority of such “uses”]
(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required)]***



6. YIELD (Fixed Rate Notes only)

Indication of yield:

[]

[Calculated as [include details of method of calculation in summary form] on the Issue Date]**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. HISTORIC INTEREST RATES (Floating Rate Notes only)**

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

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (to be included for derivative securities to which Annex XII of the Prospectus Regulations applies)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]**

[Need to include a description of any market disruption events that affect the underlying and any adjustment rules in relation to events concerning the underlying (if applicable)]

[Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer, and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[Where the underlying is a security need to include the name of the issuer of the security and the International Securities Identification Number (ISIN) or equivalent identification number. Where the underlying is a basket of underlyings, need to include the relevant weightings of each underlying in the basket.]

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]**

10. 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): []

Notes:

* Delete if the minimum denomination is less than €50,000

** Delete if the minimum denomination is €50,000



1S06037TD2161M7

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 31st January, 2007 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 BNY Corporate Trustee Services (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 2nd December, 2005 and made between Telecom Italia (in its capacity both as an Issuer and as the Guarantor), TI Finance, the Trustee, JP Morgan Chase Bank, N.A. as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

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

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and 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 31st January, 2007 at 1 Canada Square, London E14 5AL, England and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are



available for viewing at www.telecomitalia.it and www.bourse.lu 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, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable 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.

1. FORM, DENOMINATION AND TITLE

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

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

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable 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 two directors of TI Finance in the case of Notes issued by TI Finance.

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

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



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

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable 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 Receipts and Coupons are unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and rank *pari passu* among themselves and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

2.2 Status of the Guarantee

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

3. RESTRICTIONS ON SECURITY INTERESTS

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

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

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

As used herein:

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

Permitted Encumbrance means:

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



- (b) any encumbrance over or affecting any asset acquired by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor after the date on which agreement is reached to issue the first Tranche of the Notes and subject to which such asset is acquired, if:
 - (A) such encumbrance was not created in contemplation of the acquisition of such asset by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor; and
 - (B) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor;
- (c) any encumbrance over or affecting any asset of any company which becomes an obligor after the date on which agreement is reached to issue the first Tranche of the Notes, where such encumbrance is created prior to the date on which such company becomes an obligor, if:
 - (A) such encumbrance was not created in contemplation of that company becoming an obligor; and
 - (B) the amount thereby secured has not been increased in contemplation of, or since the date of, that company becoming an obligor;
- (d) any netting or set-off arrangement entered into by any member of the Telecom Italia Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (e) any title transfer or retention of title arrangement entered into by any member of the Telecom Italia Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- (f) encumbrances created in substitution of any encumbrance permitted under sub-paragraphs (b)(A) and (b)(B) of this definition over the same or substituted assets provided that (1) the principal amount secured by the substitute encumbrance does not exceed the principal amount outstanding and secured by the initial encumbrance and (2) in the case of substituted assets, if the market value of the substituted assets at the time of the substitution does not exceed the market value of the assets replaced;
- (g) encumbrances created to secure:
 - (A) loans provided, supported or subsidised by a governmental agency, national or multinational investment guarantee agency, export credit agency or a lending organisation established by the United Nations, the European Union or other international treaty organisation, including, without limitation the European Investment Bank, the European Bank for Reconstruction and Development and the International Finance Corporation; or
 - (B) Project Finance Indebtedness,
provided that the encumbrance is created on an asset of the project being financed by such loans (and/or on the shares in, and/or shareholder loans made to, the company conducting such project) or, as the case may be, such Project Finance Indebtedness, and remains confined to that asset (and/or shares and/or shareholder loans);
- (h) encumbrances arising out of the refinancing of any Capital Markets Indebtedness secured by any encumbrance permitted by the preceding sub-paragraphs, provided that the amount of such Capital Markets Indebtedness is not increased and is not secured by an encumbrance over any additional assets;
- (i) any encumbrance arising by operation of law;
- (j) any encumbrance created in connection with convertible bonds or notes where the encumbrance is created over the assets into which the convertible bonds or notes may be converted and secures only the obligation of the issuer to effect the conversion of the bonds or notes into such assets;
- (k) any encumbrance created in the ordinary course of business to secure Capital Markets Indebtedness under hedging transactions entered into for the purpose of managing risks arising under funded debt obligations such as credit support annexes and agreements;
- (l) any encumbrance over or affecting any asset of Telecom Italia to secure Capital Markets Indebtedness under a Permitted Leasing Transaction, provided that the aggregate Capital Markets Indebtedness secured by all such encumbrances does not exceed €1,000,000,000;
- (m) any encumbrance created on short-term receivables used in any asset-backed financing;
- (n) any encumbrance on real estate assets of Telecom Italia, any of its Subsidiaries or any person to which such real estate assets may be contributed by Telecom Italia or any of its Subsidiaries in connection



with the issuance of any indebtedness, whether such indebtedness is secured or unsecured by such real estate assets or any other assets of such person to which real estate assets have been contributed by Telecom Italia or any of its Subsidiaries; and

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

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

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

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

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

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

Subsidiary means a corporation in respect of which more than 50 per cent. of the outstanding voting shares or equity interest having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time shares of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Guarantor or by one or more of its Subsidiaries, or by the Guarantor and one or more Subsidiaries; and

Telecom Italia Group means Telecom Italia and its Subsidiaries.

4. MERGERS AND SIMILAR EVENTS

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

- (i) where the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor merges out of existence or sells or leases all or substantially all of its assets, the other company assumes all the then existing obligations of the relevant Issuer or (as the case may be) the Guarantor (including, without limitation, all obligations under the Notes and the Trust Deed), either by law or contractual arrangements;



- (ii) if the other company is organised under the laws of a country other than Luxembourg (in the case of TI Finance) or Italy (in the case of Telecom Italia), it must indemnify the Noteholders, Receiptholders and Couponholders against (A) any tax, assessment or governmental charge imposed on any such Noteholder, Receiptholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder, Receiptholder or Couponholder as a consequence of such merger, conveyance, transfer or lease and (B) any costs or expenses of the act of such merger, conveyance, transfer or lease; provided that, if such company is incorporated in Italy, such other company shall not be liable under such indemnity to pay any additional amounts either on account of “*imposta sostitutiva*” or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy; and
- (iii) the merger, sale or lease of all or substantially all of the assets of the relevant Issuer or (as the case may be) the Guarantor will not be an Event of Default (as defined in Condition 10) and no Event of Default or other event which, with the giving of notice or lapse of time or other condition (including, without limitation, certification from the Trustee), would be an Event of Default has occurred and is outstanding.

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

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest 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. For so long as any of the Fixed Rate Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

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.

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up); 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 comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising 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, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest 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 (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes or Index Linked Interest Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Note or Index Linked Interest Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

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 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 (TARGET) System (the **TARGET System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable 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 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

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



(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 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable 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.

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

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

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

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest 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 or an Index Linked Interest Note in definitive form



comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising 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/365” 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (I) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (II) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(e) Notification of Rate of Interest and Interest Amounts

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

(f) Determination or Calculation by Trustee

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Final Terms, 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 or the Calculation Agent, as applicable.

(g) Certificates to be final

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

5.3 Interest on Dual Currency Interest Notes

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

5.4 Interest on Partly Paid Notes

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

5.5 Accrual of interest

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

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

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

6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of



part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

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

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

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

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

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

6.3 Payments in respect of Global Notes

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

6.4 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the relevant Issuer or, as the case may be, the Guarantor (in the case of



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

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

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

6.5 Payment Day

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

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

6.6 Interpretation of principal and interest

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

- (a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the relevant Issuer under or in respect of the Notes.



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

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

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

7.2 Redemption for tax reasons

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

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

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

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

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

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

If Issuer Call is specified in the applicable 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, 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 Luxembourg Stock Exchange's regulated market 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. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

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

7.5 Early Redemption Amounts

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

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable 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 a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 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 of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

7.6 Instalments

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

7.7 Partly Paid Notes

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

7.8 Purchases

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

7.9 Cancellation

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

7.10 Late payment on Zero Coupon Notes

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

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

8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any Relevant Jurisdiction unless such withholding or deduction is required by law. In such event, the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction



shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction, except that no such additional amounts shall be payable:

- (a) in respect of any Note, Receipt or Coupon presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with a Relevant Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) in respect of any Note, Receipt or Coupon presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) in respect of any Note, Receipt or Coupon presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or
- (e) in respect of payments made by Telecom Italia with respect to any Note, Receipt or Coupon for or on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. No. 239 of 1st 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, Receipt or Coupon, to the extent that the amount of such withholding or deduction exceeds the amount of *imposta sostitutiva* payable by Telecom Italia with respect to such Note, Receipt or Coupon pursuant to Decree 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, Receipt or Coupon for or on account of *imposta sostitutiva* if the holder becomes subject to *imposta sostitutiva* after the date on which agreement is reached to issue the first Tranche of the Notes by reason of an amendment or supplement to or replacement of the list of countries which provide for a satisfactory exchange of information with Italy, according to Article 6 of Decree 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 payments made by Telecom Italia with respect to any Note having an original maturity of less than 18 months where such withholding or deduction is required pursuant to Italian Legislative Decree No. No. 600 of 29th September, 1973 (**Decree No. 600**) as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes.

For the avoidance of doubt, any withholding or deduction imposed following any amendment or supplement to or replacement of Decree No. 600 after the date on which agreement is reached to issue the first Tranche of the Notes shall not be an exception to the payment by Telecom Italia of the relevant additional amounts with respect to such Note, to the extent that the amount of such withholding or deduction exceeds the amount of the withholding or deduction that is required pursuant to Decree No. 600 as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes; or

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



As used herein:

- (i) **Relevant Jurisdiction** means (A) irrespective of the identity of the Issuer, Italy and/or such other taxing jurisdiction to which Telecom Italia becomes subject, or any political 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, Receipts and Coupons will become void unless presented for payment 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;
 - (ii) the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor fails to fulfil any payment obligation exceeding €100,000,000 (or the equivalent thereof in other currencies) under any Capital Markets Indebtedness of the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor, or under any guarantee provided for any such Capital Markets Indebtedness in excess of €100,000,000 (or the equivalent thereof in other currencies) of others, and such failure continues for a period of 30 days; or
 - (iii) any security or guarantee relating to Capital Markets Indebtedness in excess of €100,000,000 (or the equivalent thereof in other currencies) provided by the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor is enforced by the lenders and such enforcement is not contested in good faith by the relevant Issuer or (as the case may be) the Guarantor or the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor publicly announces their inability to meet their financial obligations; or



- (d) *Insolvency*:
- (i) a court opens insolvency or equivalent proceedings against the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor which are not resolved within six months, unless such proceedings are frivolous or vexatious and contested in good faith and appropriately and do not result in court orders or the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor applies for such insolvency or equivalent proceedings; or
 - (ii) the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor approves a resolution pursuant to which it goes into liquidation or (in the case of Notes issued by TI Finance) it goes into liquidation or initiates or consents to proceedings under any applicable bankruptcy or insolvency law (including, without limitation, controlled management (*gestion contrôlée*), suspension of payments (*sursis de paiement*), a moratorium or a composition) unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by TI Finance or Telecom Italia, in connection with the Notes and the Trust Deed; or
- (e) *Guarantee not in force*: in the case of Notes issued by TI Finance, the Guarantee ceases to be valid or legally binding for any reason.

10.2 Enforcement

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

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

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. PAYING AGENTS

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

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

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

In addition, the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in



Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to 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 the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

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

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

15.1 Meetings in respect of Notes issued by TI Finance

In respect of Notes issued by TI Finance, the Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by TI Finance, the Guarantor or the Trustee and shall be convened by TI Finance if required in writing by Noteholders holding not less than 25 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an



Extraordinary Resolution is one or more persons holding or representing more than one-half in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any adjourned meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than one-quarter in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

The Trustee may also, without the consent of the Noteholders, agree with TI Finance and the Guarantor to the substitution in place of the Guarantor (or of any previous substitute under this Condition 15.1) as guarantor of the Notes of another company, being any entity that may succeed to, or to which the Guarantor (or any previous substitute under this Condition 15.1) may transfer, all or substantially all of the assets and business of the Guarantor (or any previous substitute under this Condition 15.1) by operation of law, contract or otherwise, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, (b) the company substituted in place of the Guarantor indemnifying the Noteholders, Receiptholders and Couponholders against (A) any tax, assessment or governmental charge imposed on any such any Noteholder, Receiptholder or Couponholder or required to be withheld or deducted from any payment to such Noteholder, Receiptholder or Couponholder as a consequence of such substitution and (B) any costs or expenses of the act of such substitution, except that (provided that such company is incorporated in Italy) such company shall not be liable under such indemnity to pay any additional amounts either on account of *imposta sostitutiva* or on account of any other withholding or deduction in the event of payment of interest or other amounts paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with Italy and (c) certain other conditions set out in the Trust Deed being complied with.

15.2 Meetings in respect of Notes issued by Telecom Italia

In respect of Notes issued by Telecom Italia, the Trust Deed contains provisions consistent with the rules of the Italian Civil Code for convening meetings of the Noteholders to consider any matter affecting their interests, including any modification of the Conditions or of any provisions of the Trust Deed. According to the Italian Civil Code, such meeting will be validly held if (i) in the case of a first meeting, there are one or more persons present being or representing Noteholders holding more than one-half in nominal amount of the Notes for the time being outstanding and (ii) in case of an adjourned meeting, there are one or more persons present being or representing Noteholders holding more than one-third in nominal amount of the Notes for the time being outstanding. Certain proposals, as set out in Article 2415 of the Italian Civil Code



(including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass a resolution), may only be sanctioned by a resolution passed at a meeting of the Noteholders by one or more persons present holding or representing not less than one-half of the aggregate principal amount of the outstanding Notes. Resolutions passed at any meeting of the Noteholders shall be binding on all Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders. In accordance with the Italian Civil Code, a *rappresentante comune*, being a joint representative of Noteholders, may be appointed in accordance with Article 2417 of the Italian Civil Code in order to represent the Noteholders' interest hereunder and to give execution to the resolutions of the meeting of the Noteholders.

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

15.3 Waiver, authorisation, determination and exercise by the Trustee of discretions etc.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the relevant Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

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

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

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance) and/or any of their respective Subsidiaries and to act as trustee for the holders of any other securities issued



or guaranteed by, or relating to, the relevant Issuer, the Guarantor (in the case of Notes issued by TI Finance) and/or any of their respective Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. FURTHER ISSUES

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

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing law

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

19.2 Submission to jurisdiction

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

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

19.3 Appointment of Process Agent

Each of the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) has appointed Telecom Italia United Kingdom Ltd at its registered office at 100 New Bridge Street, London EC4V 6JA, as its agent for service of process, and undertakes that, in the event of Telecom Italia United Kingdom Ltd ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.



USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes. If in respect of any particular issue there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.



DESCRIPTION OF TELECOM ITALIA

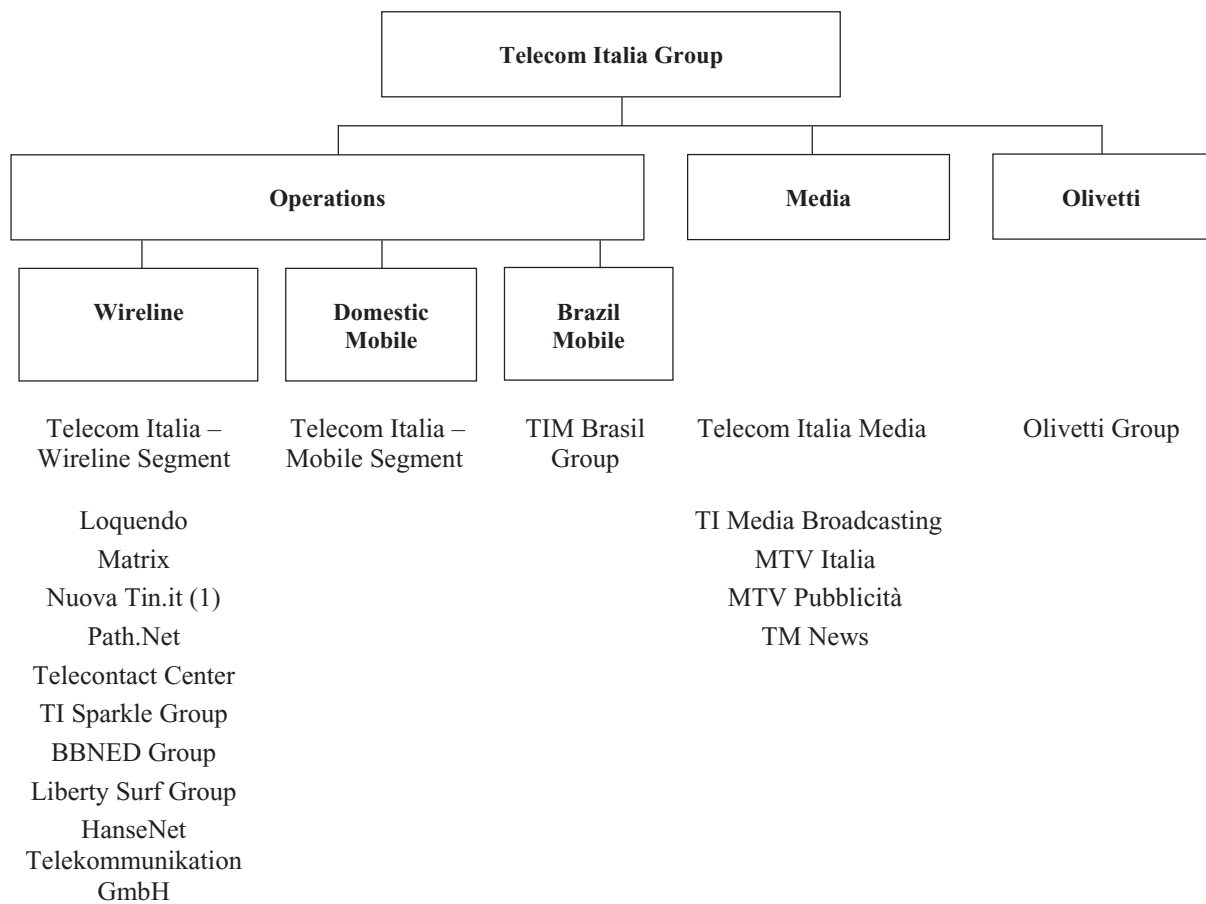
The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia S.p.A. was incorporated as a joint stock company under the laws of Italy on 20th October, 1908, and its duration is until 31st December, 2100, and is registered with the Company Register in Milan under registration number 00488410010.

