



OFFERING MEMORANDUM

NOT FOR GENERAL CIRCULATION  
IN THE UNITED STATES



## Telecom Italia Capital

**\$1,250,000,000 4% Guaranteed Senior Notes due 2010**

Issue price: 99.732%

Interest Payable on January 15 and July 15

**\$1,250,000,000 4.95% Guaranteed Senior Notes due 2014**

Issue price: 99.651%

Interest Payable on March 30 and September 30

**\$1,000,000,000 6% Guaranteed Senior Notes due 2034**

Issue price: 99.081%

Interest Payable on March 30 and September 30

**Guaranteed on a senior, unsecured basis by**

## Telecom Italia S.p.A.

The 2010 notes will mature on January 15, 2010, the 2014 notes will mature on September 30, 2014 and the 2034 notes will mature on September 30, 2034. Interest on the notes of each series will accrue from October 6, 2004, and the first interest payment date will be January 15, 2005, for the 2010 notes and March 30, 2005, for the 2014 notes and the 2034 notes.

Telecom Italia Capital, a *société anonyme* (“**TI Capital**”), and Telecom Italia S.p.A. (“**Telecom Italia**”) may redeem some or all of the notes at any time on and after July 15, 2006, for the 2010 notes and September 30, 2006, for the 2014 notes and the 2034 notes. The redemption prices are described under “Description of Notes and Guarantees—Redemption at TI Capital’s Option”. The notes may also be redeemed at 100% of their principal amount in whole but not in part upon the occurrence of certain tax events described in this offering memorandum. The notes will rank equally with all our existing and future senior debt and rank senior to all our existing and future subordinated debt. The notes will be fully, unconditionally and irrevocably guaranteed by Telecom Italia.

**See “Risk Factors” beginning on page 21 and the “Risk Factors” appearing in the Telecom Italia Annual Report incorporated by reference herein for a discussion of certain risks that you should consider in connection with an investment in the notes.**

The notes have not been and will not be registered under the Securities Act of 1933, as amended (the “**Securities Act**”), or any U.S. state securities laws and may not be offered or sold in the United States or to U.S. persons unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. We are offering the notes within the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act (“**Rule 144A**”). We are offering these notes outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”). For a description of restrictions on transfers of the notes, see “Plan of Distribution” and “Transfer Restrictions”.

TI Capital and Telecom Italia have agreed to file an exchange offer registration statement pursuant to a registration rights agreement. Such exchange offer is required to be completed not later than October 31, 2005. See “Exchange Offer and Registration Rights”.

Application has been made to list the notes on the Luxembourg Stock Exchange.

We expect that the notes will be ready for delivery in book-entry form only through The Depository Trust Company (“**DTC**”) and its participants including Euroclear Bank, S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* Luxembourg (“**Clearstream**”), on or about October 6, 2004.

*Joint Book-running Managers*

**GOLDMAN, SACHS & CO.**

**JPMORGAN**

**LEHMAN BROTHERS**

**MERRILL LYNCH & CO.**

**MORGAN STANLEY**

September 28, 2004



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In this offering memorandum, references to the **“Issuer”** and **“TI Capital”** refer to Telecom Italia Capital. References to the **“Guarantor”** and **“Telecom Italia”** refer to Telecom Italia S.p.A. References to **“we”**, **“us”** and **“our”** refer to TI Capital or, if the context so requires, also to Telecom Italia S.p.A. and, if the context so requires, its consolidated subsidiaries (including TI Capital). References to **“Telecom Italia Group”** refer to Telecom Italia S.p.A. and its consolidated subsidiaries (including TI Capital). References to **“Old Telecom Italia”** and **“Old Telecom Italia Group”** and **“New Telecom Italia”** and **“New Telecom Italia Group”** refer to Telecom Italia S.p.A. and its consolidated subsidiaries as they existed immediately prior to, and immediately after, respectively, August 4, 2003, the effective date of the merger between Olivetti S.p.A. (**“Olivetti”**) and Old Telecom Italia.

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This offering memorandum is a confidential document in the United States that we are providing only to prospective purchasers of the notes.

You should read this offering memorandum before making a decision whether to purchase any notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person unless you know that it is already public.

We have prepared this offering memorandum and are solely responsible for its contents. You are responsible for making your own examination of TI Capital and Telecom Italia and your own assessment of the merits and risks of investing in the notes. You may contact us if you need any additional information. By purchasing any notes, you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum; and
- the Initial Purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

We are not providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the notes.

*The notes offered hereby have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The notes are being sold within the United States only to qualified institutional buyers, as defined in, and in reliance on Rule 144A. The notes are also being offered outside the United States in reliance on Regulation S.*

*We are relying on exemptions from registration under the Securities Act for offers and sales of securities that do not involve a public offering in the United States. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements set forth under the heading "Transfer Restrictions" in this offering memorandum. You should understand that you may be required to bear the financial risks of your investment for an indefinite period of time. The notes are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state securities law pursuant to a registration statement or an exemption from registration. The notes have not been recommended by any U.S. federal or state securities authorities, nor have any such authorities determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense in the United States.*

The distribution of this offering memorandum and the offering or sale of the notes in certain jurisdictions is restricted by law. This offering memorandum may not be used for, or in connection with, and does not constitute, any offer to sell, or solicitation of an offer to buy the notes to anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this document may come are required by Telecom Italia, TI Capital and the Initial Purchasers to inform themselves about, and to observe, such restrictions. Neither Telecom Italia nor TI Capital or the Initial Purchasers accept any responsibility for any violation by any person, whether or not it is a prospective purchaser of the notes, of any such restrictions.



You must comply with all laws that apply to you in any place in which you buy, offer or sell any notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase any notes. We and the Initial Purchasers are not responsible for your compliance with these legal requirements.

No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of the information contained herein or in the documents incorporated by reference herein, and such information is not and may not be relied upon as a promise or representation by the Initial Purchasers.

The information set out in the sections of this offering memorandum describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, and Clearstream in each case as currently in effect. The information in the sections of this offering memorandum concerning these clearing systems has been obtained from sources that we believe to be reliable, but we and the Initial Purchasers take no responsibility for the accuracy of such information. If you wish to use the facilities of any of the clearing systems you should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. Telecom Italia, TI Capital and the Initial Purchasers will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records to such book-entry interests. See "Description of Notes and Guarantees" and "Book Entry Settlement and Clearance".

We reserve the right to withdraw this offering of notes at any time and we and the Initial Purchasers reserve the right to reject any commitment to subscribe for the notes, in whole or in part. The Initial Purchasers also reserve the right to allot to you less than the full amount of notes sought by you.

**In connection with the offering of the notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Such transactions may include purchases of the notes to stabilize their market price, purchases of the notes to cover all or some of an overallotment or a short position maintained by the Initial Purchasers, and the imposition of penalty bids. Such activities, if commenced, may be discontinued at any time. For a description of these activities, see "Plan of Distribution".**

**In connection with this offering in the United Kingdom, Lehman Brothers International (Europe) or any person acting for it may overallot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Lehman Brothers International (Europe) or any agent of it to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.**

TI Capital accepts responsibility for the information contained in this offering memorandum. To the best of the knowledge and belief of TI Capital (which has taken all reasonable care to ensure that such is the case), the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorized in connection with the issue, offering, subscription or sale of the notes to give any information or to make any representation not contained in this offering memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by or on behalf of TI Capital, the Trustee (as defined below) or the Initial Purchasers. Neither the delivery of this offering memorandum nor any sale or allotment made in connection with the offering of the notes shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information contained herein or in the affairs or the financial position of the Issuer since the issuance of the notes.



## REVIEW BY THE U.S. SECURITIES AND EXCHANGE COMMISSION

TI Capital and Telecom Italia have agreed to file a registration statement with the Securities and Exchange Commission (the “SEC”) with respect to a registered exchange offer for the notes. See “Exchange Offer and Registration Rights”. In the course of the review by the SEC of the registration statement (including the documents incorporated by reference therein), Telecom Italia may be required to make changes to its historical financial statements and other information. Accordingly, comments by the SEC on the registration statement, or on the documents incorporated by reference therein, may require modification or reformulation of Telecom Italia’s financial statements and other information presented, or incorporated by reference, in this offering memorandum.

### NOTICE TO INVESTORS

You understand that it is the intention of TI Capital that the notes will be offered and sold to investors, and trade in the secondary market between investors, and will be held by investors who are resident in countries listed in the Decree of the Ministry of Finance of Italy of September 4, 1996 as amended. A copy of the Decree can be obtained from the website of the Ministry of Finance of Italy at [www.finanze.it](http://www.finanze.it). See “Transfer Restrictions—Other Restrictions”. You also understand that, to the extent that Telecom Italia will become the obligor under the notes due to substitution or otherwise (see “Description of Notes and Guarantees—Mergers and Similar Events”) and Telecom Italia will be required to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors not resident in the countries identified in the above Decree or to investors resident in countries identified in the above Decree (including investors resident in the United States) who do not furnish the required certifications under applicable Italian tax requirements. See “Description of Notes and Guarantees—Payment of Additional Amounts”.

### NOTICE TO INVESTORS IN ITALY

The notes will not be offered, sold or delivered in Italy or to investors resident in Italy and copies of this offering memorandum or any materials relating to the notes may not be distributed in Italy. If investors resident in Italy for income tax purposes holding the notes were to participate in the exchange offer (see “Exchange Offer and Registration Rights”) there may be adverse tax consequences including the application of a 20% surtax. Investors resident in Italy for income tax purposes holding the notes will be responsible for such adverse tax consequences and no additional amounts will be paid in connection therewith by TI Capital or Telecom Italia.

### NOTICE TO INVESTORS IN LUXEMBOURG

The notes may not be offered or sold to the public in or from Luxembourg and this offering memorandum and other offering material relating to the notes will not be distributed or made available to the public in or from Luxembourg, except for the notes in respect of which the requirements of Luxembourg law concerning a public offering of securities in Luxembourg have been fulfilled. A listing on the Luxembourg Stock Exchange of the notes does not necessarily imply that a public offering of the notes in Luxembourg has been authorized.

### NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT (“RSA 421-B”), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER**



**ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **NOTICE TO INVESTORS IN THE UNITED KINGDOM**

The notes have not been offered or sold and, prior to the expiry of a period of six months from the issue date of such notes, will not be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995.

#### **NOTICE TO INVESTORS IN THE NETHERLANDS**

The notes may only be offered in the Netherlands to persons who trade or invest in securities in the conduct of their profession or business, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises which regularly, or as ancillary activity, invest in securities.

#### **SPECIAL NOTICE TO INVESTORS IN FRANCE**

Neither this offering memorandum nor any other offering material relating to the notes has been submitted to the clearance procedures of the *Autorité des marchés financiers (AMF)* in France.

The notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France. Neither this offering memorandum nor any other offering material relating to the notes has been or will be (i) released, issued, distributed or caused to be released, issued or distributed to the public in the Republic of France or (ii) used in connection with any offer for subscription or sale of the notes to the public in the Republic of France. Such offers, sales and distributions will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in and in accordance with Article L.411-2 of the French *Code monétaire et financier* and French Decree no. 98-880 dated October 1, 1998.

Such notes may be resold only in compliance with Articles L. 411-1 Seq, L. 412-1 and L. 621-8 of the *Code monétaire et financier*. Investors in France and persons who come into possession of offering materials are required to inform themselves about and observe any such restrictions.

#### **NOTICE TO INVESTORS IN GERMANY**

No action has been or will be taken in the Federal Republic of Germany that would permit a public offering of the notes, or distribution of a prospectus or any other offering material relating to the notes. In particular, no sales prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of December 13, 1990, as amended, (the "German Sales Prospectus Act") has been or will be published within the Federal Republic of Germany, nor has this offering memorandum been filed with or approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) for publication within the Federal Republic of Germany. Accordingly, any offer or sale of notes or any distribution of offering material within the Federal Republic of Germany may violate the provisions of the German Sales Prospectus Act.



### NOTICE TO INVESTORS IN JAPAN

The notes have not been and will not be registered under the Securities and Exchange law of Japan. No person may offer or sell, directly or indirectly, any securities in Japan or to, or for the account of, any resident thereof or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account of, any resident thereof, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

### NOTICE TO INVESTORS IN BELGIUM

The notes will not be offered publicly, directly or indirectly, in Belgium at the time of the offering. The offer of notes has not been notified to, and the offering documents (including this offering memorandum) have not been approved by, the Belgium Banking and Finance Commission. The notes may only be sold in Belgium to professional investors as defined in article 3 of the Royal Decree of July 7, 1999 on public nature of financial transactions, acting for their own account, and this offering memorandum may not be delivered or passed on to any other investors.

### NOTICE TO INVESTORS IN SPAIN

The notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market law (*Ley 24/1988 de 28 de julio, del Mercado de Valores* as amended by Law 37/1998 of November 16) and Royal Decree 291/1992 on Issues and Public Offering of Securities (*Real Decreto 291/1992 de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores*), as amended or restated by Royal Decree 2590/1998 of December 7 ("R.D. 291/92"), and further subsequent legislation.

This offering memorandum is neither verified nor registered in the administrative registries of the Spanish Securities Exchange Commission (*Comisión Nacional del Mercado del Valores*), and therefore a public offer for subscription of the notes will not be carried out in Spain. Notwithstanding that and in accordance with article 7 of R.D. 291/92, a private placement of the notes addressed exclusively to institutional investors (as defined in Article 7.1 (a) of R.D. 291/92) may be carried out.



## WHERE YOU CAN FIND MORE INFORMATION

### Telecom Italia

Telecom Italia is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended (the “**Exchange Act**”), applicable to foreign private issuers and files annual reports and other information with the U.S. Securities and Exchange Commission (“**SEC**”). You may read and copy any document Telecom Italia files with the SEC at its public reference facilities at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Since November 4, 2002, Telecom Italia has been required to file and furnish its documents to the SEC on EDGAR, the SEC’s electronic filing system. All such filings made since such date can be reviewed on EDGAR by going to the SEC’s website: [www.sec.gov](http://www.sec.gov).

On completion of the merger of Olivetti and Old Telecom Italia on August 4, 2003 (the “**Merger**”), Olivetti changed its name to Telecom Italia S.p.A. and succeeded to the Exchange Act information requirements of Old Telecom Italia. All annual reports on Form 20-F and reports on Form 6-K filed or furnished with the SEC prior to August 4, 2003, were so filed or furnished by Old Telecom Italia. As a foreign private issuer, Telecom Italia is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and Telecom Italia’s officers, directors and controlling shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Telecom Italia’s ordinary share ADSs and savings share ADSs are listed on the New York Stock Exchange and you can inspect Telecom Italia’s reports and other information at the New York Stock Exchange Inc., 20 Broad Street, New York, New York. For further information about Telecom Italia’s American Depositary Receipt arrangements, you may call the depository under Telecom Italia’s American Depositary Receipt arrangements in the United States at (781) 575-4328.

### TI Capital

TI Capital is a directly and indirectly wholly-owned subsidiary of Telecom Italia, organized under the laws of Luxembourg. TI Capital does not, and will not, file separate reports with the SEC.

TI Capital will issue the notes described in this offering memorandum pursuant to an indenture to be dated as of October 6, 2004 as supplemented by a first supplemental indenture to be dated as of October 6, 2004. The indenture, and the first supplemental indenture and their associated documents contain or will contain the full legal text of the matters described in “Description of Notes and Guarantees”. The indenture and the first supplemental indenture will be available for inspection at BNP Paribas Securities Services, Luxembourg Branch, 23 Avenue de la Porte Neuve, L-2083, Luxembourg (the “**listing agent**”).

You may request, when executed, orally or in writing, a copy of the indenture to be dated as of October 6, 2004 and the first supplemental indenture to be dated as of October 6, 2004, at no cost by contacting TI Capital at 287-289 route d’Arlon, L-1150 Luxembourg, tel.: 011-352-456060-1.

### Incorporation by reference

We are incorporating by reference information into this offering memorandum, which means:

- incorporated documents are considered part of this offering memorandum;
- Telecom Italia can disclose important information to you by referring you to those documents; and





- information in this offering memorandum automatically updates and supersedes information in earlier documents that are incorporated by reference in this offering memorandum.

We are incorporating by reference Telecom Italia's Annual Report on Form 20-F for the year ended December 31, 2003, as amended by its Form 20-F/A filed with the SEC on September 2, 2004 (as so amended, the **"Telecom Italia Annual Report"**) (SEC File No. 1-13882). The Telecom Italia Annual Report contains important information about Telecom Italia and its finances. We are also incorporating by reference Telecom Italia's report on Form 6-K filed with the SEC on September 23, 2004, which includes Telecom Italia's unaudited interim consolidated financial statements for the six months ended June 30, 2004 and the related management's discussion and analysis of financial condition and results of operations.

Copies of the documents incorporated by reference herein are available free of charge at the office of the listing agent in Luxembourg.



