

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 Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and 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 document (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 "Terms and Conditions of the Notes — Taxation".

TI Finance has a right of substitution as set out in "Terms and Conditions of the Notes — Meeting of Noteholders, Modification, Waiver, Authorisation, Determination and Substitution". The Trustee may at any time agree, without the consent of the Noteholders, Receiptholders or Couponholders (all as defined in "Terms and Conditions of the Notes"), to the substitution, in place of TI Finance, of Telecom Italia or any Subsidiary (as defined in "Terms and Conditions of the Notes") of Telecom Italia as principal debtor under the Notes, the Receipts and the Coupons (all as defined in "Terms and Conditions of the Notes"). 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 the provisions of "Terms and Conditions of the Notes — Notices".

**Arrangers**

**JPMORGAN**

**LEHMAN BROTHERS**

**Dealers**

BARCLAYS CAPITAL  
BNP PARIBAS  
JPMORGAN  
UNICREDIT (HVB)

BANCA IMI  
CITI  
DEUTSCHE BANK  
LEHMAN BROTHERS  
MEDIOBANCA S.p.A.

The date of this EMTN Programme Prospectus is 15th February, 2008.

This EMTN Programme Prospectus comprises two base prospectuses for the purposes of Article 5.4 of Directive 2003/71/EC (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.

Subject as provided in the applicable Final Terms, the only persons authorised to use this EMTN Programme Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers and the persons named in or identifiable following the applicable Final Terms, as the case may be.

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](http://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, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by the Issuers, the Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this EMTN Programme Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this EMTN Programme Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this EMTN Programme Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this EMTN Programme Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this EMTN Programme Prospectus and the offer or sale of Notes in the United States, the United Kingdom, Italy, The Netherlands, Japan and the European Economic Area. See “*Subscription and Sale*”.

This EMTN Programme Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this EMTN Programme Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer 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 and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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 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 terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

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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 (the **Conditions**) 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 EMTN Programme 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 EMTN Programme Prospectus in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €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.

<b>Issuers:</b>	Telecom Italia S.p.A. Telecom Italia Finance S.A.
<b>Guarantor:</b>	Telecom Italia S.p.A. (in respect of Notes issued by TI Finance)
<b>Risk Factors:</b>	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 “ <i>Risk Factors</i> ”).
<b>Description:</b>	Euro Medium Term Note Programme
<b>Arrangers:</b>	J.P. Morgan Securities Ltd. Lehman Brothers International (Europe)
<b>Dealers:</b>	Barclays Bank PLC Banca IMI S.p.A. Bayerische Hypo- und Vereinsbank AG BNP Paribas Citigroup Global Markets Limited Deutsche Bank AG, London Branch J.P. Morgan Securities Ltd. Lehman Brothers International (Europe) Mediobanca – Banca di Credito Finanziario S.p.A.  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this EMTN Programme Prospectus.  <b>Notes having a maturity of less than one year</b>  Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the <b>FSMA</b> ) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See “ <i>Subscription and Sale</i> ”.



<b>Issuing and Principal Paying Agent:</b>	The Bank of New York
<b>Trustee:</b>	BNY Corporate Trustee Services Limited
<b>Programme Size:</b>	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.
<b>Distribution:</b>	Notes may be distributed on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Final Terms may provide that certain Notes may be redenominated in euro.
<b>Maturities:</b>	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued as specified in the relevant 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.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
<b>Index Linked Notes:</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
<b>Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:</b>	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.

<b>Restrictions on Security Interests:</b>	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.
<b>Cross Default:</b>	The terms of the Notes will contain a cross default provision as further described in Condition 10.
<b>Status of the Notes:</b>	The Notes will constitute unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
<b>Guarantee:</b>	Notes issued by TI Finance will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.
<b>Listing and admission to trading:</b>	<p>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.</p> <p>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.</p> <p>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).</p>
<b>Governing Law:</b>	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.
<b>Selling Restrictions:</b>	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 " <i>Subscription and Sale</i> ".

## 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).**

### Risks related to Telecom Italia Group

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

In 2007, the Telecom Italia Group continued its organisational restructuring aimed at capturing opportunities and benefits offered by the convergence process in the telecommunications (fixed and mobile) sector and in adjacent markets (Pay-TV and IT services). The original organisational restructuring resulted in the implementation of a new working model based on:

- business functions dedicated to the development of specific market/segment targets (domestic and international fixed/broadband, domestic and international mobile, top clients and ICT);
- across-the-board monitoring to improve cost efficiency, process effectiveness and service quality (technology for the development and operation of infrastructures and service platforms, field services for the development and improvement of customer assistance); and
- rationalisation of Telecom Italia Group functions providing guidance and control.

Such a model is intended to provide a more flexible operating structure to address the technological changes and national and international competition which is facilitating the convergence between fixed telephony, mobile, broadband internet and media content.

On 9th March, 2007, Telecom Italia presented to the investor community its strategic targets for the period 2007-2009; the Telecom Italia Group's strategy is to:

- defend the Group's leadership position in its Italian domestic fixed-line and mobile markets, leveraging the increasing penetration of broadband, fixed-line/mobile convergence, transparent and flexible customer offerings, ongoing innovation and development of value added services;
- expand into adjacent market sectors, mainly through the rollout of content offerings on innovative platforms (IPTV and Mobile TV), while broadening and strengthening ICT offerings to business customers;
- increase focus on the customer, through higher investment in customer care and quality of service;
- continue broadband network development and launch of the Next Generation Network 2 project, building an ultra-broadband network in line with market demand, and consistent with the evolution of the regulatory framework; and

- develop the Group's international footprint, maintaining its presence in South America (mobile telephony in Brazil, and the project aimed at acquiring control of Telecom Argentina in 2009) while consolidating European broadband.

Telecom Italia's ability to achieve the strategic goals of its most recent reorganisation and targets may be influenced by several factors, including without limitation:

- declining prices for some of its services, increasing competition and regulatory developments which create pressure on margins and enhance competition;
- its ability to manage costs;
- its ability to attract and retain highly-skilled and qualified personnel;
- 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 through its focus on new adjacent markets (Pay-TV and IT services) and international markets (mobile in Brazil and broadband in Europe) 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;
- its ability to achieve the synergies anticipated from the convergence of fixed communications, mobile communications and Internet;
- the effect of adverse economic trends on its principal markets;
- the success of new "disruptive" technologies that could cannibalise fixed and mobile revenues; and
- the effect of foreign exchange fluctuations on its results of operations.

There can be no assurance that its objectives will be effectively implemented in the planned time-frames.

***Telecom Italia's leverage is such that deterioration in cash flow generation can change the expectations on the Group's ability to repay its debt.***

Telecom Italia's gross financial debt was €43,112 million at 30th September, 2007 compared with €46,456 million at 31st December, 2006 and its total net financial debt was €37,443 million at 30th September, 2007 compared with €37,301 million as of 31st December, 2006.

Due to the competitive environment and the economic conditions in which the Telecom Italia Group operates, there could be deterioration in the statement of income and balance sheet ratios. These same ratios are used by the rating agencies, such as Moody's and Standard & Poor's, in rating the Group's ability to repay its debt.

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

The management and further development of Telecom Italia's business require it to make further significant investments. Telecom Italia may therefore incur additional debt in order to finance such investment. Telecom Italia's future results of operations may be influenced by its ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside its control. In addition, if such transactions increased its leverage it could adversely affect its credit ratings.

***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.***

Telecom Italia intends to continue to build its international presence in the strategic broadband and mobile areas, maintaining the geographic focus in Europe and South America (Brazil and Argentina). Pursuant to its 2007-2009 plan it will continue to target its international investments in South America, particularly mobile telecommunications in Brazil and its existing investment in Telecom Argentina and European broadband. These

investments will continue to require significant capital expenditures and there can be no assurance that Telecom Italia will be able to achieve a satisfactory return on such international investments.

Telecom Italia could fail to obtain an adequate return on its foreign investments owing, among other things, to growing competition and technological discontinuity in countries in which the Group has an international business presence.

***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 telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events.

Unanticipated problems at 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.

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

Telecom Italia must continue to upgrade its existing wireless and fixed-line networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets, to enhance its financial performance and to satisfy regulatory requirements. Among other things, Telecom Italia could be required to:

- upgrade the functionality of its networks to permit increased customisation of services;
- increase coverage in some of its markets;
- expand and maintain customer service, network management and administrative systems; and
- upgrade older systems and networks to adapt them to new technologies.

Many of these tasks are not entirely under its control and may be affected by applicable regulation. If Telecom Italia fails to execute them successfully, its services and products may be less attractive to new customers and it may lose existing customers to its competitors, which would adversely affect its business, financial condition and results of operations.

***Telecom Italia is continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on its results of operations and financial condition.***

Telecom Italia is subject to numerous risks relating to legal and regulatory proceedings, in which it is currently a party or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which it is, or may become, involved (or settlements thereof) may have a material adverse effect on its results of operations or financial condition.

Furthermore, Telecom Italia's involvement in litigation and regulatory proceedings may adversely affect its reputation.

***Risks associated with Telecom Italia's ownership chain.***

On 25th October, 2007, the entire share capital of Olimpia S.p.A. (**Olimpia**), which in turn owned a stake of approximately 18% of the ordinary shares of Telecom Italia, was acquired by Telco S.p.A. (**Telco**), a vehicle company held by Assicurazioni Generali Group (**Generali Group**) (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%) (the **Acquisition**).

After the Acquisition, Telco became the largest shareholder in Telecom Italia, holding a total shareholding equal to 23.59% of Telecom Italia ordinary share capital, of which a percentage equal to 5.6% was held directly (conferred on the same date of 25th October, 2007 by Mediobanca S.p.A. and companies of the Generali Group) and the remaining stake through Olimpia. Subsequently Olimpia was merged with and into Telco, effective as of 18th December, 2007, and the entire participation in Telecom Italia is now directly held by Telco.



Although Telco does not and will not own the majority of Telecom Italia voting shares, Telco will exercise its shareholders' rights and, in this respect, it cannot be excluded that Telco may exert its influence on relevant matters to be decided by a vote of shareholders and appoint, at the first relevant shareholders' meeting, through the so-called "voto di lista" system for the election of directors, the majority of Telecom Italia's board of directors.

Telco is in effect a holding company and the sole full operating company in which it holds shares is Telecom Italia. Therefore, if Telco were unable to obtain additional funding from new or existing shareholders or from other sources, Telco's cash-flow would derive only from dividends paid on its Telecom Italia shares.

Telecom Italia's financial position is not directly related to Telco and, as such, Telecom Italia does not have any obligations with respect to Telco's indebtedness 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 Telco, such a view could affect its debt ratings, which might adversely affect Telecom Italia's financial flexibility and its cost of capital.

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

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws pursuant to compulsory legal provisions: specifically the so-called "Golden Share" still provides for the Italian State's authority to oppose the acquisition of material interests in Telecom Italia's share capital (which is defined as 3% 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 specific 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.

***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.

**Risks related to the telecommunications industry and financial markets**

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

Telecom Italia's business is dependent to a large degree 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. Telecom Italia may also be adversely affected by political and economic developments in other countries where it has made significant investments. Certain 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 it has invested and impair the value of these investments.

***Because Telecom Italia operates in heavily regulated business environments, regulatory decisions and changes in the regulatory environment could materially adversely affect its business.***

Telecom Italia's fixed and mobile telecommunications operations, as well as its broadband services 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 for the regulation of the telecommunications, radio and television broadcasting sector (the **Italian Communications Authority** or **AGCom**) 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 framework established criteria and procedures for identifying remedies applicable to operators with “significant market power”. During 2006, the AGCom concluded all of its preliminary inquiries regarding the analysis of the markets and introduced measures as a result of this analysis.

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. Telecom Italia is the only operator in Italy which has this obligation.

In addition, the AGCom has identified Telecom Italia as an operator having significant market power in most relevant markets. As a result, Telecom Italia 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 Telecom Italia’s 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 Telecom Italia.

These constraints have had an adverse impact on Telecom Italia’s fixed line network pricing and service offerings and future regulatory decisions are expected to continue to have an adverse impact on its market shares and margins.

In addition, the AGCom intends to address other markets that are currently not subject to regulation (for example virtual private networks and VoIP). VoIP is an emerging market for nomadic voice telephony services that are based on the Internet and are not dependent on specific customer telephone lines. Nevertheless, the AGCom has included VoIP in the same market as conventional voice telephony services. Therefore these markets may be treated in the same way as the market for conventional telephone services for the purpose of regulation and may also be subject to price regulation.

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. Changes in laws, regulation or government policy could adversely affect its business and competitiveness. In particular, Telecom Italia’s 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 Telecom Italia or to third parties, could adversely affect its 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.

***Strong competition in Italy may further reduce Telecom Italia’s core market share for telecommunication services and may cause further reductions in prices and margins thereby having an adverse effect on its results of operations.***

Strong competition exists in all of the principal telecommunications business areas in Italy in which Telecom Italia operates, including, most significantly, the fixed-line and mobile voice telecommunications 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.

Competition continued to intensify during 2007. As of the date of this EMTN Programme Prospectus, there are 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 further increase due to the consolidation and globalisation of the telecommunications industry in Europe, including Italy, and elsewhere.

Telecom Italia anticipates 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 it faces in its Italian domestic fixed-line and mobile telephony businesses and in the local and long-distance markets.

Competition in Telecom Italia's principal lines of business could lead to:

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

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 faces significant competition from a number of operators in all the markets in which it operates, if any or all of the events described in the preceding paragraph should occur, the impact of such factors could materially 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. In the past three years the Telecom Italia Group's strategy to increase revenues has been to focus on penetration of the broadband retail market with various broadband offers as well as to increase value added services in the mobile businesses. These markets have been growing the past three years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand, Telecom Italia's revenues may not grow, or may even decrease, as revenues from other parts of its business, particularly its traditional fixed-line business, may decline due to competition or other price pressures.

In addition, 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, Telecom Italia 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.

***Continuing rapid changes in technologies could increase competition, reduce usage of traditional services or require Telecom Italia to make substantial additional investments.***

Many of the services Telecom Italia offers are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as the convergence of services accelerates, 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, Telecom Italia may not receive the necessary licences to provide services based on new technologies in Italy or abroad. Furthermore, Telecom Italia's most significant competitors in the future may be new entrants to its market who do not have to maintain an installed base of older equipment.

As a result, Telecom Italia could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base or to maintain revenues from such customer base.

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

In recent years, Telecom Italia's consolidated revenues have grown modestly 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 still expected to grow.

Telecom Italia's 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 licence, to create the infrastructure to offer UMTS services. Telecom Italia 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, Telecom Italia may not be able to recoup its investments as planned, if at all.

Continued growth in the mobile telecommunications markets in which it 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.

In addition, as Telecom Italia's core domestic Italian market has become increasingly saturated, the focus of competition has shifted to customer retention from customer acquisition, and increasing the value of existing customers. Such focus could result in increased expenses to retain customer loyalty or if Telecom Italia is unable to satisfactorily offer better value to its customers its market share and revenues could decline.

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

***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. Telecom Italia's strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Telecom Italia's 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 it 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 Telecom Italia can offer; and
- it experiences any network interruptions or related problems with network infrastructure.

Outside of Italy Telecom Italia's 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 its strategy, its business and results of operations.

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

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

Telecom Italia's mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already 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.

***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 (in particular Brazilian Real) may adversely affect consolidated results. A rise in the value of the Euro relative to other currencies in certain countries in which Telecom Italia operates or has made investments will reduce the relative value of the revenues or assets of 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. Telecom Italia systematically hedges the foreign currency risk exposure relating to non-Euro denominated liabilities, through cross-currency and interest rate swaps.

Furthermore, Telecom Italia 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 can be given that fluctuations in interest rates will not adversely affect its results of operations or cash flows.

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

The Conditions also provide that the Trustee may, without the consent of Noteholders, 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.

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to 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 adopted similar measures (a withholding system in the case of Switzerland).

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

### *Change of law*

The Conditions are based on English law in effect as at the date of this EMTN Programme Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this EMTN Programme Prospectus.

### *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 EMTN Programme Prospectus and have been filed with the CSSF shall be deemed to be incorporated in, and to form part of, this EMTN Programme Prospectus:

- the audited consolidated annual financial statements for each of the financial years ended 31st December, 2006 and 2005 of the Telecom Italia Group (the **2006 Telecom Italia Annual Report** and the **2005 Telecom Italia Annual Report**, respectively);
- the unaudited consolidated interim financial data as at and for the six months ended 30th June, 2007 of the Telecom Italia Group (the **Telecom Italia Group’s 2007 First Half Report**);
- the unaudited consolidated interim financial data as at and for the nine months ended 30th September, 2007 of the Telecom Italia Group (the **Telecom Italia Group’s Third Quarter 2007 Report**);
- the audited unconsolidated annual financial statements for each of the financial years ended 31st December, 2006 and 2005 of TI Finance;
- the reviewed statement of cash flow of TI Finance for the financial year ended 31st December, 2005; and
- the unconsolidated interim financial data of TI Finance as at and for the six months ended 30th June, 2007,

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 The Bank of New York (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, 2005	Financial information concerning Telecom Italia Group’s assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 129-130
	Statement of income	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

<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, 2006	Financial information concerning Telecom Italia Group's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 205-206
	Statement of income	p. 207
	Statement of cash flows	pp. 210-211
	Accounting policies	pp. 216-229
	Explanatory notes	pp. 212-339
Telecom Italia's Interim Consolidated Financial Statements for the Six Months Ended 30th June, 2007	Financial information concerning Telecom Italia Group's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 89-90
	Statement of income	p. 91
	Statement of cash flows	pp. 94-95
	Explanatory notes	pp. 96-170
	Independent Auditors' Review Report	p. 184
Telecom Italia's Interim Consolidated Financial Statements for the Nine Months Ended 30th September, 2007	Financial information concerning Telecom Italia Group's assets and liabilities, financial position and profits and losses:	
	Balance sheet	p. 20
	Statement of income	p. 11
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. 6-8
	Statement of income	pp. 9-11
TI Finance's Statement of Cash Flows for the Financial Year Ended 31st December, 2005	Accounting policies	pp. 13-14
	Explanatory notes	pp. 15-23
	Independent Auditors' report	p. 24
	Statement of cash flows of TI Finance for the Financial Year Ended 31st December, 2005	p. 3
TI Finance's Statement of Cash Flows for the Financial Year Ended 31st December, 2005	Letter of Review in respect of statement of cash flows of TI Finance dated 13th December, 2006	p. 2

<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
TI Finance's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2006	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses:	
	Balance sheet	p. 8
	Statement of income	p. 9
	Statement of cash flows	p. 21
	Accounting policies	pp. 11-12
	Explanatory notes	pp. 12-20
	Independent Auditors' report	pp. 6-7
TI Finance's Interim Unconsolidated Financial Statements for the Six Months Ended 30th June, 2007	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses:	
	Balance sheet	p. 1
	Statement of income	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, 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.

## APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of less than €50,000 (or its equivalent in another currency).*

[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-76448)*

**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**

[The EMTN Programme Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so:

- (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 35 of Part A below, provided such person is one of the persons mentioned in Paragraph 35 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.<sup>1]</sup>

[The EMTN Programme Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.<sup>2]</sup>

<sup>1</sup> Consider including this legend where a non-exempt offer of Notes is anticipated.

<sup>2</sup> Consider including this legend where only an exempt offer of Notes is anticipated.

## PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the EMTN Programme Prospectus dated 15th February, 2008 [and the supplement to the EMTN Programme Prospectus dated [ ] (the **Supplement**)] which [together] constitute[s] 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 [as so supplemented]. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the EMTN Programme Prospectus [and the Supplement]. The EMTN Programme Prospectus [and the Supplement] [is/are] available for viewing at [www.telecomitalia.it](http://www.telecomitalia.it) and [www.bourse.lu](http://www.bourse.lu) and copies may be obtained free of charge from the Issuer [or the Guarantor] at [its/their respective] registered office[s]. In addition, the EMTN Programme Prospectus will be available from the specified office of each of the Paying Agents.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Prospectus<sup>(1)</sup> 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 EMTN Programme Prospectus dated 15th February, 2008 [and the supplement to the EMTN Programme Prospectus dated [ ] (the **Supplement**)] which [together] constitute[s] 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[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms, the EMTN Programme Prospectus dated 15th February, 2008[, the Supplement] and the Prospectus dated [*original date*]. Copies of such Prospectuses [and Supplement] are available for viewing at [www.telecomitalia.it](http://www.telecomitalia.it) and [www.bourse.lu](http://www.bourse.lu) and copies may be obtained from the Issuer [or the Guarantor] at [its/their respective] office[s] as well as from the specified office of each of the Paying Agents.]

