



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

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

**TELECOM ITALIA FINANCE S.A.**

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

**€10,000,000,000**

**Euro Medium Term Note Programme**

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

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

**TELECOM ITALIA S.P.A.**

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

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

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

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

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

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

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

Subject to and as set out in "Terms and Conditions of the Notes — Taxation", Telecom Italia shall not be liable to pay any additional amounts to holders of the Notes in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of 1st April, 1996 (as the same may be amended or supplemented from time to time) including following an amendment to the Decree of the Ministry of Finance dated 23rd January, 2002, as amended, listing the states or territories deemed to have a privileged tax regime or the implementation of any legislation replacing or modifying such list and otherwise in the circumstances described in Condition 8.

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

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

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

**Arrangers**

**JPMORGAN**

**BARCLAYS CAPITAL**

**CABOTO**

**JPMORGAN**

**MCC**

**UBM — UNICREDIT BANCA MOBILIARE**

**Dealers**

**LEHMAN BROTHERS**

**BNP PARIBAS**

**DEUTSCHE BANK**

**LEHMAN BROTHERS**

**MEDIOBANCA S.p.A.**

The date of this Offering Circular is 23rd January, 2004.

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

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

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

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

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

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

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

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

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

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

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

The consolidated and unconsolidated audited financial statements of Olivetti S.p.A. (now Telecom Italia) in respect of the financial years ended 31st December, 2001 and 31st December, 2002 (with an English translation thereof) are also incorporated by reference.

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

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

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

## SUMMARY OF THE PROGRAMME

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

<b>Issuers:</b>	Telecom Italia S.p.A. Telecom Italia Finance S.A.
<b>Guarantor:</b>	Telecom Italia S.p.A. (in respect of Notes issued by TI Finance)
<b>Description:</b>	Euro Medium Term Note Programme
<b>Arrangers:</b>	J.P. Morgan Securities Ltd. Lehman Brothers International (Europe)
<b>Dealers:</b>	Barclays Bank PLC BNP PARIBAS Banca Caboto s.p.a. Deutsche Bank AG London J.P. Morgan Securities Ltd. Lehman Brothers International (Europe) MCC S.p.A. – Capitalia Gruppo Bancario Mediobanca – Banca di Credito Finanziario S.p.A. UniCredit Banca Mobiliare S.p.A.  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.

### Swiss Francs

Issues of Notes denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the **Swiss Dealer**), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

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

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute

deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

<b>Issuing and Principal Paying Agent:</b>	JPMorgan Chase Bank
<b>Trustee:</b>	J.P. Morgan Corporate Trustee Services Limited
<b>Programme Size:</b>	Up to €10,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Notes may be distributed on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.
<b>Maturities:</b>	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued as specified in the relevant Pricing Supplement on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"><li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li><li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li><li>(c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.</li></ul> <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
<b>Index Linked Notes:</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will



be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.

**Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:**

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

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

**Dual Currency Notes:**

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

**Zero Coupon Notes:**

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

**Redemption:**

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.

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

Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.

**Denomination of Notes:**

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.

**Taxation:**

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Relevant Jurisdiction, subject as provided in Condition 8. In the event that any such deduction is made, the relevant Issuer or, as the case may be, the Guarantor (in the case of Notes issued by TI Finance) will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

**Restrictions on Security Interests:**

The terms of the Notes will contain a provision restricting the ability of the relevant Issuer and (in the case of Notes issued by TI Finance) the Guarantor to create security interests in respect of certain of their capital markets indebtedness, as further described in Condition 3.



<b>Cross Default:</b>	The terms of the Notes will contain a cross default provision as further described in Condition 10.
<b>Status of the Notes:</b>	The Notes will constitute unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
<b>Guarantee:</b>	Notes issued by TI Finance will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save as aforesaid and for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.
<b>Listing:</b>	<p>Application has been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>
<b>Governing Law:</b>	The Notes will be governed by, and construed in accordance with, English law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10th August, 1915, as amended, are excluded.
<b>Selling Restrictions:</b>	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Italy, Japan, Luxembourg and The Netherlands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “<i>Subscription and Sale</i>”.</p> <p>Telecom Italia and TI Finance have notified the Dealers that Notes issued under the Programme may only be sold by each Dealer in Italy to professional investors (as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended). For further information on sales into Italy, see “<i>Subscription and Sale — Italy</i>”.</p>