**ENFORCEABILITY OF CIVIL LIABILITIES  
UNDER THE UNITED STATES SECURITIES LAWS**

Telecom Italia is a joint stock company (*Società per Azioni*) organized under the laws of the Republic of Italy, and TI Capital is a company with limited liability (*société anonyme*) for an unlimited duration, established under the laws of Luxembourg. None of the members of the Board of Directors of TI Capital and only one member of the Board of Directors of Telecom Italia is a resident of the United States. All or a substantial portion of the assets of these non-U.S. residents and of TI Capital and Telecom Italia are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon the non-U.S. resident directors or upon TI Capital or Telecom Italia or it may be difficult to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. securities laws against TI Capital or Telecom Italia in Luxembourg or Italy, as applicable. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in Italy and in Luxembourg. Enforceability in Italy of final judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the federal securities laws of the United States is subject, among other things, to the absence of a conflicting judgment by an Italian court or of an action pending in Italy among the same parties arising from the same facts and circumstances and started before the U.S. proceedings, and to the Italian courts' determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant, and that enforcement would not violate Italian public policy. In general, the enforceability in Italy of final judgments of U.S. courts would not require retrial in Italy, subject to the decision of the competent court of appeal ascertaining the existence of the above mentioned requirements and subject to challenge by the other party. In original actions brought before Italian courts, there is doubt as to the enforceability of liabilities based on the U.S. federal securities laws. The United States and Luxembourg do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a result, a civil judgment by a U.S. court is enforceable in Luxembourg subject to applicable exequatur proceedings.



### CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain forward-looking statements, which reflect Telecom Italia management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof:

- the continuing impact of increased competition in a liberalized market, including competition from global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- the ability of Telecom Italia to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- the level of demand for telecommunications services, particularly wireless telecommunications services in the maturing Italian market and for new higher value added products and services such as broadband;
- the ability of Telecom Italia to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing its non-core assets;
- the success of Telecom Italia's customer loyalty and retention programs, particularly in the fixed line business, and the impact of such programs on its revenues;
- the impact of regulatory decisions and changes in the regulatory environment, including implementation of recently-adopted EU directives in Italy;
- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on the international business of the Telecom Italia Group focused on Latin America and on its foreign investments and capital expenditures;
- the continuing impact of rapid or "disruptive" changes in technologies;
- the impact of political and economic developments in Italy and other countries in which Telecom Italia operates;
- the impact of fluctuations in currency exchange and interest rates;
- Telecom Italia's ability to successfully implement its 2004-2006 Industrial Plan;
- Telecom Italia's ability to successfully achieve its debt reduction targets;
- Telecom Italia's ability to successfully roll out its UMTS networks and services and to realize the benefits of its investment in UMTS licenses and related capital expenditures;
- Telecom Italia's ability to successfully implement its internet and broadband strategy both in Italy and abroad;



- Telecom Italia's ability to achieve the expected return on the significant investments and capital expenditures it has made and continues to make in Latin America;
- the amount and timing of any future impairment charges for the Telecom Italia Group's licenses, goodwill or other assets; and
- the impact of litigation or decreased mobile communications usage arising from actual or perceived health risks or other problems relating to mobile handsets or transmission masts.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. Accordingly, there can be no assurance that Telecom Italia will achieve its projected results.



**PRESENTATION OF CERTAIN FINANCIAL  
AND OTHER INFORMATION**

Unless otherwise indicated, the financial information contained in this offering memorandum and incorporated by reference herein is prepared using Italian GAAP. Notes 27, 28 and 29 to the audited consolidated financial statements of the Telecom Italia Group included in the Telecom Italia Annual Report incorporated by reference herein describe the material differences between Italian GAAP and U.S. GAAP as they relate to the Telecom Italia Group. No U.S. GAAP financial statements subsequent to December 31, 2003 have been prepared for the Telecom Italia Group.

The currency used by Telecom Italia in preparing its consolidated financial statements is the euro. References to “euro,” “euros” and “€,” are to euros and references to “U.S. dollars,” “dollars,” “US\$” or “\$” are to U.S. dollars. For the purpose of this offering memorandum, “billion” means a thousand million. On September 28, 2004 the Noon Buying Rate (as defined below) was euro 1 = US\$1.2306. The noon buying rate is determined based on cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the “**Noon Buying Rate**”).



## SUMMARY

*This summary highlights selected information from this offering memorandum and the documents we have referred you to in "Where You Can Find More Information". It may not contain all the information which is important to you and we recommend that you read the entire document as well as the documents referred to under "Where You Can Find More Information".*

### Description of the Companies

#### Telecom Italia S.p.A.

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

On July 18, 1997, Old Telecom Italia's predecessor company was merged with and into STET—Società Finanziaria Telefonica—per Azioni ("STET"), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to "Telecom Italia S.p.A.". In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatization 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 May 21, 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") acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

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

On August 4, 2003, the Merger was consummated by Old Telecom Italia merging with and into Olivetti with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A.". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Pirelli S.p.A. ("Pirelli"), Olimpia's largest shareholder or Olimpia, increased substantially to approximately 88.43% of the outstanding ordinary shares. Since that date Olimpia has acquired additional shares through market purchases and Olimpia is currently the largest shareholder of Telecom Italia with approximately a 17% holding of Telecom Italia's shares. Please see "Item 7. Major Shareholders and Related-Party Transactions—Major Shareholders—The Olimpia Shareholders' Agreements" in the Telecom Italia Annual Report incorporated by reference herein. Pirelli may be deemed to beneficially own 1,798,921,123 Telecom Italia shares (including the 1,751,765,823 Telecom Italia shares beneficially owned by Olimpia), representing approximately 17.46% of the total number of shares reported to be issued and outstanding.

As of June 30, 2004, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 26.3 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary Telecom Italia Mobile S.p.A. ("TIM"), the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with more than 49.6 million mobile lines, comprised of 26.0 million lines in Italy and more than 23.6 million outside Italy through controlled and associated companies of TIM (including proportionate lines reflecting a total of 38.4 million lines in which we have an economic interest). At June 30, 2004, the Telecom Italia Group also had 7.0 million mobile lines (including 2.5 million proportionate lines) through companies indirectly owned through Telecom Italia



International. In Italy, TIM is one of three operators with the right to provide GSM digital mobile telecommunications services and one of three operators with the right to provide DCS 1800 digital mobile telecommunications services. TIM is one of five entities which have acquired a UMTS license to provide third generation mobile services in Italy.

The Telecom Italia Group also provides leased lines and data communications services, internet services including broadband, and IT software and services. Telecom Italia also operates in the office products, IT office products, specialized applications for service automation in banking retail, gaming and public authorities services and specialized automation systems sectors through Olivetti Tecnost.

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

### **TI Capital**

TI Capital is a limited liability company (*société anonyme*) organized under the laws of Luxembourg, incorporated on September 27, 2000 and is a directly and indirectly wholly-owned subsidiary of Telecom Italia. TI Capital is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under B-77.970. TI Capital's Articles of Incorporation were published in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No. C-755* on October 13, 2000. TI Capital's Articles of Incorporation were amended for the last time on December 20, 2002 and the modifications were published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No C-184* on February 20, 2003.

TI Capital's primary purpose is to provide access to the international financial markets for the Telecom Italia Group.

TI Capital's registered office and postal address is 287-289 route d'Arlon, L-1150, Luxembourg and its telephone number is +352-456060-1.

### **Recent Developments**

Reference is made to Telecom Italia's Form 6-K filed with the SEC on September 23, 2004 and incorporated by reference herein. The financial information included in the Form 6-K was prepared in accordance with Italian GAAP which differs from U.S. GAAP in certain material respects. For more information regarding these differences you should read Notes 27, 28 and 29 to the audited consolidated financial statements of the Telecom Italia Group included in the Telecom Italia Annual Report incorporated by reference herein.



**The Offering**

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this offering memorandum entitled "Description of Notes and Guarantees".

<b>Issuer</b> .....	TI Capital
<b>Guarantor</b> .....	Telecom Italia
<b>Securities</b> .....	\$1,250,000,000 4% Guaranteed Senior Notes due 2010 (the "2010 notes"), \$1,250,000,000 4.95% Guaranteed Senior Notes due 2014 (the "2014 notes") and \$1,000,000,000 6% Guaranteed Senior Notes due 2034 (the "2034 notes" and, together with the 2010 notes and the 2014 notes, the "notes").
<b>Guaranty</b> .....	Telecom Italia will irrevocably and unconditionally guarantee the full and punctual payment of principal, interest, additional amounts and all other amounts, if any, that may become due and payable in respect of the notes. If TI Capital fails to punctually pay any such amount, Telecom Italia will immediately pay the same.
<b>Issue price</b> .....	99.732% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2010 notes, 99.651% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2014 notes and 99.081% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2034 notes.
<b>Maturities</b> .....	January 15, 2010 for the 2010 notes, September 30, 2014 for the 2014 notes and September 30, 2034 for the 2034 notes.
<b>Interest rate</b> .....	The 2010 notes will bear interest at a rate of 4% per annum, the 2014 notes will bear interest at a rate of 4.95% per annum and the 2034 notes will bear interest at a rate of 6% per annum.  The notes will bear interest from October 6, 2004 based upon a 360-day year consisting of twelve 30-day months.
<b>Interest payment dates</b> .....	January 15 and July 15 for the 2010 notes, March 30 and September 30 for the 2014 notes and March 30 and September 30 for the 2034 notes.
<b>Regular record dates</b> .....	January 1 and July 1 for the 2010 notes, March 15 and September 15 for the 2014 notes and March 15 and September 15 for the 2034 notes.
<b>Settlement date</b> .....	October 6, 2004.
<b>Use of proceeds</b> .....	We estimate that the net proceeds from this offering will be approximately U.S.\$3.464 billion. The net proceeds of this offering are intended to be used for general corporate purposes, including the repayment of debt. See "Use of Proceeds" for additional information regarding the use of proceeds of this offering.
<b>Ranking</b> .....	The notes are unsecured by assets or property. The notes will rank equally in right of payment with all other senior unsecured





indebtedness of TI Capital from time to time outstanding. The guarantee will rank equally in right of payment with all of Telecom Italia's senior unsecured indebtedness.

**Payment of additional amounts** . . . . . TI Capital, as issuer, and Telecom Italia, as guarantor, will pay additional amounts in respect of any payments of interest or principal so that the amount you receive after Luxembourg or Italian withholding tax will equal the amount that you would have received if no withholding of tax had been applicable, subject to some exceptions as described under "Description of Notes and Guarantees—Payment of Additional Amounts". See "Transfer Restrictions—Other Restrictions".

**Optional redemption** . . . . . Beginning on July 15, 2006, for the 2010 notes and September 30, 2006, for the 2014 notes and the 2034 notes, the notes will be redeemable in whole or in part at TI Capital's option at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the applicable notes, or
- as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus:
  - 20 basis points for the 2010 notes,
  - 25 basis points for the 2014 notes,
  - 30 basis points for the 2034 notes,

plus accrued interest thereon to the date of redemption.

See "Description of Notes and Guarantees—Redemption at TI Capital's Option".

**Tax redemption** . . . . . If, due to changes in Italian or Luxembourg laws relating to withholding taxes applicable to payments of principal or interest, or in connection with certain merger or similar transactions of Telecom Italia or TI Capital, TI Capital, as issuer, or Telecom Italia, as guarantor (or its respective successors), is obligated to pay additional amounts on the notes, TI Capital may redeem the outstanding notes in whole, but not in part, at any time at a price equal to 100% of their principal amount plus accrued interest to the redemption date.

**Form and denomination** . . . . . Delivery of the notes is expected to be made on or about October 6, 2004 as described below.

The notes will be issued only in fully registered form in denominations of \$1,000, and integral multiples thereof, unless otherwise specified by us.



Notes sold to qualified institutional buyers pursuant to Rule 144A will be evidenced by a separate note in global form called a Rule 144A global note, which will be deposited with a custodian for and registered in the name of a nominee of DTC.

Notes sold outside the United States in reliance on Regulation S will be evidenced by a separate note in global form called a Regulation S global note, which will be deposited with a custodian for, and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream.

You may hold a beneficial interest in the global notes through DTC, directly as a participant in DTC or indirectly through financial institutions that are DTC participants. Both Euroclear and Clearstream are DTC participants. As an owner of a beneficial interest in the global notes, you will generally not be entitled to have your notes registered in your name, will not be entitled to receive certificates in your name evidencing the notes and will not be considered the holder of any notes under the indenture for the global notes.

**Mergers and assumptions** ..... Each of TI Capital and Telecom Italia is generally permitted to consolidate or merge with another company. TI Capital will be permitted to merge with an Italian company and either Telecom Italia or any Italian subsidiary of Telecom Italia will be permitted to assume the obligations of TI Capital subject to the delivery of certain legal opinions. To the extent that an Italian company, including Telecom Italia or any Italian subsidiary of Telecom Italia, will become the obligor under the notes and that such Italian company will be required to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors (including investors resident in the United States) who do not furnish the required certifications under applicable Italian tax requirements.

**Exchange offer and registration rights** ..... TI Capital and Telecom Italia will enter into a registration rights agreement pursuant to which TI Capital and Telecom Italia will agree to consummate an exchange offer for the notes no later than October 31, 2005.

In the exchange offer, TI Capital will offer qualified holders of the notes the opportunity to exchange the notes issued in this offering, which will be subject to restrictions on transfer, for notes that generally will be freely transferable. If we have not consummated the exchange offer by October 31, 2005 then, in addition to the interest otherwise payable on the notes, additional interest will accrue and be payable on the notes at a rate of 0.50% per annum until that requirement is satisfied. The exchange notes will be identical in all material respects to the notes, except that additional interest as described in the preceding sentence will not be payable in respect of the exchange notes, the exchange notes will not be entitled to registration rights or subject to restrictions on transfer and the non-



call period for any optional call applicable to the exchange notes could be extended.

Application will be made to list the exchange notes on the Luxembourg Stock Exchange following completion of the exchange offer.

For more details, see "Exchange Offer and Registration Rights".

**Luxembourg listing** ..... TI Capital has applied to list the notes on the Luxembourg Stock Exchange in accordance with the rules and regulations of the Luxembourg Stock Exchange. Listing is not expected to be completed prior to the settlement date of the notes.

**Transfer restrictions** ..... The notes have not been registered under the Securities Act and are subject to restrictions on transfer. Italian investors should also note that under certain circumstances Italian taxes could apply. See "Transfer Restrictions".

**Trustee, principal paying agent and registrar** ..... JPMorgan Chase Bank.

**Governing law** ..... New York. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.

**Ratings** ..... Telecom Italia's long-term rating is Baa2 with a stable outlook according to Moody's, BBB+ with a positive outlook according to Standard & Poors and A- with a stable outlook according to Fitch.

A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

**Risk factors** ..... Prospective purchasers of the notes should consider carefully all of the information set forth in this offering memorandum and, in particular, the information set forth under "Risk Factors" and "Transfer Restrictions" and the discussion of risks relating to the business of the Telecom Italia Group set forth under the heading "Risk Factors" appearing in the Telecom Italia Annual Report incorporated by reference herein before making an investment in the notes.

**Selling restrictions** ..... There are restrictions on persons that can be sold notes, and on the distribution of this offering memorandum, as described in "Plan of Distribution".

**Further issues** ..... TI Capital may issue as many distinct series of notes under the indenture as it wishes. TI Capital may, subject to certain conditions, without the consent of any holder of the notes, "reopen" the notes and issue additional notes having the same ranking, maturity and other terms (except for the issue date and issue price) as the notes offered pursuant to this offering memorandum. Any further issue will be considered to be part of the notes offered hereby, will be fungible therewith after any applicable restricted period and will rank equally and ratably with the notes offered hereby.



### Summary Selected Financial Information

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

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

- the Telecom Italia Group's selected financial data as of and for the year ended December 31, 2003 have been extracted or derived from the consolidated financial statements of the Telecom Italia Group prepared in accordance with Italian GAAP and which have been audited by Reconta Ernst & Young S.p.A. independent auditor;
- the Telecom Italia Group's selected financial data as of and for each of the years ended December 31, 2002, 2001, 2000 and 1999 have been extracted or derived (other than the 2000 pro forma data) from the Olivetti Group's consolidated financial statements prepared in accordance with Italian GAAP and which have been audited by the following independent auditors: Reconta Ernst & Young S.p.A. (for the years ended December 31, 2002 and 2001) and PricewaterhouseCoopers S.p.A. (for the years ended December 31, 2000 and 1999); and
- the summary historical consolidated financial data for the Telecom Italia Group as of June 30, 2004 and for the six months ended June 30, 2004 and 2003, have been extracted or derived from the unaudited interim consolidated financial statements which, in our opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our results of operations for the unaudited interim periods. Results for the six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year.

Unless otherwise indicated, amounts presented are based on Italian GAAP. The selected financial data below should be read in conjunction with the consolidated financial statements and notes thereto included in the Telecom Italia Annual Report and Telecom Italia's report on Form 6-K filed with the SEC on September 23, 2004, each incorporated by reference herein. Certain income statement and balance sheet amounts have been reconciled to U.S. GAAP for the years ended December 31, 2003, 2002 and 2001. For additional information about the U.S. GAAP reconciliation, you should read Notes 27, 28 and 29 to the audited consolidated financial statements of the Telecom Italia Group included in the Telecom Italia Annual Report incorporated by reference herein.