The registered office and principal executive offices of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. Its telephone number is +39-02-85951. Telecom Italia complies with applicable Italian corporate governance rules, as described on pages 278 – 290 of the Telecom Italia Annual Report.

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 30th September, 2006 were as follows:



(1) On 1st October, 2006, the merger by incorporation of Nuova Tin.it S.r.l. into Telecom Italia S.p.A. became effective.

On 11th September, 2006, the Board of Directors of Telecom Italia adopted a strategy of accentuating the Group’s focus on broadband and media services businesses in Italy and the rest of Europe, and approved a reorganisation of the Telecom Italia Group. On 15th September, 2006, the Chairman, Mr. Marco Tronchetti Provera, tendered his resignation; the Board of Directors appointed Mr. Guido Rossi as Chairman of the Board of Directors and Mr. Carlo Orazio Buora as Executive Deputy Chairman. For further details please see “Recent Developments”.

Overview

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



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

On 21st May, 1999, Olivetti, through a tender offer, obtained control of the Old Telecom Italia Group when approximately 52.12 per cent. of Old Telecom Italia Ordinary Shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia S.p.A. (**Olimpia**) acquired a 28.7 per cent. stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

On 20th November, 2001, Olimpia entered into an equity swap transaction with Unicredit Banca Mobiliare (**UBM**) and Caboto Intesa (**Caboto**) with respect to 263,500,000 Olivetti shares, at the price of €1.3687 per share. The transaction shall expire on 5th October, 2007. At the date hereof, Olimpia has the right to buy from UBM 62,127,108 Telecom Italia Ordinary Shares at the price of €2.9023 per share, and from Caboto 62,002,829 Telecom Italia Ordinary Shares at the price of €2.9028 per share.

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

On 4th August, 2003, Old Telecom Italia merged with and into Olivetti (the **Merger**) with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A.". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Olimpia or Pirelli & C. S.p.A. (**Pirelli**), Olimpia's largest shareholder, increased substantially to approximately 88.43 per cent. of the outstanding Telecom Italia Ordinary Shares (**Ordinary Shares**). Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the TIM Acquisition, Olimpia held approximately 17 per cent. of the Ordinary Shares, making it the largest shareholder of Telecom Italia.

On 22nd December, 2004, Olimpia's shareholders approved a capital increase in the amount of €2 billion to finance the acquisition of additional Ordinary Shares. As a result, on 11th March, 2005, Olimpia announced that it had acquired 189,988,330 additional Ordinary Shares and increased its total holdings to 2,207,345,359 Ordinary Shares, equal to approximately 20.4 per cent. of the Ordinary Share capital of Telecom Italia. In addition, as of 14th March, 2005, the conversion of over 424 million Telecom Italia convertible bonds became effective, which further increased Olimpia's aggregate shareholding to 2,407,345,359 Ordinary Shares, representing approximately 21.4 per cent. of the outstanding Ordinary Shares.

Following the issuance of shares of Telecom Italia in exchange for outstanding shares of TIM held by third parties, as a result of the merger of TIM into Telecom Italia through which the TIM Acquisition was effected, Olimpia's stake was diluted to approximately 18 per cent. (corresponding to 2,407,345,359 Ordinary Shares).

Telecom Italia Shareholder Agreement

On 18th October, 2006, Olimpia, Pirelli, Edizione Holding S.p.A., Edizione Finance International S.A., Mediobanca S.p.A. (**Mediobanca**) and Assicurazioni Generali S.p.A. (**Generali**) entered into a shareholders' agreement (**Telecom Italia Shareholder Agreement**) by way of which Olimpia, Mediobanca and Generali have tied-up a total of 23.2 per cent. of Ordinary Shares.

The Telecom Italia Shareholder Agreement provides, among other matters, for:

- consultation on how to exercise voting rights in the Shareholders' meetings of Telecom Italia;
- the possibility for new parties owning at least 0.5 per cent. in Telecom Italia to join the Telecom Italia Shareholder Agreement;
- the lock-up of the Ordinary Shares subject to the Telecom Italia Shareholder Agreement;
- the right of first refusal of Mediobanca and Generali with reference to the selling of Olimpia's equity investment;
- the possibility that Mediobanca and Generali purchase additional shares up to a maximum of 25 per cent. of the Ordinary Shares subjected to the Telecom Italia Shareholder Agreement by each of them;
- the possibility that Olimpia increases its share capital by way of a contribution in kind of the Ordinary Shares by new shareholders.



The Telecom Italia Shareholder Agreement will expire on 18th October, 2009 with automatic renewals for further periods of three years each, and will be managed by a Board. The four members of the Board appointed on 20th November, 2006 are Marco Tronchetti Provera, who holds the position of Chairman, Gilberto Benetton, Renato Pagliaro and Giovanni Perissinotto.

By letter dated 6th February, 2006, Pirelli, Edizione Holding S.p.A., Edizione Finance International S.A., UniCredito Italiano S.p.A., Banca Intesa S.p.A. and Olimpia notified Hopa of their withdrawal from the agreement between Pirelli, Edizione Holding S.p.A., Edizione Finance International S.A., UniCredito Italiano S.p.A., Banca Intesa S.p.A., Hopa and Olimpia, entered into on 21st February, 2003 (**Agreement with Hopa**), subsequently modified on 23rd January, 2004 and 28th January, 2005. On 12th July, 2006, Pirelli, Edizione Finance International S.A. and Edizione Holding S.p.A. finalised the acquisition of all the shares owned by Hopa S.p.A. in Olimpia S.p.A. (equal to 16 per cent. of capital), for a cash payment of €622 million. Simultaneously, Hopa S.p.A. finalised the acquisition of all the shares owned by Olimpia S.p.A. in Holinvest S.p.A. (equal to 19.999 per cent.) for a cash payment of €86 million. Olimpia and Holinvest S.p.A. also signed a two-year pre-emption pact in favor of Olimpia for 320,253,610 Ordinary Shares held by Holinvest (equal to 65 per cent. of all the Telecom Italia shares it owns); the agreement also states that Holinvest S.p.A. can not make any new acquisitions of Telecom Italia shares without the prior agreement of the counterpart for the same two year period.

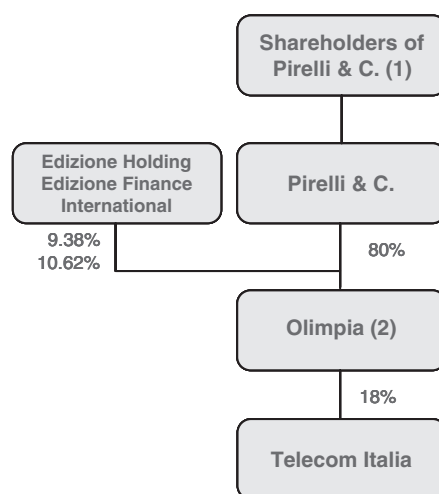
With letters dated respectively 27th March and 28th March, 2006, Banca Intesa S.p.A. and UniCredito Italiano S.p.A. (collectively, the **Banks**) notified Pirelli of their withdrawal from the agreement between Pirelli and the Banks entered into on 14th September, 2001 (**Agreement with the Banks**) and subsequently modified on 26th September, 2001, 24th October, 2001 and 16th December, 2003. On 4th October, 2006, holdings of the Banks (4.77 per cent. each) in Olimpia were sold to Pirelli for a consideration of approximately €585 million each.

The Agreement with Hopa terminated on 8th May, 2006, and the Agreement with the Banks terminated on 4th October, 2006.

According to publicly available data, Pirelli directly and through Pirelli Finance (Luxemburg) S.A. - a Luxemburg wholly owned subsidiary of Pirelli - (**PFL**) owns 182,113,185 Ordinary Shares (equal to 1.36 per cent. of the outstanding Ordinary Shares).

According to publicly available filings with Consob, as of 8th January, 2007, the shareholders of Pirelli with a 5 per cent. shareholding or greater in Pirelli's voting capital were Camfin Cam Finanziaria S.p.A. (25.542 per cent.) and Assicurazioni Generali S.p.A. (through its subsidiaries, 5.251 per cent.). On the same date shareholders of Camfin Cam Finanziaria S.p.A. with a 5 per cent. shareholding or greater in the voting capital of the company included Mr. Marco Tronchetti Provera (through Gruppo Partecipazioni Industriali S.p.A. (52.088 per cent.)) and Mr. Carlo Acutis (through Vittoria Assicurazioni S.p.A. (4.648 per cent.) and Yura International Holding B.V. (4.649 per cent.)).

The following chart illustrates Telecom Italia's current ownership structure.



(1) Shareholders of Pirelli & C. S.p.A. with a 5 per cent. stake or greater in the voting capital of the company include: Camfin Cam Finanziaria S.p.A. (25.542 per cent.) and Assicurazioni Generali S.p.A. (through its subsidiaries, 5.251 per cent.).

(2) Olimpia, Mediobanca and Generali have subjected their holdings of an aggregate of 23.2 per cent. of the Ordinary Shares to certain joint arrangements pursuant to the Telecom Italia Shareholder Agreement described above.



The Telecom Italia Group is a world leader in the information and communication technology sector. As leaders in wireline and mobile communications, our companies provide integrated and innovative services in Italy and certain countries outside of Italy. Moreover, the Telecom Italia Group is also active in the media sector and it supplies office products and solutions, commercial systems and IT for gaming and lotteries.

In our domestic Italian market, we are both a technological and market leader in the fastest-growing market segments (mobile, broadband and data transmission). Our international operations are concentrated mainly in, Europe, the Mediterranean basin and Latin America.

In particular, at 30th September, 2006, the Telecom Italia Group was one of the world's largest wireline operators, with approximately 24.3 million fixed network connections installed (including ISDN equivalent lines) in Italy. In addition, the Telecom Italia Group was the leading mobile operator in Italy, with 31.5 million lines at 30th September, 2006; and as of the same date Telecom Italia Group had 24.1 million mobile lines in Brazil.

As a result of the merger with TIM Italia, Telecom Italia S.p.A. is one of the three mobile operators licensed to provide services using GSM 900 technology in Italy and one of the three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS license and providing third-generation telephony services in Italy.

Share Capital

The table below contains a breakdown of the share capital of Telecom Italia as at 31st December 2006:

	<u>Number of Shares¹</u>	<u>Value (euro)</u>
Issued, paid and relevant filing made with the Company Register		
Ordinary Shares	13,380,723,078	7,359,397,692.90
Savings Shares	<u>6,026,120,661</u>	<u>3,314,366,363.55</u>
Total	<u><u>19,406,843,739</u></u>	<u><u>10,673,764,056.45</u></u>

¹ Each share has a par value of €0.55.

On 15th January 2007, 1,649 ordinary shares were issued and paid but not yet filed.

Recent Developments

Telecom Italia Capital S.A. Note Issue

On 18th July, 2006, Telecom Italia Capital S.A. issued new multi-tranche notes on the United States market for a total of U.S.\$2,600 million, guaranteed by Telecom Italia S.p.A. The notes are divided into three tranches:

- U.S.\$850 million (equal to €667 million at the pricing date), quarterly interest indexed to the 3-month U.S.\$ Libor plus 0.61 per cent., issue price at 100 per cent., maturing 18th July, 2011;
- U.S.\$750 million (equal to €589 million at the pricing date), 6.20 per cent. annual fixed rate with semi-annual interest coupon, issue price at 99.826 per cent., maturing 18th July, 2011;
- U.S.\$1,000 million (equal to €785 million at the pricing date), 7.20 per cent. annual fixed rate with semi-annual interest coupon, issue price at 99.440 per cent., maturing 18th July, 2036.

Note Redemption

In July 2006, Telecom Italia Finance repurchased Telecom Italia Finance S.A. 5.875 per cent. notes maturing 24th January, 2008 for €15 million.

Sale of Avea I.H.A.S.

Pursuant to the terms of the July 2005 contract between Telecom Italia and Saudi Oger as subsequently amended, on 14th July, 2006 contracts were signed for the sale of the investment held by TIM International in Avea (equal to a 40.56 per cent. stake) to Turk Telekom for U.S.\$ 500 million. After obtaining the necessary authorisations from the competent Turkish authorities, on 15th September, 2006, the sale was closed and the Telecom Italia Group was fully released and discharged from the obligations and guarantees which it had provided up to an amount of U.S.\$150 million. As a result of this transaction, Turk Telekom, which already held a 40.56 per cent. stake in Avea, increased its investment to 81.13 per cent., while IS Bank continued to own the remaining 18.87 per cent..



As provided in the July 2005 contract as subsequently amended, on 18th September, 2006 TIM International also reinvested half of the proceeds from the sale (U.S.\$ 250 million) in the share capital of Oger Telecom Ltd, a Dubai company in which it previously held a 13.33 per cent. stake. Moreover Tim International shall provide or procure a subordinated loan of up to U.S.\$ 150 million to Avea, earning interest at market rates, on the condition that Avea is able to obtain a structured financing within one year of the closing date of the sale of Avea.

Under the framework of the above transactions for the sale of Avea, TIM International renegotiated its partnership with Saudi Oger as reflected in a new Shareholders' Agreement which provides TIM International a greater participation in the governance of Oger Telecom, thus strengthening the Group's ability to protect its investment in Oger Telecom.

Sale of Solpart Participações S.A.

During July 2006, Telecom Italia S.p.A. indicated its intention to evaluate the possibility of selling the investment in Solpart Participações S.A. (Solpart), which is held through the Dutch holding company Telecom Italia International N.V. Telecom Italia has already mandated JP Morgan in relation to such possible sale.

In addition, in order to solve the overlap of the mobile and long distance licence between Brasil Telecom Group and TIM Brasil Group, on 27th October, 2006, Telecom Italia International transferred its entire participation in Solpart to an Italian newco – named Brasilco S.r.l. – which is held in an English Law Trust by Credit Suisse Securities (Europe) Limited, acting as trustee. Telecom Italia International is the sole beneficiary of the Trust and, consequently, of any income, proceeds, dividend or other receipt from the Solpart stake, including the consideration for its possible future sale.

Such transfer was previously approved on 18th October, 2006 by Anatel, which confirmed the solution, through this transaction, of the overlap of long distance and mobile licences, thus avoiding possible penalties that could have had material adverse effects on the value of Telecom Italia Group's investments in Brazil and on the results of its operations.

The Reorganisation Process

On 11th September, 2006, the Board of Directors of Telecom Italia adopted a strategy of accentuating the Group's focus on broadband and media services businesses in Italy and the rest of Europe, and approved a reorganisation of the Telecom Italia Group which entails:

1. the separation from Telecom Italia S.p.A. of the business of national mobile communication, through the contribution of the corresponding industrial complex into a subsidiary;
2. the separation from Telecom Italia S.p.A. of the network for local wired access, through the contribution of the corresponding industrial complex into a subsidiary with a mandate for the Chairman to identify further activities, if any, suitable for integration into such business.

On 25th October, 2006 the Board of Directors of Telecom Italia confirmed the decisions reached on 11th September regarding the accelerating convergence between fixed telephony, mobile, broadband Internet and media content. In this framework, the reorganisation is intended to ensure the necessary operational flexibility without renouncing the benefits gained through fixed-mobile integration and the intention to take advantage, in full accord with the telecommunications regulator, of all the opportunities offered by the market.

Telecom Italia intends to launch a significant transformation of the access network into a New Generation Network, enabling the transmission of high-definition television programmes, movies, music and video, as well as business and public services (tele-medicine, info-mobility etc.).

The new network will also involve the separation from Telecom Italia of the access network, according to a model to be jointly developed with the Authority.

Resolutions of the Telecom Italia's Board of Directors as a result of the Resignation of Mr. Tronchetti Provera

On 15th September, 2006, Mr. Marco Tronchetti Provera resigned as Chairman and as a member of the Board of Directors of Telecom Italia S.p.A.