## FORM OF THE NOTES

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

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

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

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

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

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

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

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

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

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

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

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

## FORM OF PRICING SUPPLEMENT

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

[Date]

### TELECOM ITALIA S.p.A.

#### TELECOM ITALIA FINANCE, société anonyme

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

#### PROVISIONS RELATING TO REDEMPTION

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

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

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

**[LISTING APPLICATION**

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

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

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

share capital at the Issue Date [            ]

reserves at the Issue Date [            ]

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

**RESPONSIBILITY**

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

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

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

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

## TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

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

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

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

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

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

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

## 1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

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

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

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

## 2. STATUS OF THE NOTES AND THE GUARANTEE

### 2.1 Status of the Notes

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

### 2.2 Status of the Guarantee

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

## 3. RESTRICTIONS ON SECURITY INTERESTS

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

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

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

As used herein:

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

**Permitted Encumbrance** means:

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



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

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



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

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

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

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

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

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

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

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

#### 4. MERGERS AND SIMILAR EVENTS

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

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

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

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

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

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

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

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

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

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

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

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

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

In these Conditions:

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

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

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

### (a) Interest Payment Dates

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

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

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

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

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

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

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

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

**(b) Rate of Interest**

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

**(g) Certificates to be final**

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

**5.3 Interest on Dual Currency Interest Notes**

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

**5.4 Interest on Partly Paid Notes**

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

**5.5 Accrual of interest**

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

**6. PAYMENTS**

**6.1 Method of payment**

Subject as provided below:

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

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

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

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

## 6.2 Presentation of definitive Notes, Receipts and Coupons

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

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

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

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

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

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



### 6.3 Payments in respect of Global Notes

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

### 6.4 General provisions applicable to payments

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

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

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

### 6.5 Payment Day

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

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

### 6.6 Interpretation of principal and interest

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

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

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

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

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at maturity**

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

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

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

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

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

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

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

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

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

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

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

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

## 7.5 Early Redemption Amounts

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

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

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

where:

**RP** means the Reference Price;

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

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

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

## 7.6 Instalments

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

## 7.7 Partly Paid Notes

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

## 7.8 Purchases

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

## 7.9 Cancellation

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

## 7.10 Late payment on Zero Coupon Notes

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

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

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

## 8. TAXATION

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

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

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

Furthermore, no additional amount shall be payable by Telecom Italia with respect to any Note, Receipt or Coupon for or on account of *imposta sostitutiva* if the holder becomes subject to *imposta sostitutiva* after the date on which agreement is reached to issue the first Tranche of the Notes by reason of an amendment or supplement to or replacement of the Decree of the Ministry of Finance dated 23rd January, 2002 as amended and/or supplemented or superseded as at the date on which agreement is reached to issue the first Tranche of the Notes which lists the States or territories having a privileged tax regime, whereby such holder's State or territory of residence appears on such list as having a privileged tax regime; or



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

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

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

As used herein:

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

## 9. PRESCRIPTION

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

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

## 10. EVENTS OF DEFAULT AND ENFORCEMENT

### 10.1 Events of Default

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

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

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

## 10.2 Enforcement

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

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

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

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



## 12. PAYING AGENTS

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

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

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

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

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

## 13. EXCHANGE OF TALONS

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

## 14. NOTICES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **17. FURTHER ISSUES**

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

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

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

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

### **19.1 Governing law**

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

### **19.2 Submission to jurisdiction**

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

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

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

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

## **USE OF PROCEEDS**

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



## CAPITALISATION OF THE TELECOM ITALIA GROUP

The following table shows the cash and cash equivalents, the short-term debt and the capitalisation of the Telecom Italia Group, in accordance with Italian GAAP, as at 30th September, 2003.