	Year ended December 31,					Six Months ended June 30,		
	2000 pro forma (Unaudited)					2003(1) 2004(1)		
	1999(1)	2000(1)	(1)(2)	2001(1)	2002(1)	2003(1)	2004(1)	
	(millions of Euro, except per share amounts)					(Unaudited)		
<b>Statement of Operations Data in accordance with Italian GAAP:</b>								
Operating revenues	28,207	30,116	28,374	32,016	31,408	30,850	15,149	15,222
Other income	512	483	459	476	504	345	170	129
Total revenues	28,719	30,599	28,833	32,492	31,912	31,195	15,319	15,351
Cost of materials	3,689	3,058	2,931	2,640	2,315	2,081	956	1,166
Salaries and social security contributions	5,231	5,245	4,965	4,919	4,737	4,303	2,229	2,055
Depreciation and amortization(3)	6,013	6,946	6,509	7,612	7,227	6,779	3,357	3,212
Other external charges	9,612	11,136	10,476	12,687	12,188	11,934	5,882	5,815
Changes in inventories	(79)	(318)	(296)	92	62	114	(56)	(167)
Capitalized internal construction costs	(1,066)	(912)	(831)	(583)	(675)	(805)	(330)	(326)
Total operating expenses(3)	23,400	25,155	23,754	27,367	25,854	24,406	12,038	11,755
Operating income(3)	5,319	5,444	5,079	5,125	6,058	6,789	3,281	3,596
Financial income	1,468	1,202	1,162	1,446	1,569	992	453	504
Financial expense(3)	(2,252)	(3,857)	(3,648)	(6,559)	(4,647)	(3,256)	(1,726)	(1,435)
<i>Of which write-downs and equity in losses in affiliated and other companies, net</i>	(569)	(1,037)	(1,025)	(1,771)	(487)	(91)	(82)	(35)
Other income and (expense), net	5,667	135	165	(3,109)	(5,496)	(1,083)	(704)	(320)
Income (loss) before income taxes and minority interests	10,202	2,924	2,758	(3,097)	(2,516)	3,442	1,304	2,345
Income taxes	(3,207)	(1,923)	(1,813)	(579)	2,210	(1,014)	288	(1,482)
Net income (loss) before minority interests	6,995	1,001	945	(3,676)	(306)	2,428	1,592	863
Minority interests	(2,056)	(1,941)	(1,885)	586	(467)	(1,236)	(536)	(458)
Net income (loss)	4,939	(940)	(940)	(3,090)	(773)	1,192	1,056	405
Net income (loss) per Share(4)	1.03	(0.20)	(0.20)	(0.36)	(0.09)	0.07	0.06	0.02
Dividends per Share	0.0310	0.0350	0.0350	—	—	0.1041(5)	—	—
Dividends per Savings Share	0.1937	—	—	—	—	0.1151(5)	—	—
Dividends per Preferred Shares	0.0362	—	—	—	—	—	—	—
	<b>Year ended December 31,</b>							
	2000 pro forma (Unaudited)							
	1999(1)	2000(1)	(1)(2)	2001(1)	2002(1)	2003(1)		
	(millions of Euro, except per share amounts)							
<b>Amounts in accordance with U.S. GAAP:</b>								
Total revenues	—	—	—	—	30,849	30,432	30,519	
Operating income	—	—	—	—	3,661	7,225	8,095	
Net income (loss) before minority interests, discontinued operations and cumulative effect of accounting changes	—	—	—	—	(2,932)	6,231	3,135	
Minority interests	—	—	—	—	18	(3,016)	(1,523)	
Net income (loss) from discontinued operations	—	—	—	—	(1,112)	(1,259)	250	
Cumulative effect of accounting changes, net of tax	—	—	—	—	20	—	(21)	
Net income (loss)	—	—	—	—	(4,006)	1,956	1,841	
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Basic	—	—	—	—	(0.85)	0.79	0.18	
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Diluted	—	—	—	—	(0.85)	0.79	0.18	
Net income (loss) per Share from discontinued operations—Basic	—	—	—	—	0.01	0.00	0.00	
Net income (loss) per Share from discontinued operations—Diluted	—	—	—	—	0.01	0.00	0.00	
Net income (loss) per Share from cumulative effect of accounting changes—Basic	—	—	—	—	0.01	0.00	(0.00)	
Net income (loss) per Share from cumulative effect of accounting changes—Diluted	—	—	—	—	0.01	0.00	(0.00)	
Net income (loss) per Share—Basic(6)	—	—	—	—	(1.17)	0.48	0.20	
Net income (loss) per Share—Diluted(6)	—	—	—	—	(1.17)	0.48	0.20	



	As of December 31,						As of June 30,		
	1999(1)	2000(1)	2000 pro forma (Unaudited)		2002(1)	2003(1)	2004(1)		
			(1)(2)	2001(1)			(Unaudited)		
	(millions of Euro)								
<b>Balance Sheet Data in accordance with Italian GAAP:</b>									
Total current assets(3)	15,892	21,097	20,957	23,417	22,597	22,429	20,015		
Fixed assets, net	23,865	23,776	21,072	22,097	19,449	18,324	17,808		
Intangible assets, net(3)	28,006	39,528	39,062	39,045	34,412	33,853	33,049		
Total assets	75,526	95,360	91,832	94,227	83,384	80,501	76,439		
Short-term debt	6,000	16,927	16,536	9,072	6,827	10,613	5,910		
Total current liabilities	20,099	30,179	29,207	22,984	20,385	23,373	17,642		
Long-term debt	24,291	27,485	25,950	37,747	33,804	30,852	34,485		
Total liabilities	49,216	63,994	61,304	67,874	62,760	59,912	57,855		
Total stockholders' equity before minority interests	9,549	13,856	13,856	12,729	11,640	16,092	14,730		
Total stockholders' equity	26,310	31,366	30,528	26,353	20,624	20,589	18,584		
<b>Amounts in accordance with U.S. GAAP:</b>									
Total current assets	—	—	—	22,786	21,599	21,342	—		
Fixed assets, net	—	—	—	24,331	21,503	21,593	—		
Intangible assets, net	—	—	—	45,880	41,170	58,479	—		
Total assets	—	—	—	103,588	92,911	108,093	—		
Total current liabilities	—	—	—	22,725	18,599	23,196	—		
Long-term debt	—	—	—	43,117	38,375	32,586	—		
Total liabilities	—	—	—	76,436	68,314	67,946	—		
Stockholders' equity(7)	—	—	—	13,612	15,224	35,067	—		
								<b>Six Months ended June 30,</b>	
								<b>2000 pro forma (Unaudited)</b>	
	1999(1)	2000(1)	(1)(2)	2001(1)	2002(1)	2003(1)	2003(1)	2004(1)	
								<b>(Unaudited)</b>	
<b>Financial Ratios in accordance with Italian GAAP:</b>									
Gross operating margin (Gross operating profit/operating revenues)(%)(8)	43.0	43.6	43.1	42.7	44.6	46.3	45.7	46.6	
Operating income/operating revenues (ROS) (%)	18.9	18.1	17.9	16.0	19.3	22.0	21.7	23.6	
Net debt/Net invested capital (debt ratio)(%)(9)	51.0	54.5	53.9	59.3	61.8	61.8	65.1	64.1	
Ratio of Earnings to fixed charges (10)	11.82	2.76	2.87	0.58	0.21	2.55	2.24	3.27	
<b>Financial Ratios in accordance with U.S. GAAP:</b>									
Ratio of Earnings to fixed charges (10)	—	—	—	0.71	2.15	3.02	—	—	
<b>Statistical Data:</b>									
Subscriber fixed lines in Italy (thousands)(11)	26,502	27,153	27,153	27,353	27,142	26,596	27,079	26,264	
ISDN equivalent lines in Italy (thousands)(12)	3,049	4,584	4,584	5,403	5,756	6,027	6,000	5,941	
Broadband Access in Italy and abroad (ADSL + XDSL) – (thousands)(13)	—	—	—	390	850	2,200	1,375	3,273	
Voice Offers in Italy – (thousands)(14)	—	—	—	4,094	5,224	5,547	5,547	5,704	
Network infrastructure in Italy:									
— access network in copper (millions of km—pair)	103.4	104.0	104.0	104.3	104.3	105.2	104.7	105.2	
— access network and transport in fiber optics (millions of km of fiber optics)	2.9	3.1	3.1	3.2	3.6	3.6	3.6	3.6	
Network infrastructure abroad:									
— European backbone (km of fiber optics)	—	36,600	36,600	36,600	36,600	39,500	39,500	39,500	
TIM lines in Italy (thousands)(15)	18,527	21,601	21,601	23,946	25,302	26,076	25,610	26,011	
TIM group foreign lines (thousands) (16)	4,788	7,637	7,637	10,923	13,809	18,438	15,717	23,627	
TIM group lines total (Italy + foreign in thousands) (16)	23,315	29,238	29,238	34,869	39,111	44,514	41,327	49,638	
GSM penetration in Italy (% of population)	99.2	99.6	99.6	99.7	99.8	99.8	99.8	99.8	
E-TACS penetration in Italy (% of population)	97.9	98.0	98.0	98.0	98.0	97.9	97.9	97.9	
Page views Virgilio (millions)	505	2,218	2,218	3,945	5,267	6,612	3,280	3,833	
Group's employees (at period-end)	129,073	120,973	113,475	116,020	106,620	93,187	102,541	93,178	
Group's employees (average number)	128,603	131,266	123,994	113,974	107,079	95,804	99,091	89,053	
Operating revenues/Group's employees (average number) (thousands)	219.3	229.4	228.8	280.9	293.3	322.0	152.9	170.9	



- (1) Beginning with the consolidated financial statements for the year ended December 31, 2001, under Italian GAAP, Nortel Inversora and the controlled Telecom Argentina group (Nortel Inversora group), which in 2000 were consolidated proportionally, have been accounted for using the equity method. Prior to 2000 the Nortel Inversora group was accounted for on the equity method. Under U.S. GAAP, the Nortel Inversora group is accounted for using the equity method. These differences in accounting treatment for 2000 did not affect net income and stockholders' equity but had an impact on other line items, such as operating revenues and operating expenses, as well as a number of balance sheet line items.
- (2) The 2000 unaudited pro forma amounts give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.
- (3) Beginning in 2003, Telecom Italia changed the manner in which it accounts for bond issuance expenses including them under current assets (prepaid expenses). Previously, such costs were included in Intangible assets, net. Consequently this change also impacted certain statement of operations items. As a result of this change, the previous periods have been reclassified and presented consistent with the 2003 presentation.
- (4) Net income per Share in 1999 is calculated on the basis of 4,812,541,305 shares outstanding, comprised of 4,721,387,429 Shares, 15,221,888 Preferred Shares and 75,931,988 Savings Shares (net of 2,697,500 Shares of treasury stock acquired from employees in the prior years).

Net loss per Share in 2000 is calculated on the basis of 4,700,065,553 Shares outstanding, net of 214,628,828 Shares of treasury stock of which 2,697,500 Shares were held by Telecom Italia and 211,931,328 Shares were held by its subsidiary Olivetti International S.A.

Net loss per Share in 2001 is calculated on the basis of 8,569,072,736 Shares outstanding, net of 214,628,828 Shares of treasury stock held by Telecom Italia and by its subsidiary Olivetti International S.A.

Net loss per Share in 2002 is calculated on the basis of 8,630,610,804 Shares outstanding, net of 214,628,828 Shares of treasury stock.

Net income per Share in 2003 is calculated on the basis of 15,996,955,942 shares outstanding, comprised of 10,201,034,873 Shares and 5,795,921,069 Savings Shares; the 10,201,034,873 Shares outstanding are net of 101,208,867 Shares of treasury stock already held by Telecom Italia and its subsidiary Olivetti International S.A. resulting from the redistribution of the share capital in connection with the Merger.

The significant changes in share capital at the end of 2003 compared with the end of 2002 were mainly due to the Merger of Old Telecom Italia into Olivetti, effective from August 4, 2003, which provided for an exchange ratio of 7 Olivetti ordinary shares, par value €1 each, for every ordinary share of Old Telecom Italia, par value 0.55 each, and 7 Olivetti savings shares, par value €1 each for every savings shares of Old Telecom Italia, par value €0.55 each. From August 4, 2003, the Shares and Savings Shares of Telecom Italia were issued as a result of the Merger. The change in the number of issued shares in the year 2003 can be analyzed as follows:

- until August 4, 2003: (a) issuance of 11,361,740 Shares of which 11,137,324 ordinary shares were issued on conversion of "Olivetti 1.5% 2001-2010 convertible bond with redemption premium", 141,134 ordinary shares were issued on the exercise of "Olivetti 2001-2002 ordinary share warrants" and 83,282 ordinary shares were issued on the conversion of "Olivetti 1.5% 2001-2004 convertible bond with redemption premium"; (b) cancellation of 10,958,057 ordinary shares following the exercise of withdrawal rights of dissenting shareholders as permitted in accordance with the terms of the Merger; (c) cancellation of the remaining 8,845,643,315 ordinary shares (including 214,628,828 treasury shares), par value €1 each, to be replaced by new Shares;
- on and after August 4, 2003: (a) issuance of 10,287,061,839 new Shares, par value €0.55 each (including 101,208,867 treasury shares), and 5,795,921,069 new Savings Shares, par value €0.55 each, in substitution for the cancelled shares; (b) issuance of 15,181,901 new Shares, of which 11,009,743



shares were issued on the exercise of “ex Telecom Italia 1999 Stock Option Plan”, 4,028,290 shares were issued on the conversion of “Olivetti 1.5% 2001-2010 convertible bonds with redemption premium” and 143,868 shares were issued on the conversion of “Olivetti 1.5% 2001-2004 convertible bonds with redemption premium”.

For more details on changes in stockholders’ equity for the years ended December 31, 2001, 2002 and 2003, respectively, please see page F-6 of the Telecom Italia Annual Report, “Telecom Italia S.p.A. Statements of Consolidated Stockholders’ Equity for the Years Ended December 31, 2001, 2002 and 2003” incorporated by reference herein.

The calculations 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 Shares; until July 2000 the par value of ordinary, savings and preferred shares was Lire 1,000 per share. Furthermore, the Extraordinary Shareholders’ Meeting of Telecom Italia (formerly Olivetti S.p.A.) held on July 4, 2000 approved the conversion of 15,221,888 preferred shares and 78,629,488 savings shares, at par value, into an equal number of ordinary shares. Approval was also given during the same Extraordinary Shareholders’ Meeting to the free of charge share capital increase by utilizing unrestricted reserves, increasing the par value from Lire 1,000 to Lire 1,936.27 (corresponding to €1) of all the ordinary shares (both issued ordinary shares and shares that would have been issued in the future by implementing the resolutions previously passed with regard to conversion of bonds and the exercise of warrants), with the concurrent redenomination of share capital in euros. Finally, following the Merger, effective from August 4, 2003, the Telecom Italia share capital has consisted of Shares and Savings Shares. Net income per Savings Share was €1.04 in 1999, €0.08 in 2003, €0.07 in the first half of 2003 and €0.03 in the first half of 2004.

- (5) Telecom Italia’s dividend coupons for the year ended December 31, 2003 were clipped on May 24, 2004, and such dividends for the year ended December 31, 2003 were payable from May 27, 2004.
- (6) In accordance with U.S. GAAP, the Net income (loss) per Share has been calculated using the two class method, since Telecom Italia has both Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standards No. 128, “Earnings per Share”, Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential common shares and is adjusted for any changes to income that would result from the assumed conversion of those potential common shares. For the purpose of these calculations, the weighted average number of Shares was 3,424,694,178 for the year ended December 31, 2001 and 4,054,375,543 for the year ended December 31, 2002 and the weighted average number of Shares and Savings Shares was 6,620,513,494 and 2,414,967,112 for the year ended December 31, 2003. The calculations 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 Shares. The calculations take also into account that in 2001 and 2002 (after the redenomination of the share capital into euros following the resolution taken by the Extraordinary Shareholders’ Meeting held on July 4, 2000) the par value of Shares was €1 per share, and that in 2003, after the Merger, the par value of Shares and Savings Shares was reduced to €0.55 per share. In addition, in accordance with U.S. GAAP, net income (loss) per Savings Share—Basic was €0.21 in 2003.
- (7) Stockholders’ equity under U.S. GAAP is calculated after elimination of minority interest. See Note 27 of Notes to Consolidated Financial Statements included in the Telecom Italia Annual Report incorporated by reference herein.
- (8) Gross Operating Profit was €12,131 million, €13,117 million, €12,216 million, €13,655 million, €14,015 million and €14,280 million in each of 1999, 2000 (historical), 2000 (pro forma), 2001, 2002 and 2003, respectively. Gross Operating Profit was €6,921 million and €7,089 million in the six months ended June 30, 2003 and 2004, respectively. Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the Exchange Act. Telecom Italia believes that Gross Operating Profit provides a useful measure of





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

	Year ended December 31,						Six Months ended June 30,	
	1999	2000	2000 pro forma (Unaudited)	2001	2002	2003	2003	2004
	(millions of Euro)							
<b>Operating income</b> .....	<b>5,319</b>	<b>5,444</b>	<b>5,079</b>	<b>5,125</b>	<b>6,058</b>	<b>6,789</b>	<b>3,281</b>	<b>3,596</b>
Depreciation and Amortization .....	6,013	6,946	6,509	7,612	7,227	6,779	3,357	3,212
Other external charges: (*)								
• Provision for bad debts .....	416	495	412	448	546	471	200	132
• Write-downs of fixed assets and intangibles .....	88	48	48	17	58	6	2	1
• Provision for risk .....	263	154	143	389	114	70	61	34
• Other provisions and operating charges .....	522	417	388	431	466	485	171	230
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered) .....	(490)	(387)	(363)	(367)	(454)	(320)	(151)	(116)
<b>Gross Operating Profit</b> .....	<b>12,131</b>	<b>13,117</b>	<b>12,216</b>	<b>13,655</b>	<b>14,015</b>	<b>14,280</b>	<b>6,921</b>	<b>7,089</b>

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

(9) Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the Exchange Act. Although Net Financial Debt is a non-GAAP measure, it is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. Telecom Italia believes Net Financial Debt provides an accurate indicator of Telecom Italia's ability to meet its financial obligations, represented by gross debt, from its available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in our net



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

	As of December 31,						As of
	1999	2000	2000 pro forma (Unaudited)	2001	2002	2003	June 30,
	(millions of Euro)						2004
							(Unaudited)
Short-term debt, including current portion of long-term debt	6,000	16,927	16,536	9,072	6,827	10,613	5,910
Long-term debt	24,291	27,485	25,950	37,747	33,804	30,852	34,485
<b>Gross debt</b>	<b>30,291</b>	<b>44,412</b>	<b>42,486</b>	<b>46,819</b>	<b>40,631</b>	<b>41,465</b>	<b>40,395</b>
Cash and cash equivalents:							
• Bank and postal accounts	(1,149)	(2,763)	(2,745)	(3,626)	(4,363)	(4,870)	(5,689)
• Cash and valuables on hand	(13)	(8)	(7)	(76)	(7)	(7)	(10)
• Receivables for securities held under reverse repurchase agreements	(133)	(1)	(1)	(4)	(56)	(60)	(13)
Marketable securities (*)	(1,749)	(2,909)	(2,759)	(3,616)	(1,927)	(2,719)	(1,054)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(232)	(1,210)	(1,210)	(894)	(995)	(826)	(561)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	—	(328)	(328)	(705)	(511)	(307)	(320)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	364	331	292	464	627	670	469
<b>Net Financial Debt</b>	<b>27,379</b>	<b>37,524</b>	<b>35,728</b>	<b>38,362</b>	<b>33,399</b>	<b>33,346</b>	<b>33,217</b>

(\*) In 1999, 2000, 2001 and 2002 data include Old Telecom Italia shares held by Olivetti.