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

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.]*

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

- |   |   |
|---|---|
| 1. (a) Issuer:  | Telecom Italia S.p.A.<br>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:                                       | [ ]   |
|   | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| 3. Specified Currency or Currencies:                      | [ ]   |
| 4. Aggregate Nominal Amount of Notes admitted to trading: |   |
| (a) Series:   | [ ]   |
| (b) Tranche:  | [ ]   |

<sup>(1)</sup> This should reflect the name of the document.



5. Issue Price: [ ]% of the Aggregate Nominal Amount  
[plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [ ]  
*(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: [specify/Issue Date/Not Applicable]  
*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate - specify date/  
Floating rate - Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[ ]% Fixed Rate]  
[[LIBOR/EURIBOR] +/- [ ]% 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. [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 annum [payable [annually/semi-annually/quarterly/other (*specify*)] 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  
*(Applicable to Notes in definitive form.)*
- (d) Broken Amount(s): [per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]]  
*(Applicable to Notes in definitive form.)*
- (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 annum
- (i) Minimum Rate of Interest: [    ]% per annum
- (j) Maximum Rate of Interest: [    ]% per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA) or Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) 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 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)*

*(N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

(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 annum

(h) Maximum Rate of Interest:

[ ]% 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)*

*(N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

(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/specify other/ see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ] per Calculation Amount
- (ii) Maximum Redemption Amount: [ ] per Calculation 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/specify other/ see Appendix]
- (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 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 only upon an Exchange Event]  
*(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, 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: [Not Applicable/give name and address]
33. Total commission and concession: [     ]% of the Aggregate Nominal Amount
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
35. Non exempt Offer: [Not Applicable] [An offer of the Notes may be made by the Managers [and [specify if applicable]] other than pursuant to Article 3(2) of the Prospectus Directive in [specify relevant Member State(s) — which must be jurisdictions where the EMTN Programme Prospectus and any supplements have been passported (in addition to the jurisdiction where approved and published)] (**Public Offer Jurisdictions**) during the period from [specify date] until [specify date or a formula such as “the Issue Date” or “the date which falls [     ] Business Days thereafter”] (**Offer Period**). See further Paragraph 10 of Part B below.
36. Additional selling restrictions: [Not Applicable/give details]

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions] [and] [admission to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange’s Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] of the 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.

[[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

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

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



## PART B — OTHER INFORMATION

- 1. LISTING AND ADMISSION TO TRADING** [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on *[specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)]* with effect from [            ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on *[specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)]* with effect from [            ].] [Not Applicable.]

*[(Where documenting a fungible issue need to indicate that original securities are already admitted 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. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

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

## 4. 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)*

**5. 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.

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

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

**7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-linked Notes only)**

*[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, 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.]*

*(N.B. The requirements below only apply if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

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

*[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.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.)]*

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

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

*[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, 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.]*

*(N.B. The requirement below only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

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

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.)]*

**9. 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): [ ]

**10. TERMS AND CONDITIONS OF THE OFFER**

- Offer Price: [Issue Price/Not applicable/specify]
- [Conditions to which the offer is subject:] [Not applicable/give details]
- [Description of the application process:] [Not applicable/give details]
- [Details of the minimum and/or maximum amount of application:] [Not applicable/give details]
- [Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:] [Not applicable/give details]
- [Details of the method and time limits for paying up and delivering the Notes:] [Not applicable/give details]
- [Manner in and date on which results of the offer are to be made public:] [Not applicable/give details]
- [Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:] [Not applicable/give details]
- [Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries:] [Not applicable/give details]
- [Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:] [Not applicable/give details]
- [Amount of any expenses and taxes specifically charged to the subscriber or purchaser:] [Not applicable/give details]
- [Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place:] [None/give details]

## APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least €50,000 (or its equivalent in another currency).

[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-76448)

**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 Terms and Conditions of the Notes (the **Conditions**) set forth in the EMTN Programme Prospectus dated 15th February, 2008 [and the supplement to the EMTN Programme Prospectus dated [ ] (the **Supplement**)] which [together] constitute[s] 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 [as so supplemented]. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the EMTN Programme Prospectus [and the Supplement]. The EMTN Programme Prospectus [and the Supplement] [is/are] available for viewing at [www.telecomitalia.it](http://www.telecomitalia.it) and [www.bourse.lu](http://www.bourse.lu) and copies may be obtained free of charge from the Issuer [or the Guarantor] at [its/their respective] registered office[s]. In addition, the EMTN Programme Prospectus will be available from the specified office of each of the Paying Agents.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Prospectus<sup>(1)</sup> 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 EMTN Programme Prospectus dated 15th February, 2008 [and the supplement to the EMTN Programme Prospectus dated [ ] (the **Supplement**)] which [together] constitute[s] 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[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms, the EMTN Programme Prospectus dated 15th February, 2008[, the Supplement] and the Prospectus dated [original date]. Copies of such Prospectuses [and Supplement] are available for viewing at [www.telecomitalia.it](http://www.telecomitalia.it) and [www.bourse.lu](http://www.bourse.lu) and copies may be obtained from the Issuer [or the Guarantor] at [its/their respective] office[s] as well as from the specified office of each of the Paying Agents.] *[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" or "N/A" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.]*

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

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

1. (a) Issuer: Telecom Italia S.p.A.  
Telecom Italia Finance S.A.
- (b) Guarantor: Telecom Italia S.p.A. (*in the case of Notes issued by TI Finance only*)
2. (a) Series Number: [    ]  
(b) Tranche Number: [    ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: [    ]
4. Aggregate Nominal Amount of Notes admitted to trading:  
(a) [Series: [    ]  
(b) [Tranche: [    ]
5. Issue Price: [    ]% 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. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)*
- (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: [specify/Issue Date/Not Applicable]  
*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: *[Fixed rate - specify date/  
Floating rate - Interest Payment Date falling in or nearest to  
[specify month and year]]*
9. Interest Basis: [[    ]% Fixed Rate]  
[[LIBOR/EURIBOR] +/- [    ]% 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. [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 annum [payable [annually/semi-annually/  
quarterly/other (*specify*)] 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  
*(Applicable to Notes in definitive  
form.)*
- (d) Broken Amount(s): [per Calculation Amount payable on the Interest Payment Date  
*(Applicable to Notes in definitive  
form.)* 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 annum
- (i) Minimum Rate of Interest: [ ]% per annum
- (j) Maximum Rate of Interest: [ ]% per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA) or Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) 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 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)*  
*(N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (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 annum
- (h) Maximum Rate of Interest: [ ]% 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)*  
*(N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (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/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [    ] per Calculation Amount
- (ii) Maximum Redemption Amount: [    ] per Calculation 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/specify other/see Appendix]
- (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 only upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- N.B. This option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].”*
- [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]
- (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)]*
- (Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers.)*

## DISTRIBUTION

31. (a) If syndicated, names of Managers: [Not Applicable/give names]  
*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names 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: [ ]  
*(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name(s) and addresses]
32. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
34. Additional selling restrictions: [Not Applicable/give details]

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] of the 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.

*[[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].*

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

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

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

## PART B — OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

1. Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].] [Not Applicable.]
2. Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

The Notes to be issued have been rated:

[S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]

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

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

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

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

- (i) [Reasons for the offer: [ ]]  
(ii) [Estimated net proceeds: [ ]]  
(iii) [Estimated total expenses: [ ]]

*(N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (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.)*

### 5. YIELD (Fixed Rate Notes only)

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

### 6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-linked Notes only)

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

*[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.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.)]*

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

*(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**7. PERFORMANCE OF RATE[S] OF EXCHANGE (Dual Currency Notes only)**

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

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the EMTN Programme Prospectus under Article 16 of the Prospectus Directive.)]*

*(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**8. 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): [ ]



## 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 15th February, 2008 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, The Bank of New York 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 supplement 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 15th February, 2008 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](http://www.telecomitalia.it) and [www.bourse.lu](http://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% of the total net worth of Telecom Italia (as disclosed in the most recent audited consolidated balance sheet of Telecom Italia);

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

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

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

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

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

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

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

#### 4. MERGERS AND SIMILAR EVENTS

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

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



- (ii) if the other company is organised under the laws of a country other than Luxembourg (in the case of TI Finance) or Italy (in the case of Telecom Italia), it must indemnify the Noteholders, 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.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

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

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

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate 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 is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such

Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

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

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

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

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



- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (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 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is 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, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate 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 is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

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

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes 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 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; or
- (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) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the relevant Issuer and the Guarantor (in the case of Notes issued by TI Finance) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. 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 (a) if published in a leading English language daily newspaper of general circulation in London (it is expected that such publication will be made in the *Financial Times* in London) and (b) if and for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and/or listed on the official list of the Luxembourg Stock Exchange if published on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu) or in another manner of publication in accordance with the Luxembourg laws and regulations implementing Directive 2004/109/EC and, if so required, in accordance with the rules of such exchange. The relevant Issuer shall also ensure that notices are duly published in a manner which complies with any applicable laws and regulations and with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

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

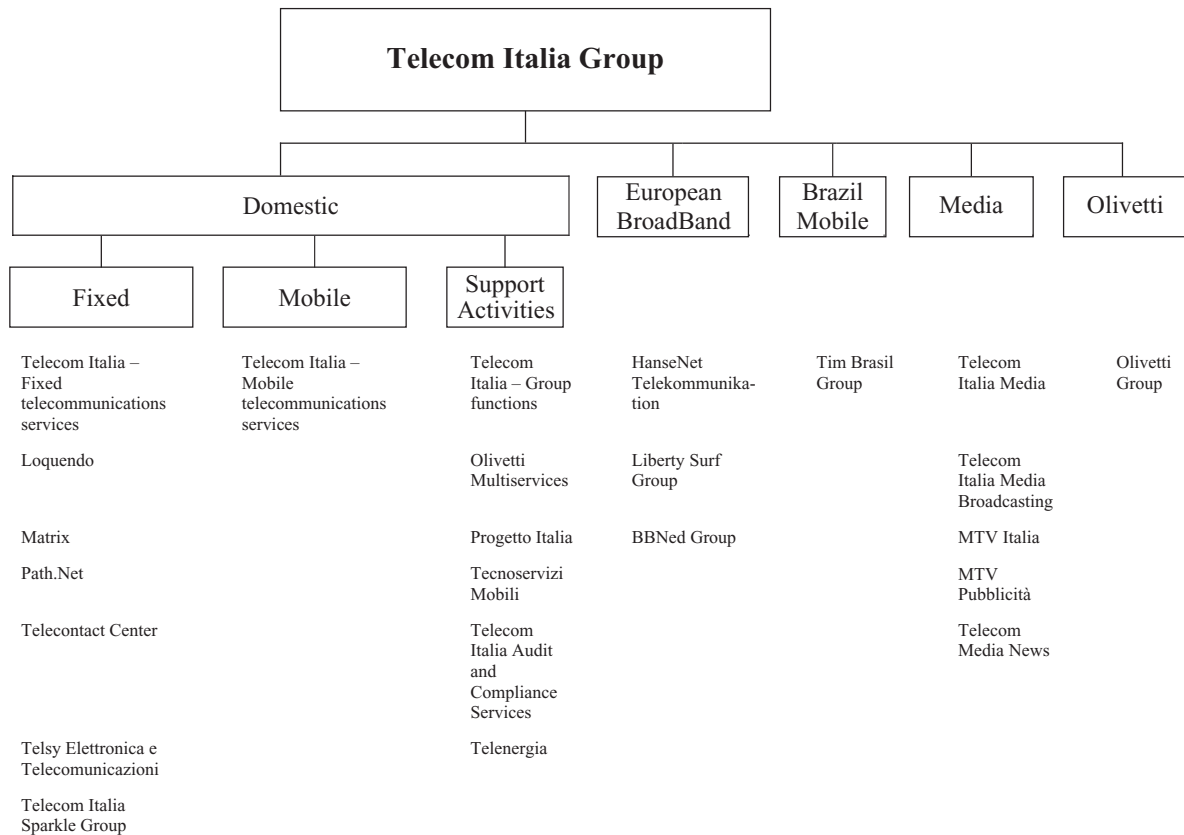
The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia was incorporated as a joint stock company under the laws of Italy on 20th October, 1908, and its duration is until 31st December, 2100. Telecom Italia is registered with the Company Register in Milan under registration 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 172 – 201 of the 2006 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, 2007 were as follows:



### 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% 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**), whose largest shareholder was Pirelli & C. S.p.A. (**Pirelli**), acquired a 28.7 per cent. stake in Olivetti.

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.”.

On 30th June, 2005, TIM S.p.A. (**TIM**), the Telecom Italia Group’s subsidiary which operated in the mobile telecommunications business, merged with and into Telecom Italia.

On 1st March, 2006, Tim Italia S.p.A. (**Tim Italia**), the wholly-owned subsidiary of Telecom Italia deriving from the spin-off of TIM’s domestic mobile assets (effective as from 1st March, 2005) merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from 1st March, 2006.

### **Telecom Italia Shareholder Agreement**

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

On 28th April, 2007, a group of investors (the **Investors** or the **Parties**), made up of 1) Assicurazioni Generali S.p.A., Sintonia S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. (the **Class A Shareholders**) and 2) Telefónica S.A., entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which they purchased the entire share capital of Olimpia, from Pirelli and Sintonia S.p.A. and Sintonia S.A. (together **Sintonia Sellers**).

On 4th May, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was subject to the necessary authorisations from the competent authorities.

After having received such authorisations, the acquisition was executed on 25th October, 2007 by Telco, to which Ordinary Shares equal to 5.6% of the ordinary share capital were conferred on the same date by Mediobanca S.p.A. and companies of the Generali Group. The total investment held by Telco was therefore equal to 23.59% of Telecom Italia ordinary share capital, of which 17.99% were held through Olimpia.

Effective as from 18th December, 2007 Olimpia merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.59% in Telecom Italia ordinary share capital.

Telco is held by Generali Group (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%).

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders’ agreements between Pirelli & C. S.p.A., the Sintonia Sellers, Olimpia and the relevant Investors (e.g. Assicurazioni Generali S.p.A. and Mediobanca S.p.A.) concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders Telecom Italia is aware of are the agreements among the Investors and Telco.

According to the shareholders’ agreement entered into on 28th April, 2007 by the Investors (the **Shareholders Agreement**), as soon as possible after the closing of the Share Purchase Agreement, the Board of Directors of Telco or Olimpia, as the case may be (and presently, as a result of the merger of Olimpia with and into Telco, the Board of Directors of Telco), shall approve the list to be submitted to the shareholders’ meeting of Telecom Italia, for the appointment of the directors of Telecom Italia, pursuant to the following criteria: (i) Telefónica — to the extent it holds at least 30% of Telco’s share capital — shall have the right vis-à-vis the other parties to designate two directors of Telecom Italia to be included as designees for appointment in the Board of Directors of Telecom Italia in the list and, to the extent feasible, pursuant to article 2386, first paragraph, of the Italian Civil Code (i.e. through co-optation) and (ii) the Class A Shareholders — to the extent they hold at least 50% plus one share of Telco’s share capital — shall designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on the basis of a proportionality criterium.

In accordance with the Shareholders’ Agreement, the Investors have agreed that the Telecom Italia Group and Telefónica group will be managed autonomously and independently. In particular, the directors designated by Telefónica in Telco, Olimpia and Telecom Italia shall be directed by Telefónica to neither participate nor vote at the Board of Directors’ meetings at which resolutions will be discussed and proposed relating to the policies, management and operations of companies directly or indirectly controlled by Telecom Italia providing services in countries where regulatory and legal restrictions or limitations for the exercise of voting rights by Telefónica are in force.

On 25th October, 2007, an Amendment to the Co-investment and Shareholders' Agreement was signed in which, inter alia, the contents of the ruling by ANATEL (the Brazilian telecommunications regulator) announced on 23rd October, 2007 and published on 5th November, 2007 (the **Anatel Ruling**), which approved the indirect acquisition by Telco of the Brazilian Telecom Italia subsidiaries, were acknowledged and each party undertook to implement the content thereof through appropriate legal measures and actions. In furtherance of that undertaking, respectively on 19th November, 2007 and on 20th November, 2007, the Shareholders Agreement and the By-laws of Telco were amended to implement the clauses contemplated in the ANATEL Ruling.

Specifically with respect to Telecom Italia's Brazilian telecommunication operations, the Parties have agreed as follows.

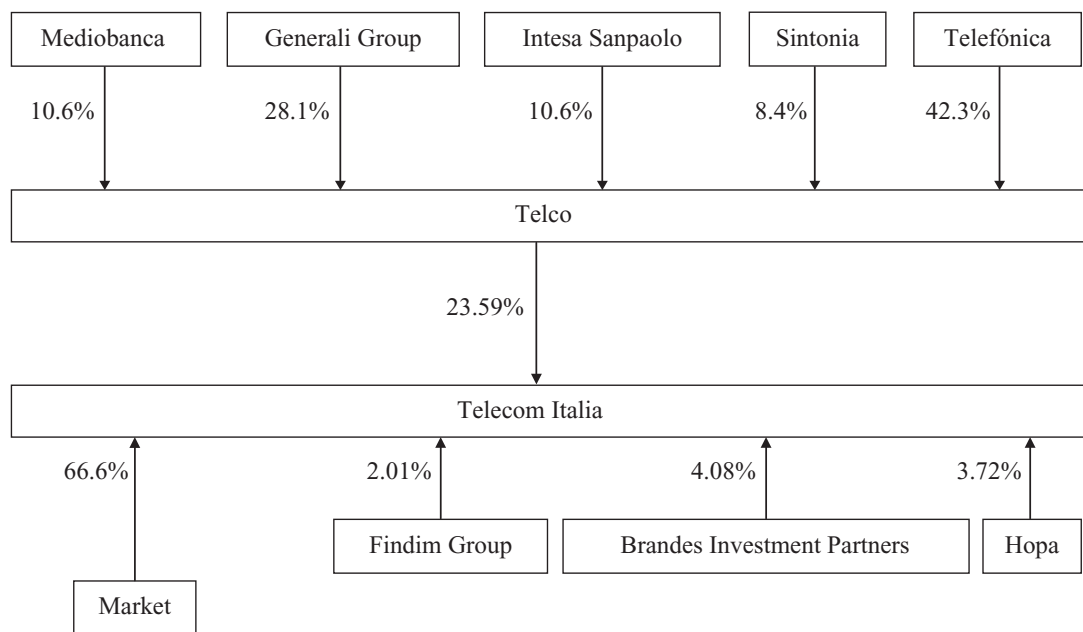
While applicable regulatory restrictions and limitations exist:

- (i) Telefónica shall neither directly or indirectly participate in, nor vote or veto at shareholders' meetings held by Telco and Telecom Italia or by any other company directly or indirectly controlled by Telecom Italia, at which and when there will be discussed or proposed resolutions relating to any matters concerning the activities of any such companies directly or indirectly controlled by Telecom Italia in the rendering of their telecommunication services in the Brazilian market; Telefónica shall cause that the persons designated by Telefónica as members to the Boards of Directors, as members to Boards of Officers, as Officers or as members of other corporate bodies having equivalent duties of Telco and Telecom Italia shall neither participate in, nor vote or veto at meetings held by any such corporate bodies or at meetings of corporate bodies of any other company directly or indirectly controlled by Telecom Italia, at which and when there will be discussed or proposed resolutions relating to any matters concerning the activities of any such companies in the rendering of their telecommunication services in the Brazilian market;
- (ii) Telefónica shall not designate any member to the Board of Directors, Board of Officers, or any Officer or member of any other corporate bodies having equivalent duties, of companies located in Brazil directly or indirectly controlled by Telecom Italia and that provide telecommunication services in the Brazilian market, as well as to the Board of Directors, Board of Officers, or any Officer or member of any other corporate bodies having equivalent duties, of companies located in Brazil directly or indirectly controlling any such telecommunication services providers;
- (iii) Telefónica shall prohibit the companies directly or indirectly controlled by Telefónica which render telecommunication services in the Brazilian market from participating in any of the following relationships with companies directly or indirectly controlled by Telecom Italia which render telecommunication services in the Brazilian market, when the terms and conditions thereof differ from those contemplated in the Brazilian rules applicable to telecommunication services: (a) significant financing transactions of any kind whatsoever, either as lenders or borrowers; (b) the granting of guaranties or collaterals of any kind whatsoever; (c) the transfer of assets under terms or conditions or at prices different from market conditions and prices; (d) the transfer of strategic technological know-how; (e) the provision of telecommunication services or related services under more favourable or privileged conditions; (f) operational agreements stipulating more favourable or privileged conditions; (g) the common use of resources, whether material, human or technological; (h) the joint contracting of goods or services; (i) the execution of legal instruments designed to permit the transfer or the assignment of shares or stocks among such telecommunication services providers, or the assignment of rights of first refusal with regard to the reciprocal transfer of shares or stocks; (j) the adoption of a common trademark or marketing and advertising strategy;
- (iv) The Investors shall renew and/or continue to observe the restrictions and limitations here described upon expiration of the term or termination of the Shareholders Agreement for any reason including in the event of merger between Olimpia and Telco with Telco as surviving entity;
- (v) Telefónica shall not exercise direct or indirect control of any company directly or indirectly controlled by Telecom Italia in Brazil, as per the definition of control under the Brazilian telecommunications regulations in force even if Telefónica exercises the right to acquire shares of Telco, in the case of unilateral withdrawal provoked by another shareholder of Telco;
- (vi) The Investors shall instruct the members of the Boards of Directors of Telco appointed by each of them, as well as the members of the Board of Directors of Telecom Italia appointed by Telco to take such actions and make such deliberations as shall be necessary (a) to direct the preparers of the agendas for meetings of the Boards of Directors and/or the Chairmen of the respective Boards of Directors, as the case may be, of Telco, Telecom Italia, and Telecom Italia International N.V. or any other company located outside Brazil directly or indirectly controlled by Telecom Italia with investments in the Brazilian telecommunications sector, to divide the topics into separate agendas as follows: (i) one agenda for the meeting in which Telefónica's

participation, through the Board members that it designated in the respective company, is allowed, and (ii) another agenda for the meeting in which the participation of Board members designated by Telefónica in such company is not allowed and in which the topics dealt with shall necessarily pertain to matters that deal with subjects related to the activities of the companies directly or indirectly controlled by Telecom Italia in rendering telecommunication services in the Brazilian market and to directly related topics, these latter being, necessarily, connected to the main topics as regards competition strategy, such as budgets for marketing campaigns and investment plans in product development, assets (*lato sensu*), instruments, all that, in sum, is directed towards the development of activities related to the activities of the companies directly or indirectly controlled by Telecom Italia in the rendering of telecommunication services in the Brazilian market; and (b) to cause to be delivered, under appropriate terms of confidentiality, to designated officers of TIM Celular S.A. and TIM Nordeste S.A., within thirty (30) days counted from the holding of the meetings of the Boards of Directors of Telco, Telecom Italia, Telecom Italia International or any other company located outside Brazil directly or indirectly controlled by Telecom Italia with investments in the Brazilian telecommunications sector, a copy of the Agendas and of the Minutes of the meetings referred to in item (a)(ii), above (with a translation into Portuguese), for delivery by them to the Brazilian telecommunications regulator within such term of thirty (30) days and under a requirement of confidentiality;

(vii) The restrictions and limitations imposed on Telefónica shall survive also in the event of a demerger of Telco as provided in the Shareholders Agreement, as long as applicable regulatory restrictions and limitations exist at the time of such demerger.

The following chart illustrates Telecom Italia's ownership structure at 6th February, 2008:



The Telecom Italia Group operates mainly in Europe, the Mediterranean basin and South America.

The Telecom Italia Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final retail customers and wholesale providers, in the development of fibre optic networks for wholesale customers, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector.

In particular, at 30th September, 2007, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 22.5 million fixed network connections installed in Italy. In addition, the Telecom Italia Group was the leading mobile operator in Italy, with 35.3 million mobile telephone lines at 30th September, 2007; and as of the same date Telecom Italia Group had 29.2 million mobile telephone 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, 2007:

	<u>Number of Shares<sup>1</sup></u>	<u>Value (euro)</u>
<b>Issued, paid and relevant filing made with the Company Register</b>		
Ordinary Shares.....	13,380,776,313	7,359,426,972.15
Savings Shares.....	6,026,120,661	3,314,366,363.55
<b>Total</b> .....	<u>19,406,896,974</u>	<u>10,673,793,335.70</u>

<sup>1</sup> Each share has a par value of €0.55.

## Recent Developments

### Olivetti

As a result of the negative performance recorded by Olivetti, which is forecast to continue in the years to come for the Multifunctional Products “MFP” segment, a series of actions has been decided aimed at a rapid economic recovery of the business unit, for an estimated cost of approximately €40 million.

### Tax audits

Between October and November 2007, Telecom Italia received notification of four areas of disputes from the Revenue Police relating to the tax periods from 2002 to 2006 referring to Telecom Italia and the companies merged in it (Old Telecom Italia, TIM and Tim Italia). The most important observations regard the write-down of the Old Telecom Italia shares in Olivetti’s portfolio (2002 financial statements), the criteria used to arrive at the telephone fee (2002 financial statements of the Old Telecom Italia and TIM) and the taxation criteria applied to prior period income recorded in the 2004 financial statements when the Lazio Regional Administrative Court ruled that the fee was not due for the year 1999 and the tax regime applied in 2003 on the sale of the investment in the “new Seat”, resulting from the spin-off of Seat Pagine Gialle (now Telecom Italia Media).

These observations will be the subject of an in-depth review by the Revenue Police assigned to conduct the audit, who will assess whether to proceed with formal objections. Telecom Italia, however, maintains that it can demonstrate even at this time that it has correctly interpreted and applied the applicable laws.

### Manager responsible for financial reporting

On 8th November, 2007, the Board of Directors appointed Enrico Parazzini (General Manager of Telecom Italia and head of the Finance, Administration and Control Function of the Group) as the manager responsible for Telecom Italia’s financial reporting.

### Sale of Mediobanca shares

From 1st October, 2007 to 9th November, 2007, Telecom Italia sold the remaining 12,284,896 Mediobanca shares resulting in a decrease in the Telecom Italia Group’s Net Financial Debt of €194 million and a positive impact on the Telecom Italia Group’s net income attributable to equity holders of the Parent of €86 million, net of income taxes on the gain (€5 million).

### Telecom Italia’s Board of Directors resolutions

On 8th November, 2007, the Telecom Italia’s Board of Directors, following the resignations (on 25th October, 2007) of Directors Claudio De Conto and Carlo Alessandro Puri Negri, appointed César Alierta Izuel and Julio Linares Lopez as Directors of Telecom Italia S.p.A.

On 3rd December, 2007, the Telecom Italia's Board of Directors, having acknowledged (i) the resignations on 28th November, 2007, effective as of 3rd December, 2007, of Chairman Pasquale Pistorio, Executive Deputy Chairman Carlo Buora and Chief Executive Officer Riccardo Ruggiero and (ii) the resignation on 29th November, 2007, effective as of 3rd December, 2007, of Director Diana Bracco, appointed Gabriele Galateri di Genola and Franco Bernabè as Directors of Telecom Italia, and respectively, as Chairman and Chief Executive Officer of Telecom Italia. The Board of Directors then gave them the following powers:

- The Chairman, as well as legal representation of Telecom Italia, has the functional responsibilities to ensure that the Board of Directors, directly and through the activities of its committees, can exercise the general powers of direction and control over the activities of Telecom Italia and the Telecom Italia Group.
- The Chief Executive Officer, as well as legal representation of Telecom Italia, has responsibility for the overall government of Telecom Italia and the Telecom Italia Group.

The Chairman and the Chief Executive Officer were also nominated members of the Strategies Committee.

### **Entel Bolivia**

On 29th March, 2007, the Bolivian government, in pursuing its policy of nationalising the main privately-owned companies, issued a Presidential Decree setting up a governmental commission to start, conduct and conclude negotiations, within 30 days from publication of the Decree, with the aim at "bringing back" Entel S.A. into the hands of the Bolivian government (Entel was acquired in 1995, with a payment of U.S.\$ 610 million, by the Telecom Italia Group through the Dutch vehicle ETI B.V., owned entirely by Telecom Italia International N.V.). The above-mentioned measure alleges that Entel Bolivia and ETI have committed a number of serious alleged administrative and tax irregularities. Telecom Italia attended the meetings with the governmental commission and rejected all the accusations.

Subsequently, on 23rd April, 2007, the Bolivian government adopted two more legislative measures through which, i) it cancelled the ministerial decree adopted by the previous Government which had acknowledged the fulfilment by Entel of all the obligations it undertook at the time of privatisation and ii) annulled a number of further administrative measures, especially one passed in 1995, which had launched the Entel Bolivia privatisation process.

On 12th October, 2007, after an unsuccessful attempt at conciliation, an arbitration request was filed by ETI with ICSID (International Centre for Settlement of Investment Disputes, a body of the World Bank with headquarters in Washington, USA). The arbitration request covers the violation of the international treaty for the protection of foreign investments in Bolivia, as a result of the measures put into place by the Bolivian government.

On 31st October, 2007, ICSID announced that the ETI arbitration request summoning the Bolivian government had been filed. The arbitration board will be appointed within the 90 day maximum timeframe (see "*Description of Telecom Italia — Litigations*").

### **Sale of Solpart**

On 5th December, 2007, Brasilco S.r.l., (**BrasilCo**) a company held in trust by Credit Suisse Securities (Europe) Limited for the exclusive benefit of Telecom Italia International N.V., following the approval of the Brazilian Telecommunications regulatory authority Anatel, sold its 38% equity interest in Solpart Participações S.A. (**Solpart**) to Techold Participações S.A. (**Techold**), another shareholder of Solpart, for U.S.\$515 million.

This transaction impacts 2007 results reducing the Telecom Italia Group's Net Financial Debt by approximately €350 million and benefiting the Telecom Italia Group's net income attributable to equity holders of the Parent of approximately €190 million, taking into account the positive effects of coverage against exchange rate risk.

Concurrently with the consummation of the purchase and sale of the participation held by Brasilco in Solpart, a settlement agreement, entered into on 18th July 2007, came into force and effect providing for the full settlement and compromise of the disputes then currently pending before the Brazilian courts and the arbitration tribunals among certain entities of Telecom Italia Group, on one side, and certain Brazilian pension funds, that are indirect shareholders of Solpart and the companies pertaining to the Brasil Telecom corporate chain (including Techold), on the other side. Furthermore under the terms of such settlement agreement, all parties reciprocally released and discharged any past, present, or future claim connected with their respective equity interests in Brasil Telecom, or in any way deriving from the Solpart joint venture.

### **Venezuela — Settlement Agreement**

On 10th January, 2008, TIM International N.V. and Telecom Italia, on one side, and Telvenco S.A. (the buyer, in May 2006, of the 100% of the Venezuelan Corporación Digitel's share capital, previously fully owned by TIM International N.V.) and Corporación Digitel, on the other side, entered into an agreement pursuant to which, *inter alia*, the parties settled certain commercial claims between them and granted each other a mutual release for any and all past, present and future claims that the parties have, may or shall have in connection with the share purchase agreement executed on 19th January, 2006 by and between Telvenco S.A. and TIM international N.V. for the purchase and sale of Corporación Digitel's shares. Therefore the Telecom Italia Group is no longer subject to any further indemnification obligations towards Telvenco S.A. and/or Corporación Digitel with respect to such purchase and sale.

As provided for in the settlement agreement, after the partial set off of an amount of approximately U.S.\$14.3 million (requested as indemnification by Telvenco S.A. to TIM International N.V. as a consequence of a tax assessment conducted by the Venezuelan tax agency (SENIAT) on Corporación Digitel for years 2002-2004), and an amount of approximately U.S.\$5.3 million (for credits arising under various services agreements and accrued by the Telecom Italia Group towards Corporación Digitel), TIM International N.V., on the same date, paid to Telvenco S.A. the balance of approximately U.S.\$9 million.

### **Reorganization of the Technology & Operations Division.**

On 13th February, 2008, a radical reorganization of the Technology & Operations division was announced. As part of this reorganization, a department, named "Open Access", has been created, which will independently and transparently manage the entire Telecom Italia access network and will be completely autonomous and separate from the Group's commercial operations. The Technology & Operations division reports directly to the Chief Executive Officer.



## BUSINESS UNITS

### Key financial data prepared in accordance with IFRS for the nine-month periods ended 30th September, 2007 and 2006

On 22nd January, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organisational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed and mobile telecommunications and broadband internet and media content).

Accordingly, starting from the first quarter of 2007, the disclosure by business segment was changed and the accounting representation is now the following:

- Domestic
- European BroadBand
- Brazil Mobile
- Media
- Olivetti
- Other activities

The table below sets forth certain key financial data under IFRS for each business unit (each a **Business Unit**) for the nine-month periods ended 30th September, 2007 and 2006. For purposes of comparison, the data of the Business Units for the nine months ended 30th September, 2006 have been revised for consistency.

	Period							Adjustments	Consolidated Total
		Domestic	European BroadBand	Brazil Mobile	Media	Olivetti	Other Activities	and Eliminations	
<i>(Unaudited)</i>									
<i>(millions of Euro, except number of employees)</i>									
Revenues.....	1/1 – 9/30/2007	18,108	1,106	3,603	178	283	166	(237)	<b>23,207</b>
	1/1 – 9/30/2006	19,223	662	2,792	136	298	177	(184)	<b>23,104</b>
Operating income (loss).....	1/1 – 9/30/2007	5,184	(59)	44	(84)	(32)	42	43	<b>5,138</b>
	1/1 – 9/30/2006	5,883	(106)	(47)	(111)	(49)	31	20	<b>5,621</b>
Capital Expenditures.....	1/1 – 9/30/2007	2,817	363	442	54	7	6	(1)	<b>3,688</b>
	1/1 – 9/30/2006	2,615	344	329	65	6	6	(66)	<b>3,299</b>
Number of employees at period-end <sup>(a)</sup> ....	As of 30 <sup>th</sup> September, 2007	65,528	4,503	9,842	1,020	1,329	1,469	—	<b>83,691</b>
	As of 31 <sup>st</sup> December, 2006	66,835	3,066	9,531	919	1,428	1,430	—	<b>83,209</b>

(a) The number of employees at period-end excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale and includes personnel with temp work contracts.

As of 30th September, 2007, the Telecom Italia Group Business Units were the following:

- the “**Domestic**” Business Unit operates as the consolidated market leader in the sphere of telephone and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale). In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America);
- the “**European BroadBand**” Business Unit offers innovative broadband access and services in European metropolitan areas in France, Germany and the Netherlands through the subsidiaries Telecom Italia S.A.S, HanseNet GmbH (HanseNet) and BBNed N.V.;
- the “**Brazil Mobile**” Business Unit operates in the mobile telecommunications sector in Brazil through the Tim Brasil group which offers mobile phone service using GSM and TDMA technology;
- the “**Media**” Business Unit is organised according to the Television and News Business Areas:
  - the “Television” Business Area operates in the sector of producing and broadcasting editorial content through the use of analog and digital broadcasting networks. The Business Area manages satellite channels and Pay-Per-View (PPV) services using Digital Terrestrial TV (DTT). In particular, in 2007, the Telecom Italia Group adapted its Business Model based on the following activities:
    - Free to Air, with the activities of the two analog broadcasting network operators La7 and MTV;

- Multimedia, with the role of “Competence Center” of the Telecom Italia Group in the invention and creation of the content offering for the IPTV, DVBH and Rosso Alice platforms and the development of content and channels on the satellite and interactive platforms (Web and Mobile); and
  - Digital Terrestrial TV, through the consolidation of the Soccer PPV business model, the offering of new content and the leasing of digital bandwidth to third parties;
- the “News” Business Area operates through TM News, a leading national news agency, with a marked international connotation. It was conceived as the result of a partnership with Associated Press (AP) and provides news around the clock as well as analyses, special reports from its offices in Rome and Milan and from abroad (Brussels, New York and Moscow);
- the “Olivetti” Business Unit operates in the sector of ink-jet products for the office, digital printing systems, the development and production of products associated with silicon technology (ink-jet print heads and Micro-Electro-Mechanical Systems (MEMS)) and also specialised applications for the banking field and commerce and systems for managing forecast games and lotteries. The reference market of the Business Unit is focused mainly in Europe and Asia; and
  - the “Other activities” of the Telecom Italia Group include the financial companies, the foreign activities that are not included in the other Business Units (Entel Bolivia) and other minor companies not strictly related to the core business of the Telecom Italia Group.

## Strategy

### General

On 9th March, 2007, Telecom Italia set out its priorities for the 2007-2009 period.

Changes in the demand for telecommunications services, increased competitive pressure and technological breakthroughs continue to erode the traditional distinctions between fixed and mobile business areas and convergence increasingly appears as the means of developing a sustainable long-term competitive advantage.

After an initial phase in 2005-2006 in which Telecom Italia built a fully integrated business model, Telecom Italia has now evolved its organisational model focusing on business segments and flexibility, preserving the integrated approach in network infrastructures development and in platforms and systems management and development.

Telecom Italia strategy is based on the following pillars to support the growth of the Telecom Italia Group and the evolution of profitability.

- **Maintain clear leadership in Domestic TLC market:**
  - increasing broadband penetration and continuing its win back and retention strategy based on dual play (voice and broadband access) and triple play (voice, broadband access and IPTV) offers for private customers and integrated solutions (voice, broadband and value added services VAS) for business customers in the domestic fixed market;
  - developing a “volume and value strategy” in the domestic mobile market based on market and offer segmentation, the migration towards 3G/High Speed solutions to exploit VAS growth and the push on flat and post-paid (contract) offers;
  - leveraging fixed-mobile convergent offers (a bundle of fixed and mobile services) in voice, VAS and broadband as a distinguishing factor in market positioning versus other operators;
  - leading network evolution towards full IP and ultra broadband to maintain leadership in service innovation and to efficiently manage future business evolutions; and
  - pushing on efficiency in all costs areas to protect Telecom Italia’s domestic profitability exploiting full-IP network architecture simplification and consolidating convergent synergies.
- **Exploit the increasing growth opportunity in adjacent sectors (Content, Information and communication technology “ICT”):**
  - developing an IPTV service offer to increase the Average Revenue Per User (“ARPU”) and the share of wallet on broadband customers and to accelerate broadband adoption and penetration; and

- exploit network capabilities and strong Telecom Italia relationships with its business customer to push on ICT value added services as a means to increase customer loyalty.
- **Strongly increase the weight of international operations through the development of European broadband presence and the consolidation of Latin-American operations:**
  - strengthening and developing its broadband activities in Europe and also exploiting high potential incremental businesses (virtual mobile operator model, service multinational corporations) that can leverage on European local presence;
  - maintaining leadership in mobile growth in Brazil by launching Fixed-Mobile convergent offers in order to defend TIM from alternative convergent offers (a bundle of fixed and mobile services) and attract high value customers (fixed and mobile); and
  - anticipate the consolidation of Telecom Argentina operations (Telecom Italia owns 50% of Sofora Telecomunicaciones S.A. and owns call options rights to acquire control from 2009) to strengthen Latin-American presence.

While implementing a strategy that gives strong value to fixed-mobile convergence (a bundle of fixed and mobile services) as a distinctive advantage, Telecom Italia therefore maintains a focused approach to the fixed and mobile markets, which are still characterised by specific competitive and regulatory contexts.

There can be no assurance that these objectives will actually be achieved.