	<b>As at 30th September, 2003</b>
	<i>(unaudited)</i>
	<i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	<b>5,540</b>
<b>Total short-term debt</b> .....	<b>13,447</b>
<b>Long-term debt:</b>	
Payable to banks .....	1,328
Payable to other financial institutions .....	440
Debenture loans .....	21,684
Convertible debentures .....	5,671
Other long-term debt .....	157
<b>Total long-term debt (a)</b> .....	<b>29,280</b>
<b>Stockholders' equity:</b>	
Share capital <sup>(1)</sup> .....	8,846
Additional paid-in capital .....	65
Reserves, retained earnings and profit of the period .....	7,903
Total stockholders' equity before minority interest .....	<b>16,814</b>
Minority interest .....	4,363
<b>Total stockholders' equity (b)</b> .....	<b>21,177</b>
<b>Total capitalisation (a + b)</b> .....	<b>50,457</b>

Note:

(1) As at 30th September, 2003, Telecom Italia's share capital comprised:

- 10,287,519,112 ordinary shares (par value of €0.55 each, corresponding to €5,658,135,511.60) subscribed, issued and existing, including 31,251 ordinary shares issued but not yet recorded in the Companies Register as at 30th September, 2003; and
- 5,795,921,069 savings shares (par value of €0.55 each, corresponding to €3,187,756,587.95) subscribed, issued and existing.

Furthermore, pursuant to Article 5 of its by-laws (as amended on 14th January, 2004), Telecom Italia's share capital (now equal to €8,853,990,644.95, divided into 10,302,243,740 ordinary shares and 5,795,921,069 savings shares) may be increased through the issuance (pursuant to capital increases approved by the shareholders' meeting on 26th May, 2003) of 1,487,526,127 ordinary shares (par value €0.55 each, corresponding to €818,139,369.85). Such shares are issuable if subscribed within various time limits outlined in such Article 5. In addition, on 26th May, 2003 the Board of Directors was granted the power to issue up to 88,445,000 ordinary shares (par value €0.55 each, corresponding to €48,644,750.00) to be offered to employees of Telecom Italia or its subsidiaries. Such power has not yet been exercised and will expire on 26th May, 2008. Therefore in the aggregate New Telecom Italia may now issue pursuant to such Article and to the powers granted to the Board of Directors on 26th May, 2003, 1,575,971,127 new ordinary shares (par value €0.55 each, corresponding to €866,784,119.85). Telecom Italia's current authorised share capital is therefore €866,784,119.85 divided into 1,575,971,127 new ordinary shares of par value €0.55 each.

On 10th October, 2003, as part of the plan to refinance short and long-term borrowings falling due, the Board of Directors of Telecom Italia resolved to establish the Programme. These notes will be issued, when market conditions permit, by Telecom Italia and/or its subsidiary Telecom Italia Finance S.A., with a guarantee by Telecom Italia.

On the same date, the Board of Directors also approved the undertaking by Telecom Italia of a guarantee for the issue of notes to be placed with qualified investors principally in the United States of America pursuant to Rule 144A of the U.S. Securities Act of 1933, for a maximum amount of U.S.\$4 billion. As a consequence of this resolution, on 29th October, 2003, Telecom Italia Capital S.A. (a wholly-controlled company of Telecom Italia) finalised the issue of fixed-rate multi-tranche notes in U.S. dollars, with a full and unconditional guarantee by Telecom Italia. Details are as follows:

- Series A notes for U.S.\$1 billion, 4% annual coupon, issue price of 99.953%, maturing 15th November, 2008;

- Series B notes for U.S.\$2 billion, 5.25% coupon, issue price of 99.742%, maturing 15th November, 2013; and
- Series C notes for U.S.\$1 billion, 6.375% coupon, issue price of 99.558%, maturing 15th November, 2033.

Furthermore, the residual amount of the Term Loan incurred in connection with the Merger (€3,800 million) was repaid in advance, as follows:

- €2,000 million in October 2003, the due date was October 2004;
- €1,800 million in November 2003, the due date was April 2005.

On 13th January, 2004, Telecom Italia agreed to issue €750,000,000 4.5% Notes due 28th January, 2011, €1,250,000,000 5.375% Notes due 29th January, 2019 and €1,000,000,000 Floating Rate Notes due 29th October, 2007 under the Programme. These Notes are expected to be issued on 29th January, 2004.

Except as disclosed herein, there has been no material change in the capitalisation of Telecom Italia since 30th September, 2003.

## CAPITALISATION OF TELECOM ITALIA S.P.A.

The following table shows the cash and cash equivalents, the short-term debt and the capitalisation of Telecom Italia S.p.A., in accordance with Italian GAAP, as at 30th September, 2003.