(10) For purposes of calculating the ratio of "earnings to fixed charges":

- "earnings" is calculated by adding:
  - pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries;
  - "fixed charges" (as defined below);
  - amortization of capitalized interest and original issue debt discounts or premiums;
  - dividends from equity investees; and
  - equity in losses of equity investees;



and then subtracting:

- capitalized interest for the applicable period; and
- equity in earnings of equity investees.
- “fixed charges” is calculated by adding:
  - interest costs (both expensed and capitalized);
  - issue costs and any original issue debt discounts or premiums; and
  - an estimate of the interest expense within rental expense for operating leases.

The term “equity investees” means investments that Telecom Italia accounts for using the equity method of accounting.

A ratio of less than one indicates that earnings are inadequate to cover fixed charges. The amount by which fixed charges exceeded earnings for the years ended December 31, 2001 and 2002 under Italian GAAP was €1,172 million and €2,037 million, respectively. The amount by which fixed charges exceeded earnings for the year ended December 31, 2001 under U.S. GAAP was €931 million.

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

(12) Data exclude internal lines.

(13) Number of contracts. Broadband access contracts in Italy as of December 31, 2001, 2002 and 2003 were 390,000, 850,000 and 2,040,000, respectively, and as of June 30, 2003 and 2004 were 1,375,000 and 2,975,000, respectively.

(14) Number of contracts; data include Teleconomy, Hellò and other business voice offers.

(15) Data refer to TACS and GSM services lines, including holders of prepaid cards.

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



## RISK FACTORS

*An investment in the notes will involve a degree of risk, including those risks which are described in this section. You should carefully consider the following discussion of risks, as well as the risks relating to the business of the Telecom Italia Group set forth under the heading "Risk Factors" appearing in the Telecom Italia Annual Report incorporated by reference herein before deciding whether an investment in the notes is suitable for you.*

### **Risk Factors Relating to the Offering**

***Servicing our debt obligations requires a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.***

Our ability to pay the principal of and interest on the notes, our credit facilities and other debt securities depends, among other things, upon our future financial performance and our ability to refinance indebtedness, if necessary. Our business may not generate sufficient cash flow to satisfy our debt service obligations, and we may not be able to obtain funding sufficient to do so. If this occurs, we may need to reduce or delay capital expenditures or other business opportunities. In addition, we may need to refinance our debt, obtain additional financing or sell assets to raise cash, which we may not be able to do on commercially reasonable terms, if at all.

***A downgrade in our credit ratings could limit our ability to market securities, increase our borrowing costs and/or hurt our relationships with creditors.***

Our credit ratings, which are intended to measure our ability to meet our debt obligations, are an important factor in determining our cost of borrowing funds. The interest rates of our borrowings are largely dependent on our credit ratings. Telecom Italia's long-term rating is Baa2 with a stable outlook according to Moody's, BBB+ with a positive outlook according to Standard & Poors and A- with a stable outlook according to Fitch. A downgrade of our credit ratings would likely increase our cost of borrowing and adversely affect our results of operations.

A downgrade of our credit ratings could also limit our ability to raise capital or our subsidiaries' ability to conduct their businesses. A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

***The notes are effectively subordinated to our secured debt.***

The notes are not secured by any of our assets. Therefore, in the event of our bankruptcy, liquidation or reorganization, holders of our secured debt will have claims with respect to the assets securing their debt that have priority over your claims as holders of notes. To the extent that the value of the secured assets is insufficient to repay our secured debt, holders of the secured debt would be entitled to share in any of our remaining assets equally with you and any other senior unsecured lenders.

***An active trading market for the notes may not develop.***

TI Capital cannot assure you regarding the future development of a market for the notes or the ability of holders of the notes to sell their notes or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, Telecom Italia's operating results and the market for similar securities. Pursuant to the registration rights agreement, TI Capital and Telecom Italia have agreed to file a registration statement with respect to an offer to exchange the notes offered by this offering memorandum for registered notes with substantially identical terms to the notes offered by this offering memorandum and to use their reasonable best efforts to cause the registration statement to become effective. However, there can be no assurance that the SEC will declare any such registration statement effective. See "Exchange Offer and Registration Rights". The Initial Purchasers have advised us that they currently intend to make a market in the notes as permitted by applicable laws and regulations; however, the Initial Purchasers are not obligated to do so, and any such market-making activities with respect to the notes may be discontinued at any time without notice. Therefore, there can be no assurance as to the liquidity of any trading market for the notes or that an active public market for the notes will develop. See "Plan of Distribution".



### USE OF PROCEEDS

We estimate that the net proceeds from the sale of the notes will be approximately U.S.\$3.464 billion, after deducting the initial purchasers' discounts and commissions, which, at the exchange rate on September 28, 2004 of euro 1 = U.S.\$1.2335 as announced by the European Central Bank, corresponds to approximately €2.809 billion. The net proceeds of this offering are intended to be used for general corporate purposes, including the repayment of debt.



## CAPITALIZATION

### Telecom Italia Group

The following table provides the cash and cash equivalents, the short-term debt and the capitalization of the Telecom Italia Group in accordance with Italian GAAP:

- on an actual basis as of June 30, 2004, and
- as adjusted to give effect to the issuance of the notes offered hereby and the application of the net proceeds of such issuance as set forth under “Use of Proceeds” and the redemption, at par and at maturity, of €3,550 million principal amount of notes.

You should read the table together with “Operating and Financial Review and Prospects—Telecom Italia Group Results for the Six Months Ended June 30, 2004 compared to June 30, 2003” set forth in Telecom Italia’s report on Form 6-K filed with the SEC on September 23, 2004 and incorporated by reference herein.

	As of June 30, 2004	
	Actual	As Adjusted(1)
	(Unaudited) (millions of Euro)	
<b>Cash and cash equivalents</b> .....	<u>5,712</u>	<u>4,971</u>
<b>Total short-term debt</b> .....	<u>5,910</u>	<u>2,360</u>
<b>Long-term debt:</b>		
Payable to banks .....	1,073	1,073
Payable to other financial institutions .....	604	604
Convertible notes .....	5,596	5,596
Notes and bonds .....	27,135	27,135
Notes offered hereby(2) .....	—	2,837
Other long-term debt .....	77	77
<b>Total long-term debt (a)</b> .....	<u>34,485</u>	<u>37,322</u>
<b>Stockholders’ equity:</b>		
Share capital .....	8,857	8,857
Additional paid-in capital .....	97	97
Reserves, retained earnings and profit of the period .....	5,776	5,776
<b>Total stockholders’ equity before minority interests</b> .....	<u>14,730</u>	<u>14,730</u>
Minority interests .....	3,854	3,854
<b>Total stockholders’ equity (b)</b> .....	<u>18,584</u>	<u>18,584</u>
<b>Total capitalization (a+b)</b> .....	<u>53,069</u>	<u>55,906</u>

- (1) Since June 30, 2004, we have, on July 30, 2004, redeemed, at par and at maturity, €3,550 million principal amount of notes 1999-2004 (coupon 5¾% + 0.45% step-up) issued by Telecom Italia Finance S.A. and included under total short-term debt through the use of cash and cash equivalents.
- (2) The U.S.\$3,500 million aggregate principal amount of the notes offered hereby has been translated into Euro using the Euro/U.S. dollar exchange rate of Euro 1 = U.S.\$1.2335 on September 28, 2004 as announced by the European Central Bank.



**Telecom Italia Capital**

The following table provides the cash and cash equivalents, the short-term debt and the capitalization of Telecom Italia Capital in accordance with Luxembourg GAAP:

- on an actual basis as of June 30, 2004, and
- as adjusted to give effect to the issuance of the notes offered hereby and the application of the net proceeds of such issuance as set forth under "Use of Proceeds".

	As of June 30, 2004	
	Actual	As Adjusted
	(Unaudited) (thousands of Euro)	
<b>Cash and cash equivalents</b> .....	<u>0</u>	<u>2,808,551</u>
<b>Total short-term debt</b> .....	<u>2,176</u>	<u>2,176</u>
<b>Long-term debt:</b>		
Payable to banks .....	22,383	22,383
Notes .....	3,290,827	3,290,827
Notes offered hereby(1) .....	—	2,837,454
<b>Total long-term debt (a)</b> .....	<u>3,313,210</u>	<u>6,150,664</u>
<b>Stockholders' equity:</b>		
Share capital, 100,000 shares, nominal value €23.36 per share .....	2,336	2,336
Reserves, retained earnings and profit of the period .....	673	673
<b>Total stockholders' equity (b)</b> .....	<u>3,009</u>	<u>3,009</u>
<b>Total capitalization (a+b)</b> .....	<u>3,316,219</u>	<u>6,153,673</u>

(1) The U.S.\$3,500 million aggregate principal amount of the notes offered hereby has been translated into Euro using the Euro/U.S. dollar exchange rate of Euro 1 = U.S.\$1.2335 on September 28, 2004 as announced by the European Central Bank.

Except as disclosed in this offering memorandum (including the documents incorporated by reference herein), there has not been any material change in the capitalization of the Telecom Italia Group or of Telecom Italia Capital since June 30, 2004.



## DESCRIPTION OF TELECOM ITALIA CAPITAL

TI Capital is a company of the Telecom Italia Group. As of June 30, 2004, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 26.3 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary TIM, the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with more than 49.6 million mobile lines, comprised of 26.0 million lines in Italy and more than 23.6 million lines outside Italy through controlled and associated companies of TIM (including proportionate lines reflecting a total of 38.4 million lines in which we have an economic interest). At June 30, 2004, the Telecom Italia Group also had 7.0 million mobile lines (including 2.5 million proportionate lines) through companies indirectly owned through Telecom Italia International. In Italy, TIM is one of three operators with the right to provide GSM digital mobile telecommunications services and one of three operators with the right to provide DCS 1800 digital mobile telecommunications services. TIM is one of five entities which have acquired a UMTS license to provide third generation mobile services in Italy.

TI Capital is a limited liability company (*société anonyme*) organized under the laws of Luxembourg, incorporated on September 27, 2000 and is a directly and indirectly wholly-owned subsidiary of Telecom Italia. TI Capital is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under B-77.970. TI Capital's Articles of Incorporation were published in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No C-755* on October 13, 2000. TI Capital's Articles of Incorporation were amended for the last time on December 20, 2002 and the modifications were published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No C-184* on February 20, 2003.

TI Capital's primary purpose is to provide access to the international financial markets for the Telecom Italia Group.

TI Capital's registered office and postal address is 287-289 route d'Arlon, L-1150, Luxembourg and its telephone number is +352-456060-1.

### Capitalization

See "Capitalization—Telecom Italia Capital".

### Business

The corporate object of TI Capital, as set out in Article 3 of its Articles of Incorporation, is to finance the companies of the Telecom Italia Group.

### Board of Directors

The Directors of TI Capital are:

- Francesco Tanzi, resident in Milan, Italy;
- Adriano Trapletti, resident in Luxembourg;
- Stefania Saini, resident in Luxembourg;
- Alex Bolis, resident in Rome, Italy; and
- Jacques Loesch, resident in Luxembourg.





The remuneration of the Directors shall from time to time be determined by the shareholders of TI Capital in a general meeting. No Director has an interest in the share capital of TI Capital.

**Financial Information**

TI Capital issued, on October 29, 2003, \$1 billion aggregate principal amount of Series A 4% guaranteed senior notes due 2008, \$2 billion aggregate principal amount of Series B 5.25% guaranteed senior notes due 2013 and \$1 billion aggregate principal amount of Series C 6.375% guaranteed senior notes due 2033, in each case guaranteed by Telecom Italia, borrowed medium-long term loans from banks in U.S. dollars for a total equivalent amount of €26,789 thousands and granted a U.S. dollar loan to its parent company for a total equivalent amount of €3,423,485 thousands.

The statutory financial statements of TI Capital have been audited by the following independent auditors: Ernst & Young S.A. (for the years ended December 31, 2001, 2002 and 2003) and PricewaterhouseCoopers (for the year ended December 31, 2000).

**Balance Sheet Data as of June 30, 2004 (unaudited)**

	<u>(thousands of Euro)</u>
Total assets . . . . .	3,349,360
Total stockholders' equity . . . . .	3,009

**Statement of Operations Data for the six months ended June 30, 2004 (unaudited)**

	<u>(thousands of Euro)</u>
Personnel expenses . . . . .	0
Depreciation and amortization . . . . .	(11)
Other external charges . . . . .	(103)
Financial income . . . . .	93,851
Financial expense . . . . .	(89,931)
Income taxes . . . . .	(3,500)
Net income (loss) . . . . .	306

Since its incorporation, TI Capital has not traded other than in connection with the issuance of the debt securities, the borrowings and loans described above, and TI Capital has not paid any dividends nor made any distributions. TI Capital will enter into a number of contracts in connection with the issue of the notes including for the purpose of providing administrative, secretarial, legal, audit and tax services to it.

**Financial Year**

The financial year of TI Capital is the calendar year.

**No Material Adverse Change**

Since the date of TI Capital's incorporation, there has been no material adverse change, or any development reasonably likely to involve any adverse change, in the condition (financial or otherwise) of TI Capital, except as otherwise described herein.



## DESCRIPTION OF NOTES AND GUARANTEES

The following is a summary of the main terms of the notes issued by TI Capital and guaranteed by Telecom Italia. The notes will be governed by a document called the indenture, to be dated as of October 6, 2004 as supplemented by the first supplemental indenture to be dated as of October 6, 2004. Herein we refer to the indenture as supplemented by the first supplemental indenture as the “indenture”. The indenture is a contract entered into among TI Capital, as Issuer, Telecom Italia, as Guarantor, and JPMorgan Chase Bank, as trustee (the “Trustee”).

**This summary is subject to and is qualified by reference to all the provisions of the indenture, including, without limitation, the definitions of certain terms used in the indenture. For the sake of clarity, the use of the defined term Telecom Italia in this section of the offering memorandum means Telecom Italia S.p.A. in its capacity as guarantor of TI Capital’s obligations under the notes without reference to the consolidated subsidiaries of Telecom Italia S.p.A. Wherever particular provisions or defined terms of the indenture are referred to, these provisions or defined terms are incorporated in this offering memorandum by reference. We urge you to read the indenture because it, and not this description, defines your rights as a holder of notes. The indenture is available for inspection at the office of the Trustee.**

The notes will be issued as separate series only in the form of fully registered global securities. Global securities will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The notes will be issued in three series referred to herein as “2010 notes”, “2014 notes” and “2034 notes”.

- The 2010 notes will be issued in an aggregate principal amount of \$1,250,000,000. The 2010 notes will bear interest at 4% per annum and will mature on January 15, 2010.
- The 2014 notes will be issued in an aggregate principal amount of \$1,250,000,000. The 2014 notes will bear interest at 4.95% per annum and will mature on September 30, 2014
- The 2034 notes will be issued in an aggregate principal amount of \$1,000,000,000. The 2034 notes will bear interest at 6% per annum and will mature on September 30, 2034.

Interest on the notes will accrue from October 6, 2004 and will be payable semiannually in arrears on January 15 and July 15 of each year, for the 2010 notes, and March 30 and September 30 of each year, for the 2014 notes and the 2034 notes, commencing on January 15, 2005, for the 2010 notes, and March 30, 2005, for the 2014 notes and the 2034 notes. Interest on the notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Unless previously redeemed, see “—Redemption at TI Capital’s Option” and “—Optional Tax Redemption”, the aggregate outstanding principal amount of each series of notes will be payable on the applicable maturity date.

The notes will pay interest to the person in whose name the global security is registered at the close of business on the record date relating thereto, which will be the preceding January 1 or July 1, as the case may be, for the 2010 notes and March 15 or September 15, as the case may be, for the 2014 notes and the 2034 notes. The notes are issuable in denominations of \$1,000 and any integral multiple thereof.