### ***Domestic Fixed Telecommunications***

In Domestic Fixed Telecommunications, the main focus is on broadband development and customer retention. At 30th September, 2007, the customer base of broadband access lines was 7.4 million in the domestic market. Broadband access services (Alice and Alice Business) have supported continued growth. New voice packages, including flat rates on both the Public Service Telephony Network (**PSTN**) and VoIP lines, and innovative integrated solutions for business clients were also introduced.

Domestic Fixed Telecommunications strategy continues to be driven by defence of market share in voice traffic, a strong emphasis on Internet growth and the development of broadband content and services, while maintaining a strong focus on obtaining cost efficiencies.

In particular, in Domestic Fixed Telecommunications Telecom Italia intends to:

- maintain the domestic leadership in its core business (voice services, Internet access, data transmission services for businesses, national and international wholesale services); on voice, the process of migrating an increasing portion of its customers to flat rate packages will be a key to ensure the success of its retention strategy;
- strengthen its leadership in service innovation and increase the penetration of broadband services, through “dual play” offers, “triple play” offers, and also “quadruple play” offers (fixed and mobile voice, broadband access and IPTV);
- innovative services will be supported by increased bandwidth (>50Mbit/s on fixed infrastructure and 10Mb/sec on mobile infrastructure), as Telecom Italia expects to lead network evolution towards full IP and ultra broadband characterised by:
  - introduction of Fibre and VDSL2 technology in the access network;
  - significant extension of ADSL2+ / triple play coverage to anticipate Fttx (optical fiber based) solutions;
  - implementation of a full IP network;
  - progressive full migration to Telephony Over Internet Protocol (**ToIP**) starting from 2009;
  - development of new data centers and platforms to support new vertical services distribution;
- consolidate its operational capabilities with the objective of offering top high quality service levels to its customers and leverage opportunities to retain its client base by enhancing customer loyalty (through customer relationship management and customer contact); and
- run efficient operations and continue to be focused on cost-cutting and cost control (personnel, real estate, general and administrative, network).

There can be no assurance that these objectives will actually be achieved.

### ***Domestic Mobile Telecommunications***

Domestic Mobile Telecommunications strategy is based on “a volume and value approach” and is focused on maintaining leadership on Mobile market and achieving sustainable and profitable growth through:

- continuous innovation and improved segmentation of voice and Value Added Services (VAS) offers; Telecom Italia believes this should enable it to retain or improve its market share and to achieve leadership in the UMTS services market;
- strong customer care, able to respond and anticipate customer needs with a segmented approach; and
- full enhancement of the potential of the UMTS network and development of mobile broadband technologies (such as HSDPA — High-Speed Downlink Packet Access: a UMTS evolution that allows broadband connections up to 3.6 Mbps) and of DVB-H (Digital Video Broadcasting-Handheld: a technology used to broadcast digital video to mobile devices) services. These are expected to enable the provision to mobile customers of value added services and content now available to fixed line customers, due to the development of convergent platforms.

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

- focusing on the high end of the market, attracting valuable customers and leveraging caring differentiation and loyalty programmes;
- accelerating innovative marketing propositions, aimed at generating new and segmented offers to increase voice traffic and VAS usage; penetration of mobile internet, access to premium and user generated content;
- a multichannel and integrated approach to caring and distribution, tailored for different customer needs/profile;
- development of synergies between fixed and mobile services both on the revenue side, by launching convergent services, and on the cost side, by continuing to eliminate duplication and achieving cost efficiencies on capital expenditures and operating expenditures; and
- focus on innovative capital expenditures, enabling Telecom Italia to retain its leadership in network quality and to provide its customers with attractive wireless broadband services.

There can be no assurance that these objectives will actually be achieved.

### ***European Broadband***

European broadband development represents increasingly a key driver in Telecom Italia’s overall growth strategy. Telecom Italia will continue to strengthen and develop its activities and monitor any opportunities to exploit potential incremental business (i.e. MVNO — Mobile Virtual Network Operator, a company that provides mobile telephone services without its own infrastructures — services to multinational companies) that can leverage on local capabilities (sales, backbone and access network) and centralised support. At 30th September, 2007, the customer base of broadband access lines was 3.3 million in the European markets (France, Germany and The Netherlands).

In particular on single country basis, Telecom Italia’s strategy on European Broadband is set upon the following guidelines:

- **In Germany.** Telecom Italia will leverage on its AOL acquisition to consolidate growth, profitability and cash generation. The main strategic tools in Germany are:
  - develop new VoIP and triple play offers;
  - leverage on brand and sales efficiency;
  - expand Local Loop Unbundled (LLU) coverage to maximise returns from market growth (from 40% at the end of the year 2006 to 68% at the end of the year 2009); and
  - launch MVNO.
- **In France.** Telecom Italia has completed a 12 months industrial turnaround to achieve operating and economic efficiency. The main strategic tools in France are:
  - develop new VoIP, triple play, quadruple play offers (new mediabox, rich portfolio of IPTV paying channels; launch of Video On Demand services);

- maximum commercial focus on LLU areas;
- increase quality of service and of end-to-end process management;
- LLU coverage expansion (from 36% at the end of the year 2006 to over 50% by middle 2008); and
- Wimax (Worldwide Interoperability for Microwave Access, a technology used to provide wireless broadband access) and MVNO options.

There can be no assurance that these objectives will actually be achieved.

### ***Brazil Mobile (Tim Brasil)***

In 2007, Tim Brasil continued to strengthen its market position and outperformed the Brazilian market line growth due to its ability to attract high value customers. The Brazilian market has been characterised by strong growth in recent years and is expected to continue to grow, although such residual market growth is predominantly in lower income social classes. Tim Brasil's strategy will be focused on:

- consolidating its position (revenue growth consistently above market average), and increasing profitability;
- ensuring profitability of low ARPU clients; and
- capturing fixed-line revenues (increase share of spending on Tim Brasil customer base) and defend TIM mobile leadership.

Tim Brasil will endeavour to reach these strategic objectives through:

- end-to-end segmentation to attract and maintain high value consumer and business customers;
- operational efficiency to support customer base expansion;
- development of a new business model oriented to low-ARPU customers;
- development of new convergent products (such as home zone with fixed numbering, Virtual PABX, Internet broadband access, etc.);
- continuous innovation in VAS;
- shorter time to market and greater efficiency due to Tim Brasil's plug and play strategy, which enables it to share resources and know-how with the domestic Italian business;
- improved customer care and leveraging on its extensive distribution channel; and
- continued focus on quality of coverage.

Economies of scale and strict cost control should also allow Tim Brasil to further improve its profitability.

There can be no assurance that these objectives will actually be achieved.

### ***Capital expenditures***

The capital expenditures planned for the three years 2007-2009 will be approximately €15 billion. The breakdown by sector of activity is as follows:

- Domestic Business for approximately €11.0 billion;
- European Broadband for approximately €1.2 billion; and
- Brazil Mobile (Tim Brasil) for approximately €2.4 billion.

### **Competition**

Telecom Italia domestic 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. In particular, as a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002, which has been effective in Italy since September 2003.

### ***Fixed-line Domestic Telecommunications Services Market***

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

In 2007 competition in the Italian domestic market was characterised by innovative offerings through the introduction of bundled voice/broadband (double play) and bundled voice/broadband/IPTV (triple play) offers. The market was also characterised by a migration from a primarily reseller approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an infrastructure-based approach (Shared Access or Local Loop Unbundling).

In particular, in 2007 competition in the Italian domestic market was driven by five players (other than Telecom Italia) with differentiated business models and focused on different market segments:

- Fastweb (a national player focused on broadband and triple play offers);
- Albacom (focused on business customers and ICT offers: voice, data and IT solutions);
- Wind-Infostrada (an integrated fixed/mobile/Internet operator focused on retail customers);
- Tiscali (a Narrow Band and broadband Internet Operator, developing double play/VoIP low cost offers); and
- Tele2 (voice, Internet dial up and broadband, developing discounted double play/VoIP offers focused on retail customers).

Telecom Italia market share in the Italian retail traffic volumes (retail voice and on-line traffic only) at 30th September, 2007, was 71.7%. Telecom Italia's main competitors in this segment are Tele2 and Wind; Albacom and Fastweb target specific markets (business customers for Albacom; high spending consumers for Fastweb).

The Italian fixed voice market has been influenced, on one hand, by the development of mobile operators that attract voice traffic through the advantage of mobility, a wide range of VAS and high performance terminals, while, on the other hand, it has been subject to cannibalisation by the increasing penetration of alternative communication solutions (messaging, e-mailing, chat).

The broadband market continued to grow but at a slowing rate and subject to increasing competition.

In 2007, competition intensified also in the top client/data market, with pressure on average prices.

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

### ***Domestic Mobile Telecommunications Services Market***

In 2007 the mobile telecommunications market continued to grow in Italy but at a rate slower than in the previous years. Customer growth in the domestic mobile telecommunications market was 12.3% in 2007. As of 30th September, 2007 the number of cellular phone lines reached 87.7 million.

There are three key competitors for Telecom Italia in the Italian mobile market: Vodafone, Wind and H3G (called "3"). At 30th September, 2007, Telecom Italia held the market leadership with a market share of 40.3%, with Vodafone, Wind and H3G having market shares of approximately 33.2%, 17.5% and 8.9%, respectively.

As of 30th September, 2007, Telecom Italia had a 39% market share of net additional GSM and UMTS lines, corresponding to 2.9 million net lines, compared to 3.0 million for Vodafone, 0.6 million for Wind and the remaining 0.8 million attributable to H3G and the other operators.

Telecom Italia figures do not include "inactive" lines to ensure greater consistency between the number of lines managed and business development.

Competition for mobile telecommunications services remained strong in 2007, and Telecom Italia responded with:

- a strong commercial push to defend market leadership;



- innovative and segmented offers;
- a volume and value strategy:
  - pushing on gross additions to slow competitors' growth (Wind, H3G);
  - securing the competitive gap on valuable customers (TIM vs. Vodafone), also through value oriented mobile number portability with a focus on high end customers;
- leveraging the benefits from fixed and mobile integration:
  - strengthening the distribution channels;
  - price defence (no price war in fixed/mobile substitution);
- focus on handsets leadership (5.3 million handsets sold at 30th September, 2007):
  - TIM 3G successful strategy with 38% UMTS handsets sold at 30th September, 2007;
- solid positioning in the small and medium enterprise segment; and
- focus on customer care and quality of service.

Telecom Italia believes that the continuous improvement of the quality of its services and the strengthening of its leadership in network and marketing activities are important factors in maintaining its strong competitive position.

### ***The European Broadband Market***

#### *German Broadband Market*

Germany is the first broadband market in Europe measured by size and it continues to grow rapidly. It is characterised by:

- five main competitors and room for further merger and acquisition activity following the recent consolidation process;
- increase of LLU coverage and early stage VDSL/Fiber Network projects;
- the increasing penetration of dual and triple play offers; and
- development of Fixed — Mobile convergent offers (HanseNet acquired at 30th September, 2007 207,000 Virtual Mobile Operator customers).

HanseNet strong performance in 2007 was based on:

- a robust increase in the ADSL customer base (approximately 2,244,000 broadband access lines at 30th September, 2007);
- strong focus on network coverage, reaching approximately 60% of German Households (40% at the end 2006) with possibility of further customers target through DT resale; and
- continuous improvement in profitability driven by operational efficiency.

#### *French Broadband Market*

The French broadband market reached over 14 million broadband accesses with a penetration on households around 60%, and a forecasted trend rate that continues to grow. It is characterised by:

- strong competition, focused on portfolio innovation (launch of ADSL 2+, first market for VoIP and IPTV penetration in Europe);
- a stabilisation of triple play average prices (approximately 30€/month for all players); and
- additional consolidation events (after merger Neuf/Cegetel and following acquisition of AOL France, Tele 2 acquisition by SFR, Club Internet is acquired by Neuf/Cegetel).

French operations' performance at 30th September, 2007 was characterised by:

- the consolidation of its market position through an increase in the ADSL customer base, reaching 882,000 broadband accesses at 30th September, 2007;

- the market share is around 6% at 30th September, 2007. The other main competitors are: France Telecom with 49% of market share, Neuf/Cegetel (post acquisition of Club Internet) with 22% market share and Iliad with 20% market share; and
- a strong focus on LLU network coverage (LLU is around 64% of new clients acquisitions at 30th September, 2007), mainly with a triple Play Offer.

### ***The Brazilian Mobile Market***

In 2006 and 2007, the Brazilian telecommunications market growth was driven by mobile and broadband services development.

As of 30th September, 2007, the number of cellular phone lines reached 113 million, corresponding to a penetration rate of around 59.4% on the Brazilian population (96 million lines at 30th September, 2006; penetration rate of 51.2%).

The most significant Brazilian operator is Vivo with 27.8% market share. Tim Brasil with 25.9%, is the second national operator, followed by Claro with 24.8% and OI with 13.2%. In the first nine months of 2007, Tim Brasil and Claro had the best performance in net customer additions (3.8 million lines Tim Brasil and 4.1 million lines Claro); in particular, Tim Brasil reached as of 30th September, 2007, 29.2 million lines, compared to 25.4 million lines as of 31st December, 2006 and 24.1 million lines as of 30th September, 2006.

### **The regulatory framework**

#### ***The E.U. Regulatory framework***

Italy is a member of the EU and, as such, is required to implement the directives issued by the EU.

The European Commission began opening the telecommunications market to competition with the adoption of directives in the late 1980s and early 1990s. These liberalisation measures culminated with the opening of competition in 1998 of public voice telephony and public network infrastructure. These directives were also accompanied by directives relating to open networks, setting out a body of principles for access to public telecommunications networks and services.

#### ***The regulatory framework in Italy***

The main laws regulating the electronic communications sector are:

- the “Electronic Communications Code” (ECC — Legislative Decree No. 259 of 1st August, 2003) which incorporated into national law the EU directives of the “1999 Review” with regard to electronic communications networks and services: the “Framework directive” together with three directives “Access”, “Authorisation” and “Universal Service”;
- the “Consolidation Act on Radio-Television” (Legislative Decree No. 177 of 31st July, 2005,) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;
- Legislative Decree No. 262 of 3rd October, 2006, which contains “Urgent measures with regard to tax and financial matters” and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offences, a generalised increase in the fines for each sanction and the elimination of the institution of the partial cash settlements of fines;
- Decree 7 dated 31st January, 2007, (converted into law, with modifications, by Law 40, art. 1, dated 2nd April, 2007) containing “Urgent measures for the protection of consumers, the promotion of competition, the development of economic activities, the creation of new companies, the exploitation and improvement of technical and professional training, and the demolition of vehicles”, for the sector of electronic communications, established the abolition of top-up charges and prohibited the expiry of phone traffic on prepaid phone cards.

#### ***Universal Service***

The Universal Service is a minimum set of services of a certain quality, which must be made available to all customers, regardless of their geographical location and, taking account of specific national conditions, offered at a reasonable price. To date Telecom Italia is the only operator charged with the obligation of providing the

Universal Service throughout Italy. The net cost of providing the Universal Service is calculated as the difference between the Company's net cost when it is subject to the obligations of providing the Universal Service and the net cost of the same provision if the obligation did not exist. It is the AGCom's responsibility to verify the net cost.

A fund set up by the Ministry of Communications is used to finance the net cost. If, at any time, the AGCom determines that the net cost of the Universal Service constitutes an unfair burden for Telecom Italia, it sets off the mechanism to share the costs, which involves payments to the fund by companies in the telecommunications sector.

### **Special status of operators having significant market power**

During 2006, the Italian AGCom concluded the analysis of the markets of the electronic communications sector — as identified by the European regulatory framework — and introduced measures as a result of these analyses which are described below.

- ***Retail markets***

The general regulatory framework was confirmed for all the retail markets and, in particular, the Price Cap mechanism was maintained for access services and national telephone services. With regard to the access markets, the AGCom has required Telecom Italia to provide a Wholesale Line Rental (**WLR**) service, in those areas where unbundled access services are not provided, with a price which is calculated by means of the retail price index minus pricing method (equal to the retail subscription charges less 12%). The AGCom has also removed some of the restrictions for offerings aimed at large business customers together with the obligations with regard to retail leased lines with speeds of more than 2Mbit/s.

- ***Wholesale markets***

The AGCom has confirmed the continuation of the network cap mechanism for calculating the prices of wholesale collection, termination and transit services and of unbundled network-access services (Local Loop Unbundling and Shared Access). This mechanism also applies to circuits, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance circuit segments. As far as the price of termination on the networks of other operators is concerned, the AGCom has fixed a maximum price equal to 1.54 eurocents/minute, with an annual reduction which will bring the price to 0.55 eurocents/minute by 2011. However, AGCom has given other operators the possibility to ask for higher prices motivated with appropriate accounting. As a consequence, on 20th December, 2006 AGCom allowed three operators to apply higher values up to 30th June, 2007: Fastweb with 2.60 eurocents/minute, BT Italia with 2.28 eurocents/minute and Tiscali with 2.24 eurocents/minute. AGCom also considered that from 1st July, 2007 the operators should set the termination prices according to the accounting model based on the "account model of an efficient operator".

- ***Mobile markets***

The AGCom has not imposed any obligations on the mobile telephone market or international roaming services. On the other hand, it has established a ceiling for the termination on the networks of Telecom Italia (formerly TIM), Vodafone and Wind, with a target price of 8.90 eurocents/min. for Telecom Italia (formerly TIM) and Vodafone, and of 9.50 eurocents/min. for Wind for 2008. With regard to H3G, the price which will be applied starting in March 2008 is 16.26 eurocents/min.

- ***Additional markets***

The AGCom is conducting market analysis on three new significant markets (additional markets to the original 18 identified by the European Framework in 2003): mobile collection markets directing calls towards Non-Geographical Numbers (Premium Rates, Freephone numbers and Splitting Charges) (market 15 bis); the market for wholesale termination for international routing (market 19) and the market for retail dial-up Internet traffic (market 20). For the last two new markets identified, AGCom has revoked the preexisting obligations while for the market 15bis, on 16th March, 2007 AGCom withdrew the proposal of regulation in which was introduced a wholesale cap on mobile origination prices for calls directed to non geographic numbers.

### **Framework for the fixed access network**

On 2nd May, 2007, with the Order No 208/07/CONS the Council of the AGCom launched a public consultation on the "regulatory aspects with regard to the framework of the fixed access network and the future prospects of the new-generation broadband networks". Deadline for responses was set for 4th July, 2007.

On 12th December, 2007 the AGCom adopted the Order No. 626/07/CONS which started the proceedings for a review and possible integration of regulatory measures designed to promote conditions for effective competition in the market for access to the fixed network (retail and wholesale). The proceeding should be completed within 180 days.

Finally, in October 2007, the AGCom approved — with changes — the Basic Offering 2007 for the bitstream services (Orders No. 114/07/CIR) and Wholesale Line Rental (Order No. 115/07/CIR) provided by Telecom Italia.

### **Accounting separation and costs accounting**

Operators having significant market power are required to have an accounting system showing their costs in a transparent manner. Upon request, such operators must provide the AGCom with a description of their cost accounting system to verify the compliance with the provisions of the electronic telecommunications regulatory framework. Moreover, the operators of fixed public networks and mobile networks and the providers of fixed public voice telephony services, mobile telecommunications services and leased line services with significant market power must keep a separate accounting system distinguishing between the activities related to the building and operation of public telecommunications network, the activities related to the provision of telecommunication services, the interconnection offer and the universal service provision.

### **Accounting separation and cost accounting of the fixed network**

On 11th August, 2007 the AGCom published the Audit reports issued by an independent Auditor on the Regulatory Accounts of Telecom Italia fixed network services, for the year 2004 (Order No. 351/07/CONS).

Currently, the Auditor is in the process of verifying the 2003 accounting separation report.

### **Accounting separation and cost accounting of the mobile network**

In compliance with Order 3/06/CONS, the preparation of the Regulatory Accounting Report 2005 — to provide evidence of the costs incurred for the mobile termination service — is ongoing.

As part of the opening of the proceedings for “voice call termination on individual mobile networks (market 16 among those identified in the recommendation of the European Commission 200/311/CE)” under Order 342/07/CONS, a “Technical Working Group” — involving all four mobile operators — was set up to establish the methods to be used in determining the new Network Cap amounts.