The Board of Directors then nominated Mr. Guido Rossi as a member of the Board of Directors and as Chairman and also nominated Mr. Carlo Orazio Buora as Executive Deputy Chairman and conferred on him the organizational responsibilities and the powers which had been held by Mr. Marco Tronchetti Provera, with the exception of the functions of general counsel and the management of institutional relations, which will report to the Chairman. The Board of Directors also confirmed Mr. Gilberto Benetton as Deputy Chairman and Mr. Riccardo Ruggiero as Chief Executive Officer.

Agreement for the acquisition of AOL Germany

On 17th September, 2006, Telecom Italia and Time Warner Inc. reached an agreement for the acquisition by Telecom Italia of the Time Warner's AOL Germany Internet access business for €675 million (U.S.\$870 million) in cash. The companies expect to close the transaction by the end of March 2007, once AOL has completed the corporate reorganisation as provided for in the Stock Purchase Agreement (the customary regulatory approvals have already been obtained as of the end of November 2006). Once its acquisition of AOL Germany's Internet access business closes, Telecom Italia will be one of the three largest broadband providers with more than 3.2 million total subscribers, including broadband customers, which as at the end of June 2006 were nearly 1.9 million. Furthermore, under a new partnership, AOL will provide co-branded audience services and content on a joint web portal for all of Telecom Italia's residential Internet access subscribers in Germany and will handle all online advertising sales.

AOL Germany has operated as an Internet Service Provider, or ISP, for over 10 years and competes in both narrowband and broadband access. As of June 2006, AOL Germany, ranked second and third among German narrowband and broadband access providers, had 1.1 million broadband subscribers and approximately 1.3 narrowband subscribers.

Possible sale of mobile activities in Brazil

On 6th November, 2006, the Board of Directors mandated senior management to negotiate the possible sale of the Group's mobile activities in Brazil, with a commitment to refer to the same Board of Directors promptly for the formalisation of the relative final decisions.

Telecom Italia Group results for the nine months ended 30th September, 2006

On 6th November, 2006, the Telecom Italia Board of Directors approved the unaudited consolidated interim financial data of Telecom Italia as of and for the nine months ended 30th September, 2006. This financial data, including data for periods presented for comparison purposes, has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS), as provided by article 82 of the Regulation for Issuers No. 11971 issued by Consob on 14th May, 1999, and subsequent amendments and additions.

Consolidated net income of the Telecom Italia Group for the first nine months of 2006 was €2,376 million (€2,351 million before minority interests); in the first nine months of 2005, the consolidated net income of the Telecom Italia Group was €2,625 million (€3,056 million before minority interests).

The decrease in the consolidated net income of €249 million was due to the following:

- a decrease in operating income of €267 million;
- an increase of €72 million in share of profits of associates and joint ventures accounted for using the equity method;
- higher financial expenses, net of financial income, of €113 million: the improvement in the financial management balance (€75 million) was more than offset by a lower result from investment management and the release of provisions relating to Avea I.H.A.S.;
- lower income taxes of €99 million;
- lower net income from discontinued operations/assets held for sale of €496 million; the first nine months of 2006 included net gains on discontinued operations for €31 million; in the first nine months of 2005, the net gains on discontinued operations were €507 million;
- lower net income attributable to minority interests of €456 million, mainly in connection with the TIM merger transaction; during 2005, the entire control over the mobile business was reached as a result of the tender offer in January and the merger in June.



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In the first nine months of 2006 capital expenditures totalled €3,299 million with an increase of €97 million compared to the first nine months of 2005. The increase was due principally to higher investments made by the Wireline and the Domestic Mobile Business Units particularly for development solutions to support new services and the expansion of the European Broadband Project against lower capital expenditures by the Brazil Mobile Business Unit after gradually completing the coverage of the territory.

At 30th September, 2006, consolidated net financial debt amounted to €39,504 million, with a decrease of €354 million (€39,858 million at 31st December, 2005). This reduction was mainly due to net cash flows generated by operating activities (€5,565 million) as well as the proceeds from the sale of investments and other disposals (€1,260 million) which were partly offset by the outflows of cash related to capital expenditures (€3,592 million corresponding to the sum of capital expenditures on an accrual basis of €3,299 million and the change in amounts due to intangible and tangible fixed assets suppliers of €293 million) and dividends paid (€2,997 million).

Further details on the Telecom Italia Group results for the first nine months of 2006 are available on the corporate website <http://www.telecomitalia.it>.

Group's Organisational Structure

On 22nd January, 2007, the Telecom Italia Group approved its new organisational structure the main contents of which are the following: to the Chairman Guido Rossi report the Group Functions of Public Affairs, headed by Franco Rosario Brescia and General Counsel & Corporate and Legal Affairs, headed by Francesco Chiappetta; to the Executive Deputy Chairman report the Chief Executive Officer of Telecom Italia, Riccardo Ruggiero, the Media Business Unit, headed by Enrico Parazzini and the Olivetti Business Unit, headed by Giovanni Ferrario; to the Chief Executive Officer report the offices of Domestic Fixed Services headed by Massimo Castelli, Domestic Mobile Services headed by Luca Luciani, Top Clients & ICT Services headed by Mauro Nanni, Technology headed by Stefano Pileri and the company TIM Brasil, headed by Mario Cesar Araujo.



BUSINESS UNITS

Key financial data prepared in accordance with IFRS for the nine-month periods ended 30th September, 2005 and 2006

The integration of the fixed and mobile operations began at the end of 2005, followed by the merger of TIM Italia S.p.A. in Telecom Italia S.p.A. on 1st March, 2006 and is still in progress. This has resulted in an overall reorganisation of the Group. At 30th September, 2006 the business segments for accounting purposes are as follows:

- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

The table below sets forth certain key financial data under IFRS for each Business Unit for the nine-month periods ended 30th September, 2005 and 2006. For purposes of comparison, the data of the Business Units for the nine months ended 30th September, 2005 have been revised for consistency.

	Period	Wireline	Domestic Mobile	Brazil Mobile	Media	Olivetti	Other Activities	Adjustments and eliminations	Consolidated Total
		<i>(Unaudited)</i>							
		<i>(millions of Euro, except number of employees)</i>							
Revenues	1/1 – 9/30/2006	13,295	7,565	2,792	136	298	1,175	(2,157)	23,104
	1/1 – 9/30/2005	13,200	7,507	1,985	121	310	969	(2,134)	21,958
Operating income (loss)	1/1 – 9/30/2006	3,315	2,834	(47)	(111)	(49)	(356)	35	5,621
	1/1 – 9/30/2005	3,630	3,037	(180)	(96)	(21)	(530)	48	5,888
Capital expenditures	1/1 – 9/30/2006	2,155	680	329	65	6	92	(28)	3,299
	1/1 – 9/30/2005	2,042	581	465	32	13	73	(4)	3,202
Number of employees at period-end ⁽¹⁾	As of 30th September, 2006	56,607	11,127	9,461	962	1,533	4,686	—	84,376
	As of 31st December, 2005	56,987	11,720	9,043	886	1,750	5,098	—	85,484

(1) The number of employees at period-end excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale.

As of 30th September, 2006, the Telecom Italia Group Business Units were the following:

Operations

On 5th October, 2005, the board of directors of Telecom Italia adopted the “One Company Model” organisational structure by converging the two previous Wireline and Mobile Business Units into one single unit (**Operations**). For accounting purposes, starting from the first half of 2006, Mobile activities have been divided into Domestic Mobile and Brazil Mobile. Operations is organised as follows:

- *Wireline*

On a national level, the Wireline Business Unit operates as the consolidated market leader of wireline telephone and data services for final customers (retail) and other operators (wholesale). On an international level, Wireline develops fibre optic networks for wholesale customers (in Europe, in the Mediterranean and in South America) and also offers innovative broadband services in France, Germany and Holland.

- *Domestic Mobile*

Telecom Italia is the leading mobile operator in Italy with 31.5 million mobile lines at 30th September, 2006.

- *Brazil Mobile*

Telecom Italia Group operates in the mobile telecommunications sector in Brazil through the TIM Brasil group which offers mobile phone service using TDMA and GSM technology. At 30th September, 2006 TIM Brasil was the second largest domestic operator in Brazil with 24.1 million lines and a market share of 25.1 per cent.



Media

The Media Business Unit operates in the following segments:

- *Television*: with La7 and MTV, both in the production and broadcasting of editorial content through the television broadcasting networks entrusted under concession and in the marketing of advertising space in TV programming. It also functions as a television broadcasting network operator using analog and digital technology. Furthermore, the Business Unit manages satellite channels and pay-per-view services using Digital Terrestrial TV (DTT); and
- *News*: with TM News, a national news agency operating 24/7 under the APCom brand.

Olivetti

The Olivetti Business Unit operates in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS) and also specialised applications for the banking field and commerce and information systems for gaming and lotteries. The reference market of the Business Unit is focused mainly in Europe and Asia.

Other Telecom Italia Group activities

“Other activities” of the Telecom Italia Group include the Central Functions (Group Functions and Service Units) and the foreign operations not included in other Business Units (Entel Bolivia and Sofora).

Strategy

General

Significant changes are occurring in wireline and wireless markets which pose new challenges for the Telecom Italia Group, but also offer new opportunities. The demand for telecommunications services in Italy is growing, driven by the growth of broadband in the wireline segment and by the new services offered in the mobile segment. In particular:

- communications on fixed networks have enriched the supply of traditional “voice” and “data” services by adding innovative services made possible by broadband technologies; and
- communications on the advanced mobile networks (GPRS, EDGE and UMTS) now permit mobility not only for voice services but also for data, Internet and media services.

In addition to these recent developments, technological and market discontinuities are leading towards a progressive reduction in the traditional distinction between wireline and mobile businesses.

Technological innovation is facilitating the interaction between different networks (fixed and mobile, as well as voice and data) and between suppliers of telecommunications services and suppliers in adjacent sectors (such as information technology, media and consumer electronics), offering operators the opportunity to develop new services and make the technical management and development of network infrastructures more efficient.

Customers increasingly want to use the services made possible by the new technologies seamlessly, regardless of where they are. In particular, business customers require solutions for access to their own Intranet and to corporate applications with the fixed or mobile network available at any given moment, and consumers are interested in having easy access from both fixed and mobile networks to digital content (music, film, etc.).

On the back of this business context, Telecom Italia Group’s main focus during the 2006-2008 period will be on the following areas:

Enriched offerings: The Telecom Italia Group will seek to expand its offerings, primarily in the areas of Broadband access and content, IT services for business customers, 3G mobile services and digital terrestrial television (DTT). With regard to broadband, the Telecom Italia Group intends to upgrade transmission capacity, introduce advanced services over IP (including IPTV), new handsets and customer equipment and voice and VAS for businesses. With respect to UMTS, the Telecom Italia Group will continue to roll out its UMTS network, continue to offer innovative services, offer new handsets and deploy HSDPA technology. As regards DTT, the Telecom Italia Group intends to extend coverage, promote pay-per-view contents and launch interactive services.



Synergies: The Telecom Italia Group plans to further develop synergies between its fixed and mobile businesses, along the path opened by the TIM Acquisition, particularly with respect to network and IT innovation, VAS innovation, customer operations and purchasing.

Focused international growth: The Telecom Italia Group’s international strategy will be focused on selected growth areas, including:

- leveraging its strong position in the Brazilian market; and
- expanding selectively in the European broadband market.

Capital expenditures of between €13 and €14 billion are planned for the three years from 2006 to 2008. A breakdown of these capital expenditures by sector of activity is shown in the table below:

	<u>Approximate % of Capital Expenditures</u>
Wireline	55%
Mobile	41%
Telecom Italia Media	2%
Other	2%

Over 70 per cent. of the total of the Telecom Italia Group’s capital expenditures planned for the period 2005-2007 will be invested in new services and market innovation and development.

Wireline

The Wireline Business Unit is planning to invest approximately €7.3 billion from 2006 to 2008 to further develop broadband services both in the domestic market and in other selected European countries (France, Germany and The Netherlands), as well as investing in innovative infrastructures and systems.

Mobile

TIM Brasil Group is constantly strengthening and consolidating its position within the Brazilian mobile market, both commercially and in terms of overall GSM coverage. As at the date of this EMTN Programme Prospectus, TIM Brasil is still the only operator with a full GSM national footprint.

In Italy, Telecom Italia has planned the development of innovative services based on UMTS.

Telecom Italia Media

Telecom Italia Media will focus its investments on its Television Business. In this sector, it plans to further develop “Digital Terrestrial Television”.

Competition

Fixed-line domestic and international telecommunications services

As a result of the complete liberalisation of the market for telecommunications services, the Telecom Italia Group has faced increasingly significant competition since 1998 in the Italian domestic market, including competition from foreign telecommunications operators.

In 2003, a new regulatory framework was introduced in Italy by the incorporation of recently adopted EC Directives, the “Framework Directive” together with three Directives on “Access”, “Authorisation” and “Universal Service” (the “Data Protection” Directive was implemented separately). The new rules have been effective in the national regulatory framework since 16th September, 2003. In this regard, Law No. 166 of 1st August, 2002 gave the Government a mandate to implement the new Directives, and to adopt a code of legal and regulatory measures in the field of telecommunications. Furthermore, the European Commission published Recommendations on important product and services markets in electronic communications, as well as Guidelines for market analysis and the evaluation of significant market power.

The new Electronic Communications Code (the **Code**) implemented the Directives without substantial changes or departures from the text adopted at the European Union level. In implementing the Directives, the Code



expressly abolished the former legal framework for regulation of the telecommunications sector in Italy mainly represented by the Telecommunications Regulations, which had been in effect since 7th October, 1997.

The main characteristics of the Code are as follows:

- redefinition of the concept of “significant market power” and of the criteria for imposing obligations on certain operators, with the introduction of market analysis;
- the introduction of the term “electronic communication services and networks” (a broader term which now encompasses the term “telecommunications”);
- “electronic communication services and networks” can now be provided pursuant to a “general authorisation”;
- more flexibility for national regulatory authorities to select which access and interconnection obligations to impose on operators notified as having “significant market power” in a relevant market; and
- redefinition of certain measures relating to retail price regulation and extension of number portability to mobile operators.

Moreover, the Directives (and other EU-related regulatory interpretations and recommendations) as implemented by the Code provide for guidelines on market analysis and calculation of “significant market power” and identify 18 markets at the retail and wholesale level where such analyses and identification is to be conducted. Within the authority allowed by EU law, the Code also provides for the following:

- it allows the trading of the rights to the use of frequencies among operators offering the same type of services;
- it excludes from the category of universal service (and its related obligations) the provision of directory information services;
- it provides for specific and more defined rules aimed at reducing the burden of current legislation and local regulations which regulate the installation of networks; and
- it redefines the assignment of roles and responsibilities between the Italian Ministry of Communications and the National Regulatory Authority mainly by assigning to the Ministry of Communications the task of supervising the authorisation process and compliance with the universal service obligations and assigning to the National Regulatory Authority the task of conducting market analyses and proposing remedies.

Since the beginning of 1997 about 170 licences have been activated in Italy, although at the end of September 2006 over 40 OLOs (Other Licensed Operators) were still active and offering telecommunication services. In fact, in this period, many companies failed or were involved in merger and acquisition operations.

In its domestic market Telecom Italia Wireline’s main competitors are Fastweb, Wind, Albacom (which is focused on business customers), Tele2 and Tiscali. Although only Fastweb and Albacom have chosen an infrastructure-based business model, the other players are gradually moving away from a pure-reseller model and are starting to utilise a ULL model, in order to offer a full range of services and improve ARPU and returns.

In addition, the Italian fixed telecommunications market has been influenced by the strategy of mobile operators that attract voice traffic with cheaper tariffs (some of which are specifically designed to erode traffic from fixed lines) as well as through their wide range of value added services and advanced handsets.

In this competitive environment Wireline was nonetheless able to increase revenues and improve profitability. The improvements were primarily due to:

- the strong growth of broadband with 8,175,000 access lines at the end of September 2006 (of which 1,718,000 were in the European market), which represented 1,155,000 more accesses than at the end of 2005; and
- the stability of its market share on “Voice and Online” traffic. Telecom Italia’s market share in retail traffic volumes – retail voice and on-line traffic only – at 31st December, 2005 was 72.3 per cent. compared to 71.7 per cent. at 31st December, 2004. At the end of September 2006 it reached 72.8 per cent. This is primarily due to successful loyalty campaigns (with more than 6.4 million flat rate packages subscribed).



The continued implementation of the marketing approach on fixed line services, which consists of developing new handsets that enable customers to utilise videocommunication services and, through mobile-like handsets, innovative voice VAS (SMS, MMS, News, Weather and others), represents a further step towards more personalised communication and "Videocall".

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

Mobile telecommunications services

The Italian mobile market. The mobile telephone market continued to grow in Italy in 2006. By 30th September, 2006, the number of cellular phone lines (SIMs) in Italy reached 78.1 million, corresponding to a penetration rate of approximately 135 per cent. of the population.