### The Notes

The notes will be unsecured and unsubordinated and will rank equally in right of payment with TI Capital’s existing and future senior debt and rank senior in right of payment to all TI Capital’s subordinated debt.

If any interest payment date or maturity date or date of redemption for the notes falls on a day that is not a Business Day (as described below), the related payment of principal or interest will be made on the next



succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such interest payment date or maturity date, as the case may be.

“**Business Day**” means any day other than a Saturday or Sunday or a day on which banking institutions in The City of New York, New York are generally authorized or obliged by law, regulations or executive order to close.

The notes will be governed and construed in accordance with the laws of the State of New York. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of August 10, 1915, as amended, are excluded and will not be applicable. In connection with any legal action or proceeding relating to the notes, TI Capital will submit to the nonexclusive jurisdiction of any Federal or State court in the Borough of Manhattan, the City of New York.

Under New York law, claims relating to payment of principal and interest on the notes will be prescribed according to the applicable statute of limitations.

BNP Paribas Securities Services, Luxembourg Branch will act as Luxembourg paying and transfer agent.

### **Guarantees**

Telecom Italia will unconditionally and irrevocably guarantee the due and punctual payment of the principal of, premium, if any, and interest on the notes issued by TI Capital, including any additional amounts which may be payable by TI Capital in respect of its notes, as described under “—Payment of Additional Amounts”. Telecom Italia guarantees the payment of such amounts when such amounts become due and payable, whether at the stated maturity of the notes, by declaration of acceleration, call for redemption or otherwise.

The guarantees of Telecom Italia for the notes issued by TI Capital will be unsecured obligations of Telecom Italia and each will rank equally in right of payment with other unsecured and unsubordinated indebtedness of Telecom Italia. Telecom Italia has provided a restriction on liens for the benefit of the notes as provided under “—Restrictive Covenants—Restrictions on Liens”. In connection with other debt issuances (including debt issued by Olivetti), Telecom Italia has provided different restrictions on liens that in some cases could be viewed as more restrictive. Consequently it is possible that, under certain limited circumstances, other debt of Telecom Italia could be secured when the notes offered hereby are not secured.

The guarantees will be governed and construed in accordance with the laws of the State of New York. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of August 10, 1915, as amended, are excluded and will not be applicable. In connection with any legal action or proceeding relating to the guarantees, Telecom Italia will submit to the nonexclusive jurisdiction of any Federal or State court in the Borough of Manhattan, the City of New York.

### **Further issues of same series**

TI Capital may, subject to certain conditions, without the consent of the holders, “reopen” any series of notes and increase the principal amount of such series having the same ranking, the same interest rate, maturity and CUSIP numbers as notes of that series being offered in this offering memorandum and other terms (except for the issue date and issue price) as the issued series (a “**Further Issue**”). Purchasers of notes after the date of any Further Issue will not be able to differentiate between notes sold as part of the Further Issue and previously issued notes. See “—Events of Default” for a description of the events of default.



## Legal Ownership

### *Book-Entry System*

Upon issuance, the notes will be represented by one or more global notes (each, a “**Global Note**”). Each Global Note will be deposited with, or on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC. Except under the circumstances described below, Global Notes will not be exchangeable at the option of the holder for certificated notes and Global Notes will not otherwise be issuable in definitive form.

Upon issuance of the Global Notes, DTC will credit the respective principal amounts of the notes represented by the Global Notes to the accounts of institutions that have accounts with DTC or its nominee (“**participants**”), including Euroclear and Clearstream. The accounts to be credited shall be designated by the Initial Purchasers. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interest in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to participants’ interests) or by participants or persons that hold through participants. Such beneficial interest shall be in denominations of \$1,000 or integral multiples thereof.

So long as DTC, or its nominee, is the registered owner or holder of the Global Notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Global Notes for all purposes under the indenture.

Except as set forth below, owners of beneficial interests in the Global Notes:

- will not be entitled to have the notes represented by the Global Notes registered in their names,
- will not receive or be entitled to receive physical delivery of notes in definitive form registered in their names, and
- will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders thereof under the indenture.

Accordingly, each person owning a beneficial interest in the Global Notes must rely on the procedures of DTC, and indirectly Euroclear and Clearstream, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture.

Principal and interest payments on Global Notes registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner or holder of the Global Note. None of TI Capital, Telecom Italia, the Trustee, or any paying agent for such Global Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

TI Capital expects that DTC, upon receipt of any payments of principal or interest in respect of the Global Notes, will credit the accounts of the related participants (including Euroclear and Clearstream), with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of DTC. Payments by participants to owners of beneficial interest in the Global Notes held through such participants will be the responsibility of the participants, as is now the case with securities held for the accounts of customers in bearer form or registered in “street name”.

Unless and until it is exchanged in whole or in part for notes in definitive form in accordance with the terms of the indenture, a Global Note may not be transferred except as a whole by the depository to a nominee of the depository or by a nominee of DTC to DTC or another nominee of DTC.



Beneficial interests in the Global Notes will trade in DTC's Same-Day Funds Settlement System, and secondary market trading activity in such interests will, therefore, settle in same-day funds.

***Definitive Notes***

Global Notes shall be exchangeable for definitive notes registered in the names of persons other than DTC or its nominee for such Global Notes only if:

- DTC has notified TI Capital and Telecom Italia that it is unwilling or unable to continue as depository,
- DTC has ceased to be a clearing agency registered under the Exchange Act, or
- there shall have occurred and be continuing an Event of Default (as defined in the indenture) with respect to the notes.

Any Global Note that is exchangeable for definitive notes pursuant to the preceding sentence shall be exchangeable for notes issuable in denominations of \$1,000 and integral multiples thereof and registered in such names as DTC shall direct. Subject to the foregoing, a Global Note shall not be exchangeable, except for a Global Note of like denomination to be registered in the name of DTC or its nominee. Bearer notes will not be issued.

In the remainder of this description "you" means direct holders and not street name or other indirect holders of notes.

**Additional Mechanics**

*Payment and Paying Agents*

TI Capital will pay interest, principal and any other money due on the notes in registered form at the corporate trust office of the Trustee in New York City. That office is currently located at 4 New York Plaza, 15th Floor, New York, New York 10004. If you ever hold definitive notes you will make arrangements to have your payments picked up at or wired from that office or such other paying agency as we may establish.

TI Capital has appointed BNP Paribus Securities Services, Luxembourg Branch, to act as its Luxembourg paying agent. TI Capital may also arrange for additional payment offices, and may cancel or change these offices, including its use of the Trustee's corporate trust office. These offices are called paying agents. TI Capital may also choose to act as its own paying agent. TI Capital must notify you of changes in the paying agents for the notes.

Holders buying and selling notes in registered form must work out between them how to compensate for the fact that TI Capital will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sales price of the notes to pro rate interest fairly between buyer and seller. This pro rated interest amount is called accrued interest.

Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.

*Notices*

TI Capital and the Trustee will send notices only to direct holders, using their addresses as listed in the Trustee's records. Such notices will be mailed to holders of registered securities.



Regardless of who acts as paying agent, all money that TI Capital pays to a paying agent that remains unclaimed at the end of five years after the amount is due to direct holders will be repaid to TI Capital. After that five-year period, you may look only to TI Capital, or its successor, for payment and not to the Trustee, any other paying agent or anyone else.

### Mergers and Similar Events

Each of TI Capital and Telecom Italia is generally permitted to consolidate or merge with another company or firm. Each of TI Capital and Telecom Italia is also permitted to sell or lease substantially all of its assets to another company or to buy or lease substantially all of the assets of another company. In addition, Telecom Italia or one of its Italian subsidiaries will generally be permitted to assume the obligations of TI Capital (or any successor) under the notes for the payment of the principal of and interest on the notes and any other payments on the notes. Upon assuming the obligations of TI Capital, Telecom Italia or any such subsidiary may exercise every right and power of TI Capital under the indenture. However, neither TI Capital nor Telecom Italia may consolidate or merge with, or sell or lease all or substantially all of its assets to, another company or firm, nor may Telecom Italia or one of its Italian subsidiaries assume the obligations of TI Capital under the notes, unless all of the following conditions are met:

- Where TI Capital or Telecom Italia merges out of existence or sells or leases all or substantially all of its assets, the acquiring or resulting company must assume its obligations, including, in the case of Telecom Italia, the obligations arising from Telecom Italia's guarantee on the notes either by law or contractual arrangements. The acquiring or resulting company's assumption of these obligations must include the obligation to pay the additional amounts described under "—Payment of Additional Amounts". If the acquiring or resulting company is organized under the laws of any jurisdiction other than the United States, any state thereof or the District of Columbia, it must indemnify you against any governmental charge or other cost resulting from the transaction.
- TI Capital, Telecom Italia, or Telecom Italia's Italian subsidiary, as the case may be, must provide the Trustee with an officer's certificate and an opinion of counsel as to compliance with the merger or assumption, as the case may be, provisions of the indenture; provided that if TI Capital consolidates or merges with, or sells or leases all or substantially all of its assets to, an Italian company, or Telecom Italia or one of its Italian subsidiaries assumes TI Capital's obligations under the notes, TI Capital, or Telecom Italia or its Italian subsidiary, as the case may be, is required to deliver the additional opinions of counsel described below.
- The merger or sale or lease of all or substantially all of TI Capital or Telecom Italia's assets, or the assumption of the obligations of TI Capital under the notes, must not cause a default on the notes, and Telecom Italia and TI Capital must not already be in default. For purposes of this no-default test, a default would include an event of default that has occurred and not been cured, as described under "—Events of Default". A default for this purpose would also include any event that would be an event of default if the requirements for giving Telecom Italia or TI Capital default notice or their default having to exist for a specific period of time were disregarded.

Telecom Italia or one of its Italian subsidiaries may only become the obligor under the notes by assumption or merger, and any other Italian company may only become the obligor under the notes by merger, if TI Capital (or any successor) delivers to the Trustee a legal opinion, reasonably satisfactory to the Trustee, of nationally recognized external Italian and U.S. law firms to the effect that the provisions of the Trust Indenture Act of 1939, as amended, are not in conflict with mandatory provisions of Italian law applicable to holders of debt securities of Italian companies.

It is possible that an assumption, merger or other similar transaction may cause the holders of the notes to be treated for U.S. federal income tax purposes as though they had exchanged the notes for new notes. This could result in the recognition of taxable gain or loss for U.S. federal income tax purposes and possibly other adverse tax consequences.

In the case of an assumption, merger or other similar transaction the Luxembourg Stock Exchange will be informed and a notice will be published in a newspaper of general circulation in Luxembourg.



## **Modification and Waiver**

There are three types of changes TI Capital, or its successors, can make to the indenture and the notes.

### ***Changes Requiring Your Approval***

First, there are changes that cannot be made to the notes without the specific approval of each holder of notes. The following is the list of those changes:

- change the stated maturity of the principal on the notes;
- change the interest on the notes;
- reduce the principal amount due on the notes;
- change any obligation of TI Capital to pay additional amounts described under “—Payment of Additional Amounts”;
- reduce the amount of principal payable upon acceleration of the maturity of a note following a default;
- change the place or currency of payment of a note;
- impair your right to sue for payment;
- reduce the percentage of the outstanding aggregate principal amount of notes whose holder’s consent is needed to modify or amend the indenture;
- reduce the percentage of the outstanding aggregate principal amount of notes whose holder’s consent is needed to waive compliance with various provisions of the indenture or to waive various defaults;
- modify any other aspect of the provisions dealing with modification and waiver of the indenture; and
- change the obligations of Telecom Italia as Guarantor with respect to payment of principal, premium, if any, and interest payments in any manner adverse to the interests of the holders of the notes.

### ***Changes Requiring a Majority Vote***

The second type of change to the indenture and the notes is the kind that requires a vote in favor by holders of notes owning a majority of the outstanding principal amount of the particular series affected. Most changes fall into this category, except for clarifying changes and other changes that would not adversely affect holders of the notes in any material respect. The same vote would be required for TI Capital to obtain a waiver of all or part of the covenants described in this section, or a waiver of a past default. However, TI Capital cannot obtain a waiver of a payment default or any other aspect of the indenture or the notes listed in the first category described under “—Changes Requiring Your Approval” unless TI Capital obtains your individual consent to the waiver.

### ***Changes Not Requiring Approval***

The third type of change does not require any vote by holders of the notes. This type is limited to clarifications and other changes that would not adversely affect holders of the notes in any material respect.

## **Further Details Concerning Voting**

Notes will not be considered outstanding, and therefore not eligible to vote, if TI Capital has deposited or set aside in trust for you money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described under “—Discharge and Defeasance”.



TI Capital will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding notes that are entitled to vote or take other action under the indenture. In limited circumstances, the Trustee will be entitled to set a record date for action by holders. If TI Capital or the Trustee sets a record date for a vote or other action to be taken by holders of a particular series of the notes, that vote or action may be taken only by persons who are holders of outstanding notes of that series on the record date and must be taken within 180 days following the record date or another period that TI Capital may specify (or as the Trustee may specify if it set the record date). TI Capital or the Trustee, as the case may be, may shorten or lengthen (but not beyond 180 days) this period from time to time.

Street name and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if TI Capital seeks to change the terms of the indenture or request a waiver.

### Redemption at TI Capital's Option

Beginning on July 15, 2006, for the 2010 notes and September 30, 2006, for the 2014 notes and the 2034 notes, the notes will be redeemable in whole or in part at TI Capital's (or TI Capital's successor's) option at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the applicable notes; or
- as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 20 basis points for the 2010 notes, 25 basis points for the 2014 notes and 30 basis points for the 2034 notes,

plus accrued interest thereon to the date of redemption.

The definition of certain terms used in the paragraph above are listed below.

Adjusted treasury rate means, with respect to any redemption date:

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the comparable treasury issue (if no maturity is within three months before or after the remaining life, yields for the two published maturities most closely corresponding to the comparable treasury issue will be determined and the treasury rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or
- if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) of the comparable treasury issue, calculated using a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

The treasury rate will be calculated on the third Business Day preceding the date fixed for redemption.

Comparable treasury issue means the U.S. Treasury security selected by the quotation agent as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be





utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable treasury price means, with respect to any redemption date, (1) the average of five reference treasury dealer quotations for such redemption date, after excluding the highest and lowest reference treasury dealer quotations, or (2) if the quotation agent obtains fewer than four such reference treasury dealer quotations, the average of all such quotations.

Quotation agent means either Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch International and Morgan Stanley & Co. Incorporated or such other agent as appointed by TI Capital or Telecom Italia, or, if these firms are unwilling or unable to select the comparable treasury issue, an independent investment banking institution of national standing appointed by TI Capital or Telecom Italia.

Reference treasury dealer means:

- each of Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch International and Morgan Stanley & Co. Incorporated, or their affiliates which are primary U.S. Government securities dealers, or their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "primary treasury dealer"), TI Capital will substitute such reference treasury dealer with another primary treasury dealer; and
- any other primary treasury dealer selected by the quotation agent after consultation with TI Capital or Telecom Italia.

Reference treasury dealer quotations means with respect to each reference treasury dealer and any redemption date, the average, as determined by the quotation agent, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the quotation agent by such reference treasury dealer at 3:30 p.m. (New York City time) on the third Business Day preceding such redemption date.

Remaining scheduled payments means, with respect to each note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that, if that redemption date is not an interest payment date with respect to such notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that redemption date.

If less than all of a series of notes is to be redeemed at any time, selection of notes for redemption will be made by the Trustee on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate; provided that notes with a principal amount of \$1,000 will not be redeemed in part.

TI Capital will give DTC a notice of redemption at least 30 but not more than 60 days before the redemption date. If any notes are to be redeemed in part only, the notice of redemption that relates to such notes will state the portion of the principal amount thereof to be redeemed. A new note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original note.

Unless TI Capital defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

In the case of redemption of TI Capital's option, the Luxembourg Stock Exchange will be informed of the redemption and a notice will be published on the *Luxemburger Wort*.

### Optional Tax Redemption

Other than as described above under "—Redemption at TI Capital's Option," TI Capital will have the option to redeem the notes in the two situations described below. The redemption price for the notes will be equal to the



principal amount of the notes being redeemed plus accrued interest and any additional amounts due to the date fixed for redemption. Furthermore, TI Capital must give you between 30 and 60 days' notice before redeeming the notes.

- The first situation is where, as a result of a change in, execution of or amendment to any laws, regulations or treaties or the official application or interpretation of any laws, regulations or treaties, either:
  - TI Capital (or its successor) or Telecom Italia (or its successor) would be required to pay additional amounts as described below under “–Payments of Additional Amounts”, or
  - Telecom Italia or any of its subsidiaries would have to deduct or withhold tax on any payment to TI Capital (or its successor) to enable TI Capital (or its successor) to make a payment of principal, premium, if any, or interest on the notes.

This applies only in the case of changes, executions, amendments, applications or interpretations that occur on or after the date of the indenture and in the jurisdiction where TI Capital (Luxembourg) or Telecom Italia (Italy) is incorporated. If TI Capital or Telecom Italia is succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which the successor entity is organized, and the applicable date will be the date the entity became a successor.

TI Capital would not have the option to redeem the notes if TI Capital or Telecom Italia could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to TI Capital or Telecom Italia.

- The second situation is where a person into which TI Capital or Telecom Italia is merged or to whom it has conveyed, transferred or leased all or substantially all of its property, is required to pay additional amounts. TI Capital would have the option to redeem the notes even if TI Capital or Telecom Italia is required to pay additional amounts immediately after the merger, conveyance, transfer or lease. Neither Telecom Italia nor TI Capital is required to use reasonable measures to avoid the obligation to pay additional amounts in this situation. However, TI Capital will not have the option to redeem if the sole purpose of such a merger would be to permit TI Capital to redeem the debt securities.