	<b>As at 30th September, 2003</b> <i>(unaudited)</i> <i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	<b>254</b>
<b>Total short-term debt</b> .....	<b>12,888</b>
<b>Long-term debt:</b>	
Payable to banks .....	369
Payable to other financial institutions .....	211
Debenture loans .....	9,767
Convertible debentures .....	2,839
Other long-term debt .....	9,142
<b>Total long-term debt (a)</b> .....	<b>22,328</b>
<b>Stockholders' equity:</b>	
Share capital <sup>(1)</sup> .....	8,846
Additional paid-in capital .....	65
Reserves, retained earnings and profit of the period .....	6,777
<b>Total stockholders' equity (b)</b> .....	<b>15,688</b>
<b>Total capitalisation (a + b)</b> .....	<b>38,016</b>

Note:

(1) As at 30th September, 2003, Telecom Italia's share capital comprised:

- 10,287,519,112 ordinary shares (par value of €0.55 each, corresponding to €5,658,135,511.60) subscribed, issued and existing, including 31,251 ordinary shares issued but not yet recorded in the Companies Register as at 30th September, 2003; and
- 5,795,921,069 savings shares (par value of €0.55 each, corresponding to €3,187,756,587.95) subscribed, issued and existing.

Furthermore, pursuant to Article 5 of its by-laws (as amended on 14th January, 2004), Telecom Italia's share capital (now equal to €8,853,990,644.95, divided into 10,302,243,740 ordinary shares and 5,795,921,069 savings shares) may be increased through the issuance (pursuant to capital increases approved by the shareholders' meeting on 26th May, 2003) of 1,487,526,127 ordinary shares (par value €0.55 each, corresponding to €818,139,369.85). Such shares are issuable if subscribed within various time limits outlined in such Article 5. In addition, on 26th May, 2003 the Board of Directors was granted the power to issue up to 88,445,000 ordinary shares (par value €0.55 each, corresponding to €48,644,750.00) to be offered to employees of Telecom Italia or its subsidiaries. Such power has not yet been exercised and will expire on 26th May, 2008. Therefore in the aggregate New Telecom Italia may now issue pursuant to such Article and to the powers granted to the Board of Directors on 26th May, 2003, 1,575,971,127 new ordinary shares (par value €0.55 each, corresponding to €866,784,119.85). Telecom Italia's current authorised share capital is therefore €866,784,119.85 divided into 1,575,971,127 new ordinary shares of par value €0.55 each.