### ***Regulatory framework in Brazil***

The activities of the Telecom Italia Group in Brazil are subject to the General Law on Telecommunications (Ley General de Telecomunicações — LGT) of 1997 and the regulatory framework for the supply of telecommunications services promulgated by the Brazilian regulatory authority, Agência Nacional de Telecomunicações (ANATEL).

ANATEL is an independent, financially autonomous body which reports to the Brazilian Ministry of Communications.

In 2005, ANATEL published a special set of regulations with regard to operators with significant market power, to which ANATEL intends to apply stricter standards with the aim of guaranteeing competition.

### **Operators with significant market power**

In 2005, ANATEL published a specific ruling regarding operators with significant market power (PMS) and issued a ruling for “Accounting Separation and Cost Accounting”, introducing the obligation of presenting the Account Separation and Allocation Document (DSAC) by the licence holders and Groups holding significant market power in the offering of fixed and/or mobile network interconnections and wholesale leased lines.

The Groups with PMS and the terms of the presentation of the DSAC are set out in the specific orders of ANATEL. Specifically, all mobile operators are considered PMS in interconnecting services in the area where they offer their services.

### **Major changes in regulations in 2007**

Order 480 by ANATEL dated 14th August, 2007 established that mobile network operators with significant market power were required to present the DSAC for the first time by 31st October, 2007. The deadline has been postponed to April 2008. Cost based mobile termination amounts will probably be introduced starting in 2010.

In September 2007 ANATEL held a public consultation on the methodology for determining the WACC (Weighted Average Cost of Capital) for telecommunications companies. A decision is expected during the first half 2008.

In September 2007, an auction for the allocation to mobile operators of additional blocks of frequencies in the 900MHz, 1800MHz and 1900MHz bands was held. TIM Brasil won frequencies in the areas of interest, which will enhance the capability of offering mobile services throughout all the country.

In December 2007, another auction for the allocation to mobile operators of frequencies for 3G services has been held. TIM Brasil won 3G frequencies in all the Brazilian Country, except in the so-called “mine triangle”, i.e. a region in the Minas Gerais state.

### ***Regulatory frameworks in France, Germany and Netherlands***

Telecom Italia is represented in France, Germany and Netherlands by some companies which market broadband products under the “Alice” brand (in France with company Telecom Italia S.A., in Germany with company HanseNet Telekommunikation, in Netherlands with company BBNed).

The regulatory framework in these three countries is a national transposition of the European Framework defined by the European Directives contained in the “1999 Review” mentioned earlier.

The regulatory framework of both countries is therefore comparable to the Italian one, with the responsibility being shared between the relevant Ministry and an independent Authority (Arcep in France, BNetzA in Germany, Opta in Netherlands). Here, too, individual markets with significant market power operators (with their relative obligations) have been identified as a result of the market analyses.

In the respective retail markets, the three companies have not been identified as having significant market power.

### **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 Telecom Italia Annual 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***

The arbitration filed by Fastweb on 11th December, 2006 is still pending, with regard to the interconnection agreement dated 11th January, 2000 between TIM and Fastweb, seeking for damages (equal to around €70 million) allegedly caused by a Telecom Italia and TIM’s wrongful conduct during the period from January 2000 to November 2006, with reference to their obligation of non-discrimination.

\* \* \*

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.

On 27th March, 2007 the Milan Court of Appeal dismissed the appeal filed by Telecom Italia.

Specifically, the Milan Court of Appeal ruled that the substance of Telecom Italia's application was unfounded since the new rules of procedure in force as of 1st March, 2006 made it optional and no longer obligatory to initiate the trial on the merits of the case after the issue of a precautionary measure under Article 700 of the Code of Civil Procedure.

\* \* \*

On 31st October, 2007 Fastweb served a summons on Telecom Italia to appear in the Milan Court of Appeal with a view to obtaining compensation for the damage allegedly incurred, estimated at about €970 million, in relation to the alleged abusiveness of Telecom Italia's win-back strategy in the markets for the supply of fixed voice telephony services to residential users and non-residential users and retail broadband Internet access.

The merits of Fastweb's case are based on the order issued on 16th May, 2006 in which the Milan Court of Appeal, upholding an urgent appeal by Fastweb, had prohibited Telecom Italia from continuing with some allegedly abusive conduct consisting primarily in:

- the use of information on former clients by its marketing departments for targeted win-back activities consisting in telephone calls to former clients who had migrated to Fastweb;
- the encouragement of its sales network through increased commissions and other forms of incentive linked to the recovery of customers from Fastweb;
- the supply of services at favourable conditions, selectively reserved to Fastweb clients for the purpose of win-back activity; and
- the denigration of Fastweb.

Fastweb, arguing that these activities have not ceased, has initiated an action on the merits of the case in order to counter what is alleged to be a strategy for excluding competition on the part of Telecom Italia that would amount to abuse of dominant position.

Fastweb has therefore asked the Milan Court of Appeal to ascertain the responsibility of the defendant for the losses deriving from the abusive conduct referred to above and hence to:

- condemn Telecom Italia to pay €880 million, plus interest and an amount for revaluation, as compensation for the damage caused to the plaintiff;
- condemn Telecom Italia to pay €91 million as a default penalty payment for the violations of the cease and desist order of 16th May, 2006; and
- confirm Telecom Italia's being subject to all the provisions of the order of 16th May, 2006 referred to above.

Telecom Italia has begun the analysis of the summons served by Fastweb and will defend the case within the relevant time limits, confident that its arguments will prevail.

\* \* \*

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.

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.

The proceeding is still pending.

\* \* \*



In January 2007 an award was issued in the arbitration proceeding initiated by Fastweb in 2005 for alleged non-performance by Telecom Italia of the contract for the supply of unbundled local access services (**local loop unbundling**). The arbitration board recognised non-performance and ordered Telecom Italia to pay damages of about €61 million. A specific provision had been made in the 2006 financial statements.

In particular, the dispute concerned a claim by Fastweb for €168 million of damages in relation to more than 21,000 customers who were allegedly taken away by Telecom Italia between 2002 and 2005 as a result of non-activation of unbundled lines. The award ascertained non-performance by Telecom Italia in about 11,000 cases, compared with a total of some 555,000 requests by Fastweb for activation of unbundling in the period considered (up to 30th April, 2005). Telecom Italia has challenged the award before the Rome Court of Appeal.

\* \* \*

On 19th May, 2007 Telecom Italia was notified of the award issued in the arbitration proceeding it had initiated in December 2005 with Fastweb (concerning inverse termination) with a view to obtaining a decision recognising that Fastweb had breached the interconnection contract concluded in January 2000 by unilaterally altering the economic conditions for termination on Fastweb's fixed network of traffic involving geographical numbers.

The arbitration panel declared Fastweb's unilateral alteration of the inverse termination charge to have been illegitimate. In particular, the panel declared that it was competent to decide on the questions raised by Telecom Italia and Fastweb and falling outside the scope of the authority of AGCom while leaving the latter to determine: (i) the price of the inverse termination service (which in fact is the subject of a dispute pending between the parties before the AGCom since December 2005); and (ii) the starting time of the change in the termination charge (which, since it is connected with the question of determining the price, will be established by the AGCom in the context of the dispute brought earlier by Fastweb).

As regards the refunding of the higher-than-contractual amounts paid to Fastweb (subject to reserve), the arbitration panel suspended the proceeding until the decision of the AGCom determining the termination price, after which either of the parties may request it to be revived within six months of such decision.

***Action brought by Wind before the Milan Court of Appeal against Telecom Italia for alleged abuse of dominant position (in relation to antitrust proceeding A-351)***

On 9th November, 2007 Telecom Italia was notified of the action brought by Wind before the Milan Court of Appeal for Telecom Italia to be made to pay damages amounting to €545 million to compensate for the losses alleged to have derived from the illegal conduct already sanctioned by the Antitrust Authority in proceeding A-351 (at the end of which Telecom Italia was made to pay a fine of €115 million for anticompetitive conduct).

The illegal conduct contested by Wind — consisting basically in the adoption of exclusionary commercial policies in retail markets for business users and the application of technical and economic conditions in the wholesale market inconsistent with the conditions applied in the retail market (and therefore discriminatory) — is alleged to have begun in 2001 and to have continued at least through 2005 (and probably through 2006-07).

Specifically, Wind has estimated the losses incurred in fixed-line services for business customers at €497 million (present value at 31st December, 2007) and those incurred in the lost revenues on mobile telephony associated with fixed telephony services at €48 million (present value at 31st December, 2007), giving a total of €545 million.

In the fact-finding phase Wind has requested an assessment by a court-appointed expert to verify the correctness of the methods used in estimating the losses referred to above.

***Levy under Article 20.2 of Law 448/1998***

In its judgment on the merits of the case published on 16th October, 2007 the Council of State dismissed the appeal submitted by the Ministry for the Economy and Finance and the Ministry for Communications for the annulment of the judgment of the Lazio Regional Administrative Court in July 2006, which had upheld the compliance petition submitted by Telecom Italia and ascertained the obligation for the government to return to Telecom Italia the levy paid for 1999 under Article 20.2 of Law 448/1998 and the accrued interest (€546 million and €100 million, respectively).

In November 2006 the Council of State had already dismissed the request for a stay and consequently the Ministry for the Economy and Finance paid the principal amount, but not the interest.

This judgment definitively confirmed Telecom Italia's right not only to retain the capital amounts recently repaid by the Ministry for the Economy and Finance but also to apply to that Ministry for payment of the accrued interest.

#### ***Judgment of the Lazio Regional Administrative Court concerning the "Alice 20 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 (AIIP) to suspend and annul the decision of the AGCom 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.

In the meantime, however, in a resolution notified to the Company on 13th February, 2007 the AGCom, while approving the offer of "wholesale flat ADSL with individual access and downstream access speeds up to 20 Mbit/sec using Ethernet IP technology" (presented in December 2006 and characterised by technical access parameters corresponding to those of the retail "Alice 20 Mega" service), authorised (Resolution no. 82/06/CIR) the marketing of "Alice 20 Mega" again. In fact the AGCom considered that the presence on the market of wholesale ADSL offers that meet the requirements of replicability made the overall offer situation consistent with the decisions of the Lazio Regional Administrative Court.

With an order published on 6th July, 2007 the Lazio Regional Administrative Court dismissed the petitions filed by the AIIP and Wind in their appeals to obtain the stay and annulment of AGCom Resolution no. 82/06/CIR definitively authorising Telecom Italia's Alice 20 Mega offer (including the IPTV part) for access to ADSL services up to 20 Mbit/sec.

#### ***Actions brought against other operators for unfair competition and violation of privacy***

With an order published on 26th July, 2007 the Rome Court upheld the urgent petition filed by Telecom Italia on 16th October, 2006 against Wind and Tele2 to obtain a conviction for unfair competition and conduct contrary to the law on privacy. In particular, Telecom Italia had requested the court to declare the two companies' telemarketing policies, based on cold calling to Telecom Italia clients who had not consented to this (and therefore had chosen not to be contactable for promotional offers over the phone), to be in violation of competition law.

#### ***Vodafone***

Telecom Italia reached a settlement with Vodafone covering all the disputes described in the 2006 EMTN Programme Prospectus dated 31st January, 2007, regarding the "Vodafone Casa Numero Fisso" offer.

#### ***Appeal against payment of licence fees for 1998***

With reference to the appeal submitted in 2003 by Telecom Italia to determine its right to the restitution of the licence fee paid for in 1998 (€386 million plus interest), in May 2006 the Lazio Regional Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of the provision (Article 20 of Law 488/1998), which, in an already liberalised market, had extended the obligation to pay the licence fee to 1998. The Lazio Regional Administrative Court had considered this provision to be potentially in conflict with Directive 97/13/EC.

On 25th October, 2007 the Advocate General of the European Court of Justice delivered his opinion in Telecom Italia's favour and proposed that the Court should answer the question referred by the Lazio Regional Administrative Court to the effect that Directive 97/13/EC does not allow member states to subject undertakings (former concessionaires and former holders of exclusive rights) that are currently holders of a telecommunications licence or authorisation to other (additional) fees with respect to those explicitly permitted by the above-mentioned directive.

An almost identical appeal submitted by TIM in 2003 to determine that its right to the restitution of the licence fee paid for in 1998 (approximately €143 million plus interest) is currently pending before the Lazio Regional Administrative Court. In view of the opinion of the Advocate General in the Telecom Italia case, this proceeding can now be expected to move ahead.

***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.

Telecom Italia 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 its conduct and the alleged violations (which concerned regulatory rules) was the AGCom, 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.

The appeal is still pending.

***Case A-357***

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) favoured 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.

On 6th June, 2007 the Antitrust Authority held its final hearing.

On 3rd August, 2007 the Antitrust Authority condemned Telecom Italia to a payment of €20 million.

The Antitrust Authority ordered to Telecom Italia to cease the unauthorised conducts, and to communicate by 3rd November, 2007 the steps in order to remove the infractions.

On 26th September, 2007 Telecom Italia presented an appeal to the Head of State against the decision of the Antitrust Authority that had received Vodafone commitments and closed the legal prosecution against Vodafone. Telecom Italia claimed the annulment of the decision because the Antitrust Authority hadn't closed the legal prosecution also towards the other parties.

The Antitrust Authority objected that only the Lazio Regional Administrative Court had jurisdiction in this matter.

On 18th October, 2007, Telecom Italia submitted an appeal to the Lazio Regional Administrative Court, against the decision of the Antitrust Authority, requiring its suspension.

On 23rd January, 2008, the Lazio Regional Administrative Court dismissed the appeal.

### ***Case A-375***

On 26th October, 2007, the Antitrust Authority decided to open an investigation (Proceeding A375) under Law No. 287/1990 in respect of Telecom Italia to ascertain the possible abuse of its dominant position in the markets of vocal communications on fixed network and of the broadband services, through winback and retention activities.

The investigation was instigated by the complaints filed by some operators, who claimed that Telecom Italia abused its knowledge of information about competitor's customers, making them selective offers, and denigrating Fastweb activities.

### ***H3G***

On 10th February, 2004 and 18th May, 2005 TIM and H3G concluded agreements on the main commercial relationships between the two operators. Amongst other things, these agreements governed the termination prices on the mobile operators' networks on the basis of reciprocity. In 2006 the companies had dispute due to their different position on the interpretation and application of the agreements. These disputes are the subject of arbitration that is expected to lead to the issue of an award in the early months of 2008. An interim decision was taken on 27th December, 2007 by the Arbitration Board which partially upheld H3G claims; the final decision is expected to be taken within the first quarter of 2008.

### ***Galactica***

With reference to the period 2000-2001 the Internet Service Provider Galactica S.p.A. (later Servinternet S.p.A. and now SPAL TLC S.r.l.) (**Galactica**) brought an action for damages before the Milan Court alleging Telecom Italia's non-performance of an "experimental contract" for the supply of connectivity and unfair competition under Article 2598 of the Civil Code.

Galactica also brought two other actions, subsequently joined with the first, in which it sued Telecom Italia in relation to contractual and extra-contractual liabilities. The damages requested amounted to €90 million.

In its defence Telecom Italia argued that Galactica's claims were unfounded and filed a counterclaim for more than €5 million, as a larger consideration payable in relation to the second six-month period in which the contract was in force and for anticompetitive conduct.

On 10th July, 2007 the court issued a partial judgment finding a precontractual liability on the part of Telecom Italia and ordered the quantification of the damages to continue in the next hearing scheduled for 22nd January, 2008. It also arranged on its own authority for a technical appraisal. A special provision for this contingent liability has been created in Telecom Italia's accounts for the half year ended 30th June, 2007.

### ***Consip tender***

With an action filed on 28th September, 2007 Telecom Italia applied to the Council of State for the reversal of the judgment of May 2007 in which the Lazio Regional Administrative Court had dismissed the appeal filed by the Company in July 2006 for the annulment of the Consip resolution in which Fastweb was awarded the contract in the tender held in 2005 for the supply to governmental bodies of fixed telephony, IP connectivity and satellite data transmission services.

The Lazio Regional Administrative Court had also dismissed the petition filed by Fastweb contesting Consip's decision to verify the fairness of Fastweb's bid and claiming that the requests to access the tender documents, on which Telecom Italia's appeal particularly insisted, were unfounded.

With a counter-appeal and a petition filed on 16th October, 2007 Fastweb applied for the dismissal of Telecom Italia's appeal and resubmitted the grounds for the petition to the lower court to the Council of State.

### ***Challenge of resolutions adopted by the AGCom concerning inverse termination***

On 21st September, 2007 the Council of State published its judgment declaring partially illegitimate the Resolution 11/03/CIR of the AGCom, which, together with Resolution 289/03/CONS, had governed inverse termination services.

These resolutions allowed other operators to determine the price for inverse termination independently (by charging amounts that do not necessarily take account of the criterion of reciprocity with respect to that charged by Telecom Italia) and also prohibited differentiating the price to the final user, thus preventing Telecom Italia from passing on to final users any higher costs incurred as a result of the termination prices applied by other operators.

With this judgment the Council of State ordered the AGCom to establish general principles (based on reasonableness, proportionality and certain duration) that would allow other operators to establish objectively justifiable prices for inverse termination.

These principles will need to be applied right from the entry into force of the asymmetrical measure contained in Resolution 11/03/CIR (and remain in effect until the entry into force of Resolution 417/06/CONS, which contains new rules on inverse termination and, among other things, lays down that up to 30th June, 2007 the price for the termination of voice calls on other operators' networks may not exceed €1.54 per minute, with provision for a subsequent annual step-reduction mechanism).

In implementing the above-mentioned judgment, on 25th September, 2007 the AGCom adopted Resolution 110/07/CIR suspending the proceeding initiated by Fastweb in December 2005 for the settlement of the dispute over the amount to be paid for the termination of calls on its network until the adoption of the measure identifying the above-mentioned general principles when the AGCom completes the procedure it initiated with Resolution 111/07/CIR.

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On 22nd October, 2007 the Lazio Regional Administrative Court dismissed the action brought by Telecom Italia for the annulment of Resolution 417/06/CONS of the AGCom. The action was primarily in relation to:

- the price for inverse termination (fixed at €1.54 per minute for the period from 30th June, 2006 to 30th June, 2007, with provision for a subsequent annual step-reduction until the symmetry objective is reached). Telecom Italia contested the fixing of this price with reference both to the method used and to an error in the preliminary inquiry;
- the possibility for other operators to obtain a derogation from the above price, so that in effect they were granted higher termination values than those established by the resolution.



In dismissing Telecom Italia's appeal, among other things the Lazio Regional Administrative Court considered that the AGCom had acted legitimately in providing for the authorisation of derogations from the maximum price established in the resolution challenged, since it did not follow automatically from an application but was subject to other operators documenting that they had actually incurred costs not covered by the maximum price referred to above.

#### ***Presumed violations of antitrust law (Case A-285)***

In a judgment handed down on 10th January, 2007 the Council of State partially upheld the cross appeal by the AGCom against the decision of the Lazio Regional Administrative Court concerning fine No. 9472 of imposed by the Antitrust Authority on 27th April, 2001 at the end of case A-285 for Telecom Italia's abuse of dominant position in the supply of ADSL services. The fine was equal to Italia Lira (ITL) 115 billion (corresponding to approximately €59.4 million), amount that the Administrative Court's judgment reduced to about ITL 57 billion (corresponding to approximately €29.4 million), which Telecom Italia paid in January 2002. The Council of State subsequently increased the fine to about ITL 61.5 billion (corresponding to approximately €31.7 million). The financial statements for the year ended 31st December, 2006 include the residual debt equal to approximately €2.5 million.

#### ***Tiscali***

In December 2005 Tiscali brought an action regarding shared access before the Court of Rome with a view to having the obligation established for Telecom Italia in the preliminary petition confirmed and Telecom Italia condemned to pay damages, to be determined during the case, for the loss of revenue caused by the impossibility of Tiscali's providing ADSL services to retail customers and for the harm done to its image and reputation.

In the hearing on 12th October, 2007 Tiscali filed a written submission with annexed a professional assessment of the damages, equal to about €20 million. Telecom Italia will now appoint an expert to draw up a report in response to that produced by the plaintiff.