This increase was due to both the performance of H3G (3), the mobile services operator offering exclusively UMTS services in Italy and to Telecom Italia's new commercial strategy, focusing on regaining and stabilising market share. Telecom Italia's strategy to attract new customers and retain them has been to:

- offer innovative tariff schemes and services;
- focus on customer care and service for these valuable customers;
- provide quality performance;
- reinforce the core voice business; and
- increase 3G handset penetration and introduce innovative services based on high speed data and content.

There are three principal competitors to Telecom Italia in the Italian mobile market: Vodafone, Wind and H3G (3). At 30th September, 2006 Telecom Italia remained the market leader in Italy with a market share of approximately 40.3 per cent., with Vodafone, Wind and H3G (3) having market shares of approximately 32 per cent., 19 per cent. and 9 per cent. respectively.

It should be noted that the Italian market, which has a high penetration of prepaid cards, is characterised by certain customers acquiring multiple lines in order to take advantage of specific/time-limited commercial offers. Once these offers expire, these customers tend not to continue the use of such lines, which is facilitated by the prepaid nature of arrangement. As a result, Telecom Italia excludes the silent lines in order to provide greater consistency between the number of lines managed by Telecom Italia and the development of its business.

The Brazilian mobile market. The market continued to grow significantly and reached 96 million mobile lines at the end of September 2006, with a penetration rate of 51 per cent. TIM Brasil continued to reduce its gap vs the number one player (Vivo) and achieved a 25 per cent. share, only 4.9 percentage points below Vivo. There is significant competition in Brazil from a number of local and international operators, the most significant of which are Vivo (a Brazilian company equally owned by Telefonica and Portugal Telecom) and Claro (a company owned by the Mexican group America Movil). The Telecom Italia Group expects competition to increase in the future with continued consolidation in the market.

The regulatory framework

In a scenario of increasing liberalisation, the decisions taken by the National Regulatory Authority have greater impact. The most significant measures taken by the National Regulatory Authority were the designation of TIM (now Telecom Italia) and Vodafone as providers with significant market power in the market of mobile services and in the interconnection market. As a consequence of such designation in Resolution No. 47/03/CONS the National Regulatory Authority set the maximum values for the termination rates applied by mobile operators having "significant market power" (TIM and Vodafone Omnitel) for calls originated on fixed networks. The ceilings for mobile termination charges have been established at €14.95 cents/min, as from 1st June, 2003.

For the non-significant market power mobile operators (Wind and H3G) the National Regulatory Authority did not establish any ceiling for the termination rates applied to their networks.

On 28th January, 2005, the National Regulatory Authority published a public consultation on the telephony calls termination market on single mobile networks (Order No. 465/04/CONS on the relevant market No. 16 (mobile



termination)). On 30th January, 2006 the National Regulatory Authority published under Order 3/06/CONS the following determinations:

- all mobile network operators (TIM, Vodafone, Wind and H3G) are designated as dominant in the telephony calls termination market on their networks;
- all mobile operators are subject to obligations of non-discrimination and to the publication of a Reference Interconnection Offer;
- TIM, Vodafone and Wind are subject for the years 2007 and 2008 to the application of a network cap on the termination rates; and
- starting in June 2006, the definition for TIM and Vodafone of a maximum value for the termination rate of €11.20 cent/min and for Wind of €12.90 cent/min.

Traditional business and value added services. The development of new advanced services is necessarily impacting Telecom Italia's mobile revenue structure. Value added services have and will continue to account for a rising proportion of revenues compared to those generated by voice traffic. Telecom Italia's mobile growth will be increasingly dependent on its ability to develop data traffic and innovative services.

The mobile sector remains one of the segments with the highest potential growth rates and profitability. Technological developments are expected to generate new business models based on the ability to offer information, entertainment and advertising through mobile phones and to execute an increasing number of commercial and banking transactions. The ability to develop synergies between fixed and mobile services is expected to yield cost reductions and higher revenues.

Telecom Italia intends to seek out commercial synergies with web-oriented companies on the market which will increasingly demand mobile services (e.g. information and media).

In this regard Telecom Italia is leveraging its competitive advantage in the integration of different technologies and networks (GPRS, EDGE and UMTS/HSDPA) to make services available regardless of the network being used by its customers at any given moment.

UMTS was launched in May 2004 for corporate clients and in December 2004 for the mass market, when new models of handsets with a more reliable technology became available.

In 2003, H3G(3) introduced a full range of UMTS technology, while Vodafone introduced the technology in 2004.

LITIGATIONS

An update of the status of the principal disputes, litigations and legal proceedings involving the Telecom Italia Group compared to those disclosed in the 2006 First Half Report and in the 2006 Third Quarter Report is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions in its reserves for future risks and charges because of the absence of defined and objective elements and/or because a negative outcome to the litigation is not considered probable.

FASTWEB

On 11th December, 2006, Fastweb filed a request for arbitration with regard to the interconnection agreement dated 11th January 2000 between TIM and Metroweb, seeking for damages (equal to around €70 million) allegedly caused by a TI and TIM's wrongful conduct during the period from January 2000 to November 2006, with reference to their obligation of non-discrimination.

In an order filed on 21st September, 2006, the Milan Court of Appeal dismissed the appeal by Telecom Italia from the unfavourable ruling of the lower court on the urgent petition submitted on 13th March, 2006 against Fastweb concerning inverse interconnection.

Telecom Italia had accused Fastweb of abusing its dominant position in the market for the supply of wholesale termination services for calls on its fixed telephony network, thereby altering the competitive conditions in the retail market for voice telephony services by imposing excessive and unfair prices on other operators (including Telecom Italia) in order to earn excess profits with which to illegitimately subsidise its offers to private and public final customers.



In dismissing the case, the Court of Appeal noted that the pricing policy for inverse termination followed by Fastweb (until the price was fixed by the Communications Regulatory Authority in Resolution 417/06/CONS of August 2006) could be considered as providing support for the arguments put forward by Telecom Italia. However, the fact that the complaint referred to conduct on the part of Fastweb that had already ceased meant the latter was of importance only for an eventual action for damages brought by Telecom Italia, whereas it excluded any possibility of adoption of the urgent measures requested by Telecom Italia.

On 16th May, 2006 the Milan Court of Appeal issued an order upholding the urgent petition resubmitted by Fastweb in March (after the Rome Court of Appeal had declared it did not have jurisdiction) to obtain urgent measures to counter Telecom Italia's alleged win-back strategy in the retail household market for broadband access to the Internet.

In particular Fastweb accused Telecom Italia of asymmetrically exploiting information on final customers, creating a system of incentives for its sales network aimed at excluding Fastweb from the retail market, conducting a campaign of soliciting Fastweb customers with a view to convincing them to withdraw from contracts already signed with that company, and making personalised, discriminatory offers reserved to such customers. Telecom Italia is confident that its arguments will be accepted in the subsequent trial proceeding.

However, since Fastweb did not initiate the trial proceeding within the time limit provided for in Article 669-octies of the Code of Civil Procedure, Telecom Italia has applied to the Court of Appeal for the above-mentioned order to be declared ineffective under Article 669-novies.

In the wake of the decision on Antitrust case A-351 and the ruling of the Council of State condemning Telecom Italia to pay a fine of €115 million for anticompetitive conduct in the Consip 2002 competitive tender and on the occasion of offers of integrated services to business customers, on 3rd November, 2006 Telecom Italia was notified of an action for damages brought by Fastweb. The first hearing is scheduled for February 2007.

More specifically, Fastweb has asked that Telecom Italia be condemned to pay €552 million or such other amount as will be proved during the trial or set by the judge according to equity to make good the losses allegedly caused by the transgressions already punished by the Antitrust Authority.

Telecom Italia intends to defend the case.

It should be noted immediately, without diminishing the need for a thorough analysis of the citation, that court decisions concerning the award of damages for abuse of dominant position have adopted very restrictive criteria, both as regards proof of the losses and the causal link between such losses and the abusive conduct punished by the Antitrust Authority and as regards quantification.

LEVY UNDER ARTICLE 20.2 OF LAW 448/1998

In a decision published on 10th July, 2006 the Lazio Administrative Court upheld the compliance petition submitted by Telecom Italia and ordered the Ministry for the Economy and Finance and the Ministry for Communications to implement the decisions published in January 2005, in which the administrative court, annulling the decree of the Minister of Communications, had upheld the appeals filed by TIM and Telecom Italia and ascertained the obligation for the government to return the amount paid as a levy for 1999 under Article 20.2 of Law 448/1998 and the related interest (respectively €546 million and €95 million as of 30th June, 2006).

On 27th September, 2006, on behalf of the Ministries referred to above, the Avvocatura Generale dello Stato notified an appeal to the Council of State for the suspension and annulment of the administrative court's ruling.

On 7th November, 2006 the Council of State dismissed the request for a suspension, arguing that "*as matters stand, the appeal does not present sufficient grounds*".

In a letter dated 4th December, 2006, following the expiration of the time limit of 120 days fixed by the Lazio Regional Administrative Court in the decision of 10th July, 2006 referred to above without the Ministry for the Economy and Finance and the Ministry for Communications paying the sums in question, Telecom Italia invited the two ministries to proceed promptly, and in any case by the end of this financial year, to allocate the sums due and to settle the same, amounting as of today to a total of €646,753,565. In the same communication Telecom



Italia informed the two ministries that in the event of their continuing to fail to pay it would be forced to appeal again to the administrative court to have its claim satisfied. The Minister of Communication has paid an amount of €546,410,528.

JUDGMENT OF THE LAZIO REGIONAL ADMINISTRATIVE COURT CONCERNING THE “ALICE 2’ MEGA” OFFER

On 2nd November, 2006 the Lazio Regional Administrative Court published its judgment in favour of the petition submitted by the Associazione Italiana Internet Provider to suspend and annul the decision of the Communications Regulatory Authority authorising Telecom Italia’s offer of access to broadband services up to 20 Mbit/sec based on ADSL technology (**Alice 20 Mega**), associated with a wholesale offer based on Managed IP solutions.

Telecom Italia has submitted its appeal to the Council of State with a petition to suspend the ruling.

It should be noted that the ruling does not concern xDSL platform services with a broadband capacity of up to 20 Mbit/sec that were notified to the Communications Regulatory Authority subsequently and were therefore not covered by the authorisation decision of April 2006 (e.g. all the 20 Mbit/sec offers based on ATM solutions).

ACTIONS BROUGHT AGAINST OTHER OPERATORS FOR UNFAIR COMPETITION AND VIOLATION OF PRIVACY

On 16th October, 2006 Telecom Italia submitted an urgent petition to the Rome court, accusing Fastweb S.p.A., Wind S.p.A. and Tele2 S.p.A. of unfair competition. In particular it applied for the judge to declare that the three companies’ telemarketing policies, based on indiscriminate telephone calls to Telecom Italia customers who had not consented to such contacts, violated competition rules.

The circumstances that led to the above-mentioned cases being brought have also been reported to the Personal Data Protection Commissioner.

VODAFONE

On 31st October, 2006 Telecom Italia filed an urgent petition with the Rome court against Vodafone requesting a precautionary interdiction on action aimed at promoting, advertising or marketing, including preselling, the “Vodafone Casa Numero Fisso” offer, a new service that would permit the use of fixed telephony services by means of a mobile platform by associating with SIM cards a fixed network number in addition to a normal mobile number.

In Telecom Italia’s opinion several aspects of this service breach the current regulatory framework and they have also been reported to the Communications Regulatory Authority and the Ministry of Communications, with a request for a pronouncement on the proper use by Vodafone of fixed network numbers and the frequencies assigned for public mobile telephony services. In a brief submitted on 9th November, 2006 in response to the urgent petition referred to above, Vodafone submitted a counter-request for Telecom Italia to be obligated to provide it with inverse interconnection (the remedy sought is basically the same as that of the petition it had already submitted to the Milan court on 2nd November, 2006, as reported below).

In fact, Telecom Italia, in order to avoid violating the regulatory framework as a consequence of Vodafone’s illegal mingling of services provided by fixed and mobile platforms, informed that company of its intention to suspend the negotiations for an inverse interconnection contract. Vodafone had sought to conclude such a contract – normally concerned with fixed network services – with Telecom Italia in order to use it improperly in relation to a mobile network and to launch its “Vodafone Casa Numero Fisso” service. When it suspended the negotiations to protect itself, Telecom Italia immediately passed the question to the Communications Regulatory Authority by submitting a petition aimed at settling the dispute that had arisen by invoking Article 23 of the Electronic Communications Code.

In a ruling adopted on 29th November, 2006, partially upholding the petition filed on 31st October, 2006 by Telecom Italia under Article 700 of the Code of Civil Procedure requesting “*the interdiction of any action aimed at promoting, advertising or marketing, including preselling, the ‘Vodafone Casa Numero Fisso’ offer*”, the Rome court:

- (i) prohibited Vodafone from any further marketing and preselling of the “*Vodafone Casa Numero Fisso*” service for the part involving the offer to users of the portability of their Telecom Italia fixed line number to the Vodafone mobile network insofar as this constituted an anti-competitive violation pursuant to Article 2598, point 3, of the Civil Code;



- (ii) prohibited Vodafone from further promoting and advertising the same service by means of the methods used until now, in the television spot “*Missione casa Numero Fisso*”, in the press, in posters and on the Internet insofar as this constituted an anti-competitive violation pursuant to Article 2598, point 3, of the Civil Code.

As regards the suspension of the negotiations for an inverse interconnection contract and the launch of the above-mentioned “Vodafone Casa Numero Fisso” service, on 2nd November, 2006 Vodafone brought a civil action before the Milan court, with the first hearing scheduled in February 2007, in order: (i) to ascertain Telecom Italia’s alleged violation of the obligation to negotiate an interconnection contract; (ii) to establish that such refusal amounted to unfair competition; and (iii) to establish that the marketing offer known as “*Vodafone Casa Numero Fisso*” and the related campaign for the launch of the service do not violate the applicable legislative provisions concerning electronic communications and do not constitute unfair competition.

On 7th December, 2006, the Minister of Communication has provisionally authorised the supply of Vodafone service. Telecom Italia has submitted an appeal before the Lazio Administrative Court against the Minister of Communication’s decision, with a request of suspension.

Vodafone also asked the judge to order the immediate supply of the interconnection service and for Telecom Italia to be condemned to pay damages in an amount to be established during the trial.

APPEAL AGAINST PAYMENT OF LICENCE FEES FOR 1998

With reference to the appeals submitted by Telecom Italia and TIM regarding their right to the restitution of the licence fees they paid for 1998 (€386 million for Telecom Italia and €143 million for TIM, plus interest), in May 2006 the Lazio Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of Article 20 of Law 488/1998, which, in an already liberalised market, had extended the obligation to pay the licence fee to 1998. The Italian court considered this provision to be potentially in conflict with Directive 97/13 and therefore to fall within the scope of the European Court’s decision on the illegitimacy of the levy referred to under the previous heading.

The similar appeal submitted by TIM is still pending.

APPEAL TO THE SUPREME COURT AGAINST THE COUNCIL OF STATE’S RULING ON THE ANTITRUST AUTHORITY’S DECISION ON CASE A-351

In December 2004 Telecom Italia appealed to the Lazio Administrative Court against the Antitrust Authority’s decision on case A-351, whereby Telecom Italia was fined €152 million for alleged abuse of a dominant position in the market for public and private sector business users.

In its decision published in May 2005 the court largely upheld the appeal and annulled the sanction. In February 2006, however, the Council of State reinstated the decision while reducing the amount of the fine to €115 million, which was paid in June 2006.

The Company had applied for the annulment of the measure on several grounds, including the fact that the Antitrust Authority was not competent to decide on the matter. In fact, from the very beginning of the proceeding Telecom Italia had argued that the only body competent to investigate the Company’s conduct and the alleged violations (which concerned regulatory rules) was the Communications Regulatory Authority, so that the Antitrust Authority had taken the decision on case A-351 without the necessary powers.

Accordingly, on 6th July, 2006 Telecom Italia submitted an appeal to the Supreme Court for the annulment of the decision of the Council of State arguing that it did not have jurisdiction and that it was up to the ordinary courts to rule on the nullity of measures adopted by an administrative authority without the necessary powers. If the appeal is upheld, the ruling of the Council of State will be quashed, together with the obligation for Telecom Italia to pay the amount of the fine it had determined.

In February 2005 the Antitrust Authority decided to open an investigation (Proceeding A357) under Law No. 287/1990 in respect of TIM, Vodafone and Wind to ascertain possible violations of Articles 81 and 82 of the EC Treaty.

The investigation was instigated by the complaints filed by some operators, who claimed that TIM, Vodafone and Wind had abused their collective dominant position in the market for mobile network infrastructure access services and their individual dominant position in the wholesale market for termination services on each mobile network, and had entered into agreements regarding access to the market for final mobile communications services and commercial offers to their own business customers.



In particular, TIM, Vodafone and Wind (alleged jointly to hold a dominant position in the market for network infrastructure access services) supposedly refused to negotiate agreements concerning the provision of access to the mobile networks, with the intent of obstructing the entry of other operators into the market for final mobile communications services, creating an understanding in restraint of trade.

According to the Authority, moreover, TIM, Vodafone and Wind (alleged to hold an individual dominant position in the market for mobile services) favored their own sales divisions by charging their competitors higher prices just for fixed-to-mobile termination service than those they offered to their own final business customers for integrated final fixed-mobile services.