The election of TI Capital to redeem shall be evidenced by a board resolution or in another manner specified in the indenture. In case of any redemption TI Capital shall, at least 60 days prior to the redemption date (unless a shorter notice will be reasonably satisfactory to the Trustee), notify the Trustee of the redemption date and of the principal amount of notes to be redeemed.

### **Payment of Additional Amounts**

Luxembourg or Italy may require TI Capital, as issuer, or Telecom Italia, as guarantor, to withhold amounts from payments of principal or interest on the notes or any amounts to be paid under the guarantees, as the case may be, for taxes or any other governmental charges. If Luxembourg or Italy requires a withholding of this type, TI Capital or Telecom Italia, as the case may be, may be required to pay you additional amounts so that the net amount you receive will be the amount specified in the note to which you are entitled.

TI Capital or Telecom Italia, as the case may be, will not have to pay additional amounts in respect of taxes or other governmental charges that are required to be deducted or withheld by any paying agent from a payment on a note, if such payment can be made without such deduction or withholding by any other paying agent, or in respect of taxes or other governmental charges that would not have been imposed but for:

- the existence of any present or former connection between you and Luxembourg or Italy, as the case may be, other than the mere holding of the note and the receipt of payments thereon;
- the application of the European Directive 2003/48/EC of June 3, 2003, on the taxation of income from savings, as well as any equivalent measure adopted according to such directive;



- a failure to comply with any certification, documentation, information or other reporting requirements concerning your nationality, residence, identity or connection with Luxembourg or Italy, as the case may be, if such compliance is required as a precondition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that you are not resident in Luxembourg or Italy or are not an individual resident of a member state of the European Union);
- a change in law that becomes effective more than 30 days after a payment on the notes becomes due and payable or on which payment thereof is duly provided for, whichever occurs later; or
- any tax or other governmental charge imposed on non-residents for income tax purposes in Italy as provided under Italian laws and regulations relating to countries which do not have an adequate exchange of information with Italy (i.e., other than the countries listed under the heading “Transfer Restrictions—Other Restrictions”).

These provisions will also apply to any taxes or governmental charges imposed by any jurisdiction in which a successor to TI Capital or Telecom Italia is organized.

For additional information, see section 803 of the indenture.

## Restrictive Covenants

### *Restrictions on Liens*

Some of TI Capital’s and Telecom Italia’s property may be subject to a mortgage or other legal mechanism that gives their lenders preferential rights in that property over other lenders, including you and the other direct holders of the notes, or over their general creditors if they fail to pay them back. These preferential rights are called liens. Each of TI Capital and Telecom Italia promises that it will not create or permit to subsist any encumbrance to secure capital market indebtedness, which is described further below, on the whole or any part of its present or future revenues or assets, other than permitted encumbrances.

As used here, encumbrance means:

- any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any individual, corporation, partnership, joint venture, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof; and
- any arrangement providing a creditor with prior right to an asset, or its proceeds of sale, over other creditors in a liquidation.

As used here, permitted encumbrance means:

- any encumbrance existing on the date of issuance of the notes;
- any encumbrance over or affecting any asset acquired by TI Capital or Telecom Italia after the date of the indenture, and subject to which such asset is acquired, if:
  - such encumbrance was not created in contemplation of the acquisition of such asset by TI Capital or Telecom Italia;
  - the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by TI Capital or Telecom Italia;
  - any encumbrance over or affecting any asset of any company which becomes an obligor under the notes after the date of the indenture, where such encumbrance is created prior to the date on which such company becomes an obligor under the notes, if:
    - such encumbrance was not created in contemplation of that company becoming an obligor under the notes, and



- the amount thereby secured has not been increased in contemplation of, or since the date of, that company becoming an obligor under the notes;
- 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;
- 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;
- encumbrances created in substitution of any encumbrance permitted under the first two bullet points above over the same or substituted assets. This only applies if: (a) the principal amount secured by the substitute encumbrance does not exceed the principal amount outstanding and secured by the initial encumbrance; and (b) 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;
- encumbrances created to secure:
  - loans provided, supported or subsidized by a governmental agency, national or multinational investment guarantee agency, export credit agency or a lending organization established by the United Nations, the European Union or other international treaty organization, including, without limitation, the European Investment Bank, the European Bank for Reconstruction and Development and the International Finance Corporation;
  - project finance indebtedness (as described below);

this will, however, only apply if 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);
- encumbrances arising out of the refinancing of any capital market indebtedness secured by any encumbrance permitted by the preceding bullet points. These encumbrances will, however, only be permitted if the amount of such capital market indebtedness is not increased and is not secured by an encumbrance over any additional assets;
- any encumbrance arising by operation of law;
- 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;
- any encumbrance created in the ordinary course of business to secure capital market indebtedness under hedging transactions entered into for the purpose of managing risks arising under funded debt obligations such as credit support annexes and agreements;
- any encumbrance over or affecting any asset of Telecom Italia to secure capital market indebtedness under a permitted leasing transaction (as described below); provided that the aggregate capital market indebtedness secured by all such encumbrances does not exceed €1 billion;
- any encumbrance created on short-term receivables used in any asset-backed financing;
- any encumbrance on real estate assets of Telecom Italia, any subsidiary or any person to which such real estate assets may be contributed by Telecom Italia or any subsidiary 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 subsidiary; and



- any other encumbrance securing capital market 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).

As used here, capital market indebtedness means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, any certificate of indebtedness, bond, note or other security which is listed or traded on a stock exchange or other recognized securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by Telecom Italia or TI Capital, the expressions “assets” and “obligations for the payment of borrowed money” as used in this definition do not include assets and obligations of Telecom Italia or TI Capital which, pursuant to the requirements of law and accounting principles generally accepted in Italy or Luxembourg, as the case may be, currently need not, and are not, reflected in the balance sheet of Telecom Italia or TI Capital, as the case may be.

As used here, 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, utilization 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.

As used here 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:

- recourse to such debtor for amounts limited to the cash flow from such asset; and/or
- 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
- 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.

### **Discharge and Defeasance**

TI Capital or Telecom Italia can be legally released from any payment or other obligation on the notes except for various obligations described below if, in addition to other actions, the following arrangements for you to be repaid are put in place:

- TI Capital or Telecom Italia deposits in trust for your benefit and the benefit of all other direct holders of the notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, premium, if any, principal and any other payments on the notes on their various due dates.
- TI Capital or Telecom Italia delivers to the Trustee a legal opinion of their counsel confirming that there has been a change in U.S. federal income tax law, and under then current U.S. federal income tax law



TI Capital or Telecom Italia may make the above deposit without causing you to be taxed on the notes any differently than if TI Capital or Telecom Italia did not make the deposit and just repaid the notes themselves. TI Capital or Telecom Italia would not have to deliver this opinion if TI Capital or Telecom Italia received from, or there has been published by, the U.S. Internal Revenue Service (the “IRS”) a ruling that states the same conclusion.

- If the notes are listed on the Luxembourg Stock Exchange or another exchange, TI Capital or Telecom Italia must deliver to the Trustee a legal opinion of their counsel confirming that the deposit, defeasance and discharge will not cause the notes to be delisted from such exchange.

However, even if TI Capital or Telecom Italia takes these actions, a number of TI Capital’s or Telecom Italia’s obligations relating to the notes will remain. These include the following obligations:

- to register the transfer and exchange of notes,
- to replace mutilated, destroyed, lost or stolen notes,
- to maintain paying agencies, and
- to hold money for payment in trust.

### Ranking

The notes are not secured by any of Telecom Italia’s or TI Capital’s property or assets. Accordingly, your ownership of the notes means you are one of Telecom Italia’s or TI Capital’s senior unsecured creditors. The notes are not subordinated to any of Telecom Italia’s or TI Capital’s other debt obligations and therefore they rank equally with all Telecom Italia’s and TI Capital’s other senior unsecured and unsubordinated indebtedness.

### Events of Default

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

*An “event of default” with respect to the notes is defined in the indenture as:*

- The failure by TI Capital or Telecom Italia to pay principal on a note within 10 days from the relevant due date or the failure to pay interest on a note within 30 days from the relevant due date;
- The failure by TI Capital to perform any other obligation under the notes or the failure by Telecom Italia to perform any obligation under its guarantee and such failure continues for more than 60 days after the Trustee has received notice of it from the affected holder of the notes;
- Any of TI Capital’s or Telecom Italia’s capital market indebtedness (as defined above in “—Restrictive Covenants—Restrictions on Liens”) in excess of €100 million (or the equivalent thereof in other currencies) has to be repaid prematurely due to a default under its terms;
- The failure by TI Capital or Telecom Italia to fulfill any payment obligation exceeding €100 million or its equivalent under any capital market indebtedness (as defined above in “—Restrictive Covenants—Restriction on Liens”) of TI Capital or Telecom Italia, or under any guarantee provided for any such capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) of others, and this failure remains uncured for 30 days;



- Any security or guarantee relating to capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) provided by TI Capital or Telecom Italia is enforced by the lenders and such enforcement is not contested in good faith by TI Capital or Telecom Italia or TI Capital or Telecom Italia publicly announces their inability to meet their financial obligations;
- A court opens insolvency or equivalent proceedings against TI Capital or Telecom Italia 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 TI Capital or Telecom Italia apply for such insolvency or equivalent proceedings;
- TI Capital or Telecom Italia approves a resolution pursuant to which it goes into liquidation 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 Capital or Telecom Italia, in connection with the notes; or
- Telecom Italia's guarantee relating to the notes ceases to be valid or legally binding for any reason.

If an event of default has occurred and has not been cured, the Trustee or the holders of not less than 25% in principal amount of the outstanding notes of the affected series may declare the entire principal amount of all the notes of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of at least a majority in principal amount of the outstanding notes of the affected series.

Except in cases of default, where the Trustee has some special duties, the Trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the Trustee reasonable protection from expenses and liability. This protection is called an indemnity. If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding notes of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. These majority holders may also direct the Trustee in performing another action under the indenture.

Before you bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes, the following must occur:

- You must give the Trustee written notice that an event of default has occurred and remains uncured.
- The holders of not less than 25% in principal amount of all outstanding notes of the relevant series must make a written request that the Trustee take action because of the default, and must offer reasonable indemnity to the Trustee against the cost and other liabilities of taking that action.
- The Trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.

Each of TI Capital and Telecom Italia will furnish to the Trustee every year, within 120 days after the end of Telecom Italia's fiscal year, a written statement from its designated officers certifying that, to their knowledge, it is in compliance with the indenture and the notes, or else specifying any default.

Street name and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the Trustee and to make or cancel a declaration of acceleration.



## Regarding the Trustee

Telecom Italia and several of its subsidiaries maintain banking relations with the Trustee in the ordinary course of their business.

If an event of default occurs, or a default, that would become an event of default if the requirements for giving a default notice or any specific grace period of time were disregarded occurs, the Trustee may be considered to have a conflicting interest with respect to the notes for purposes of the Trust Indenture Act of 1939, as amended. In that case, the Trustee may be required to resign as Trustee under the applicable indenture, in which case TI Capital and Telecom Italia would be required to appoint a successor Trustee.

## Global Clearance and Settlement

### *The Clearing systems*

The information in this section concerning DTC, Clearstream and Euroclear, and DTC and their book-entry systems has been obtained from sources that TI Capital and Telecom Italia believe to be reliable. Neither TI Capital nor Telecom Italia nor the Initial Purchasers take any responsibility for or make any representation or warranty with respect to this information, other than that it has been accurately extracted and/or summarized from those sources.

### *DTC*

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include the Initial Purchasers, the U.S. depositories, the fiscal agent, securities brokers and dealers, banks, trust companies and clearing corporations and may in the future include certain other organizations. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Transfers of ownership or other interests in Global Notes in DTC may be made only through DTC participants.

### *Clearstream, Luxembourg*

Clearstream (formerly Cedelbank) is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream interfaces with domestic markets in several countries. As a bank, Clearstream is subject to regulation by the *Commission de Surveillance du Secteur Financier*. Clearstream participants are financial





institutions around the world, including the Initial Purchasers, other securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

***Euroclear***

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash.

Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (which we refer to in this offering memorandum as the “**Euroclear Operator**”) under a contract with Euro-Clear Clearance Systems, S.C., a Belgian cooperative corporation (which we refer to in this offering memorandum as the “**Cooperative**”). All operations are conducted by the Euroclear Operator and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), the Initial Purchasers, other securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Because the Euroclear Operator is a Belgian banking corporation, Euroclear is regulated and examined by the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (which we refer to in this offering memorandum as the “**Terms and Conditions**”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

***Clearing Numbers***

The clearing numbers of the notes are set forth below:

<u>Note</u>	<u>Common Codes</u>	<u>CUSIP Numbers</u>	<u>ISIN Numbers</u>
2010 notes distributed pursuant to Rule 144A . . . . .	020253835	87927V AG 3	US87927VAG32
2010 notes distributed pursuant to Regulation S . . . . .	020253851	T92762 AD 4	UST92762AD47
2014 notes distributed pursuant to Rule 144A . . . . .	020253908	87927V AH 1	US87927VAH15
2014 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AE 2	UST92762AE20
2034 notes distributed pursuant to Rule 144A . . . . .	020253983	87927V AJ 7	US87927VAJ70
2034 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AF 9	UST92762AF94



## BOOK ENTRY SETTLEMENT AND CLEARANCE

### The Global Notes

The notes will be issued in the form of several Global Notes. The Global Notes are registered notes in global form, without interest coupons. The notes will be issued as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by Rule 144A Global Notes; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by Regulation S Global Notes.

Upon issuance, each of the Global Notes will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC (“**DTC participants**”) or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC’s custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the Initial Purchasers; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Regulation S Global Notes will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests. During the Distribution Compliance Period described below, beneficial interests in the Regulation S Global Notes may be:

- held only through Euroclear or Clearstream, Luxembourg; and
- transferred only to non-U.S. persons under Regulation S or qualified institutional buyers under Rule 144A.

Investors may hold their interests in the Regulation S Global Notes directly through Euroclear or Clearstream if they are participants in those systems, or indirectly through organizations that are participants in those systems. After the Distribution Compliance Period (described below) ends, investors may also hold their interests in the Regulation S Global Notes through organizations other than Euroclear or Clearstream that are DTC participants. Each of Euroclear and Clearstream will appoint a DTC participant to act as its depository for the interests in each Regulation S Global Note that is held within DTC for the account of each settlement system on behalf of its participants.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described above under “Description of Notes and Guarantees—Legal Ownership—Book-Entry System”.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Transfer Restrictions”.



### Exchanges Among the Global Notes

The distribution compliance period will begin on the closing date and end 40 days after the closing date, as extended in the case of a Further Issue (the “**Distribution Compliance Period**”).

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the Distribution Compliance Period, and to which Global Note the transfer is being made, the Trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.



### TRANSFER RESTRICTIONS

The notes are subject to restrictions on transfer as summarized below. By purchasing notes, you will be deemed to have made the following acknowledgements, representations to and agreements with TI Capital, Telecom Italia and the Initial Purchasers:

You acknowledge that:

- the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth below.

You represent that you are not an affiliate (as defined in Rule 144) of ours, that you are not acting on Telecom Italia's and TI Capital's behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A) and are purchasing notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing notes in an offshore transaction in accordance with Regulation S.

You acknowledge that none of TI Capital, Telecom Italia, the Initial Purchasers or any person representing TI Capital, Telecom Italia or the Initial Purchasers has made any representation to you with respect to TI Capital and Telecom Italia or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum and the documents incorporated by reference herein in making your investment decision with respect to the notes. You agree that you have had access to such financial and other information concerning us and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from TI Capital and Telecom Italia.

You represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of the notes by its acceptance of the notes will agree, that until the end of the Resale Restriction Period (as defined below), the notes may be offered, sold or otherwise transferred only:

- to TI Capital and Telecom Italia;
- under a registration statement that has been declared effective under the Securities Act;
- for so long as the notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of



another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

- through offers and sales that occur outside the United States within the meaning of Regulation S; or
- under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply during:
  - in the case of the Rule 144A notes, the period ending on the date that is two years after the later of the closing date and the last date that we or any of our affiliates were the owner of the notes (the "**Rule 144A Resale Restriction Period**") and, subject to certain exceptions, will not apply after the Rule 144A Resale Restriction Period ends;
  - in the case of the Regulation S notes, the period ending 40 days after the closing date, as extended in the case of a Further Issue (the "**Regulation S Resale Restriction Period**" and, together with the Rule 144A Resale Restriction Period, the "**Resale Restriction Period**"), and will not apply after the Regulation S Resale Restriction Period ends;
- each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS [IN THE CASE OF RULE 144A NOTES: TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY),] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE ORIGINAL ISSUE DATE HEREOF] ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY



SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

You acknowledge that TI Capital and Telecom Italia, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify TI Capital and Telecom Italia and the Initial Purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

### **Other Restrictions**

You understand that it is the intention of TI Capital that the notes will be offered and sold to investors, and trade in the secondary market between investors, and will be held by investors who are, resident for income tax purposes in countries listed in the Decree of the Ministry of Finance of Italy of September 4, 1996, as amended. A copy of the decree can be obtained from the website of the Ministry of Finance of Italy at [www.finanze.it](http://www.finanze.it). You also understand that, to the extent that Telecom Italia becomes the obligor under the notes due to substitution or otherwise (see “Description of Notes and Guarantees—Mergers and Similar Events”) and Telecom Italia was obligated to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors not resident for income tax purposes in the countries identified in the above Decree or to investors resident for income tax purposes in countries identified in the above Decree (including investors resident in the United States) who do not furnish the required certifications under applicable Italian tax requirements. See “Description of Notes and Guarantees—Payment of Additional Amounts”.