#### ***Petition against the licence fee for the years 1996-97 (incoming and transit international traffic)***

With a judgment published on 9th October, 2007 the Council of State dismissed the appeal made by Telecom Italia in 2002 against the unfavourable judgment of the Lazio Regional Administrative Court, which had not upheld Telecom Italia's petition for the annulment of the measure concerning licence fees adopted by the Ministry of Communications on 17th January, 2000 (ref. no. 1556). In particular, the measure had ordered Telecom Italia to include revenues deriving essentially from incoming and transit international telephone traffic in the base for calculating the licence fee for the years 1996-97, with a consequent increase in the fee of ITL 33.5 billion (about €18 million).

Telecom Italia had accused the Ministry of Communications of incorrectly applying some clauses of the agreements concluded with Iritel and Italcable (taken over in the meantime by Telecom Italia), which provided for the fee to be applied exclusively to revenues deriving from the application of the amounts fixed in a formal measure (tariffs), whereas from 1994 onwards the revenues deriving from incoming and transit traffic were no longer subject to the tariff regime since they were established by the operators on the basis of commercial agreements.

According to the Council of State, instead, when there is a formal Ministerial measure, the revenues are calculated on the basis of its provisions, regardless of the agreements between the operators.

Now that the Council of State has confirmed the judgment of the Lazio Regional Administrative Court, Telecom Italia will have to pay the balance of the fee, equal to ITL 33.5 billion (about €18 million). An appropriate amount has been set aside in Telecom Italia's accounts.

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Other appeals are pending before the Lazio Regional Administrative Court in which judgment is not expected in the near future. They were filed by Telecom Italia and TIM and also concern the base for calculating the licence fee. In particular:

- the appeal submitted by Telecom Italia in 2003 for the annulment of the letter dated 9th July, 2003 ordering Telecom Italia to pay ITL 139.7 billion (€72 million) as the balance of the licence fees for the years 1997-98, of which ITL 60 billion (€31 million) for 1997 and ITL 79 billion (€41 million) for 1998. The date for hearing the merits of the case has still to be fixed;



- the appeal submitted by TIM in 2003 for the annulment of the letter dated 23rd May, 2002, in which the Ministry of Communications had requested payment of the balance of the licence fees paid for the years 1996-98 amounting to ITL 27 billion (€14 million).

An appropriate amount has been set aside in Telecom Italia's accounts.

***Action brought by Wind before the Tribunal of Milan against Telecom Italia for alleged breach of art. 82 of the European Treaty***

On 21st January, 2008, Wind served a summons on Telecom Italia to appear in the Tribunal of Milan with a view to obtaining compensation for the damage allegedly incurred, estimated at about €600 million, in relation to the alleged abusiveness of Telecom Italia's win-back strategy in the markets for the supply of fixed voice telephony services to residential users and non-residential users.

Telecom Italia has begun the analysis of the summons served by Wind and will defend the case within the relevant time limits, confident that its arguments will prevail.

***Brazil***

On 28th April, 2005, in the framework of a wider set of arrangements, a comprehensive settlement of various disputes between the partners in Solpart Participações (parent company of Brasil Telecom through Brasil Telecom Participações), was reached.

Such disputes, brought or challenged between 2001 and 2004, were finally terminated with the exception of the proceedings before the 4th Section of the Rio de Janeiro Court due to the opposition by certain indirect shareholders of Techold.

In addition, such indirect shareholders — and Solpart, BTP and BT, whose de facto control was meanwhile taken over by such shareholders — have filed several lawsuits to challenge the 28th April, 2005 agreements. Such indirect shareholders have obtained the following:

- on 5th May, 2005 the precautionary suspension of the effects of certain amendments to the shareholders' agreement of Solpart, executed on 28th April, 2005; and
- on 5th May, 2005 two preliminary injunctions against, inter alia, Telecom Italia International (**TII**), TIM International, TIM Brasil to prevent the merger of Brasil Telecom Celular into TIM Brasil pursuant to the agreement concluded on 28th April, 2005. The plaintiffs subsequently initiated the merit of the case.

In turn, the Telecom Italia Group, in addition to its defences in the above-mentioned proceedings:

- on 30th June, 2005 filed a petition with the Brazilian Courts 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;
- on 1st August, 2005 submitted a request for arbitration to the International Chamber of Commerce (**ICC**) against Techold, for (i) breach of several provisions of the Solpart shareholders' agreement and consequent damages and (ii) a declaration of Telecom Italia International's legitimate right to purchase the Solpart shares held by Techold at their fair market value less 10% or to sell to Techold its entire stake at its fair market value plus 10%, as set forth in such Solpart's Shareholders' Agreement; and
- on 3rd October, 2005 submitted a request for arbitration to the ICC against Techold and Timepart, for breach by Techold and Timepart of several provisions of a certain Solpart Master Agreement (**SMA**) executed on 28th April, 2005, and consequent damages.

Additionally:

- on 15th May, 2006 Techold filed a request for arbitration with the ICC, against TII, seeking (i) a declaration of the invalidity and/or unenforceability of the Settlement Agreement, entered into on 28th April, 2005 (related to the closure of the arbitral proceedings started by Techold and Timepart in December 2003 against TII and Telecom Italia; (ii) an award of damages;

- on 26th May, 2006, Techold filed a request for arbitration with the ICC against TII seeking (i) a declaration of the invalidity and/or unenforceability of the Transaction Agreement (Transação) (i.e. the settlement agreement entered into on 28th April, 2005 related to the closure of a certain lawsuit pending before the Brazilian Courts) (ii) an award of damages; and
- on 15th March, 2006 BT and 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.

On 5th December 2007 TII, Techold and other companies of the Brasil Telecom's control chain implemented a Mutual Release Agreement described in "Description of Telecom Italia—Recent Developments—Sale of Solpart" in which, among other things, they settled all the above-mentioned lawsuits and arbitrations. Consequently, the parties filed the relevant instruments in order to seek the closure of the proceedings.

### ***ETECSA***

In the second half of 2002, Banco Nacional de Comercio Exterior (Bancomext) charged ETECSA (in which Telecom Italia International holds a 27% 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.

While the award in the arbitration, partially unfavourable to ETECSA, was annulled in November 2006 by the Court of Appeal of Paris, in November 2005 the Court of Turin ordered ETECSA to pay to Bancomext damages in the amount of U.S.\$168 million and to restore the contractual mechanism for the payment of Bancomext. On such basis and notwithstanding an appeal filed by ETECSA with the Court of Appeal of Turin, Bancomext was able to pursue enforcement procedures against ETECSA in several European jurisdictions (including Italy, Spain, UK and others) and to attach credits of ETECSA due by several telecommunications operators.

On 17th December, 2007, the Court of Appeal of Turin finally reversed the decision of the first degree Court. ETECSA is now entitled to obtain the lift of any attachment granted to Bancomext and to receive back any amount assigned to Bancomext as a result of this latter's enforcement procedures.

Subsequently, on 9th January, 2008, Bancomext filed a new arbitration before the International Court of Arbitration of the International Chamber of Commerce of Paris against ETECSA and Telan asking for damages suffered as a consequence of the non repayment of its financing.

Furthermore, on 7th February, 2008, the Tribunal of Rome, upon request of Bancomext (to assure the potential implementation of the possible arbitral award to be issued under the newly started arbitration) granted, *inaudita altera parte*, an attachment on all assets of ETECSA, including its credits towards Telecom Italia, up to the total amount of U.S.\$ 371.6 million.

### ***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, 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 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. In June 2007 TCS served an amended complaint claiming jointly and severally liable all the defendants and requesting damages in an amount up to €81 million. In August 2007 Telecom Italia has filed a motion to dismiss, but the judge has not yet decided on this issue.

### ***ICSID arbitration versus Bolivian Government***

On 12th October, 2007 E.T.I. Euro Telecom International N.V. (a Dutch company indirectly controlled by Telecom Italia) filed a Request for Arbitration with the ICSID (International Centre for Settlement of Investment Dispute) to challenge several breaches by the Bolivian Government of the Bilateral Treaty for the Protection of Foreign Investments between Bolivia and the Netherlands.

ETI claims damages, mainly as a result of or in connection with the Bolivian plan for nationalisation issued by the Government in 2007, including those that may occur if such plan will be completely implemented.

The Request for Arbitration was registered by the ICSID on 31st October 2007, before the denunciation of the ICSID Convention by Bolivia took effect.

### ***U.S.A. — Technology Patents LLC***

On 28th January, 2008, the U.S. company Technology Patents LLC summoned Telecom Italia before the United States District Court for the District of Maryland claiming the infringement of two patents registered by the plaintiff in the United States.

The same action has been filed against many companies operating in the telecommunications sector in U.S.A. and in other countries. The plaintiff at this stage is seeking for a declaration of the validity of the above mentioned patents and for the adoption of measures, precautionary and subsequently definitive, in order to forbid the defendants to continue to provide services in violation of such patents. Finally, the plaintiff seeks for a declaration of damages allegedly suffered to be quantified during the trial.

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

**Financial Information prepared in accordance with IFRS as of and for the Six Months Ended 30th June, 2007 and 2006 and for the Two Years Ended 31st December, 2006 and 2005**

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, 2007 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 2007 First Half Report (which is incorporated by reference); and
- each of the years ended 31st December, 2006 and 2005, which have been extracted or derived from the audited consolidated financial statements of the Telecom Italia Group included in the 2006 Telecom Italia Annual Report (which is incorporated by reference).

The financial information described below should be read in conjunction with Telecom Italia Group's 2007 First Half Report and the 2006 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, 2007, 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).

	<b>Six Months ended 30th June,</b>		<b>Year ended 31st December,</b>	
	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>
	<i>(unaudited)</i>			
	<i>(millions of Euro)</i>			
<b>Consolidated Statement of Income Data in accordance with IFRS:</b>				
<b>Revenues</b> .....	<b>15,470</b>	<b>15,335</b>	<b>31,275</b>	<b>29,919</b>
<b>Operating income</b> .....	<b>3,449</b>	<b>3,801</b>	<b>7,437</b>	<b>7,499</b>
<b>Net income from continuing operations</b> .....	<b>1,506</b>	<b>1,427</b>	<b>2,996</b>	<b>3,140</b>
Net income (loss) from discontinued operations/assets held for sale .....	(4)	46	7	550
<b>Net income for the period</b> .....	<b>1,502</b>	<b>1,473</b>	<b>3,003</b>	<b>3,690</b>
<i>of which:</i>				
• <i>Net income attributable to equity holders of the Parent<sup>(1)</sup></i> .....	1,500	1,496	3,014	3,216
• <i>Net income (loss) attributable to Minority Interests</i> .....	2	(23)	(11)	474

	<u>Six Months ended</u> <u>30th June,</u>		<u>Year ended</u> <u>31st December,</u>	
	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2005</u>
	<i>(unaudited)</i>			
	<i>(thousands of Euro, except percentages, per share amounts and dividends)</i>			
<b>Financial Ratios in accordance with IFRS:</b>				
— Revenues/Employees (average number in the Telecom Italia Group) <sup>(2)</sup> .....	194.9	190.8	391.0	374.6
— Operating income/Revenues (ROS)(%) .....	<u>22.3</u>	<u>24.8</u>	<u>23.8</u>	<u>25.1</u>
<b>Basic and Diluted earnings per Share<sup>(3)</sup>:</b>				
— Ordinary Share .....	0.07	0.07	0.15	0.17
— Savings Share .....	0.08	0.08	0.16	0.18
<i>Of which:</i>				
— <i>From continuing operations:</i>				
• <i>Ordinary Share</i> .....	0.07	0.07	0.15	0.14
• <i>Savings Share</i> .....	0.08	0.08	0.16	0.15
— <i>From discontinued operations/assets held for sale:</i>				
• <i>Ordinary Share</i> .....	—	—	—	0.03
• <i>Savings Share</i> .....	—	—	—	0.03
<b>Dividends:</b>				
— per Ordinary Share .....	—	—	0.1400 <sup>(4)</sup>	0.1400
— per Savings Share .....	—	—	0.1510 <sup>(4)</sup>	0.1510

(1) The name "Parent" means Telecom Italia.

(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 personnel with temp work contracts) was 79,348 and 80,353 in the six months ended 30th June, 2007 and 2006, respectively, and was 79,993 and 79,869 in 2006 and 2005, 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 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% of the par value of shares above dividends paid on the Ordinary Shares.

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

- Ordinary Shares was 13,254,926,715 and 13,254,823,073 for the six months ended 30th June, 2007 and 2006, respectively, while it was 13,254,860,233 and 12,283,195,845 for the years ended 31st December, 2006 and 2005, respectively; and
- Savings Shares was 6,026,120,661 for the six months ended 30th June, 2007 and 2006 as well as for the year ended 31st December, 2006, while it was 5,930,204,164 for the year ended 31st December, 2005.

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

(4) Telecom Italia's dividend coupons for the year ended 31st December, 2006 were clipped on 23rd April, 2007 and were payable from 26th April, 2007.

	<u>As of</u> <u>30th June,</u> <u>2007</u>	<u>As of</u> <u>31st December,</u> <u>2006</u>	<u>2005</u>
	<i>(unaudited)</i> <i>(millions of Euro, except percentages and employees)</i>		
<b>Consolidated Balance Sheet Data in accordance with IFRS:</b>			
<b>Total Assets</b> .....	<b>86,210</b>	<b>89,457</b>	<b>96,010</b>
<b>Equity:</b>			
Equity attributable to equity holders of the Parent .....	25,029	26,018	25,662
Equity attributable to Minority Interests .....	1,072	1,080	1,323
<b>Total Equity</b> .....	<b>26,101</b>	<b>27,098</b>	<b>26,985</b>
<b>Total liabilities</b> .....	<b>60,109</b>	<b>62,359</b>	<b>69,025</b>
<b>Total equity and liabilities</b> .....	<b>86,210</b>	<b>89,457</b>	<b>96,010</b>
<b>Share capital<sup>(1)</sup></b> .....	<b>10,605</b>	<b>10,605</b>	<b>10,599</b>
<b>Financial Ratios in accordance with IFRS:</b>			
— Net Financial Debt <sup>(2)</sup> /Net Invested Capital <sup>(3)</sup> (debt ratio)(%) .....	60.0	57.9	59.6
— 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 personnel with temp work contracts) .....	83,812	83,209	85,484

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

(2) Net Financial Debt is one of the alternative performance measures presented in addition to the conventional financial performance measures established by IFRS for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Specifically, Telecom Italia believes that the Net Financial Debt provides an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets (financial receivables and securities other than equity investments). Net Financial Debt is also used in presentations to investors and analysts. Net Financial Debt is calculated as follows:



	<u>As of</u> <u>30th June,</u> <u>2007</u>	<u>As of</u> <u>31st December,</u> <u>2006</u>	<u>2005</u>
	<i>(unaudited)</i>		
	<i>(millions of Euro)</i>		
<b>GROSS FINANCIAL DEBT</b>			
<b>Non-current financial liabilities (Long-term debt)</b>			
Financial payables .....	36,381	38,842	40,252
Finance lease liabilities .....	1,834	1,847	1,894
Other financial liabilities .....	1	114	—
	<u>38,216</u>	<u>40,803</u>	<u>42,146</u>
<b>Current financial liabilities (Short-term debt), excluding financial liabilities relating to discontinued operations/assets held for sale</b>			
Financial payables .....	5,612	5,374	9,572
Finance lease liabilities .....	254	269	234
Other financial liabilities .....	120	10	6
	<u>5,986</u>	<u>5,653</u>	<u>9,812</u>
<b>Financial liabilities relating to discontinued operations/assets held for sale</b> .....	<u>—</u>	<u>—</u>	<u>143</u>
<b>TOTAL GROSS FINANCIAL DEBT (A)</b> .....	<u>44,202</u>	<u>46,456</u>	<u>52,101</u>
<b>FINANCIAL ASSETS</b>			
<b>Non-current financial assets</b>			
Securities other than investments .....	10	12	8
Financial receivables and other non-current financial assets .....	689	679	988
	<u>699</u>	<u>691</u>	<u>996</u>
<b>Current financial assets, excluding financial assets relating to discontinued operations/assets held for sale</b>			
Securities .....	265	812	378
Financial receivables and other current financial assets .....	399	433	509
Cash and cash equivalents .....	3,664	7,219	10,323
	<u>4,328</u>	<u>8,464</u>	<u>11,210</u>
<b>Financial assets relating to discontinued operations/assets held for sale</b> .....	<u>—</u>	<u>—</u>	<u>37</u>
<b>TOTAL FINANCIAL ASSETS (B)</b> .....	<u>5,027</u>	<u>9,155</u>	<u>12,243</u>
<b>NET FINANCIAL DEBT (A-B)</b> .....	<u>39,175</u>	<u>37,301</u>	<u>39,858</u>

(3) *Net Invested Capital = Total Equity + Net Financial Debt.*

	<b>As of and for the six months ended 30th June, 2007</b>	<b>As of and for the year ended 31st December,</b>	
		<b>2006</b>	<b>2005</b>
<b>Statistical Data:</b>			
<b>Domestic fixed:</b>			
Fixed network connections in Italy (thousands) . . . . .	22,836	23,698	25,049
Physical accesses (Consumer + Business) (thousands) . . . . .	19,811	20,540	21,725
Voice pricing plans (thousands) . . . . .	6,619	6,468	6,321
BroadBand accesses in Italy (thousands) . . . . .	7,277	6,770	5,707
Virgilio page views powered by Alice (millions) . . . . .	7,549	13,283	9,842
Virgilio powered by Alice average monthly single visitors (millions) . . . . .	21.4	19.1	15.7
<b>Network infrastructure in Italy:</b>			
• access network in copper (millions of km — pair) . . . . .	106.8	105.7	105.2
• access network and transport using optical fiber (millions of km of fiber) . . . . .	3.8	3.7	3.7
<b>Network infrastructure outside Italy:</b>			
• European backbone (km of fiber) . . . . .	55,000	51,000	51,000
• Mediterranean (km of submarine cable) . . . . .	7,000	7,000	7,000
• South America (km of fiber) . . . . .	30,000	30,000	30,000
<b>Domestic Mobile:</b>			
Mobile telephone lines in Italy at period-end (thousands) . . . . .	34,312	32,450	28,576
<b>European BroadBand:</b>			
BroadBand accesses in Europe at period-end (thousands) . . . . .	3,199	1,890	1,313
<b>Brazil Mobile:</b>			
Mobile telephone lines in Brazil at period-end (thousands) . . . . .	27,478	25,410	20,171
<b>Media:</b>			
La7 average audience share Free to Air (analog mode) for the period (%) . . . . .	3.0	3.0	2.7
La7 average audience share Free to Air (analog mode) for the last month of the period (%) . . . . .	3.1	3.1	3.1

## Financial Information under IFRS as of and for the Nine Months Ended 30th September, 2007 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, 2007 and 2006, and (ii) each of the nine months ended 30th September, 2007 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 2007 Report (which is incorporated by reference); and
- the year ended 31st December, 2006 which have been extracted or derived from the Telecom Italia Group's Third Quarter 2007 Report.

The financial information described below should be read in conjunction with the Telecom Italia Group's Third Quarter 2007 Report and the 2006 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, 2007, 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, 2007 and the prior year's periods presented for comparison purposes, have been prepared in accordance with IFRS.