Finally, the Authority suspects that the uniformity of such conduct in the retail market for mobile services, in terms of its exclusionary effects, could be the result of an understanding in restraint of trade.

According to the Authority, all the above-mentioned instances of conduct are likely to be detrimental to trade between the member states of the European Community inasmuch as they affect a substantial part of the common market, and consequently to violate Articles 81 and 82 of the EC Treaty.

The first hearing of TIM was held at the Authority in June 2005. In February 2006 the Authority decided to extend the scope of the proceeding by including some instances of allegedly simultaneous conduct by TIM, Vodafone and Wind consisting in a refusal to renegotiate easier economic conditions for access to roaming on the GSM networks, thereby abusing their collective dominant position in that market.

On 28th July, 2006, the Antitrust Authority sent to Telecom Italia its Communication on the preliminary results of the investigation of the Proceeding A357.

As a result of the investigation, the Antitrust Authority did not consider the conducts of the three operators as an agreement to restrict competition, but it confirmed both the abuse of dominant position the individual and collective one.

The Antitrust Authority also extended the time limit for concluding the proceeding to 10th May, 2007.

* * *

BRAZIL

On 28th April, 2005, the parties reached a settlement in a series of disputes between Telecom Italia/Telecom Italia International, respectively, and

- Brasil Telecom for the alleged interference on the part of the Group in extraordinary transactions of Brasil Telecom;
- (i) Techold and Timepart, as shareholders of the Group in Solpart Participações (parent company of Brasil Telecom through Brasil Telecom Participações) in an arbitration in London started in 2003 before the International Chamber of Commerce of Paris, and (ii) Techold and Timepart (together with Solpart, Brasil Telecom Participações and Brasil Telecom), before the Court of Rio de Janeiro, in both cases with regard to the 27th August, 2002 agreement concerning the temporary reduction of Telecom Italia's stake in the ordinary share capital of Solpart from 37.29 per cent. to 19 per cent., the temporary suspension of its governance rights and the option to repurchase said stake on a certain date.

The aforesaid proceedings are definitely terminated with the exception of the proceedings before the Rio de Janeiro Court, with reference to which certain indirect shareholders of Techold have challenged the homologation of the settlement and succeeded in preventing its homologation by the Court. Telecom Italia International ("TII") has appealed against the interim decision of non-homologation. The matter is currently pending.

In addition, the co-shareholder of TII in Solpart challenged before the Court of Arbitration of the International Chamber of Commerce, the validity of the settlements executed on 28th April 2005.

On 15th May, 2006, Techold filed a request for arbitration, before the International Court of Arbitration of the International Chamber of Commerce (ICC) of Paris with seat in London, against TII, seeking for (i) a declaration of the invalidity and unenforceability of the Settlement Agreement, entered on 28th April, 2005 (related to the closure of the arbitral proceedings started by Techold and Timepart Participações Ltda (**Timepart**) in December 2003 against TII and Telecom Italia S.p.A. (**TI**); (ii) an award of damages allegedly caused by TI and TII's wrongful conduct, plus punitive damages; (iii) and an award of attorney fees and expenses in connection with this arbitration.



On 31st July, 2006 TII filed its answer and counterclaim requesting the dismissal of the claimant's claims and presented several counterclaims asking a declaration that the claimant are liable for breach of the Settlement Agreement and an award of damages to TII. In October 2006 the parties filed their respective Memorials in which they fully pleaded their claims.

* * *

On 26th May, 2006, Techold filed a request for arbitration before the ICC of Paris with seat in Paris against TII seeking for (i) a declaration of the invalidity and unenforceability of the Transaction Agreement (i.e. the settlement agreement entered into on 28th April, 2005 related to the closure of the Brazilian proceedings started by TII against Techold and other parties on the "restoration" of TII's rights in the control group of Brasil Telecom S.A.); (ii) an award of damages allegedly caused to Techold by TI and TII's wrongful conduct, plus punitive damages (iii) and an award of attorney fees and expenses in connection with the arbitration. On 2nd August, 2006 TII filed its answer and counterclaim requesting the dismissal of the claimant's claims and presented several counterclaims asking a declaration that the claimant are liable for breach of the Transaction Agreement and of the Brazilian laws and regulations, and an award of damages to TII. In October 2006 the parties filed their respective Memorials in which they fully pleaded their claims.

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On 5th May, 2005 some indirect shareholders of Solpart obtained by the State Court of Rio de Janeiro the precautionary suspension of the effects of certain amendments to the shareholders' agreement of Solpart, executed on 28th April, 2005.

On September 2006, the Judge dismissed the precautionary measure on procedural grounds, while the proceedings continue on the merits.

* * *

On 30th June, 2005 Telecom Italia International filed a petition against some indirect shareholders of Solpart as well as against Techold, Timepart, Brasil Telecom Participações and Brasil Telecom, requesting a stay of the effectiveness of a certain Zain Participações SA shareholders' agreement (Zain, an investment vehicle in which Brazilian pension funds and Citigroup operated investment funds have interests, indirectly participates to the control of Techold) and of a certain put agreement, executed between the above-mentioned pension funds and investment funds on 9th March, 2005.

The agreements in question violate the Group's rights under the Solpart shareholders' agreement.

TII was granted a temporary measure prohibiting the sale of control shareholdings to third parties and initiated the proceeding on the merits of the case, which are still pending.

* * *

On 1st August, 2005 Telecom Italia International submitted a request for arbitration to the ICC against Techold, for breach of several provisions of the Solpart shareholders' agreement and consequent damages. Telecom Italia International also requested a declaration of the validity of the above-mentioned amendment to the shareholders' agreement of Solpart, dated 28th April, 2005 and, accordingly, a declaration of Telecom Italia International's legitimate right to purchase the Solpart shares held by Techold at their fair market value less 10 per cent. or to sell to Techold its entire stake at its fair market value plus 10 per cent., as set forth in such Solpart's Shareholders' Agreement. In October Techold filed its statement of reply and counterclaim, requesting; (i) a declaration of the invalidity of (a) the Settlement Agreement signed for the closure of the London arbitration proceeding of 2003 and (b) the April 2005 amendment of the shareholders' agreement; (ii) a declaration that Telecom Italia International has no right to the restoration of its governance rights in Solpart and to convert and repurchase its own shares in Solpart; and (iii) an award for damages allegedly suffered by Techold.

In October 2006 the parties filed their respective Memorials in which they fully pleaded their claims.

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On 3rd October, 2005 Telecom Italia International submitted a request to the ICC for an arbitration proceeding against Techold and Timepart, claiming breach by Techold and Timepart of several provisions of a certain Solpart Master Agreement (**SMA**) executed on 28th April, 2005, and consequent damages. In December Techold filed its statement of reply and counterclaim, requesting: (i) that Telecom Italia be made a party to the proceeding; (ii) that the Solpart Master Agreement be declared invalid, and (iii) that damages be awarded to Techold. In February, in a prima facie ruling, the ICC Court decided for the inclusion of Telecom Italia S.p.A. in the proceeding. In October 2006 the parties filed their respective Memorials in which they fully pleaded their claims.

* * *

On 15th March, 2006 Brasil Telecom (**BT**) and Brasil Telecom Celular (**BTC**) filed an arbitration with the ICC against TIM International and TIM Brasil, challenging the validity of the Merger Agreement signed on 28th April, 2005 between BT, BTC, TIM International and TIM Brasil, which provided, among other things, for the merger of TIM Brasil and BTC. The agreement was intended to overcome the problem of the overlapping of licences between TIM and BT/BTC in some parts of Brazil.

On 8th June, 2006 TIM International and TIM Brasil filed a counterclaim aimed at: (i) the dismissal of the plaintiffs' requests; (ii) recognition of breaches of the Merger Agreement by BT and BTC; and (iii) an award of damages for the losses sustained by TIM International and TIM Brasil.

* * *

On 5th May, 2005 some indirect shareholders of Brasil Telecom obtained two preliminary injunctions against Telecom Italia International, TIM International, TIM Brasil, several companies of the Opportunity group and other Brasil Telecom companies to prevent the merger of Brasil Telecom Celular into TIM Brasil pursuant to the agreement concluded on 28th April, 2005 between Brasil Telecom, Brasil Telecom Celular, TIM Brasil and TIM International. The plaintiffs subsequently initiated the merit of the case.

Telecom Italia International, TIM International and TIM Brasil timely filed their defences, in the precautionary proceedings objecting that the plaintiffs' allegations were unfounded in fact and law and appealing from both preliminary measures. After dismissal of their appeals, Telecom Italia International, TIM International and TIM Brasil filed a special appeal before a higher body, the Federal Court, which has agreed to examine the case only after the ruling on the merits of the dispute.

In December 2006, TIM, TIM International and TIM Brasil requested the dismissal of the cases due to the termination of the merger agreement in April 2006. At the end of the same month, the judge dismissed one of such cases.

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ETECSA

In the second half of 2002, Banco Nacional de Comercio Exterior (Bancomext) charged ETECSA (in which Telecom Italia International holds a 27 per cent. interest) and Telan (majority shareholder of ETECSA, controlled by the Cuban Government) with failure to fulfil alleged payment and guarantee obligations – in an amount of U.S.\$300 million – established in a series of agreements signed between ETECSA, Telan, – BanCuba (Central Bank of Cuba), Intesa BCI and Bancomext.

These charges were the subject of ordinary action brought by Bancomext before the Italian courts as well as an international arbitration requested by Telan and ETECSA.

The arbitral panel issued its award on 5th August, 2004, on the basis of which:

- it accepted the defence of ETECSA that is neither debtor toward Bancomext nor guarantor of Telan;
- despite the foregoing, ETECSA is not exonerated from its obligations deriving from the financing contract and ETECSA therefore remains obliged to fulfil its obligations and, more specifically, to re-establish the procedure for the payment of dividends owed to Telan, aimed at the payment Bancomext's loan. This award was effective retroactively and required ETECSA to pay Bancomext an amount of around U.S.\$147 million.



ETECSA filed an appeal before the Paris Court of Appeals to nullify the award which, in the meantime, the Rome Court of Appeals (at the request of Bancomext) declared to be enforceable in Italy. In November 2006 the Paris Court of Appeals has declared the award null and void.

On 3rd May, 2005, Bancomext served the award on ETECSA and Telan along with a summons to pay an amount equal to the dividends to be distributed to Telan since April 2002. The executive proceedings undertaken by Bancomext against Telecom Italia, TI Sparkle and TIM were suspended, since ETECSA objected to recognition of the enforceability of the award in Italy.

In November 2005, at the conclusion of the first-level trial initiated by Bancomext before the Italian courts, the Court of Turin ordered ETECSA to pay Bancomext damages of U.S.\$168 million and to restore the mechanism for the payment of dividends belonging to Telan, as contractually provided. ETECSA has appealed the first-level judgment.

After the decision of the Court of Turin was published, in December 2005 Bancomext applied to the Court of Milan for the revival of the enforcement proceeding and the assignment of the seized goods. With this act Bancomext requested the court to convert the sequestration at Telecom Italia of the Company's claims on ETECSA, which the Court of Turin had ordered in 2002 as a precautionary measure, into seizure and to assign Bancomext the sum of €2.8 million due to Telecom Italia.

ETECSA has challenged the enforcement proceeding initiated by Bancomext against ETECSA at Telecom Italia and the related trial is now pending.

In the meantime Telecom Italia International (in possession of a letter from the Cuban government relieving it of any injury arising from the reward) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate ETECSA, reserving its right to take protective action.

In light of the above-mentioned decision and a subsequent attachment order notified to ETECSA in July, in the same month Bancomext initiated additional enforcement proceedings against Telecom Italia, Telecom Italia Sparkle and Wind. ETECSA submitted a challenge that on 10th August, 2006 was dismissed by the Milan court, which assigned to Bancomext the sum of €2,814,013 payable by Telecom Italia to ETECSA. This sum was accordingly paid to Bancomext in September 2006.

In October 2006, at Bancomext's request, the High Court of Justice Queen's Bench Division in London enforced the judgment of the Turin Court referred to above by issuing an attachment order covering all ETECSA's assets and claims in England and Wales up to £100,320,549.01.

ETECSA was also enjoined not to dispose of any other assets or claims, wherever located, up to the same amount pending the hearing to be held in November.

TCS CAPITAL MANAGEMENT, LLC

On 23rd January, 2006, Telecom Italia received service of a complaint filed by TCS Capital Management, LLC (TCS) in the United States District Court for the Southern District of New York, against - inter alia - Telecom Italia S.p.A., other United States-based investment funds, and certain individuals.

TCS, a former minority shareholder of TIM Hellas, a Greek mobile telecommunications operator, seeks damages allegedly suffered in connection with the divestiture by Telecom Italia's indirect subsidiary, TIM International N.V., in June 2005 of its interest in TIM Hellas to certain investment funds who are also named as defendants, and related to the subsequent cash-out merger carried out by those investment funds, allegedly against the interest of TCS as one of TIM Hellas' minority shareholders.

TCS bases its claims for damages on alleged violations of the US Securities Exchange Act of 1934 as well as other common-law causes of action. TCS also seeks punitive damages and legal expenses. At this preliminary stage, TCS has not quantified the amount of damages claimed.



**TELECOM ITALIA GROUP — SUMMARY SELECTED
FINANCIAL INFORMATION AND STATISTICAL OPERATING DATA**

Financial Information prepared in accordance with IFRS as of and for the Two Years Ended 31st December, 2004 and 2005 and for the Six Months Ended 30th June, 2005 and 2006

The summary selected financial data set forth below include consolidated financial data of the Telecom Italia Group as of and for:

- each of the six months ended 30th June, 2005 and 2006, which have been extracted or derived from its unaudited interim consolidated financial statements for such periods included in the Telecom Italia Group's 2006 First Half Report (which is incorporated by reference); and
- each of the years ended 31st December, 2004 and 2005, which have been extracted or derived from the audited consolidated financial statements of the Telecom Italia Group included in the Telecom Italia Annual Report (which is incorporated by reference).

The financial information described below should be read in conjunction with Telecom Italia Group's 2006 First Half Report and the Telecom Italia Annual Report.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of Telecom Italia reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia's consolidated results of operations for the unaudited interim periods. Results for the six months ended 30th June, 2006, are not necessarily indicative of results that may be expected for the entire year.

Amounts presented in this section are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (**IASB**) and endorsed by the European Union (**IFRS**). Until 31st December, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual data) in accordance with Italian GAAP.

	Year ended 31st December,		Six Months ended 30th June,	
	2004	2005	2005	2006
	<i>(unaudited)</i>			
	<i>(millions of Euro)</i>			
Statement of Operations Data in accordance with IFRS:				
Revenues	<u>28,292</u>	<u>29,919</u>	<u>14,528</u>	<u>15,335</u>
Operating income	<u>7,603</u>	<u>7,499</u>	<u>3,979</u>	<u>3,801</u>
Net income from continuing operations	<u>2,952</u>	<u>3,140</u>	<u>1,754</u>	<u>1,427</u>
Net income (loss) from discontinued operations/assets held for sale ..	(118)	550	425	46
Net income	<u>2,834</u>	<u>3,690</u>	<u>2,179</u>	<u>1,473</u>
<i>of which:</i>				
• <i>Net income attributable to the Telecom Italia Group</i>	<u>1,815</u>	<u>3,216</u>	<u>1,775</u>	<u>1,496</u>
• <i>Net income (loss) attributable to Minority interests</i>	<u>1,019</u>	<u>474</u>	<u>404</u>	<u>(23)</u>



Year ended 31st December,		Six Months ended 30th June,	
2004	2005	2005	2006

(unaudited)

(thousands of Euro, except
percentages and per share amounts)**Financial Ratios computed on financial data prepared in accordance with IFRS:**

—Revenues/Employees (average number in the Telecom Italia Group, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) ⁽¹⁾	355.4	374.6	183.6	190.8
—Operating income/Revenues (ROS)(%)	26.9	25.1	27.4	24.8

Basic and Diluted earnings per Share⁽²⁾:

—Ordinary Share	0.11	0.17	0.10	0.07
—Savings Share	0.12	0.18	0.11	0.08
<i>Of which:</i>				
—From continuing operations:				
• Ordinary Share	0.12	0.14	0.08	0.07
• Savings Share	0.13	0.15	0.09	0.08
—From discontinued operations/assets held for sale:				
• Ordinary Share	(0.01)	0.03	0.02	—
• Savings Share	(0.01)	0.03	0.02	—

Dividends:

—per Ordinary Share	0.1093	0.1400 ⁽³⁾	—	—
—per Savings Share	0.1203	0.1510 ⁽³⁾	—	—

As of 31st December,		As of 30th June,	
2004	2005	2006	

(unaudited)

(millions of Euro, except
percentages and employees)**Balance Sheet Data in accordance with IFRS:**

Total assets	81,834	96,010	86,168
Shareholders' equity:			
Shareholders' equity attributable to the Telecom Italia Group	16,248	25,662	24,472
Shareholders' equity attributable to Minority interests	4,550	1,323	1,088
Total shareholders' equity	20,798	26,985	25,560
Total liabilities	61,036	69,025	60,608
Total shareholders' equity and liabilities	81,834	96,010	86,168
Share capital⁽⁴⁾	8,809	10,599	10,605

Financial Ratios in accordance with IFRS:

—Net financial debt/Net invested capital (debt ratio)(%) ⁽⁵⁾	61.2	59.6	61.8
—Employees (number in the Telecom Italia Group at period-end, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees)	82,620	85,484	84,695



	As of		As of
	31st December,	2005	30th June,
	2004		2006
Statistical Data:			
Wireline:			
Fixed network connections in Italy (thousands) ⁽⁶⁾	25,957	25,049	24,477
Broadband Access ⁽⁷⁾ :			
• in Italy (thousands)	4,010	5,707	6,266
• in Europe (thousands)	420	1,313	1,596
Page views Alice – ex Virgilio (millions)	7,902	9,842	6,663
Unique users Alice – ex Virgilio (monthly average number) (millions)	13.9	15.7	19.3
Network infrastructure in Italy:			
• access network in copper (millions of km—pair)	105.2	105.2	105.2
• access network and transport in fiber optics (millions of km of fiber optics)	3.7	3.7	3.7
Network infrastructure abroad:			
• European backbone (km of fiber optics)	39,500	51,000	51,000
Domestic Mobile:			
Mobile lines in Italy at period-end (thousands) ⁽⁸⁾	26,259	28,576	30,408
Brazil Mobile:			
Brazilian mobile lines at period-end (thousands)	13,588	20,171	22,338
Media:			
La7 average audience share Free to Air for the period (analog system) (%)	2.4	2.7	3.0
La7 average audience share Free to Air for the last month of the period (analog system) (%)	2.6	3.1	2.9

(1) The average number of employees in the Telecom Italia Group (excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) was 79,602 and 79,869 in 2004 and 2005, respectively, and was 79,140 and 80,353 in the six months ended 30th June, 2005 and 2006, respectively.