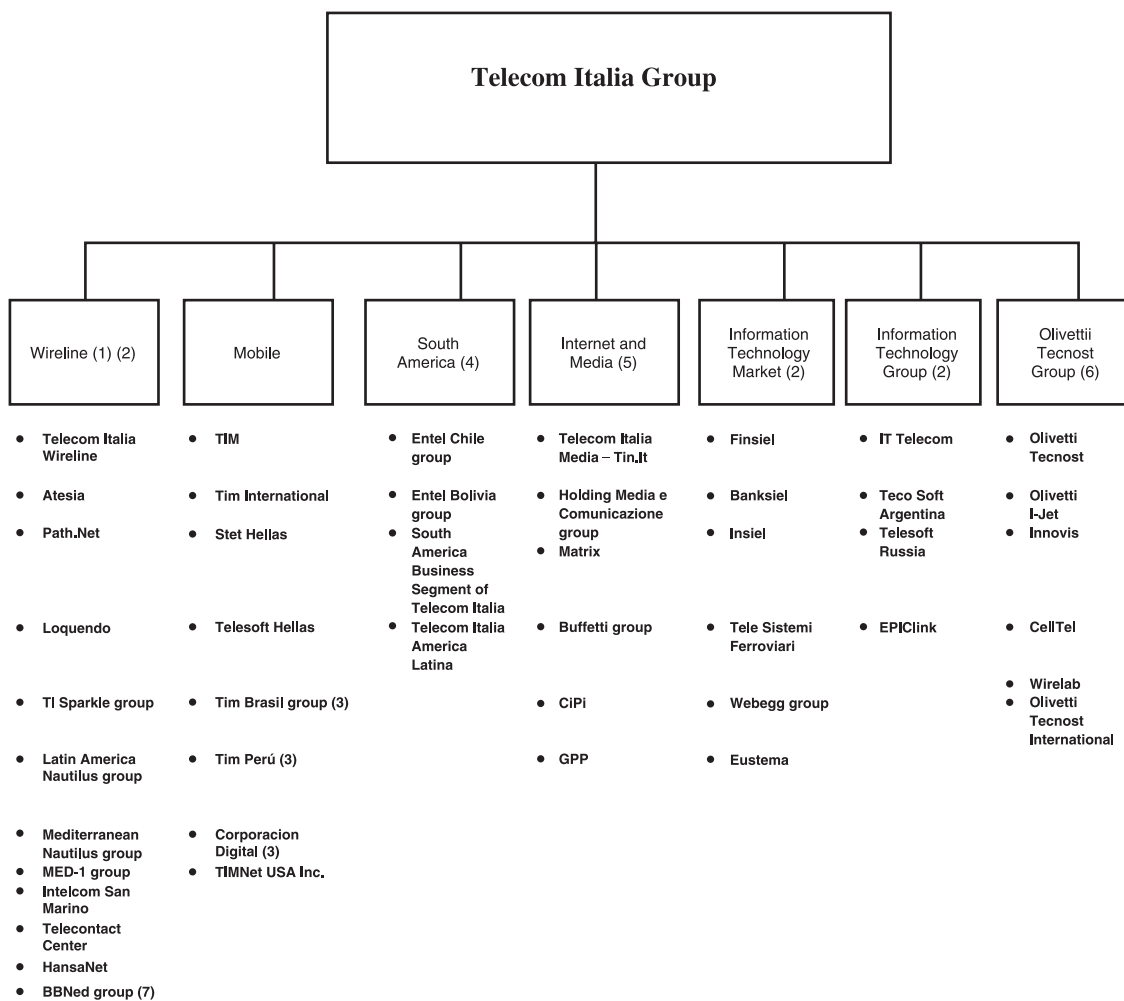
Except as disclosed herein and under "Capitalisation of the Telecom Italia Group" above, there has been no material change in the capitalisation of Telecom Italia S.p.A. since 30th September, 2003.

## DESCRIPTION OF TELECOM ITALIA

The legal and commercial name of the company is Telecom Italia S.p.A. The company is incorporated as a joint stock company under the laws of Italy. Olivetti S.p.A. and Old Telecom Italia's merger was effective as of 4th August, 2003. The duration of the company extends until 31st December, 2100. The registered office of Telecom Italia is at Piazza degli Affari 2, 20123 Milan, Italy. The headquarters and secondary office of Telecom Italia are located at Corso d'Italia 41, 00198 Rome, Italy.

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

The following is a chart of the Telecom Italia Group's business units as of 30th September, 2003:



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

(2) Since 1st January, 2003, the groups NETikos, Webegg and TILab, as well as the companies Loquendo and Eustema are no longer part of the IT Group Operating Activity. As a result of this reorganisation, the groups NETikos and Webegg and the company Eustema were transferred to the IT Market Business Unit, the company Loquendo has been transferred to the Wireline Business Unit and the TILab group is included in Other Activities. On 23rd July, 2003, IT Telecom and My Qube announced the closing of the sale of NETikos.

(3) Mobile South America.

(4) Previously included in the International Operations Business Unit.

(5) Reflects the SEAT spin-off and Telecom Italia's sale of its interest in New SEAT. See "SEAT Spin-off and Sale".

(6) The Olivetti-Tecnost Business Unit operates principally in office inkjet products and digital printing systems, specialist banking and trade industry applications, gaming and lottery management information systems, silicon technology development and manufacturing (inkjet heads and MEMS), document management services and mobile phone repair.