	<u>Third quarter,</u>		<u>Nine months ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<i>(unaudited)</i>		<i>(unaudited)</i>	
	<i>(millions of Euro)</i>			
<b>Consolidated Statement of Income Data in accordance with IFRS:</b>				
<b>Revenues<sup>(1)</sup></b> .....	<b>7,737</b>	<b>7,769</b>	<b>23,207</b>	<b>23,104</b>
<b>Operating income<sup>(1)</sup></b> .....	<b>1,689</b>	<b>1,820</b>	<b>5,138</b>	<b>5,621</b>
<b>Net income from continuing operations</b> .....	<b>706</b>	<b>878</b>	<b>2,212</b>	<b>2,305</b>
Net income (loss) from discontinued operations/assets held for sale .....	—	—	(4)	46
<b>Net income for the period</b> .....	<b>706</b>	<b>878</b>	<b>2,208</b>	<b>2,351</b>
<i>of which:</i>				
• <i>Net income attributable to equity holders of the Parent</i> .....	720	880	2,220	2,376
• <i>Net income (loss) attributable to Minority Interests</i> ....	(14)	(2)	(12)	(25)

	<u>Nine months ended</u>	
	<u>2007</u>	<u>2006</u>
	<i>(unaudited)</i>	
	<i>(thousands of Euro, except percentages and per share amounts)</i>	
<b>Financial Ratios in accordance with IFRS:</b>		
— Revenues/Employees (average number in the Telecom Italia Group) <sup>(1)(2)</sup> .....	292.7	288.3
— Operating income/Revenues (ROS) (%) .....	22.1	24.3
<b>Basic and Diluted earnings per Share<sup>(3)</sup>:</b>		
— <b>Ordinary Share</b> .....	<b>0.11</b>	<b>0.12</b>
— <b>Savings Share</b> .....	<b>0.12</b>	<b>0.13</b>

<i>Of which:</i>		
— <i>From continuing operations:</i>		
• <i>Ordinary Share</i> .....	0.11	0.12
• <i>Savings Share</i> .....	0.12	0.13
— <i>From discontinued operations/assets held for sale:</i>		
• <i>Ordinary Share</i> .....	—	—
• <i>Savings Share</i> .....	—	—

(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, 2007 and 2006. For purposes of comparison, the data of the business units for the prior year's periods have been revised for consistency.

Period	Domestic	European BroadBand	Brazil Mobile	Media	Olivetti	Other Activities	Adjustments and eliminations	Consolidated Total	
									(Unaudited)
(millions of Euro, except number of employees)									
Revenues .....	1/1 – 9/30/2007	18,108	1,106	3,603	178	283	166	(237)	<b>23,207</b>
	1/1 – 9/30/2006	19,223	662	2,792	136	298	177	(184)	<b>23,104</b>
Operating income (loss) .....	1/1 – 9/30/2007	5,184	(59)	44	(84)	(32)	42	43	<b>5,138</b>
	1/1 – 9/30/2006	5,883	(106)	(47)	(111)	(49)	31	20	<b>5,621</b>
Capital Expenditures .....	1/1 – 9/30/2007	2,817	363	442	54	7	6	(1)	<b>3,688</b>
	1/1 – 9/30/2006	2,615	344	329	65	6	6	(66)	<b>3,299</b>
Number of employees at period-end <sup>(a)</sup> .....	As of 30 <sup>th</sup> September, 2007	65,528	4,503	9,842	1,020	1,329	1,469	—	<b>83,691</b>
	As of 31 <sup>st</sup> December, 2006	66,835	3,066	9,531	919	1,428	1,430	—	<b>83,209</b>

(a) The number of employees at period-end excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale and includes personnel with temp work contracts.

(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 personnel with temp work contracts) was 79,295 and 80,130 in the nine months ended 30th September, 2007 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% 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 13,254,926,313 and 13,254,845,285 for the nine months ended 30th September, 2007 and 2006, respectively; and
- Savings Shares was 6,026,120,661 for the nine months ended 30th September, 2007 and 2006.

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.

	As of 30th September, 2007	As of 31st December, 2006
	(unaudited)	
	(millions of Euro, except percentages and employees)	
<b>Consolidated Balance Sheet Data in accordance with IFRS:</b>		
<b>Total Assets</b> .....	<b>85,753</b>	<b>89,457</b>
<b>Equity:</b>		
Equity attributable to equity holders of the Parent .....	25,695	26,018
Equity attributable to Minority Interests .....	1,049	1,080
<b>Total Equity</b> .....	<b>26,744</b>	<b>27,098</b>
<b>Total liabilities</b> .....	<b>59,009</b>	<b>62,359</b>
<b>Total equity and liabilities</b> .....	<b>85,753</b>	<b>89,457</b>
<b>Share capital<sup>(1)</sup></b> .....	<b>10,605</b>	<b>10,605</b>
<b>Financial Ratios in accordance with IFRS:</b>		
— Net Financial Debt <sup>(2)</sup> /Net Invested Capital <sup>(3)</sup> (debt ratio) (%) .....	58.3	57.9
— 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 personnel with temp work contracts) .....	83,691	83,209

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

(2) *Net Financial Debt is one of the alternative performance measures presented in addition to the conventional financial performance measures established by IFRS for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Specifically, Telecom Italia believes that the Net Financial Debt provides an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets (financial receivables and securities other than equity investments). Net Financial Debt is also used in presentations to investors and analysts. Net Financial Debt is calculated as follows:*

	<b>As of 30th September, 2007</b>	<b>As of 30th June, 2007</b>	<b>As of 31st December, 2006</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	
	<i>(millions of Euro)</i>		
<b>GROSS FINANCIAL DEBT</b>			
<b>Non-current financial liabilities (Long-term debt)</b>			
Financial payables .....	35,636	36,381	38,842
Finance lease liabilities .....	1,822	1,834	1,847
Other financial liabilities .....	1	1	114
	<u>37,459</u>	<u>38,216</u>	<u>40,803</u>
<b>Current financial liabilities (Short-term debt), excluding financial debt relating to discontinued operations/assets held for sale</b>			
Financial payables .....	5,392	5,612	5,374
Finance lease liabilities .....	253	254	269
Other financial liabilities .....	8	120	10
	<u>5,653</u>	<u>5,986</u>	<u>5,653</u>
<b>Financial debt relating to discontinued operations/assets held for sale .....</b>	<u>—</u>	<u>—</u>	<u>—</u>
<b>TOTAL GROSS FINANCIAL DEBT (A).....</b>	<u><b>43,112</b></u>	<u><b>44,202</b></u>	<u><b>46,456</b></u>
<b>FINANCIAL ASSETS</b>			
<b>Non-current financial assets</b>			
Securities other than investments .....	10	10	12
Financial receivables and other non-current financial assets .....	614	689	679
	<u>624</u>	<u>699</u>	<u>691</u>
<b>Current financial assets, excluding financial assets relating to discontinued operations/assets held for sale</b>			
Securities .....	268	265	812
Financial receivables and other current financial assets .....	542	399	433
Cash and cash equivalents .....	4,235	3,664	7,219
	<u>5,045</u>	<u>4,328</u>	<u>8,464</u>
<b>Financial assets relating to discontinued operations/assets held for sale .....</b>	<u>—</u>	<u>—</u>	<u>—</u>
<b>TOTAL FINANCIAL ASSETS (B).....</b>	<u><b>5,669</b></u>	<u><b>5,027</b></u>	<u><b>9,155</b></u>
<b>NET FINANCIAL DEBT (A-B).....</b>	<u><b>37,443</b></u>	<u><b>39,175</b></u>	<u><b>37,301</b></u>

(3) *Net Invested Capital = Total Equity + Net Financial Debt.*

	<b>As of and for the nine months ended 30th September, 2007</b>	<b>As of and for the year ended 31st December, 2006</b>	<b>As of and for the nine months ended 30th September 2006</b>
<b>Statistical Data:</b>			
<b>Domestic fixed:</b>			
Fixed network connections in Italy (thousands) . . . . .	22,538	23,698	24,288
Physical accesses (Consumer + Business) (thousands) . . . . .	19,577	20,540	20,992
Voice pricing plans (thousands) . . . . .	6,548	6,468	6,417
BroadBand accesses in Italy (thousands) . . . . .	7,395	6,770	6,457
Virgilio page views powered by Alice (millions) . . . . .	10,952	13,283	9,708
Virgilio powered by Alice average monthly single visitors (millions) . . . . .	20.9	19.1	18.6
<b>Network infrastructure in Italy:</b>			
• access network in copper (millions of km — pair) . . . . .	106.8	105.7	105.2
• access network and transport using optical fiber (millions of km of fiber) . . . . .	3.8	3.7	3.7
<b>Network infrastructure outside Italy:</b>			
• European backbone (km of fiber) . . . . .	55,000	51,000	51,000
• Mediterranean (km of submarine cable) . . . . .	7,000	7,000	7,000
• South America (km of fiber) . . . . .	30,000	30,000	30,000
<b>Domestic Mobile:</b>			
Mobile telephone lines in Italy at period-end (thousands) . . . . .	35,310	32,450	31,488
<b>European BroadBand:</b>			
BroadBand accesses in Europe at period-end (thousands) . . . . .	3,306	1,890	1,718
<b>Brazil Mobile:</b>			
Mobile telephone lines in Brazil at period-end (thousands) . . . . .	29,160	25,410	24,085
<b>Media:</b>			
La7 average audience share Free to Air (analog mode) for the period (%) . . . . .	3.0	3.0	3.0
La7 average audience share Free to Air (analog mode) for the last month of the period (%) . . . . .	2.8	3.1	3.1



## DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS

### **Directors**

The Board of Directors were elected by the ordinary shareholders' meeting held on 16th April, 2007 which provided that there should be 19 Directors and set the expiration for the term of office as one year, which is the date of the shareholders' meeting called to approve the financial statements for the year ended 31st December, 2007.

On 17th April, 2007, the new Board of Directors of Telecom Italia elected Pasquale Pistorio as Chairman and confirmed Carlo Orazio Buora as Executive Deputy Chairman and Riccardo Ruggiero as Managing Director.

Subsequently, the Board of Directors appointed: Gaetano Miccichè, on 24th July, 2007, to replace resigning Director Luciano Gobbi; and César Alierta Izuel and Julio Linares López on 8th November, 2007, to replace resigning Directors Carlo Alessandro Puri Negri and Claudio De Conto.

As a result of the resignations of the Executive Directors Pasquale Pistorio, Carlo Orazio Buora and Riccardo Ruggiero, as well as of the Director Diana Bracco, the Board of Directors on 3rd December, 2007 meeting appointed Gabriele Galateri di Genola, as Chairman, and Franco Bernabè, as Chief Executive Officer.

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.

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Appointed</u></b>
Gabriele Galateri di Genola <sup>(1)</sup> . . . . .	Chairman . . . . .	2007
Franco Bernabè <sup>(1)</sup> . . . . .	Chief Executive Officer . . . . .	2007
César Alierta Izuel <sup>(3)</sup> . . . . .	Director . . . . .	2007
Paolo Baratta <sup>(2)</sup> . . . . .	Director . . . . .	2007
Gilberto Benetton . . . . .	Director . . . . .	2007
Stefano Cao <sup>(2)</sup> . . . . .	Director . . . . .	2007
Renzo Capra <sup>(2)</sup> . . . . .	Director . . . . .	2007
Domenico De Sole <sup>(2)</sup> . . . . .	Director . . . . .	2007
Luigi Fausti <sup>(2)</sup> . . . . .	Director . . . . .	2007
Jean Paul Fitoussi <sup>(2)</sup> . . . . .	Director . . . . .	2007
Julio Linares López <sup>(3)</sup> . . . . .	Director . . . . .	2007
Gaetano Miccichè <sup>(4)</sup> . . . . .	Director . . . . .	2007
Aldo Minucci . . . . .	Director . . . . .	2007
Gianni Mion . . . . .	Director . . . . .	2007
Renato Pagliaro . . . . .	Director . . . . .	2007
Cesare Giovanni Vecchio <sup>(2)</sup> . . . . .	Director . . . . .	2007
Luigi Zingales <sup>(2)</sup> . . . . .	Director . . . . .	2007

(1) Appointed by the Board of Directors on 3rd December, 2007.

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

(3) Appointed by the Board of Directors on 8th November, 2007.

(4) Appointed by the Board of Directors on 24th July, 2007.

### **Description of Directors' Outside Interests**

**Gabriele Galateri di Genola:** Gabriele Galateri di Genola is deputy chairman of Assicurazioni Generali S.p.A. and RCS MediaGroup S.p.A., Director of Pirelli & C. S.p.A., Banca Esperia S.p.A., Banca CRS S.p.A.

**Franco Bernabè:** Franco Bernabè is Director of Petrochina Company Limited.

**César Alierta Izuel:** César Alierta Izuel is Executive Chairman and Chief Executive Officer of Telefónica S.A. He is Director of Telefónica O2 Europe Plc and Altadis S.A. Mr. Alierta is also a member of the Colombia Business School Board of Overseers.

**Paolo Baratta:** Paolo Baratta is a Director of Svimez-Roma 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., Sintonia S.p.A. and Autogrill S.p.A., Director of Benetton Group S.p.A., Pirelli & C. S.p.A., Mediobanca S.p.A., Schemaventotto S.p.A., Lloyd Adriatico S.p.A., and Atlantia S.p.A.

**Stefano Cao:** Stefano Cao is Chief Operating Officer of ENI S.p.A. Exploration & Production Division.

**Renzo Capra:** Renzo Capra is Chairman of ASM Brescia S.p.A.

**Domenico De Sole:** Domenico De Sole is a Director of Bausch & Lomb Gruppo Ermenegildo Zegna S.p.A., Gap Inc. and Delta Air Lines Inc.

**Luigi Fausti:** Luigi Fausti is Director of Monrif S.p.A. Poligrafici Editoriale S.p.A. and Cassa Depositi e Prestiti and he is Chairman of Patrimonio Immobiliare dello Stato 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.

**Julio Linares López:** Julio Linares López is Chief Executive Officer of Telefónica S.A. and Vice Chairman of Český Telecom. He is also Director of Telefónica España, Telefónica O2 Europe, Telefónica Latinoamérica and Sogecable S.A.

**Gaetano Miccichè:** Gaetano Miccichè is head of Corporate & Investment Banking Division of Intesa Sanpaolo S.p.A., Director of Borsa Italiana S.p.A. and Chief Executive Officer of Banca IMI S.p.A.

**Aldo Minucci:** Aldo Minucci is Deputy General Manger of Assicurazioni Generali S.p.A., Chairman of GENERTEL S.p.A. and SIMGENIA S.p.A., Deputy Chairman of Nuova Tirrena S.p.A. and Director of Alleanza Assicurazioni S.p.A., Banca Generali S.p.A., Intesa Previdenza SIM S.p.A., Intesa Vita S.p.A., La Venezia Assicurazioni S.p.A., Gemina S.p.A., Toro S.p.A., INA Assitalia S.p.A., FATA Vita S.p.A. and FATA Assicurazioni Danni S.p.A.

**Gianni Mion:** Gianni Mion is Managing Director of Edizione Holding S.p.A. and Sintonia S.p.A. and Director of Schemaventotto S.p.A., Benetton Group S.p.A., Autogrill S.p.A., 21-Investimenti, Atlantia S.p.A., Autogrill S.p.A., Aereoporti di Roma S.p.A., Cartiere Burgo S.p.A. Fondazione Cassa di Risparmio di Venezia and Luxottica Group S.p.A.

**Renato Pagliaro:** Renato Pagliaro is Chairman of Management Board of Mediobanca S.p.A. and a Director of RCS Mediagroup S.p.A., Compass S.p.A., SelmaBipiemme S.p.A., Cofactor S.p.A. and Burgo Group S.p.A.

**Cesare Giovanni Vecchio:** Cesare Giovanni Vecchio is Chairman of Fingruppo Holding S.p.A. and Director of Sorin S.p.A.

**Luigi Zingales:** Luigi Zingales is the Robert C. McCormack Professor of Entrepreneurship and Finance at the Graduate School of Business of the University of Chicago. He is an editorialist for Il Sole 24 ore.

### **Executive Officers**

As of 31st December, 2007 the executive officers of Telecom Italia and their respective position(s) and year of appointment as executive officers were as follows:

<b>Name</b>	<b>Position</b>	<b>Appointed</b>
Gabriele Galateri di Genola.....	Chairman <sup>(1)</sup> .....	2007
Franco Bernabè .....	Chief Executive Officer <sup>(1)</sup> .....	2007

*(1) Appointed by the Board of Directors on 3rd December, 2007.*

### **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, in part, by the shareholders' meeting held on 13th April, 2006. The shareholders' meeting held on 16th April, 2007 added members to the Board of Statutory Auditors, appointing Enrico Maria Bignami (previously an alternate auditor, until the substitution in the meeting of the statutory Auditor Stefano Meroi, who tendered his

resignation from the office on 20th October, 2006) as acting auditor and Luigi Gaspari as alternate auditor up to the expiry of the term of office of the board of statutory auditors appointed in 2006 (i.e. approval of the financial statements for the year ended 31st December, 2008).

*Board of Statutory Auditors*

Chairman	Paolo Golia <sup>(1)(2)</sup>
Acting Auditors	Enrico Maria Bignami <sup>(1)</sup> Salvatore Spiniello Ferdinando Superti Furga Gianfranco Zanda <sup>(3)</sup>
Alternate Auditors	Luigi Gaspari <sup>(1)</sup> 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:

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., SI Holding S.p.A., Cartasi S.p.A., Mercati Finanziari 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.
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.
Salvatore Spiniello .....	Director of Immobiliare Lombarda S.p.A., Fondiaria Sai S.p.A. and Banca Sai S.p.A.; Chairman of the Board of Auditors of 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., Unicredit Banca S.p.A. and Emittenti Titoli S.p.A.
Ferdinando Superti Furga .....	Chairman of the Board of Directors of Banca Intesa Infrastrutture e Sviluppo S.p.A.; Independent Director of Parmalat S.p.A. and Giuseppe Citterio S.p.A.; Chairman of the Board of Auditors of Arnoldo Mondadori Editore S.p.A., Publitalia 80 S.p.A., Snamprogetti S.p.A. and Fininvest S.p.A.; member of the Board of Auditors of Edison S.p.A.; Deputy Chairman of Société Européenne de Banque S.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 arm’s 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.

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%-owned subsidiary of Telecom Italia. The following are the only subsidiaries of TI Finance, all of which are 100%-owned by TI Finance: 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 Director of Sogefi S.p.A.

Mr. Jacques Loesch is a lawyer at the law firm Linklaters LLP.

#### ***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 required under the Luxembourg law dated 11th January, 2008, implementing the Directive 2004/109/EC of the European Parliament and of the Council of 15th December, 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC to prepare interim financial statements.

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, located in Piazza degli Affari 2, 20123 Milan.

The financial statements are available at the offices of the Luxembourg Paying Agent (The Bank of New York (Luxembourg) S.A., Aerogolf Center, 1A Hoehenhof, L-1736 Senningerberg, 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 24th April, 2007 the €1,750,000,000 6.25% Notes, whose residual outstanding amount was €1,720,000,000 were redeemed together with accrued interest.

On 24th January, 2008 the €1,750,000,000 5.875% Notes, whose residual outstanding amount was €1,658,860,000 were redeemed together with accrued interest.

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

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

**Balance Sheets**

	<b>As of</b>	<b>As of</b>
	<b>31st December,</b>	<b>31st December,</b>
	<b>2006</b>	<b>2005</b>
	<i>(euro)</i>	
<b>Assets</b>		
<b>A) Fixed assets</b>		
Intangible assets .....	4,279.19	12,347.25
Tangible assets .....	56,919.29	59,648.40
Financial assets:		
— Investments .....	71,929,931.84	116,749,552.19
— Receivables from parent company .....	8,526,503,597.51	12,457,911,075.41
— Receivables from affiliated companies .....	0	74,136,101.54
— Other securities .....	331,768,509.63	425,300,176.84
Other long term accounts receivable .....	0	3,650,931.58
<b>Total A) .....</b>	<b><u>8,930,263,237.46</u></b>	<b><u>13,077,819,833.21</u></b>
<b>B) Current assets</b>		
Receivables:		
— Receivables from parent company .....	61,853.00	16,723,829.83
— Receivables from affiliated companies .....	561,321,435.35	224,086,570.88
— Other financial receivables .....	5,393,230.82	1,908,638.51
— Other receivables .....	261,309.71	243,585.52
Securities:		
— Other securities .....	6,337,699,552.81	6,068,164,162.76
— Commercial paper .....	19,951,451.48	326,168,885.96
Cash at bank and bank deposit .....	411,803,203.07	2,908,977,300.57
<b>Total B) .....</b>	<b><u>7,336,492,036.24</u></b>	<b><u>9,546,272,974.03</u></b>
<b>C) Accrued income and prepaid expenses .....</b>	<b><u>483,985,897.48</u></b>	<b><u>704,289,215.35</u></b>
	<b><u>16,750,741,171.18</u></b>	<b><u>23,328,382,022.59</u></b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps .....	186,820,108.82	350,511,982.01
— Cross currency interest rate swaps and Asset Swaps .....	0.00	186,408,955.88
— Interest rate swaps .....	768,352,723.03	3,951,295,423.36
	<b><u>955,172,831.85</u></b>	<b><u>4,488,216,361.25</u></b>

(1) TI Finance's selected financial data as of and for the year ended 31st December 2006 have been extracted from Telecom Italia Finance's financial statements for the year ended 31st December 2006 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 4th April, 2007.