(2) In accordance with IAS 33 “Earnings per share”, basic earnings per Ordinary Share is calculated by dividing the Telecom Italia Group’s net income available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares.

Since Telecom Italia has both Ordinary Shares 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 Savings Shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

- Ordinary Shares was 10,208,327,613 and 12,283,195,845 for the years ended 31st December, 2004 and 2005, respectively, while it was 11,326,277,714 and 13,254,823,073 for the six months ended 30th June, 2005 and 2006, respectively; and
- Savings Shares was 5,795,921,069 and 5,930,204,164 for the years ended 31st December, 2004 and 2005, respectively, while it was 5,834,287,668 and 6,026,120,661 for the six months ended 30th June, 2005 and 2006, respectively.

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. Telecom Italia’s net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(3) Telecom Italia’s dividend coupons for the year ended 31st December, 2005 were clipped on 24th April, 2006 and were payable from 27th April, 2006.

(4) Share capital represents share capital issued net of the par value of treasury shares.

(5) Net Financial Debt is a Non-GAAP financial measure widely used in Italy by financial institutions to assess liquidity and the adequacy of a company’s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to total shareholders’ equity (including minority interests), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or Net Financial Debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in



order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of 31st December, 2004	As of 31st December, 2005	As of 30th June, 2006 <i>(unaudited)</i>
	<i>(millions of Euro)</i>		
GROSS FINANCIAL DEBT			
Non-current financial liabilities (Long-term debt)			
Financial payables	36,862	40,252	37,870
Finance lease liabilities	1,860	1,894	1,892
Other financial liabilities	3	—	—
	38,725	42,146	39,762
Current financial liabilities (Short-term debt), excluding financial debt relating to discontinued operations/assets held for sale			
Financial payables	4,168	9,572	5,346
Finance lease liabilities	227	234	245
Other financial liabilities	5	6	6
	4,400	9,812	5,597
Financial debt relating to discontinued operations/assets held for sale	188	143	—
TOTAL GROSS FINANCIAL DEBT (A)	43,313	52,101	45,359
FINANCIAL ASSETS			
Non-current financial assets			
Securities other than equity investments	7	8	8
Financial receivables and other non-current financial assets	386	988	514
	393	996	522
Current financial assets, excluding financial assets relating to discontinued operations/assets held for sale			
Securities other than equity investments	457	378	244
Financial receivables and other current financial assets	662	509	320
Cash and cash equivalents	8,855	10,323	2,958
	9,974	11,210	3,522
Financial assets relating to discontinued operations/assets held for sale	84	37	—
TOTAL FINANCIAL ASSETS (B)	10,451	12,243	4,044
NET FINANCIAL DEBT (A-B)	32,862	39,858	41,315

(6) Data exclude internal lines and include ISDN equivalent lines.

(7) Number of contracts.

(8) Includes TACS, GSM and UMTS services, including Prepaid Customers, and excludes the "silent" lines.



Financial Information prepared in accordance with IFRS as of and for the Nine Months Ended 30th September, 2005 and 2006

The summary selected financial data set forth below include consolidated financial data of the Telecom Italia Group as of and for:

- i) each of the third quarters ended 30th September, 2005 and 2006, and ii) each of the nine months ended 30th September, 2005 and 2006, which have been extracted or derived from the unaudited interim consolidated financial statements of the Telecom Italia Group included in the Telecom Italia Group's Third Quarter 2006 Report (which is incorporated by reference); and
- the year ended 31st December, 2005 which have been extracted or derived from the Telecom Italia Group's Third Quarter 2006 Report.

The financial information described below should be read in conjunction with the Telecom Italia Group's Third Quarter 2006 Report and the Telecom Italia Annual Report.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of Telecom Italia reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia's consolidated results of operations for the unaudited interim periods. Results for the nine months ended 30th September, 2006, are not necessarily indicative of results that may be expected for the entire year.

The operating and financial results of the Telecom Italia Group for the three and nine months ended 30th September, 2006 and the previous periods presented for comparison purposes, have been prepared in accordance with IFRS.

	Third quarter,		Nine months ended	
	2005	2006	2005	2006
	<i>(unaudited)</i>		<i>(unaudited)</i>	
	<i>(millions of Euro)</i>			
Statement of Operations Data in accordance with IFRS:				
Revenues⁽¹⁾	7,430	7,769	21,958	23,104
Operating income⁽¹⁾	1,909	1,820	5,888	5,621
Net income from continuing operations	760	878	2,514	2,305
Net income from discontinued operations/assets held for sale	117	—	542	46
Net income	877	878	3,056	2,351
<i>of which:</i>				
• <i>Net income attributable to the Telecom Italia Group</i>	850	880	2,625	2,376
• <i>Net income (loss) attributable to Minority interests</i>	27	(2)	431	(25)



**Nine months ended
30th September,**
2005 2006

(unaudited)
(thousands of Euro,
except percentages and
employees)

Financial Ratios computed on financial data prepared in accordance with IFRS:

—Revenues/Employees (average number in the Telecom Italia Group, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) ⁽¹⁾⁽²⁾	276.3	288.3
—Operating income/Revenues (ROS) (%)	26.8	24.3
	<hr/>	<hr/>

Basic and Diluted earnings per Share⁽³⁾:

—Ordinary Share	0.14	0.12
—Savings Share	0.15	0.13

Of which:

—From continuing operations:

• Ordinary Share	0.11	0.12
• Savings Share	0.12	0.13

—From discontinued operations/assets held for sale:

• Ordinary Share	0.03	—
• Savings Share	0.03	—
	<hr/>	<hr/>

As of As of
31st December, 30th September,
2005 2006

(unaudited)
(millions of Euro, except
percentages and employees)

Balance Sheet Data in accordance with IFRS:

Total assets	96,010	89,366
Shareholders' equity:		
Shareholders' equity attributable to the Telecom Italia Group	25,662	25,386
Shareholders' equity attributable to Minority interests	1,323	1,086
Total shareholders' equity	26,985	26,472
Total liabilities	69,025	62,894
Total shareholders' equity and liabilities	96,010	89,366
Share capital⁽⁴⁾	10,599	10,605
	<hr/>	<hr/>

Financial Ratios in accordance with IFRS:

—Net financial debt/Net invested capital (debt ratio) (%) ⁽⁵⁾	59.6	59.9
—Employees (number in the Telecom Italia Group at period-end, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) ⁽¹⁾	85,484	84,376
	<hr/>	<hr/>



	As of 30th September, 2005	As of 31st December, 2006	As of 30th September, 2006
Statistical Data:			
Wireline:			
Fixed network connections in Italy (thousands) ⁽⁶⁾	25,407	25,049	24,288
Broadband Access ⁽⁷⁾ :			
• in Italy (thousands)	4,873	5,707	6,457
• in Europe (thousands)	1,070	1,313	1,718
Page views Alice – ex Virgilio (millions)	6,948	9,842	9,708
Unique users Alice – ex Virgilio (monthly average number) (millions)	15.0	15.7	18.6
Network infrastructure in Italy:			
• access network in copper (millions of km— pair)	105.2	105.2	105.2
• access network and transport in fiber optics (millions of km of fiber optics)	3.7	3.7	3.7
Network infrastructure abroad:			
• European backbone (km of fiber optics) . . .	39,500	51,000	51,000
Domestic Mobile:			
Mobile lines in Italy at period-end (thousands) ⁽⁸⁾	27,254	28,576	31,488
Brazil Mobile:			
Brazilian mobile lines at period-end (thousands)	18,340	20,171	24,085
Media:			
La7 average audience share Free to Air for the period (analog system) (%)	2.6	2.7	3.0
La7 average audience share Free to Air for the last month of the period (analog system) (%)	2.7	3.1	3.1

(1) The table below sets forth revenues, operating income (loss), capital expenditures and number of employees by Business Units, for each of the nine months ended 30th September, 2005 and 2006. For purposes of comparison, the data of the business units for the nine months ended 30th September, 2005 have been revised for consistency.

	Period	Wireline	Domestic Mobile	Brazil Mobile	Media	Olivetti	Other Activities	Adjustments and eliminations	Consolidated Total
					<i>(Unaudited)</i>				
					<i>(millions of Euro, except number of employees)</i>				
Revenues	1/1 – 9/30/2006	13,295	7,565	2,792	136	298	1,175	(2,157)	23,104
	1/1 – 9/30/2005	13,200	7,507	1,985	121	310	969	(2,134)	21,958
Operating income (loss)	1/1 – 9/30/2006	3,315	2,834	(47)	(111)	(49)	(356)	35	5,621
	1/1 – 9/30/2005	3,630	3,037	(180)	(96)	(21)	(530)	48	5,888
Capital expenditures	1/1 – 9/30/2006	2,155	680	329	65	6	92	(28)	3,299
	1/1 – 9/30/2005	2,042	581	465	32	13	73	(4)	3,202
Number of employees at period-end(a)	As of 30th September, 2006								
	As of 31st December, 2005	56,607	11,127	9,461	962	1,533	4,686	—	84,376
		56,987	11,720	9,043	886	1,750	5,098	—	85,484

- (a) The number of employees at period-end excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale.
- (2) The average number of employees in the Telecom Italia Group (excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) was 79,473 and 80,130 in the nine months ended 30th September, 2005 and 2006, respectively.
- (3) In accordance with IAS 33 “Earnings per share”, basic earnings per Ordinary Share is calculated by dividing the Telecom Italia Group’s net income available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares.

Since Telecom Italia has both Ordinary Shares 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 Savings Shares above dividends paid on the Ordinary Shares.



For the purpose of these calculations, the weighted average number of:

- Ordinary Shares was 11,962,781,019 and 13,254,845,285 for the nine months ended 30th September, 2005 and 2006, respectively; and
- Savings Shares was 5,898,231,999 and 6,026,120,661 for the nine months ended 30th September, 2005 and 2006, respectively.

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. Telecom Italia's net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

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

	<u>As of 31st December, 2005</u>	<u>As of 30th June, 2006</u> <i>(unaudited)</i> <i>(millions of Euro)</i>	<u>As of 30th September, 2006</u> <i>(unaudited)</i>
GROSS FINANCIAL DEBT			
Non-current financial liabilities (Long-term debt)			
Financial payables	40,252	37,870	40,085
Finance lease liabilities	1,894	1,892	1,881
Other financial liabilities	—	—	119
	<u>42,146</u>	<u>39,762</u>	<u>42,085</u>
Current financial liabilities (Short-term debt), excluding financial debt relating to discontinued operations/assets held for sale			
Financial payables	9,572	5,346	5,603
Finance lease liabilities	234	245	251
Other financial liabilities	6	6	6
	<u>9,812</u>	<u>5,597</u>	<u>5,860</u>
Financial debt relating to discontinued operations/assets held for sale	143	—	—
TOTAL GROSS FINANCIAL DEBT (A)	<u>52,101</u>	<u>45,359</u>	<u>47,945</u>
FINANCIAL ASSETS			
Non-current financial assets			
Securities other than equity investments	8	8	8
Financial receivables and other non-current financial assets	988	514	576
	<u>996</u>	<u>522</u>	<u>584</u>
Current financial assets, excluding financial assets relating to discontinued operations/assets held for sale			
Securities other than equity investments	378	244	258
Financial receivables and other current financial assets	509	320	447
Cash and cash equivalents	10,323	2,958	7,152
	<u>11,210</u>	<u>3,522</u>	<u>7,857</u>
Financial assets relating to discontinued operations/assets held for sale	37	—	—
TOTAL FINANCIAL ASSETS (B)	<u>12,243</u>	<u>4,044</u>	<u>8,441</u>
NET FINANCIAL DEBT (A-B)	<u>39,858</u>	<u>41,315</u>	<u>39,504</u>

(6) Data exclude internal lines and include ISDN equivalent lines.

(7) Number of contracts.

(8) Includes TACS, GSM and UMTS services, including Prepaid Customers, and excludes the "silent" lines.

**DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS****Directors**

The shareholders' meeting held on 6th May, 2004 appointed the board of directors of the company for three years up to the approval of the financial statements for the year ended 31st December, 2006, establishing that the board should be composed of 19 members. The shareholders' meeting held on 7th April, 2005 had, among other things, revised the number of members of the board of directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.

The shareholders' meeting held on 13th April, 2006 appointed Diana Bracco and Vittorio Merloni as directors following the resignations of Marco De Benedetti (on 5th October, 2005) and Giovanni Consorte (on 23rd January, 2006). The director Enzo Grilli passed away on 29th October, 2006.

Top management was appointed by the board of directors in the meetings held on 6th May, 2004 (Chairman Marco Tronchetti Provera, Deputy Chairman Gilberto Benetton, Chief Executive Officers Carlo Buora and Riccardo Ruggiero) and on 26th July, 2005 (Chief Executive Officer Marco De Benedetti, who subsequently tendered his resignation from the post of director of the company). On 15th September, 2006, the Chairman of the board of directors, Marco Tronchetti Provera, tendered his resignation from the post of director of the company; the board then co-opted Guido Rossi, appointing him as Chairman. The Board also appointed Carlo Buora as Executive Deputy Chairman.

The business address of each of the Directors is c/o Telecom Italia S.p.A., Piazza degli Affari, 2, 20123 Milan, Italy.

The following are the members of the Board of Directors of Telecom Italia.

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Guido Rossi	Chairman	2006
Gilberto Benetton ⁽¹⁾	Deputy Chairman	2004
Carlo Orazio Buora	Executive Deputy Chairman	2006
Riccardo Ruggiero ⁽¹⁾	Managing Director—General Manager	2004
Paolo Baratta ⁽²⁾	Director	2004
John Robert Sotheby Boas ⁽²⁾	Director	2004
Diana Bracco ⁽²⁾	Director	2006
Domenico De Sole ⁽²⁾	Director	2004
Francesco Denozza ⁽²⁾	Director	2004
Luigi Fausti ⁽²⁾	Director	2004
Guido Ferrarini ⁽²⁾	Director	2004
Jean Paul Fitoussi ⁽²⁾	Director	2004
Vittorio Merloni ⁽²⁾	Director	2006
Gianni Mion	Director	2004
Massimo Moratti	Director	2004
Marco Onado ⁽²⁾	Director	2004
Renato Pagliaro	Director	2004
Pasquale Pistorio ⁽²⁾	Director	2004
Carlo Alessandro Puri Negri	Director	2004
Luigi Roth ⁽²⁾	Director	2004

(1) Appointed by the Board of Directors on 6th May, 2004.

(2) Independent Director. For details on the criteria applied to determine independence, see Telecom Italia Self-Regulatory Code, available online at www.telecomitalia.it.

Description of Directors' Outside Interests

Paolo Baratta: Paolo Baratta is a Director of Banca Finnat Euroamerica and Edizione Holding S.p.A.

Gilberto Benetton: Gilberto Benetton is Deputy Chairman of Olimpia S.p.A., Chairman of Edizione Holding S.p.A., Autogrill S.p.A., Director of Benetton Group S.p.A., Pirelli & C. S.p.A., Mediobanca S.p.A., Schemaventotto S.p.A., Aldeasa S.A. and Autostrade S.p.A.



Diana Bracco: Diana Bracco is Chairman of Assolombarda, Chairman and Managing Director of Bracco S.p.A., Managing Director of Centro Diagnostico Italiano S.p.A. and Director of Humanitas S.p.A.

Carlo Orazio Buora: Carlo Orazio Buora is a Director of Mediobanca S.p.A.