The following is the current exclusive list of countries where, if the notes were held by residents for income tax purposes of such countries, and Telecom Italia were to become the obligor on the notes, Telecom Italia would be obligated to gross up payments in the event of a withholding on any payments on the notes, subject to the limitations set forth under “Description of Notes and Guarantees—Payment of Additional Amounts”: Albania, Algeria, Argentina, Australia, Austria, Bangladesh, Belarus, Belgium, Brazil, Bulgaria, Canada, China (People’s Republic), Croatia, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Israel, Ivory Coast, Japan, Kazakhstan, Kuwait, Lithuania, Luxembourg, Macedonia, Malta, Mauritius, Mexico, Morocco, The Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States of America, Venezuela, Vietnam, Yugoslavia and Zambia.

You also understand the notes will not be offered, sold or delivered in Italy or to investors resident in Italy. Investors resident in Italy for income tax purposes may suffer adverse tax consequences from holding the notes and in connection therewith there is no obligation for either TI Capital or Telecom Italia to gross up any payment on the notes made to Italian investors.



## EXCHANGE OFFER AND REGISTRATION RIGHTS

In connection with the issuance of the notes, TI Capital and Telecom Italia will enter into a registration rights agreement (the "Registration Rights Agreement") with Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch International and Morgan Stanley & Co. Incorporated, as the Initial Purchasers. The following summary of selected provisions of the Registration Rights Agreement is not complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement. Copies of the Registration Rights Agreement are available from TI Capital and Telecom Italia upon request.

Under the Registration Rights Agreement, TI Capital and Telecom Italia will agree to consummate the exchange offer no later than October 31, 2005.

The exchange notes will be identical in all material respects to the notes, except that:

- additional interest, as described below, will not be payable in respect of the exchange notes;
- the exchange notes will not be entitled to registration rights under the Registration Rights Agreement;
- interest on the exchange notes will accrue from the last day on which interest was paid on the notes;
- the non-call period for any optional call could be extended; and
- except for the restrictions described under "Transfer Restrictions—Other Restrictions", the exchange notes will not be subject to the restrictions on transfer described above under "Transfer Restrictions".

Upon becoming effective, the exchange offer registration statement will permit the holders of the notes, except as described below, the opportunity to exchange their notes for the exchange notes. Under existing interpretations of the SEC set forth in no-action letters to third parties, the exchange notes would in general be freely transferable (other than by holders who are broker-dealers or by any holder who is an affiliate of ours) after the exchange offer without further registration under the Securities Act. Under those existing SEC interpretations, each holder of notes participating in the exchange offer will be required to represent to TI Capital and to Telecom Italia that, among other things, at the time of the consummation of the exchange offer:

- any exchange notes received by that holder will be acquired in the ordinary course of business;
- that holder has no arrangement or understanding with any person to participate in the distribution of the notes or the exchange notes within the meaning of the Securities Act;
- the holder is not an "affiliate" (as defined in Rule 405 of the Securities Act) of Telecom Italia;
- that holder is not engaged in, and does not intend to engage in, the distribution of the exchange notes within the meaning of the Securities Act;
- if that holder is a broker-dealer, it will receive exchange notes in exchange for notes that were acquired for its own account as a result of market-making activities or other trading activities and it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such exchange notes; and
- if that holder is a broker-dealer, it did not purchase the notes being tendered in the exchange offer directly from TI Capital for resale pursuant to Rule 144A or any other available exemption from registration under the Securities Act.

Any holder that is not able to make these representations or certain similar representations will not be entitled to participate in the exchange offer or to exchange its notes for exchange notes.



The exchange notes, if issued, will be issued under the indenture. The notes and, if issued, the exchange notes, will constitute a single series of debt securities under the indenture. This means that, in circumstances where the indenture provides for holders of debt securities of any series to vote or take any other action as a single class, holders of the notes who do not exchange their notes for exchange notes and holders of exchange notes will vote or take that action as a single class. The exchange notes will represent the same underlying indebtedness as the notes for which they are exchanged.

Although TI Capital and Telecom Italia intend to file the exchange offer registration statement, there can be no assurance that the exchange offer registration statement will be filed or, if filed, that it will become effective. The Registration Rights Agreement provides that if TI Capital has not consummated the exchange offer by October 31, 2005, then, in addition to the interest otherwise payable on the notes, additional interest will accrue and be payable on the notes at a rate of 0.50% per annum until that requirement is satisfied.

Any amounts of additional interest due will be payable in cash and will be payable on the same dates on which interest is otherwise payable on the notes and to the same persons who are entitled to receive those payments of interest on the notes. The amount of additional interest payable for any period will be determined by multiplying the additional interest rate (as described above) by the principal amount of the notes and then multiplying that product by a fraction, the numerator of which is the number of days that the additional interest rate was applicable during that period (determined on the basis of a 360-day year comprising twelve 30-day months), and the denominator of which is 360.

If TI Capital effects the exchange offer, TI Capital will be entitled to close that offer as long as it has accepted all notes validly tendered and not withdrawn in accordance with the terms of the exchange offer. Notes not tendered in the exchange offer will bear interest at the same rate in effect at the time of original issuance of the notes and, after consummation of the exchange offer, will not be entitled to additional interest or further registration rights.

If TI Capital effects the exchange offer, application will be made to list the exchange notes on the Luxembourg Stock Exchange. Notices informing the holders of the notes of the beginning of the exchange period as well as the result of the exchange offer will be published in a newspaper of general circulation in Luxembourg. It will be possible to participate in the exchange offer through an agent in Luxembourg. The documents relating to the exchange offer will be available in Luxembourg.





## TAX CONSIDERATIONS

### Luxembourg Tax Considerations

The following is a general description of the material Luxembourg tax consequences of purchasing, owning and disposing of the notes. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or dispose of the notes. It does, in particular, not address the situation of any companies taking advantage of a special income tax treatment in Luxembourg, such as holding companies regulated under the Law of July 31, 1929 or undertakings for collective investments. Prospective purchasers of the notes should consult their own tax advisors as to the applicable tax consequences of the ownership of the notes, based on their particular circumstances. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect on the date of this offering memorandum and is subject to any amendments in law later introduced, whether or not on a retroactive basis.

#### *Tax Residency*

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

#### *Withholding tax*

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

Luxembourg withholding tax on payments to individual holders of the notes (resident in another EU country than Luxembourg) will as from a date not earlier than July 1, 2005 be required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Under this Directive, Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a paying agent (within the meaning of the Directive) to (or under certain circumstances, to the benefit of) an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless the beneficiary of the interest payments elects for the exchange of information. The withholding tax rate will initially be 15%, increasing steadily to 20% and to 35%. The ending of such transitional period depends on the conclusion of certain other agreements relating to information exchange with certain other countries.

A Luxembourg withholding tax may in the future be introduced for interest payments made to Luxembourg individual residents.

#### *Taxation of the Holders of the Notes*

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

Holders of the notes 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 or the exchange of any notes.



### *Taxation of Luxembourg residents – General*

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

#### *Luxembourg resident individuals*

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

#### *Luxembourg resident companies*

Luxembourg resident companies (*sociétés de capitaux*) holders of the notes 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 the difference between the sale price (including accrued but unpaid interest) and the lower of the cost or book value of the notes sold or converted.

#### *Option upon exchange of the Notes*

Upon exchange of the notes, holders of the notes (other than Luxembourg resident companies benefiting from a special tax regime) may opt for valuing the shares received upon exchange at the acquisition price of the notes, and thus for not realizing any gain at the moment of the exchange of the notes (for the avoidance of doubt, accrued but unpaid interest would be taxable). Potential capital gains would then be realised by the holders of the notes upon a further disposal of the shares.

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

Holders of the notes who are holding companies subject to the law of 31 July 1929 or undertakings for collective investment subject to the law of 20 December 2002 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax other than the subscription tax calculated on their share capital or net asset value (i.e., corporate income tax, municipal business tax and net wealth tax).

#### *Net Wealth Tax*

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

#### **Other Taxes**

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by holders of the notes as a consequence of the issuance of the notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or exchange 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 holder of the notes in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

### **Italian Tax Considerations**

The following is a summary of certain Italian tax consequences of the receipt of interest on the notes and capital gains upon disposal thereof by non-Italian investors, along with a summary of the Italian tax treatment of payments which might possibly be made by the Guarantor under the notes.

This summary is based upon Italian tax law and practice as in effect on the date of the offering memorandum and is subject to change, potentially with retroactive effect.

Prospective investors in the debt securities should consult their own advisors regarding the Italian or other tax consequences of the purchase, ownership and disposition of the debt securities in their particular circumstances, including the effect of any state, local or foreign tax laws.

#### ***Interest on Debt Securities***

Interest payable on debt securities issued by TI Capital to a beneficial owner who is not resident in Italy and is not acting through an Italian permanent establishment is not subject to Italian taxes. To the extent that debt securities are deposited by a non-resident holder in an account with an Italian withholding agent, interest payable to a non-resident beneficial owner is subject to the substitute tax at rates up to 27%, according to the same rules applicable to Italian resident holders, unless the holder produces a declaration of non-residence in Italy. In addition, any element of the proceeds of sale of debt securities by a non-resident holder which represents accrued, and express or implied, interest in respect of such debt securities will be subject to Italian substitute tax if the debt securities are sold through an Italian withholding agent, unless such holder produces a declaration of non-residence and has provided details of the period during which he was the beneficial owner of the debt securities and the interest derived therefrom.

#### ***Payments under the Guarantees by Telecom Italia***

There is no authority directly on point regarding the Italian tax regime of payments made by Telecom Italia under the guarantees. Accordingly, there can be no assurance that the Italian revenue authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian court would not sustain such an alternative treatment.

Payments to non-resident holders made by Telecom Italia under the guarantees, which represent interest payable on the debt securities, are subject to the Italian tax regime described above under “—Interest on Debt Securities”.

#### ***Capital Gains on Debt Securities***

Capital gains realized by non-residents from the sale of debt securities issued by TI Capital are in principle not subject to tax in Italy. However, a 12.5% substitute tax may apply to the extent the notes are located in the Italian territory unless:

- the debt securities are listed on a regulated market; or



- the debt securities are not listed on a regulated market, but the following requirements are satisfied:
  - the holder is resident of a country which allows an adequate exchange of information with Italy or, in the case of institutional investors not subject to tax, they are established in such country;
  - the relevant Italian withholding agent, if any, receives a self-declaration from the holder of the debt securities which states that the holder is a resident of that country. The self-declaration, which must be in conformity with the model approved by the Ministry of Economy and Finance (approved in Decree of the Ministry of Economy and Finance of December 12, 2001, published in the Ordinary Supplement No. 287 to the Official Journal No. 301 of December 29, 2001), is valid until revoked by the investor and does not have to be filed if an equivalent self-declaration (including Form 116/IMP) has been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company; or
  - the holder is resident in a country that has entered into a double taxation convention with Italy that provides for the exclusive right to tax such gains in the holder's country of residence.

### *Early Redemption*

The early redemption of notes with a maturity period of no less than 18 months issued by a non-resident company, if occurring before expiration of the first 18 months, in certain cases may trigger the liability for the holder of a 20% surtax to be paid on all interest and other proceeds accrued until the date of early redemption.

In any event, the 20% surtax applies only if the holder of the securities is resident in Italy at the date of the early redemption. Conversely, no surtax applies if the holder is not resident in Italy, even if the notes are deposited by non-resident holder in an account with an Italian withholding agent (provided that the holder produces a declaration of non-residence in Italy).

### **United States Federal Income Tax Considerations**

#### *General*

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes by U.S. Holders (as defined below), and by Non-U.S. Holders (as defined below) to the extent described under “—Backup Withholding and Information Reporting for Non-U.S. Holders” who purchase the notes in this offering at their “issue price”, which will be equal to the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold. This summary addresses only U.S. federal income tax considerations for U.S. Holders that will hold the notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the notes. In particular, this summary does not address tax considerations applicable to U.S. Holders that may be subject to special tax rules including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in securities or currencies; (iv) tax-exempt entities; (v) persons that will hold notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” or as part of a “synthetic security” or other integrated transaction for U.S. federal income tax purposes; (vi) U.S. Holders that have a “functional currency” other than the U.S. dollar; (vii) regulated investment companies; and (viii) persons that hold the notes through partnerships or other pass-through entities. Further, this summary does not address alternative minimum tax consequences.

This summary is based on the Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect on the date of this offering memorandum. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.



U.S. Holders should consult their own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of notes. U.S. Holders should also review the discussion under “—Luxembourg Tax Considerations” and “—Italian Tax Considerations” for a discussion of the Luxembourg and Italian tax consequences to a U.S. Holder of the ownership of notes. For purposes of this summary a “U.S. Holder” is a beneficial owner of notes that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

#### *Payments of Interest*

Interest (including any additional amounts) paid on a note will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

Interest will be treated as foreign source income for purposes of calculating a U.S. Holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for the foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, the interest on a note should generally constitute “passive income,” or in the case of certain U.S. Holders, “financial services income,” which may be relevant for certain U.S. Holders.

#### *Registration of a Note*

As discussed above in “Exchange Offer and Registration Rights” we have agreed to file a registration statement with the SEC covering resales of the notes and to cause such registration statement to become effective. Once such registration is effective, we are required to use our best efforts to keep it effective, and to consummate an exchange offer whereby the notes may be exchanged by eligible holders for exchange notes which would in general be freely transferable. If we do not consummate the exchange offer by October 31, 2005, then, in addition to the interest payable on the notes, additional interest will accrue and be payable on the notes at a rate of 0.50% per annum until that requirement is satisfied.

We intend to treat the possibility of the payment of such additional interest as “remote” under applicable U.S. Treasury regulations. We, therefore, do not intend to treat this possibility as affecting the amount and timing of interest income recognized on the notes or the character of income recognized on the sale, exchange, redemption or repurchase of a note. In the event that additional interest is paid on the notes, it would affect the amount and timing of the interest income that must be recognized on the notes. Our determination that the possibility of such additional interest being paid is remote is binding on each U.S. Holder unless the holder explicitly discloses that it is taking a different position in the manner required by applicable U.S. Treasury regulations. Our determination, however, is not binding on the IRS. If the IRS were to take a contrary position, the amount and timing of interest income recognized on the notes and the character of income recognized on the sale, exchange, redemption or repurchase of a note could be different from that described herein.

#### *Exchange of Notes*

An exchange of notes for exchange notes as described under “Exchange Offer and Registration Rights” will not be treated as a taxable exchange for U.S. federal income tax purposes. Accordingly, U.S. Holders who exchange their notes for exchange notes will not recognize income, gain or loss for U.S. federal income tax purposes. A U.S. Holder’s tax basis in the exchange notes will be equal to its adjusted basis in the notes and its holding period for the exchange notes will include the period during which it held the notes.



*Disposition of a Note*

Upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. Holder generally will recognize U.S. source capital gain or loss equal to the difference between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which will be treated as interest income as described above) and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note will generally equal the cost of the note to such holder. Capital gain of a non-corporate U.S. Holder that is recognized before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year.

*Mergers or Assumptions of the Notes*

As discussed in "Description of Notes and Guarantees—Mergers and Similar Events", TI Capital is generally permitted to merge or consolidate with another company or firm, and Telecom Italia or one of its Italian subsidiaries is also permitted to assume the obligations of TI Capital under the notes for the payment of principal and interest on the notes, if certain conditions are satisfied. The assumption of the obligations of TI Capital under the notes by Telecom Italia or another person pursuant to a merger, consolidation or assumption may cause the holders of the notes to be treated for U.S. federal income tax purposes as if they had exchanged the notes for new notes, with the results described above in "—Disposition of a Note".

*Backup Withholding and Information Reporting*

Information returns may be filed with the IRS in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. A U.S. Holder may be subject to U.S. backup withholding tax on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the IRS.

*Backup Withholding and Information Reporting for Non-U.S. Holders*

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a note that is, for U.S. federal income tax purposes:

- an individual who is classified as a nonresident;
- a foreign corporation; or
- a foreign estate or trust.

"Non-U.S. Holder" does not include a holder who is (i) an individual present in the United States for 183 days or more in the taxable year of disposition or (ii) subject to U.S. federal tax on a net income basis on income earned from the notes. Such holders are urged to consult their own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of a note.

In general, U.S. information reporting and backup withholding will not apply to payments made by TI Capital or Telecom Italia on notes held through a non-U.S. bank or other non-U.S. financial institution that is a participant in Euroclear, Clearstream or DTC. In certain situations, however, information reporting and backup withholding may apply to these payments if a Non-U.S. Holder does not comply with applicable certification procedures to establish that it is not a U.S. person. Payments of sale proceeds made within the United States or through certain U.S.-related financial institutions may be subject to information reporting and backup withholding unless the Non-U.S. Holder complies with applicable certification procedures to establish that it is not a U.S. person.



**PLAN OF DISTRIBUTION**

Subject to the terms and conditions set forth in the purchase agreement dated the date of this offering memorandum between Telecom Italia, TI Capital and the Initial Purchasers named below, we have agreed to sell to each of the Initial Purchasers, and each of the Initial Purchasers has severally agreed to purchase, the principal amount of notes set forth opposite the name of such Initial Purchaser below.