	As of 31st December, 2006	As of 31st December, 2005
	<i>(euro)</i>	
<b>Liabilities</b>		
<b>A) Shareholders' equity</b>		
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 .....	(123,944,832.64)	(215,170,605.72)
<b>Total A).</b> .....	<b>1,517,960,522.58</b>	<b>1,641,905,355.22</b>
<b>B) Reserve for future charges and risks</b>		
— Reserve for taxes .....	8,280,154.56	11,036,331.84
— Other Reserves for financial risks and charges .....	0.00	19,228,500.44
— Extraordinary Reserves for future other risks and charges on equity investments .....	31,558,015.82	10,118,152.53
<b>Total B).</b> .....	<b>39,838,170.38</b>	<b>40,382,984.81</b>
<b>C) Liabilities</b>		
— <i>Long-term debt (&gt; 12 months)</i>		
Bonds .....	10,895,974,357.80	12,344,278,935.55
Due to Third Parties .....	127,445,357.80	143,988,480.92
— <i>Short-term debt (&lt; 12 months)</i>		
Bonds .....	1,720,000,000.00	6,154,247,050.70
Due to affiliated companies .....	1,837,118,700.10	2,181,927,246.69
Due to Third Parties .....	181,958.37	5,463,853.64
Due to parent company .....	1,177,799.39	23,047,681.88
Other payables .....	1,638,518.81	2,944,699.66
<b>Total C).</b> .....	<b>14,583,536,692.27</b>	<b>20,855,897,949.04</b>
<b>D) Accrued expenses and deferred income</b> .....	<b>609,405,785.95</b>	<b>790,195,733.52</b>
	<b>16,750,741,171.18</b>	<b>23,328,382,022.59</b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps Cross currency interest rate swaps .....	186,820,108.82	350,511,982.01
— Cross currency interest rate swaps and Asset Swaps Interest rate swaps .....	0.00	186,408,955.88
— Interest rate swaps .....	768,352,723.03	3,951,295,423.36
	<b>955,172,831.85</b>	<b>4,488,216,361.25</b>

## Income Statements

	<u>Year ended 31st December, 2006</u>	<u>Year ended 31st December, 2005</u>
	<i>(euro)</i>	
<b>Income</b>		
Dividends . . . . .	33,770,086.36	22,571,449.07
Other Financial Income . . . . .	422,213,565.41	415,185,597.29
Upward adjustment of equity investment . . . . .	10,683.00	437,527.46
Other Interests and Financial Income:		
— on Commercial Paper . . . . .	5,834,803.11	6,396,141.90
— on receivables from parent company . . . . .	443,547,039.59	564,890,505.18
— income on derivative financial instruments . . . . .	119,478,842.20	269,813,067.60
— on receivables from banks . . . . .	32,916,246.95	44,878,454.05
— on receivables from affiliated companies . . . . .	34,896,643.80	30,603,921.84
— other Financial Incomes . . . . .	20,260,602.57	37,140,326.52
	<b>1,112,928,512.99</b>	<b>953,722,417.09</b>
Revaluation of securities included in current assets . . . . .	—	—
Revaluation of equity investments included in long-term investments . . . . .	—	—
Absorption of reserve for write-down of receivables in current assets . . . . .	—	—
Gains on extraordinary disposals of tangible assets . . . . .	—	—
Gains on extraordinary disposals of equity investments and other securities . . . . .	47,402.27	—
Extraordinary income . . . . .	19,610,747.01	286,598.77
Rent . . . . .	135,067.83	137,525.00
Gains on disposals of fixed equity investments . . . . .	0.00	1,260,145.50
Other Income . . . . .	1,125,497.02	105,329.96
<b>Loss for the year</b> . . . . .	<b>123,944,832.64</b>	<b>215,170,605.72</b>
	<b>1,257,792,059.76</b>	<b>1,608,877,195.86</b>
<b>Expenses</b>		
Personal expenses		
a) Wages and salaries . . . . .	403,890.90	429,392.57
b) Social security contributions . . . . .	175,461.06	198,388.63
	<b>579,351.96</b>	<b>627,781.20</b>
Amortisation of intangible and tangible asset . . . . .	44,848.35	45,211.46
Writedowns of equity investments included in long-term investments . . . . .	—	—
Prior years' income taxes . . . . .	—	—
Extraordinary provision to reserve for future risks/charges on equity investments not valued with equity method . . . . .	39,066,985.89	558,539.21
Other expenses . . . . .	1,891,215.99	1,775,029.90
Write-Down of investments and securities . . . . .	101,685,762.30	86,891,564.86
Write-Down of receivables included in current and liquid assets . . . . .	17,713,493.94	10,914,079.39
Write-Down of equity investments . . . . .	156,174.95	1,602,155.02
Interest and other financial expenses:		
— on note . . . . .	893,432,513.65	1,168,012,763.38
— on amount due to banks . . . . .	7,919,909.59	8,419,737.20
— on amount due to parent company . . . . .	2,477,761.30	3,076,167.97
— on amount due to affiliated companies . . . . .	52,289,736.93	39,774,851.48
— expenses on derivative financial instruments . . . . .	109,035,337.60	229,436,157.36
— other Financial expenses . . . . .	21,480,091.31	54,059,196.18
	<b>1,086,635,350.38</b>	<b>1,502,778,873.57</b>
Extraordinary Expenses . . . . .	—	—
Other taxes . . . . .	10,018,876.00	3,683,961.25
	<b>1,257,792,059.76</b>	<b>1,608,877,195.86</b>

**SELECTED FINANCIAL INFORMATION OF TI FINANCE AS OF AND  
FOR SIX MONTHS ENDED 30TH JUNE 2007<sup>(1)(2)</sup>**

**Balance Sheets**

	<b>As of 30th June, 2007</b>	<b>As of 31st December, 2006</b>
	<i>(unaudited)</i>	
	<i>(euro)</i>	
<b>Assets</b>		
<b>A) Fixed assets</b>		
Intangible assets .....	267.45	4,279.19
Tangible assets .....	59,005.53	56,919.29
Financial assets:		
— Investments .....	71,929,931.84	71,929,931.84
— Receivables from parent company .....	8,050,972,774.19	8,526,503,597.51
— Receivables from affiliated companies .....	—	—
— Other securities .....	330,698,512.38	331,768,509.63
Other long term accounts receivable .....	—	—
<b>Total A) .....</b>	<b>8,453,660,490.39</b>	<b>8,930,263,237.46</b>
<b>B) Current assets</b>		
Receivables:		
— Receivables from parent company .....	61,853.00	61,853.00
— Receivables from affiliated companies .....	713,902,322.54	561,321,435.35
— Other financial receivables .....	746,943.26	5,393,230.82
— Other receivables .....	249,917.55	261,309.71
Securities:		
— Other securities .....	5,797,553,453.40	6,337,699,552.81
— Commercial paper .....	140,678,096.81	19,951,451.48
Cash at bank and bank deposit .....	566,813,511.91	411,803,203.07
<b>Total B) .....</b>	<b>7,220,006,098.47</b>	<b>7,336,492,036.24</b>
<b>C) Accrued income and prepaid expenses .....</b>	<b>306,841,074.59</b>	<b>483,985,897.48</b>
	<b>15,980,507,663.45</b>	<b>16,750,741,171.18</b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps .....	134,317,207.12	186,820,108.82
— Cross currency interest rate swaps and Asset Swaps .....	—	—
— Interest rate swaps .....	357,438,475.41	768,352,723.03
	<b>491,755,682.53</b>	<b>955,172,831.85</b>

(1) TI Finance's selected financial data as of and for the year ended 31st December, 2006 have been extracted from Telecom Italia Finance's financial statements for the year ended 31st December, 2006 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 4th April, 2007.

(2) TI Finance's selected interim financial data have been extracted from unaudited interim financial statements as of 30th June, 2007 (which are incorporated by reference) and prepared in accordance with Luxembourg GAAP.

	<b>As of 30th June, 2007</b>	<b>As of 31st December, 2006</b>
	<i>(unaudited)</i>	
	<i>(euro)</i>	
<b>Liabilities</b>		
<b>A) Shareholders' equity</b>		
Share capital.....	542,090,241.00	542,090,241.00
Reserves:		
— Other reserves.....	581,064,619.17	705,009,451.81
— Unavailable reserve.....	394,805,662.41	394,805,662.41
Net Income for the year.....	20,380,256.28	(123,944,832.64)
<b>Total A) .....</b>	<b><u>1,538,340,778.86</u></b>	<b><u>1,517,960,522.58</u></b>
<b>B) Reserve for future charges and risks</b>		
— Reserve for taxes.....	10,040,000.00	8,280,154.56
— Other Reserves for financial risks and charges .....	—	—
— Extraordinary Reserves for future other risks and charges on equity investments .....	31,558,015.82	31,558,015.82
<b>Total B) .....</b>	<b><u>41,598,015.82</u></b>	<b><u>39,838,170.38</u></b>
<b>C) Liabilities</b>		
— <i>Long-term debt (&gt; 12 months)</i>		
Bonds.....	9,229,695,405.81	10,895,974,357.80
Due to Third Parties .....	120,026,405.81	127,445,357.80
— <i>Short-term debt (&lt; 12 months)</i>		
Bonds.....	1,658,860,000.00	1,720,000,000.00
Due to affiliated companies.....	3,046,415,387.60	1,837,118,700.10
Due to Third Parties .....	6,821,511.10	181,958.37
Due to parent company .....	1,879,881.53	1,177,799.39
Other payables.....	1,465,127.70	1,638,518.81
<b>Total C) .....</b>	<b><u>14,065,163,719.55</u></b>	<b><u>14,583,536,692.27</u></b>
<b>D) Accrued expenses and deferred income .....</b>	<b><u>335,405,149.22</u></b>	<b><u>609,405,785.95</u></b>
	<b><u>15,980,507,663.45</u></b>	<b><u>16,750,741,171.18</u></b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps Cross currency interest rate swaps ...	134,317,207.12	186,820,108.82
— Cross currency interest rate swaps and Asset Swaps Interest rate swaps .....	—	—
— Interest rate swaps .....	357,438,475.41	768,352,723.03
	<b><u>491,755,682.53</u></b>	<b><u>955,172,831.85</u></b>

## Income Statements

	<b>Six months ended 30th June, 2007</b>	<b>Six months ended 30th June, 2006</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>(euro)</i>	
<b>Income</b>		
Dividends.....	17,436,212.22	21,400,455.76
Other Financial Income.....	206,266,516.91	201,785,874.83
Upward adjustment of equity investment .....	—	3,385.00
Other Interests and Financial Income:		
— on Commercial Paper.....	905,048.19	2,589,853.74
— on receivables from parent company .....	213,607,719.08	228,666,532.01
— income on derivative financial instruments .....	8,709,129.98	100,705,815.00
— on receivables from banks.....	7,155,152.32	20,291,210.37
— on receivables from affiliated companies.....	18,294,821.79	15,761,603.61
— other Financial Incomes .....	16,205,286.29	8,307,018.05
	<b>488,579,886.78</b>	<b>599,511,748.37</b>
Rent.....	99,784.86	58,050.00
Gain on disposals of fixed equity investments .....	—	—
Other Income .....	197,633.35	163,229.38
<b>Loss for the period</b> .....	<b>—</b>	<b>65,540,751.93</b>
	<b>488,877,304.99</b>	<b>665,273,779.68</b>
<b>Expenses</b>		
Personal expenses		
a) Wages and salaries .....	116,472.41	219,503.68
b) Social security contributions .....	61,205.80	61,556.07
	<b>177,678.21</b>	<b>281,059.75</b>
Amortisation of intangible and tangible asset.....	16,942.94	18,990.93
Provision on risk and expenses .....	—	4,251,651.50
Other expenses .....	540,649.33	691,240.68
Write-Down of investments and securities .....	—	44,682,127.59
Write-Down of receivables included in current and liquid assets .....	—	10,620,731.41
Write-Down of equity investments.....	14,671.10	30,433.10
Interest and other financial expenses:		
— on note .....	391,324,888.33	475,707,204.63
— on amount due to banks.....	3,889,536.89	4,282,257.63
— on amount due to parent company.....	1,123,826.61	1,293,560.85
— on amount due to affiliated companies .....	40,429,224.67	23,648,216.03
— expenses on derivative financial instruments .....	11,504,323.23	88,671,607.00
— other Financial expenses .....	14,350,376.27	6,623,822.16
	<b>462,622,176.00</b>	<b>600,226,668.30</b>
Other taxes.....	5,124,931.13	4,470,876.42
<b>Income for the period</b> .....	<b>20,380,256.28</b>	<b>—</b>
	<b>488,877,304.99</b>	<b>665,273,779.68</b>

## TAXATION

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

*The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to 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.*

### Italian taxation

*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, it is possible that the tax treatment of financial income will be further modified, which may impact upon the tax regime of the Notes.*

### **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%. 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% 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 an 11% substitute tax.

Pursuant to Decree No. 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by a decree of the Ministry of Economy and Finance (each an **Intermediary**).

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

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

#### *Non-Italian resident Noteholders*

Where the Noteholder is a non-Italian resident, 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% (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% 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%.

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% in relation to Notes issued with an original maturity of not less than 18 months and (b) 27% 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% *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% 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% 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% if the payment is made to non-Italian resident Noteholders other than those mentioned under (ii) or (ii) 27% 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%.

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% 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%. 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% 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% 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% 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%.

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% on the value of the inheritance or the gift exceeding €1,000,000 (per beneficiary);
- (ii) transfers in favour of the brothers or sisters are subject to an inheritance and gift tax applied at a rate of 6% on the value of the inheritance or the gift exceeding €100,000 (per beneficiary);
- (iii) transfers in favour of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6% on the entire value of the inheritance or the gift; and
- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8% 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***

Article 37 of Law Decree No. 248 of 31st December, 2007 (Decree No. 248), published on the Italian Official Gazette No. 302 of 31st December, 2007, has abolished the Italian transfer tax provided for by the Royal Decree No. 3278 of 30th December, 1923, as amended and supplemented by the Legislative Decree No. 435 of 21st November, 1997. It is worth noting that at the date of this Prospectus the Decree No. 248 must be converted into law by the Parliament within 60 days from its publication.

Following the repeal of the Italian transfer tax, as from 31st December, 2007 contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarised deeds are subject to fixed registration tax at rate of €168; (ii) private deeds are subject to registration tax only in case of use or voluntary registration.

Should the Decree No. 248 not be converted into law it will lapse with retroactive effect. In such a case, the consequences of the temporary application of the decree would likely be confirmed by specific regulations.

In such event, Italian transfer tax would be applicable to the transfer of the Notes, 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, according to the laws previously in force (Royal Decree No. 3278 of 30th December, 1923 and Legislative Decree No. 435 of 21st November, 1997).

However, on the basis of the abolished provisions the transfer tax was not applicable, *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 Legislative Decree No. 415 of 23rd July, 1996 as superseded by Legislative 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; and (c) between the subjects mentioned in (a) above, even if non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public offering (*offerta pubblica di vendita*) aimed at the listing on regulated markets, or involving financial instruments already listed on regulated markets, (iv) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

### ***Tax monitoring***

Pursuant to Law Decree No. 167 of 28th June, 1990, ratified and converted by Law No. 227 of 4th August, 1990, as amended, individuals, non-commercial partnerships and non-commercial entities which are resident in Italy for tax purposes and, at the end of the year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the tax authorities. This obligation does not exist in cases where the overall value of the foreign investments or financial activities at the end of the year, and the overall value of the transactions carried out during the relevant year, does not exceed €10,000.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (**EU Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to 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 adopted similar measures (a withholding system in the case of Switzerland).



## **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 taxation**

### ***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 EU Savings Directive and several agreements concluded between Luxembourg and certain dependent and associated territories of the European Union, a Luxembourg based paying agent (within the meaning of the EU 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 EU Savings 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 and associated territories.

The withholding tax rate is initially 15% for the first three-year period starting 1st July 2005, increasing steadily to 20% and to 35%. 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% 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 EU Savings 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% 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% 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% withholding tax. The 10% 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% 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 or to the Law of 13th February, 2007) 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 or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No gift, estate or inheritance taxes 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 15th February, 2008, 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.

### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this EMTN Programme Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;
- (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;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3 of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, 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 having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Republic of Italy**

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each of the Dealers has represented and agreed and each further Dealer will be required to represent and agree, that it will not offer, sell, promote, advertise or deliver any Notes or distribute copies of this EMTN Programme Prospectus or of any other document relating to the Notes in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined by relevant CONSOB regulations, as amended from time to time, in accordance with Article 100 of Legislative Decree No. 58 of 24th February 1998, as amended (the **Financial Services Act**), and in Article 2(i)(e) of Directive No. 2003/71/EC of the European Parliament and the Council of 4th November, 2003; or
- (ii) in other circumstances which are exempted from the rules on offers of securities to the public pursuant to Article 100 of 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, promotion, advertising or delivery of the Notes or distribution of copies of this EMTN Programme Prospectus or any other document relating to the Notes in 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, CONSOB Regulation No. 16190 of 29th October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1st September, 1993, as amended (the **Banking Act**);
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in each case in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

*Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on offers of securities to the public applies under (i) and (ii) above, the subsequent distribution of the Notes 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 the Financial Supervision Act (“*Wet op het financieel toezicht*”) and the decrees issued pursuant thereto.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the **FIEL**) 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, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL 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.

### Manager responsible for financial reporting

The manager responsible for financial reporting (Enrico Parazzini) declares, pursuant to paragraph 2 of art. 154-*bis* of the Financial Services Act, that the accounting information contained in this EMTN Programme Prospectus corresponds to the documents results, book and accounting records.

### 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 Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Documents Available

For the period of 12 months following the date of this EMTN Programme Prospectus, copies of the following documents will be available from the registered office of each Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with an English translation thereof) of each of Telecom Italia and TI Finance;
- (b) the consolidated audited financial statements of Telecom Italia for the financial years ended 31st December, 2005 and 31st December, 2006 (with an English translation thereof);
- (c) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31st December, 2005 and 31st December, 2006 (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 currently prepares the six-month interim and full year financial statements on both a consolidated and unconsolidated basis, whilst the first and third quarter financial statements are prepared only on a consolidated basis. TI Finance currently prepares unconsolidated audited financial statements for the 12-month period to 31st December in each year. TI Finance is required under the Luxembourg law dated 11th January, 2008, implementing the Directive 2004/109/EC of the European Parliament and of the Council of 15th December, 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC to publish interim financial statements;
- (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, 2007 and there has been no significant change in the financial or trading position of TI Finance since 30th June, 2007. There has been no material adverse change in the financial position or prospects of each of the Issuers since 31st December, 2006.

### **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 EMTN Programme Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Telecom Italia, TI Finance or the Telecom Italia Group.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Auditors**

The consolidated financial statements of Telecom Italia for the financial years ended 31st December, 2005 and 31st December, 2006, prepared under IFRS, 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 interim financial statements of Telecom Italia, for the six months ended 30th June, 2006 and the six months ended 30th June, 2007 prepared under IFRS, 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 Public Company Accounting Oversight Board (**PCAOB**) in the United States.

The TI Finance unconsolidated financial statements at 31st December, 2005 and 2006 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 Réviseurs 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.

**REGISTERED AND HEAD OFFICE OF  
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**ISSUING AND PRINCIPAL PAYING AGENT**

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*To Telecom Italia Finance S.A.*

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## DEALERS

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**Bayerische Hypo- und Vereinsbank AG**  
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**BNP PARIBAS**  
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**Citigroup Global Markets Limited**  
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**Lehman Brothers International (Europe)**  
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## LUXEMBOURG LISTING AGENT

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