Domenico De Sole: Domenico De Sole is a Director of Bausch & Lomb and Delta Air Lines Inc.

Francesco Denozza: Francesco Denozza is Chairman of the Board of Statutory Auditors of Siemens Holding, Siemens S.p.A. and Siemens Enterprise Communication S.p.A.

Luigi Fausti: Luigi Fausti is Director of Monrif S.p.A. and Chairman of Patrimonio Immobiliare dello Stato S.p.A.

Guido Ferrarini: Guido Ferrarini is Chairman of TLX S.p.A. and Director of Autostrade S.p.A.

Jean Paul Fitoussi: Jean-Paul Fitoussi is Professor of Economics at the Institut d'Études Politiques in Paris and President of the Observatoire Français des Conjonctures Economiques.

Vittorio Merloni: Vittorio Merloni is Chairman of Indesit Company S.p.A. and of Fineldo S.p.A.

Gianni Mion: Gianni Mion is Managing Director of Edizione Holding S.p.A. and Director of Schemaventotto S.p.A., Benetton Group S.p.A., Autogrill S.p.A., 21-Investimenti, Autostrade S.p.A., Cartiere Burgo S.p.A. and Luxottica Group S.p.A.

Massimo Moratti: Massimo Moratti is Managing Director of Saras S.p.A. Raffinerie Sarde and Director of Interbanca S.p.A. and Pirelli & C. S.p.A.

Carlo Alessandro Puri Negri: Carlo Alessandro Puri Negri is Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A., Deputy Chairman of Camfin S.p.A. and Pirelli & C. S.p.A. He is also Managing Director of GPI and Director of Capitalia S.p.A., Olimpia S.p.A. and Pirelli Tyre S.p.A.

Marco Onado: Chairman of Pioneer Global Asset Management S.p.A.

Renato Pagliaro: Renato Pagliaro is Co-General Manager of Mediobanca S.p.A. and a Director of RCS Mediagroup S.p.A. and Cartiere Burgo S.p.A.

Pasquale Pistorio: Pasquale Pistorio is an honorary Chairman of STMicroelectronics S.p.A. and Director of Fiat S.p.A.

Luigi Roth: Luigi Roth is Chairman of the Milan Fair Foundation and Terna S.p.A. He is also Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

Riccardo Ruggiero: Riccardo Ruggiero is Director of Safilo Group S.p.A.

Executive Officers

As of 18th October, 2006 the executive officers of Telecom Italia and their respective position(s) and year of appointment as executive officers were as follows:

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Guido Rossi	Chairman	2006
Carlo Orazio Buora	Executive Deputy Chairman	2006
Riccardo Ruggiero	Managing Director ⁽¹⁾	2004
	General Manager of Telecom Italia	

(1) Confirmed in the office by the Board of Directors on 6th May, 2004.



Board of Statutory Auditors

The following table lists the members of the Telecom Italia Board of Statutory Auditors, including the Alternate Auditors, with their respective positions. The current Telecom Italia Board of Statutory Auditors was appointed by the shareholders' meeting held on 13th April, 2006. On 20th October, 2006, the statutory auditor, Stefano Meroi, tendered his resignation. As established in the bylaws, his post was taken over by the alternative auditor on the minority slate, Enrico Bignami.

Board of Statutory Auditors

Chairman	Paolo Golia ⁽¹⁾⁽²⁾
Acting Auditors	Ferdinando Superti Furga Stefano Meroi Salvatore Spiniello Gianfranco Zanda ⁽³⁾
Alternate Auditors	Enrico Maria Bignami ⁽¹⁾⁽²⁾ Enrico Laghi

(1) Elected by minority shareholders.

(2) Reappointed in 2003; member of the Board of Auditors since 2000.

(3) Reappointed in 2003; member of the Board of Auditors since 1997.

The positions held by the members of the Board of Statutory Auditors in other companies are shown below:

Ferdinando Superti Furga	Director of Luisa Spagnoli S.p.A. and Risanamento S.p.A.; member of the Board of Auditors of Arnoldo Mondadori Editore S.p.A. and Edison S.p.A.; Chairman of the Board of Auditors of Publitalia 80 S.p.A., SuamProgetti S.p.A., SoFid S.p.A., Fininvest S.p.A. and Medusa Film S.p.A., Deputy Chairman of Société Européenne de Banque S.A., Chairman of Board of Directors of Banca Intesa Infrastrutture e Sviluppo S.p.A.
Enrico Maria Bignami	Chairman of the Board of Auditors of Brandt Italia S.p.A., Polyphoto S.p.A., Biancamano S.p.A. and Aon Re Italia Srl; he is also member of the Board of Statutory Auditors of Butangas S.p.A. and Termozeta S.p.A.
Paolo Golia.....	Chairman of the Board of Statutory Auditors of Banco di Brescia S.p.A., of Compagnia di Banche per le Assicurazioni sulla vita S.p.A., Cartasi S.p.A., Mercati Finanzian Sim S.p.A., member of the Board of Auditors of Bracco S.p.A., Sara Assicurazioni S.p.A. and CBI Factor S.p.A. He is also Director of Intercos S.p.A.
Salvatore Spiniello	Director of Fondiaria Sai S.p.A. and Banca Sai S.p.A.; Chairman of the Board of Auditors of Immobiliare Lombarda S.p.A. and Unicredit Banca per la casa S.p.A.; member of the Board of Auditors of Edison S.p.A., Telecom Italia Media S.p.A. and Unicredit Banca S.p.A. and Emittenti Titoli S.p.A.
Gianfranco Zanda	Member of the Board of Auditors of Banca d'Italia and Ufficio Italiano Cambi.

Potential Conflicts of Interest

No potential conflicts of interests exist between (i) any duties to Telecom Italia of the Telecom Italia Directors, Executive Officers and Statutory Auditors and (ii) the private interests, and/or other duties, of such persons.



Some of the Directors and Statutory Auditors of Telecom Italia, besides their roles in Telecom Italia, perform management and/or supervisory duties 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 said 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 significantly influencing 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.

Telecom Italia Finance S.A. (**TI Finance**) was incorporated on 2nd June, 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a *société anonyme*, governed by the Luxembourg law of 10th August, 1915 on commercial companies, as amended, and is a 99.9999 per cent.-owned subsidiary of Telecom Italia S.p.A. The following are the only subsidiaries of TI Finance, all of which are 100 per cent.-owned by TI Finance: Olivetti Systems Technology Corporation, which is currently in liquidation, Olivetti Holding BV and Telsi Unlimited. 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-76.448. 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 21st October, 2000. The Articles of Incorporation have been modified several times. The latest modifications to the Articles of Incorporation of TI Finance were made on 8th October, 2004 and were published in the *Mémorial C, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations n. 37* on 13th January, 2005.

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

Business

The corporate object of TI Finance, as set forth in Article 3 of its Articles of Incorporation, is to provide 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. 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 of any kind or in any form and issue bonds or notes. TI Finance may carry out any commercial, industrial or financial operation 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

All directors of TI Finance, with the exception of Ms. Francesca Petralia, were elected by the shareholders' meeting held on 25th March, 2005. Ms. Francesca Petralia was elected on 4th November, 2005 by the Board of Directors and confirmed by the shareholders' meeting held on 21st November, 2005. 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 31st December, 2007. TI Finance complies with applicable Luxembourg corporate governance rules.

The following are the directors of TI Finance:

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

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

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

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

Ms. Francesca Petralia, Director, resident in Rome, Italy – Manager.



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

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

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

Messers Francesco Tanzi, Adriano Trapletti, Riccardo Varetto and Francesca Petralia are managers of Telecom Italia S.p.A.

Mr. Antonio Tesone is an Italian lawyer. He is Chairman of Associazione Interaction Design Institute, Ivrea and Director of Sogefi S.p.A.

Mr. Jacques Loesch is a lawyer at the law firm Linklaters Loesch (Luxembourg).

Statutory Auditor

Telecom Italia Finance's Statutory Auditor is Mr. Nicolas Brimeyer.

Potential Conflicts of Interest

No potential conflicts of interests exist between (i) any duties to Telecom Italia Finance of the Telecom Italia Finance Directors and Statutory Auditors 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 31st December, 2000. TI Finance is not required under Luxembourg law to, and does not, publish interim financial statements, but it has nevertheless prepared interim financial statements for the quarters ended 31st March and 30th September, 2006 and six months results up to 30th June, 2006, for internal purposes only.

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

The financial statements are available at the offices of the Luxembourg Paying Agent (J.P. Morgan Bank Luxembourg S.A., rue de Trèves L-2633 Senningerberg—Municipality of Niederanven Luxembourg).

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

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

Recent Developments

On 3rd January, 2006, the €1,100,000,000 floating rate Notes were redeemed together with accrued interest.

On 15th March, 2006, the €2,500,000,000 1% convertible Notes, whose residual outstanding amount was €1,734,675,000, were redeemed together with accrued interest.

On 16th April, 2006, the €3,000,000,000 6.125% Notes, whose residual outstanding amount was €2,512,956,000, were redeemed together with accrued interest.



On 12th June, 2006, TI Finance utilised the call option in connection with the CHF150,000,000 5.625% Notes due 2046 and redeemed the outstanding notes with a nominal amount of CHF 87,550,000.

On 14th September, 2006, the holders of €48,000 in aggregate nominal amount of the €499,717,000 Floating Rate Extendable Notes due 2006 elected not to extend the maturity date of the notes. On the same date, TI Finance issued €499,669,000 Floating Rate Extendable Notes due 2008.

Since the beginning of 2006 TI Finance has purchased €40 million in nominal amount of its €2,350,000,000 6.575% Notes maturing in 2009 in the market. Due to the cancellation of an aggregate amount of €140 million (of which €100 million was bought on the market in previous years) the principal amount of debt outstanding with regard to these notes is €2,210,000,000.

On 3rd July, 2006 TI Finance also purchased 15million in nominal amount of its €1,673,860,000 5.875% Notes due 2008 in the market. Due to the cancellation of such notes, the principal amount of debt outstanding with regards to these notes is €1,658,860,000.

The preceding description describes all events material to an evaluation of TI Finance's solvency.



SELECTED AUDITED FINANCIAL INFORMATION OF TI FINANCE^{(1) (2)}

Balance Sheets

	As of 31st December, 2005	As of 31st December, 2004
	<i>(euro)</i>	
Assets		
A) Fixed assets		
Intangible assets	12,347.25	20,370.74
Tangible assets	59,648.40	74,860.68
Financial assets:		
— Investments	116,749,552.19	1,714,466,106.62
— Receivables from parent company	12,457,911,075.41	12,974,678,779.38
— Receivables from affiliated companies	74,136,101.54	132,472,248.38
— Other securities	425,300,176.84	500,564,804.40
Other long term accounts receivable	3,650,931.58	—
Total A)	<u>13,077,819,833.21</u>	<u>15,322,277,170.20</u>
B) Current assets		
Receivables:		
— Receivables from parent company	16,723,829.83	—
— Receivables from affiliated companies	224,086,570.88	85,458,189.09
— Other financial receivables	1,908,638.51	29,165,014.52
— Other receivables	243,585.52	151,100.43
Securities:		
— Other securities	6,068,164,162.76	6,408,578,481.25
— Commercial paper	326,168,885.96	327,905,682.22
Cash at bank and bank deposit	2,908,977,300.57	2,275,861,600.11
Total B)	<u>9,546,272,974.03</u>	<u>9,127,120,067.62</u>
C) Accrued income and prepaid expenses	<u>704,289,215.35</u>	<u>1,178,507,520.68</u>
	<u>23,328,382,022.59</u>	<u>25,627,904,758.50</u>
Contra Accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps	350,511,982.01	608,103,102.51
— Cross currency interest rate swaps and Asset Swaps	186,408,955.88	186,408,955.88
— Interest rate swaps	3,951,295,423.36	12,337,673,738.00
	<u>4,488,216,361.25</u>	<u>13,132,185,796.39</u>

Notes:

- (1) TI Finance's selected financial data as of and for the year ended 31st December 2005 have been extracted from Telecom Italia Finance's financial statements for the year ended 31st December 2005 prepared in accordance with Luxembourg GAAP, which have been approved by the shareholders of Telecom Italia Finance at its Annual Meeting of Shareholders held on 5th April, 2006.
- (2) With effect from 1st June 2004 TI Finance incorporated activities of Olivetti Finance N.V. SA, therefore the figures included in the 2004 and 2005 financial statements are not fully comparable.



	As of 31st December, 2005	As of 31st December, 2004
	(euro)	
Liabilities		
A) Shareholders' equity		
Share capital.....	542,090,241.00	542,090,241.00
Reserves		
— Other reserves.....	841,859,063.10	1,109,614,179.92
— Unavailable reserve.....	473,126,656.84	390,627,456.84
Net Income for the year.....	(215,170,605.72)	(185,255,916.82)
Total A)	<u>1,641,905,355.22</u>	<u>1,857,075,960.94</u>
B) Reserve for future charges and risks		
— Reserve for taxes	11,036,331.84	60,925,014.90
— Other Reserves for financial risks and charges	19,228,500.44	40,457,839.01
— Extraordinary Reserves for future other risks and charges on equity investments	10,118,152.53	9,559,613.32
Total B)	<u>40,382,984.81</u>	<u>110,942,467.23</u>
C) Liabilities		
— <i>Long-term debt (> 12 months)</i>		
Bonds.....	12,344,278,935.55	19,369,251,853.06
Due to Third Parties	143,988,480.92	143,215,180.81
— <i>Short-term debt (< 12 months)</i>		
Bonds.....	6,154,247,050.70	803,575,121.25
Due to affiliated companies.....	2,181,927,246.69	2,370,987,792.64
Due to Third Parties	5,463,853.64	920,111.69
Due to parent company	23,047,681.88	1,431,486.70
Other payables.....	2,944,699.66	3,033,339.95
Total C)	<u>20,855,897,949.04</u>	<u>22,692,414,886.10</u>
D) Accrued expenses and deferred income	<u>790,195,733.52</u>	<u>967,471,444.23</u>
	<u>23,328,382,022.59</u>	<u>25,627,904,758.50</u>
Contra Accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps Cross currency interest rate swaps ...	350,511,982.01	608,103,102.51
— Cross currency interest rate swaps and Asset Swaps Interest rate swaps.....	186,408,955.88	186,408,955.88
— Interest rate swaps	3,951,295,423.36	12,337,673,738.00
	<u>4,488,216,361.25</u>	<u>13,132,185,796.39</u>



Income Statements

	<u>Year ended 31st December, 2005</u>	<u>Year ended 31st December, 2004</u>
	<i>(euro)</i>	
Income		
Dividends.....	22,571,449.07	14,064,133.65
Other Financial Income.....	415,185,597.29	323,356,373.04
Upward adjustment of equity investment	437,527.46	—
Other Interests and Financial Income:		
— on Commercial Paper	6,396,141.90	9,360,465.24
— on receivables from parent company	564,890,505.18	443,712,763.88
— income on derivative financial instruments	269,813,067.60	155,328,026.25
— on receivables from banks	44,878,454.05	67,217,351.25
— on receivables from affiliated companies.....	30,603,921.84	68,559,625.47
— other Financial Incomes	37,140,326.52	35,380,740.23
	953,722,417.09	779,558,972.32
Revaluation of securities included in current assets	—	10,489,484.50
Revaluation of equity investments included in long-term investments ...	—	48,840,543.54
Absorption of reserve for write-down of receivables in current assets ...	—	823,658.00
Gains on extraordinary disposals of tangible assets	—	1,651,873.53
Gains on extraordinary disposals of equity investments and other securities	—	1,087,270.70
Extraordinary income	286,598.77	—
Rent	137,525.00	106,965.21
Gains on disposals of fixed equity investments	1,260,145.50	—
Other Income	105,329.96	2,222,952.93
Loss for the year	215,170,605.72	185,255,916.82
	<u>1,608,877,195.86</u>	<u>1,367,458,144.24</u>
Expenses		
Personal expenses		
a) Wages and salaries	429,392.57	537,521.94
b) Social security contributions	198,388.63	340,036.96
	627,781.20	877,558.90
Amortisation of intangible and tangible asset.....	45,211.46	122,712.16
Writedowns of equity investments included in long-term investments ...	—	11,221,006.54
Prior years' income taxes	—	2,700,000.00
Extraordinary provision to reserve for future risks/charges on equity investments not valued with equity method	558,539.21	8,347,595.56
Other expenses	1,775,029.90	2,265,669.71
Write-Down of investments and securities	86,891,564.86	14,728,634.17
Write-Down of receivables included in current and liquid assets	10,914,079.39	—
Write-Down of equity investments.....	1,602,155.02	—
Interest and other financial expenses:		
— on note	1,168,012,763.38	958,187,743.97
— on amount due to banks	8,419,737.20	8,293,607.53
— on amount due to parent company.....	3,076,167.97	3,337,337.02
— on amount due to affiliated companies.....	39,774,851.48	130,741,495.39
— expenses on derivative financial instruments	229,436,157.36	113,011,715.61
— other Financial expenses	54,059,196.18	68,035,586.96
	1,502,778,873.57	1,281,607,486.48
Extraordinary Expenses	—	16,516.65
Other taxes	3,683,961.25	45,570,964.07
	<u>1,608,877,195.86</u>	<u>1,367,458,144.24</u>

SELECTED FINANCIAL INFORMATION OF TI FINANCE AS OF AND FOR SIX MONTHS ENDED
30th JUNE 2006^{(1) (2)}

Balance Sheets

	As of 30 th June, 2006	As of 31 st December, 2005
	(unaudited) (euro)	
Assets		
A) Fixed assets		
Intangible assets	8,335.51	12,347.25
Tangible assets	65,838.20	59,648.40
Financial assets:		
— Investments	77,601,100.65	116,749,552.19
— Receivables from parent company	8,546,055,420.52	12,457,911,075.41
— Receivables from affiliated companies	—	74,136,101.54
— Other securities	413,035,546.24	425,300,176.84
Other long term accounts receivable	—	3,650,931.58
Total A)	<u>9,036,766,241.12</u>	<u>13,077,819,833.21</u>
B) Current assets		
Receivables:		
— Receivables from parent company	61,853.00	16,723,829.83
— Receivables from affiliated companies	442,900,907.62	224,086,570.88
— Other financial receivables	11,346,668.69	1,908,638.51
— Other receivables	231,626.72	243,585.52
Securities:		
— Other securities	5,769,000,820.55	6,068,164,162.76
— Commercial paper	113,317,265.43	326,168,885.96
Cash at bank and bank deposit	946,602,735.16	2,908,977,300.57
Total B)	<u>7,283,461,877.17</u>	<u>9,546,272,974.03</u>
C) Accrued income and prepaid expenses	<u>324,312,800.80</u>	<u>704,289,215.35</u>
	<u>16,644,540,919.09</u>	<u>23,328,382,022.59</u>
Contra Accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps	383,806,221.59	350,511,982.01
— Cross currency interest rate swaps and Asset Swaps	—	186,408,955.88
— Interest rate swaps	783,193,895.74	3,951,295,423.36
	<u>1,167,000,117.33</u>	<u>4,488,216,361.25</u>

Notes:

(1) TI Finance's selected financial data as of and for the year ended 31st December 2005 have been extracted from Telecom Italia Finance's financial statements for the year ended 31st December 2005 prepared in accordance with Luxembourg GAAP. The financial statements have been approved by the shareholders of Telecom Italia Finance at its Annual Meeting of Shareholders held on 5th April, 2006.