<u>Initial Purchaser</u>	<u>Principal amount</u>		
	<u>2010 notes</u>	<u>2014 notes</u>	<u>2034 notes</u>
Goldman, Sachs & Co. . . . .	\$ 250,000,000	\$ 250,000,000	\$ 200,000,000
J.P. Morgan Securities Inc. . . . .	250,000,000	250,000,000	200,000,000
Lehman Brothers Inc. . . . .	250,000,000	250,000,000	200,000,000
Merrill Lynch International . . . . .	250,000,000	250,000,000	200,000,000
Morgan Stanley & Co. Incorporated . . . . .	250,000,000	250,000,000	200,000,000
Total . . . . .	<u>\$1,250,000,000</u>	<u>\$1,250,000,000</u>	<u>\$1,000,000,000</u>

The Initial Purchasers have agreed to purchase:

- the 2010 notes at their issue price of 99.732% of the principal amount, plus accrued interest from October 6, 2004, less commissions of 0.35% of the principal amount;
- the 2014 notes at their issue price of 99.651% of the principal amount, plus accrued interest from October 6, 2004, less commissions of 0.45% of the principal amount; and
- the 2034 notes at their issue price of 99.081% of the principal amount, plus accrued interest from October 6, 2004, less commissions of 0.875% of the principal amount.

The obligations of the Initial Purchasers under the purchase agreement, including their agreement to purchase notes from us, are several and not joint. In the purchase agreement, the Initial Purchasers have agreed, subject to the terms and conditions set forth in the purchase agreement, to purchase all of the notes if any of the notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated. The Initial Purchasers propose initially to offer the notes at the initial offering prices set forth on the cover page of this offering memorandum. After the initial offering, the price to investors, concessions and discounts may be changed.

TI Capital and Telecom Italia have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to certain conditions contained in the purchase agreement, including the receipt by the Initial Purchasers of officer's certificates and legal opinions, being satisfied. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. The Initial Purchasers will not offer or sell the notes except:

- to persons they reasonably believe to be qualified institutional buyers pursuant to Rule 144A; or
- pursuant to offers and sales to non-U.S. persons that occur outside the United States pursuant to Regulation S.

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.



Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions".

The notes are a new issue of securities with no established trading market. We do not intend to apply for quotation of the notes on any automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the notes after completion of this offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. A liquid or active public trading market for the notes may not develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

In connection with the offering of the notes, the Initial Purchasers may engage in over-allotment, stabilizing transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. The Initial Purchasers are not required to engage in any of these activities. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

In connection with this offering in the United Kingdom, Lehman Brothers International (Europe) or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Lehman Brothers International (Europe) or any agent of it to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

It is expected that delivery of the notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the sixth business day following the date of pricing of the notes (such settlement cycle being herein referred to as "T+6"). Trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of pricing or the next business day will be required, by virtue of the fact that the notes initially will settle in T+6, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade certificates on the date of pricing or the next business day should consult their own advisors.

The Initial Purchasers and/or their affiliates have provided investment banking, commercial banking and/or financial advisory services to Telecom Italia or its affiliates in the past, for which they have received customary compensation and expense reimbursement, and may do so again in the future.

The Initial Purchasers expect to make offers and sales both inside and outside of the United States through their selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the SEC. The Initial Purchasers are expected to make offers and sales in the United States through their respective selling agents in the United States.

Certain Initial Purchasers will make the notes available for distribution on the Internet through a proprietary website and/or a third-party system operated by Market Axess Corporation, an Internet-based communications technology provider. Market Axess Corporation is providing the system as a conduit for communications between





such Initial Purchasers and their customers and is not a party to any transaction. Market Axess Corporation, a registered broker-dealer, will receive compensation from such Initial Purchasers based on transactions such Initial Purchasers conduct through the system. Such Initial Purchasers will market the notes available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels. Market Axess Corporation requires each user of its system to provide certification of its status as a qualified institutional buyer.

### *Selling Restrictions*

No Initial Purchaser is authorized to make any representation or use any information in connection with the issue, offering and sale of the notes other than as contained in this offering memorandum or incorporated by reference herein, or such other information relating to TI Capital, Telecom Italia and the notes which we have authorized to be used or is otherwise publicly available.

*General.* No action has been or will be taken by TI Capital (prior to the issue date), Telecom Italia or by or on behalf of any Initial Purchaser which would permit a public offering of any of the notes or distribution of an offering memorandum or other offering material in any jurisdiction where there are requirements for such purpose to be complied with. Accordingly, notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction except under an exemption that would result in compliance with any applicable laws and regulations. Each Initial Purchaser has represented and agreed that it will only offer, sell or deliver any notes or distribute copies of this offering memorandum or any other document relating to the notes in the countries listed in the Decree of the Ministry of Finance of Italy of September 4, 1996, as amended. A copy of the decree can be obtained from the website of the Ministry of Finance of Italy at [www.finanze.it](http://www.finanze.it).

**The notes offered pursuant to this offering memorandum have not been and will not be registered under the Securities Act or any U.S. state securities laws and may not be offered or sold in the United States or to U.S. persons unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The notes are being offered and sold pursuant to this offering memorandum within the United States only to qualified institutional buyers, in reliance on Rule 144A under the Securities Act, and outside the United States to non-U.S. persons in reliance on Regulation S.** Each Initial Purchaser will to the best of its knowledge comply with all relevant laws, regulations and directives in each jurisdiction in which it offers, sells, or delivers notes or has in its possession or distributes this offering memorandum or any amendment or supplement thereto or any other offering material.

*Luxembourg.* Each Initial Purchaser has represented, warranted and agreed that no public offerings or sales of notes or any distribution of the offering memorandum or any other offering material relating to the notes will be made to the public in or from Luxembourg, except for the notes in respect of which the requirements of Luxembourg law concerning a public offering of securities in Luxembourg have been fulfilled. A listing on the Luxembourg Stock Exchange of the notes does not necessarily imply that a public offering in Luxembourg has been authorized.

*Italy.* No application has been made to obtain an authorization from CONSOB for a public offering of the notes and each Initial Purchaser represents, warrants and agrees that it has not offered or sold, and will not offer or sell, any notes in Italy or to investors resident in Italy and will not distribute copies of this offering memorandum or any other document relating to the notes in Italy.

*United States of America.* Each Initial Purchaser acknowledges that the notes have not been 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 pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.



Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

- Such Initial Purchaser has offered and sold the notes, and will offer and sell the notes, (A) as part of their distribution at any time and (B) otherwise until 40 days after the later of the commencement of the offering of the notes and the closing date, only in accordance with Regulation S or Rule 144A under the Securities Act.
- None of such Initial Purchaser or any of its affiliates or any other person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the notes, and all such persons have complied and will comply with the offering restrictions requirement of Regulation S.
- At or prior to the confirmation of sale of any notes sold in reliance on Regulation S, such Initial Purchaser will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (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 (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the notes and the date of original issuance of the notes subject to extension in the case of a further issue, except in either case in accordance with Regulation S or Rule 144A or any other available exemption from registration under the Securities Act. Terms used above have the meanings given to them by Regulation S”.

Such Initial Purchaser has not and will not enter into any contractual arrangement with any distributor with respect to the distribution of the notes, except with its affiliates or with the prior written consent of Telecom Italia or TI Capital.

*United Kingdom.* Each Initial Purchaser has represented and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such notes, will not offer or sell any such notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 or, in abbreviated form, 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 TI Capital or Telecom Italia; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such notes in, from or otherwise involving the United Kingdom.

*Japan.* The notes offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan. Each Initial Purchaser has represented and agreed that the notes offered hereby which it purchases will be purchased by it as principal and that, in connection with the initial offering of the notes offered hereby, it has not offered or sold, and will not offer or sell, directly or indirectly, any notes in Japan or to, or for the account of, any resident thereof or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account of, any resident thereof, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.



*Federal Republic of Germany.* Each Initial Purchaser has represented, agreed and undertaken in the purchase agreement (i) that it has not offered, sold or delivered and will not offer, sell or deliver any notes within the Federal Republic of Germany otherwise than in accordance with the German Sales Prospectus Act, and (ii) that it will distribute in the Federal Republic of Germany any offering material relating to the notes only under circumstances that will result in compliance with the applicable rules and regulations of the Federal Republic of Germany.

*Netherlands.* Each Initial Purchaser represents and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any notes other than to persons who trade or invest in securities in the conduct of their profession or business, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and treasury departments and finance companies which regularly, or as an ancillary activity, invest in securities.

*France.* Each Initial Purchaser has represented and agreed that (i) it has not offered or sold and will not offer or sell, directly or indirectly, any notes to the public in France and (ii) it has not released, issued, distributed or caused to be released, issued or distributed and will not release, issue, distribute or cause to be released, issued or distributed in France this offering memorandum or any other offering material relating to the notes and has not used and will not use such material in connection with any offer for subscription or sale of the notes to the public in France. In France, such offers, sales, releases, issuances and distributions will have been and shall only be made to (a) qualified investors (*investisseurs qualifiés*) and/or (b) a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in and in accordance with Article L. 411-2 of the French *Code monétaire et financier* and *décret* no. 98-880 dated October 1, 1998.

Such notes may be resold only in compliance with Articles L. 411-1 Seq, L. 412-1 and L. 621-8 of the *Code monétaire et financier*. Investors in France and persons into whose possession offering material comes must inform themselves about and observe any such restrictions.

*Belgium.* Each Initial Purchaser represents, agrees and undertakes not to offer publicly, directly or indirectly, any notes in Belgium at the time of the offering. The offer of notes has not been notified to, and the offering documents (including this offering memorandum) have not been approved by, the Belgium Banking and Finance Commission. The notes may only be sold in Belgium to professional investors as defined in article 3 of the Royal Decree of July 7, 1999 on public nature of financial transactions, acting for their own account, and this offering memorandum may not be delivered or passed on to any other investors.

*Spain.* Each Initial Purchaser represents, agrees and undertakes not to offer or sell in Spain any notes except in accordance with the requirements of the Spanish Securities Market Law (Ley 24/1988 de 28 de julio, del Mercado de Valores as amended by Law 37/1998 of November 16) and Royal Decree 291/1992 on Issues and Public Offering of Securities (Real Decreto 291/1992 de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores), as amended or restated by Royal Decree 2590/1998 of December 7 ("R.D. 291/92"), and further subsequent legislation.

This offering memorandum is neither verified nor registered in the administrative registries of the Spanish Securities Exchange Commission (Comisión Nacional del Mercado del Valores), and therefore a public offer for subscription of the notes will not be carried out in Spain. Notwithstanding that and in accordance with article 7 of R.D. 291/92, a private placement of the notes addressed exclusively to institutional investors (as defined in Article 7.1 (a) of R.D. 291/92) may be carried out.



## LEGAL MATTERS

The validity of the notes and the guarantees under New York law and certain matters of United States law relating to the notes offered through this offering memorandum will be passed upon for Telecom Italia and TI Capital by Morgan, Lewis & Bockius LLP. Certain matters of Italian law will be passed upon for Telecom Italia by Gianni, Origoni, Grippo & Partners. Certain matters of Italian tax law will be passed upon for Telecom Italia by Maisto e Associati Associazione Professionale. Certain matters of Luxembourg law will be passed upon for Telecom Italia and TI Capital by Linklaters Loesch.

The validity of the notes and the guarantees offered hereby under New York law will be passed upon for the Initial Purchasers by Sullivan & Cromwell LLP. Certain matters of Italian law will be passed upon for the Initial Purchasers by Chiomenti Studio Legale.

## INDEPENDENT ACCOUNTANTS

Reconta Ernst & Young S.p.A., independent registered public accounting firm, have audited the consolidated financial statements of Telecom Italia (formerly Olivetti) at December 31, 2001, 2002 and 2003 and for each of the three years in the period ended December 31, 2003, as stated in their report set forth in the Telecom Italia Annual Report incorporated by reference herein.

In addition, certain other independent auditors have audited the financial statements of certain Telecom Italia Group companies as set forth in the Telecom Italia Annual Report incorporated by reference herein.

## GENERAL INFORMATION

Application has been made to list the notes on the Luxembourg Stock Exchange in accordance with the rules of the Luxembourg Stock Exchange. In connection with such listing application, the legal notice relating to the issuance of the notes and the constitutional documents of TI Capital and Telecom Italia have been deposited with the Register of Commerce and Companies in Luxembourg, where such documents may be examined and copies thereof may be obtained upon request. Additionally, copies of Telecom Italia's Articles of Association and all reports prepared and filed are available at the office of BNP Paribas Luxembourg, the paying agent in Luxembourg.

The issuance of the notes was approved by the board of directors of TI Capital on September 24, 2004. The issuance of the notes and the guarantees was approved by the board of directors of Telecom Italia on December 18, 2003.

TI Capital is registered at the Register of Commerce and Companies in Luxembourg under number B-77970. TI Capital does not publish interim nor consolidated financial statements. TI Capital publishes annual unconsolidated financial statements. Telecom Italia publishes annual consolidated financial statements and consolidated interim (quarterly) financial statements in accordance with Italian law.

So long as the notes remain outstanding and listed on the Luxembourg Stock Exchange, copies of (i) the items listed in "Where You Can Find More Information", (ii) the indenture to be dated as of October 6, 2004 as supplemented by the first supplemental indenture to be dated as of October 6, 2004, including the form of notes and guarantees, will be available for inspection at our listing agent's offices, while (iii) TI Capital's annual unconsolidated financial statements and (iv) Telecom Italia's annual consolidated financial statements and unaudited consolidated financial information published pursuant to Italian laws and regulations by Telecom Italia on a quarterly basis (and English translations for documents not in English) will be available for inspection and collection free of charge from our listing agent at its offices at BNP Paribas Securities Services, Luxembourg Branch, 23 Avenue de la Porte Neuve, L-2083, Luxembourg.



Except as disclosed in this offering memorandum (including the documents incorporated by reference herein) we are not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issuance of the notes nor, so far as we are aware, is any such litigation or arbitration pending or threatened. Since December 31, 2003, except as disclosed in this offering memorandum (including the documents incorporated by reference herein), there has not been any material adverse change in the financial position or prospects of TI Capital or Telecom Italia.

<u>Note</u>	<u>Common Codes</u>	<u>CUSIP Numbers</u>	<u>ISIN Numbers</u>
2010 notes distributed pursuant to Rule 144A . . . . .	020253835	87927V AG 3	US87927VAG32
2010 notes distributed pursuant to Regulation S . . . . .	020253851	T92762 AD 4	UST92762AD47
2014 notes distributed pursuant to Rule 144A . . . . .	020253908	87927V AH 1	US87927VAH15
2014 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AE 2	UST92762AE20
2034 notes distributed pursuant to Rule 144A . . . . .	020253983	87927V AJ 7	US87927VAJ70
2034 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AF 9	UST92762AF94

According to Chapter VI, Article 3, Point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the notes of each class shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.



**Issuer**

Telecom Italia Capital  
Société Anonyme  
287-289 route d' Arlon  
L-1150 Luxembourg

**Guarantor**

Telecom Italia S.p.A.  
Piazza degli Affari 2  
20123 Milan  
Italy

**Trustee**

JPMorgan Chase Bank  
4 New York Plaza, 15th Floor  
New York, New York 10004  
U.S.A.

**Agents**

*Principal Paying Agent*  
JPMorgan Chase Bank  
4 New York Plaza, 15th Floor  
New York, New York 10004  
U.S.A.

*Listing Agent and Luxembourg  
Paying and Transfer Agent*  
BNP Paribas  
Securities Services, Luxembourg Branch  
23 Avenue de la Porte Neuve  
L-2083 Luxembourg

**Legal Advisors**

*To the Issuer and the Guarantor*

As to U.S. Law: Morgan, Lewis & Bockius LLP 101 Park Avenue New York, New York 10178 U.S.A.	As to Italian Law: Gianni, Origoni, Grippo & Partners Via delle Quattro Fontane 20 00184 Rome Italy	As to Italian Tax Law: Maisto e Associati Associazione Professionale Piazza F. Meda 5 20121 Milan Italy	As to Luxembourg Law: Linklaters Loesch 4 Rue Carlo Hemmer B.P. 1107 Luxembourg L-1011 Luxembourg
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*To the Initial Purchasers*

As to U.S. Law: Sullivan & Cromwell LLP 1 New Fetter Lane London EC4A 1AN England	As to Italian Law and Italian Tax Law: Chiomenti Studio Legale via XXIV Maggio, 43 00187 Rome Italy
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*To the Trustee*

As to U.S. Law:  
Pryor Cashman Sherman & Flynn LLP  
410 Park Avenue  
New York, New York 10022  
U.S.A.

**Auditors of**

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

*Telecom Italia S.p.A.*  
Reconta Ernst & Young  
Via G. Romagnosi 18/A  
00196 Rome  
Italy



## Telecom Italia Capital

\$1,250,000,000 4% Guaranteed Senior Notes due 2010

\$1,250,000,000 4.95% Guaranteed Senior Notes due 2014

\$1,000,000,000 6% Guaranteed Senior Notes due 2034

Guaranteed on a senior, unsecured basis by Telecom Italia S.p.A.

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OFFERING MEMORANDUM

September 28, 2004

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*Joint Book-running Managers*

GOLDMAN, SACHS & CO.

JPMORGAN

LEHMAN BROTHERS

MERRILL LYNCH & CO.

MORGAN STANLEY

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