(2) TI Finance's selected interim financial data have been extracted from unaudited interim financial statements as of June 30th, 2006 (which are incorporated by reference) and prepared in accordance with Luxembourg GAAP.



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	As of 30 th June, 2006 <i>(unaudited)</i> <i>(euro)</i>	As of 31 st December, 2005
Liabilities		
A) Shareholders' equity		
Share capital	542,090,241.00	542,090,241.00
Reserves:		
— Other reserves	705,009,451.81	841,859,063.10
— Unavailable reserve	394,805,662.41	473,126,656.84
Net Income for the year	(65,540,751.93)	(215,170,605.72)
Total A).	1,576,364,603.29	1,641,905,355.22
B) Reserve for future charges and risks		
— Reserve for taxes	1,535,454.56	11,036,331.84
— Other Reserves for financial risks and charges	7,608,225.00	19,228,500.44
— Extraordinary Reserves for future other risks and charges on equity investments	40,848,337.71	10,118,152.53
Total B).	49,992,017.27	40,382,984.81
C) Liabilities		
— <i>Long-term debt (> 12 months)</i>		
Bonds	10,421,081,269.30	12,344,278,935.55
Due to Third Parties	137,221,269.30	143,988,480.92
— <i>Short-term debt (< 12 months)</i>		
Bonds	2,219,717,000.00	6,154,247,050.70
Due to affiliated companies	1,863,464,890.39	2,181,927,246.69
Due to Third Parties	1,053,771.79	5,463,853.64
Due to parent company	1,293,560.85	23,047,681.88
Other payables	2,830,300.34	2,944,699.66
Total C).	14,646,662,061.97	20,855,897,949.04
D) Accrued expenses and deferred income	371,522,236.56	790,195,733.52
	16,644,540,919.09	23,328,382,022.59
Contra Accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps Cross currency interest rate swaps	383,806,221.59	350,511,982.01
— Cross currency interest rate swaps and Asset Swaps Interest rate swaps	—	186,408,955.88
— Interest rate swaps	783,193,895.74	3,951,295,423.36
	1,167,000,117.33	4,488,216,361.25



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Income Statements

	Six months ended 30th June, 2006	Six months ended 30th June, 2005
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>(euro)</i>	
Income		
Dividends.....	21,400,455.76	22,571,430.07
Other Financial Income.....	201,785,874.83	218,627,812.39
Upward adjustment of equity investment	3,385.00	389,093.46
Other Interests and Financial Income:		
— on Commercial Paper.....	2,589,853.74	2,716,885.12
— on receivables from parent company	228,666,532.01	313,115,584.40
— income on derivative financial instruments	100,705,815.00	143,579,736.64
— on receivables from banks.....	20,291,210.37	19,712,907.17
— on receivables from affiliated companies.....	15,761,603.61	14,559,970.88
— other Financial Incomes	8,307,018.05	6,936,983.69
	599,511,748.37	742,210,403.82
Rent.....	58,050.00	68,750.00
Gain on disposals of fixed equity investments	—	1,260,145.50
Other Income	163,229.38	429.27
Loss for the period	65,540,751.93	113,758,729.27
	665,273,779.68	857,298,457.86
Expenses		
Personal expenses		
a) Wages and salaries	219,503.68	182,403.24
b) Social security contributions	61,556.07	47,641.88
	281,059.75	230,045.12
Amortisation of intangible and tangible asset.....	18,990.93	34,906.88
Provision on risk and expenses	4,251,651.50	10,477,381.41
Other expenses	691,240.68	865,743.49
Write-Down of investments and securities	44,682,127.59	5,150,932.58
Write-Down of receivables included in current and liquid assets	10,620,731.41	5,095,767.70
Write-Down of equity investments.....	30,433.10	391,028.00
Interest and other financial expenses:		
— on note	475,707,204.63	595,867,290.31
— on amount due to banks.....	4,282,257.63	4,374,470.87
— on amount due to parent company	1,293,560.85	1,533,393.61
— on amount due to affiliated companies	23,648,216.03	17,622,077.57
— expenses on derivative financial instruments	88,671,607.00	169,563,518.33
— other Financial expenses	6,623,822.16	12,801,674.28
	600,226,668.30	801,762,424.97
Other taxes.....	4,470,876.42	33,290,227.71
	665,273,779.68	857,298,457.86



TAXATION

The following summary contains a description of certain Italian, Luxembourg and other tax consequences in respect of the purchase, ownership and disposal of Notes. This summary is based on the laws in force in Italy, Luxembourg and elsewhere as of the date of this 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 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.

Legislative Decree No. 344 of 12th December, 2003 (Decree No. 344) published in the Italian Official Gazette of 16th December, 2003, No. 261 (Ordinary Supplement No. 190), effective as of 1st January, 2004, introduced the reform of taxation of companies and of certain financial income amending the Italian Income Taxes Consolidated Code. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes. 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.

In the near future, the Italian Government could be authorised by the Parliament to amend the tax treatment of financial income, which may impact upon the tax regime of the Notes.

The Republic of Italy

Tax treatment of Notes issued by Telecom Italia

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

Italian resident Noteholders

Where an Italian resident Noteholder is (i) an individual 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 12.5 per cent. If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, *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).

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

Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund (a **Fund**) or a SICAV and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but to a 12.5 per cent. annual substitute tax (each a **Collective Investment Fund Tax**). The substitute tax is calculated on the net result accrued at the end of the tax period.



Where an Italian resident Noteholder is a pension fund and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 11 per cent. substitute tax.

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

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

Early redemption

Without prejudice to the above provisions, in the event that the Notes issued by Telecom Italia are redeemed, in full or in part, prior to 18 months after their issue date, Telecom Italia will be required to pay a tax equal to 20 per cent. of the interest and other amounts accrued from the relevant issue date up to the time of the early redemption. Such payment will be made by Telecom Italia and will not affect the amounts to be received by the Noteholder by way of interest or other amounts, if any, under the Notes.

Notes with an original maturity of less than 18 months

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

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



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

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

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

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

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

Non-Italian resident Noteholders

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

Payments made by an Italian resident guarantor

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



Atypical securities

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 27 per cent.

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 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.

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

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income 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 12.5 per cent. 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 12.5 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains realised by a Noteholder who is an Italian 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.

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

Any capital gains realised by a Noteholder who is an Italian pension fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11 per cent. substitute tax.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Note is connected, from the sale or redemption of Notes traded on regulated markets are not subject to *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 resident in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of residence.

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

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

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

Inheritance and gift taxes

Pursuant to Law Decree No. 262 of 3rd October, 2006, converted — with amendments — into Law No. 286 of 24th November, 2006 effective from 29th November, 2006, and Law 296 of 27th December, 2006, 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 per cent. 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 per cent. 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 per cent. on the entire value of the inheritance or the gift;



- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift;

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.

Transfer tax

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

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

Tax monitoring

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (**EU Savings Directive**), Member States are required, from 1st July, 2005, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

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 starting from 1st July, 2005 to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian qualified paying agents shall not apply the withholding tax and 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.



Luxembourg

Tax Residency

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

Withholding tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders and to certain residual entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and certain residual entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Luxembourg non-resident Noteholders

Under the Luxembourg laws dated 21st June, 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the **Directive**) and several agreements concluded between Luxembourg and certain dependent territories of the European Union, a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1st July, 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual or a residual entity within the meaning of article 4.2 of the Directive resident or established in another Member State, unless the beneficiary of the interest payments elects for the exchange of information procedure or for the tax certificate procedure. The same regime applies to payments to individuals or residual entities resident in certain EU dependent territories.

The withholding tax rate is initially 15 per cent. for the first 3-year period starting 1st July 2005, increasing steadily to 20 per cent. and to 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.

Luxembourg resident Noteholders

A 10 per cent. withholding tax has been introduced, as from 1st January, 2006, on interest payments made by Luxembourg paying agents (defined in the same way as in the Directive) to Luxembourg individual residents.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption of the Notes, or realise capital gains on the sale of any Notes.

Taxation of Luxembourg residents

General

Luxembourg resident Noteholders, or non-resident Noteholders who have a permanent establishment or a fixed base of business in Luxembourg with which the holding of the Notes is connected, will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

The 10 per cent. Luxembourg withholding tax represents the final tax liability on interest received for Luxembourg resident individual Noteholders receiving the payment in the course of his/her private wealth. Luxembourg resident individual Noteholders receiving interest as business income must include interest income in their taxable basis. The 10 per cent. Luxembourg tax levied will be credited against their final income tax liability.



Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon redemption/sale of the Notes, the portion of the redemption/ sales price corresponding to accrued but unpaid interest will be subject to the 10 per cent. withholding tax. The 10 per cent. Luxembourg withholding tax represents the final tax liability for Luxembourg resident individual Noteholders receiving the payment in the course of his/her private wealth. Other Luxembourg resident individual Noteholders must include the portion of the redemption/sales price corresponding to this interest in their taxable income. The 10 per cent. Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident companies

Luxembourg resident company (*sociétés de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment or fixed base of business 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.

Luxembourg resident companies benefiting from a special tax regime

Luxembourg resident company Noteholders which are companies benefiting from a special tax regime (such as holding companies subject to the Law of 31st July, 1929 incorporated before 31st July, 2006 and undertakings for collective investment subject to the Law of 20th December, 2002) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the subscription tax calculated on their share capital or net asset value.

Net wealth tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such Noteholder is a fully taxable Luxembourg resident company or (ii) the Notes are attributable to an enterprise or part thereof which is carried on by a non-resident company in Luxembourg through a permanent establishment.

Luxembourg net wealth tax has been suppressed for individual Noteholders as from the year 2006.

Other taxes

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

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

No gift, estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes, or in the case of a gift, the gift is neither recorded in a Luxembourg notarial deed nor registered in Luxembourg.



SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 31st January, 2007, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuers have agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

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

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

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

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

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

European Economic Area

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 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 Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those 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, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.



For the purposes of this provision, 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 and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

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 which have 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 or deliver any Notes or distribute copies of this EMTN Programme Prospectus or of any other document relating to the Notes in the Republic of Italy, except:

- (i) to professional investors (*operatori qualificati*) (the **Professional Investors**), as defined in Article 31, second paragraph, of CONSOB (the Italian Securities Exchange Commission) Regulation No. 11522 of 1st July, 1998, as amended (**Regulation No. 11522**); or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February 1998, as amended (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May 1999, as amended (**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 or delivery of the Notes or distribution of copies of this EMTN Programme Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Regulation No. 11522 and Legislative Decree No. 385 of 1st September 1993, as amended (the **Banking Act**); and
- (b) in compliance with Article 129 of the Banking Act 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 the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation of investments applies under (i) and (ii) above, the subsequent distribution of the Notes (including the placement through authorised intermediaries) on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.



The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in the Netherlands to professional market parties as defined in Article 1.1 of the Financial Supervision Act (“*Wet op de financieel toezicht*”) and the decrees thereto.

Japan

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

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.

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

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



GENERAL INFORMATION

Authorisation

The establishment and update of the Programme and the giving of the Guarantee in respect of the Notes issued by TI Finance have been duly authorised by a resolution of the Board of Directors of Telecom Italia dated 10th October, 2003 and 21st December, 2005.

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

The establishment and update of the Programme and the issue of Notes under the Programme by TI Finance have been duly authorised by a resolution of the Board of Directors of TI Finance dated 16th December, 2003 and 24th January, 2006.

Listing and admission to trading

Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities 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 Luxembourg Stock Exchange's regulated market 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 Investment Services Directive (Directive 93/22/EEC).

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 consolidated and unconsolidated audited financial statements of Telecom Italia for the financial years ended 31st December, 2004 and 31st December, 2005 (with an English translation thereof);
- (c) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31st December, 2004 and 31st December, 2005 (with an English translation thereof);
- (d) the most recently published audited annual financial statements of each of Telecom Italia and TI Finance and the most recently published interim financial statements (if any) of each of Telecom Italia and TI Finance (in each case with an English translation thereof) as soon as such translation is available, in each case together with any audit or review reports prepared in connection therewith. Telecom Italia previously prepared the six-month interim and full year financial statements on both a consolidated and unconsolidated basis. Commencing 1st January, 2005 Telecom Italia prepared the first and third quarter financial statements only on a consolidated basis. TI Finance currently prepares unconsolidated audited financial statements for the 12-month period to 31st December in each year. According to Luxembourg law, TI Finance is not obliged to publish interim accounts although such accounts are prepared on an unconsolidated and unaudited basis solely for the requirements of Telecom Italia;
- (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 Receipts, the Coupons and the Talons;
- (f) a copy of this EMTN Programme Prospectus, free of charge; and
- (g) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market 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.

In addition, copies of this EMTN Programme Prospectus, each of the Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website.

**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

Except as disclosed in this EMTN Programme Prospectus, there has been no significant change in the financial or trading position of Telecom Italia since 30th September, 2006 and there has been no significant change in the financial or trading position of TI Finance since 30 June, 2006. There has been no material adverse change in the financial position or prospects of each of the Issuers since 31st December, 2005.

Legal and Arbitration Proceedings

Save as disclosed in the section “Description of Telecom Italia — Litigation”, neither Telecom Italia nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this 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 and unconsolidated financial statements of Telecom Italia, prepared under Italian GAAP and IFRS, respectively, for the financial years ended 31st December, 2004 and 31st December, 2005 were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein.

The consolidated and unconsolidated interim financial statements of Telecom Italia, prepared under IFRS and Italian GAAP, respectively, for the six months ended 30th June, 2005 and the consolidated and unconsolidated interim financial statements of Telecom Italia, prepared under IFRS, for the six months ended 30th June, 2006 were subject to a limited review, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein.

Reconta Ernst & Young S.p.A. is registered under No. 2 in the Special Register (Albo Speciale) maintained by CONSOB 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. 70945 in the Register of Accountancy Auditors (Registro dei Revisori Contabili), in compliance with the provisions of the Legislative Decree 27th January, 1992, N°88. Reconta Ernst & Young S.p.A. is also a member of ASSIREVI, the Italian association of auditing firms and it is registered at the PCAOB (Public Company Accounting Oversight Board) in the United States.

The TI Finance financial statements at 31st December, 2004 and 2005 were audited, without qualification and in accordance with generally accepted auditing standards in Luxembourg by Ernst & Young S.A. (Luxembourg), independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein. Ernst & Young S.A. (Luxembourg) is a member of the Institut des Reviseurs d'entreprises Luxembourgeois and the Ordre des Experts – Comptables Luxembourgeois.

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.

Post-issuance Information

The Issuers do not intend to provide any post-issuance information in relation to such assets underlying issues of Notes constituting derivative securities.



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TELECOM ITALIA S.p.A.**

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LUXEMBOURG PAYING AGENT

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To the Issuers as to Italian tax law

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To the Dealers as to English and Italian law

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UniCredit Banca Mobiliare S.p.A.
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LUXEMBOURG LISTING AGENT

The Bank of New York (Luxembourg) S.A.
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