(7) In September 2003, the BBNed group (previously part of International Affairs) moved to the Wireline Business Unit

## Overview

On 18th July, 1997, Old Telecom Italia's predecessor company was merged with and into STET — Società Finanziaria Telefonica — per Azioni (**STET**), its parent holding company, with STET as the surviving corporation. As 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 privatisation of Telecom Italia selling substantially all of its stake in the Old Telecom Italia Group through a global offering, and a private sale to a stable group of shareholders. On 21st May, 1999 Olivetti, through a tender offer, obtained control of the Old Telecom Italia Group when approximately 52.12% of Old Telecom Italia ordinary shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia S.p.A. (**Olimpia**) acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

On 9th December, 2002 the Ministry of the Treasury sold its remaining stake in Old Telecom Italia ordinary and savings share capital. On 4th August, 2003, Old Telecom Italia merged with and into Olivetti with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A" (the **Merger**). Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Pirelli S.p.A. (**Pirelli**), Olimpia's largest shareholder, or Olimpia increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Olimpia is currently the largest shareholder of Telecom Italia. After the merger Olimpia had 7.40% of Telecom Italia's total share capital and 11.57% of Telecom Italia's ordinary share capital. On 15th October, 2003, Olimpia announced that it had acquired an additional 266.3 million Ordinary Shares of Telecom Italia representing approximately 2.6% of Telecom Italia's ordinary share capital. After such acquisition, Olimpia holds approximately 14.16% of Telecom Italia's ordinary share capital. The Olimpia Shareholders Meeting, held on 13th November, 2003, approved a capital increase of up to €770 million, most of which (approximately €700 million) has been used to purchase Telecom Italia Ordinary Shares. Consequently, on 18th December, 2003, Olimpia's holding of Telecom Italia ordinary share capital increased to around 17%.

Olimpia's ordinary share capital is held by a number of shareholders, including Banca Intesa S.p.A. and UniCredito Italiano S.p.A. who currently each hold 8.5% of such share capital. Banca Intesa S.p.A. is the parent company of a group which includes, among others, Banca Caboto S.p.A.; UniCredito Italiano S.p.A. is the parent company of a group which includes, among others, UniCredit Banca Mobiliare S.p.A.. Both UniCredit Banca Mobiliare S.p.A. and Banca Caboto S.p.A. have been appointed as Dealers pursuant to the Programme Agreement referred to in "*Subscription and Sale*" below.

As of 30th September, 2003, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 27.0 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary TIM, the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with approximately 43.2 million mobile lines (which includes 34.7 million lines in which we have an economic interest or proportionate lines). The Telecom Italia Group also had 6.1 million mobile lines (2.1 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 (the fourth operator, Blu, was acquired in October 2002 and merged into TIM in December 2002). TIM is one of five entities which have acquired a UMTS licence to provide third generation mobile services in Italy.

The Telecom Italia Group also provides leased lines and data communications services, internet services and IT software and services. Following the Merger with Olivetti, Telecom Italia also operates in the office products, IT office products and specialised application for service automation in banking retail, gaming and public authorities services and specialised automation systems sector through Olivetti Tecnost. Hereinafter there is a description of the Merger with Olivetti.

## Merger with Olivetti

Olivetti S.p.A. (**Olivetti**) was established in Ivrea (Turin) in 1908 as a typewriter manufacturer. Since then, Olivetti has gradually shifted the focus of its core business from mechanical office products to electronic equipment, computers, IT systems and services and more recently, to telecommunications. In May 1999, Olivetti

and its subsidiary Tecnost S.p.A. (**Tecnost**) successfully made a joint tender offer for Telecom Italia S.p.A. (**Old Telecom Italia**) which ultimately resulted in Olivetti obtaining a 54.94 per cent controlling interest in Old Telecom Italia's ordinary shares. The acquisition of Old Telecom Italia (the principal provider of domestic and international telecommunications services in Italy) marked a major development in the transformation of Olivetti's core businesses.

In May 2003, the shareholders of Olivetti and of Old Telecom Italia approved the Merger of Old Telecom Italia with and into Olivetti with Olivetti as the surviving company. The Merger was part of a strategic plan pursued by Olivetti, as majority owner of Old Telecom Italia with the aim of focusing on core businesses, improving the corporate structure and reducing debt. Prior to the Merger and the cash tender offers described below, Olivetti had a 54.94% controlling interest in Old Telecom Italia and Old Telecom Italia was Olivetti's largest subsidiary (representing approximately 96.8% of its operating revenues in 2002).

The Merger became effective on 4th August, 2003 at which time Olivetti as the surviving company changed its name to "Telecom Italia S.p.A.", succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. New Telecom Italia has completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia's Ordinary Shares and Savings Shares are also listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana. Telecom Italia's Ordinary Shares are also listed on the Frankfurt Stock Exchange.

In connection with the Merger, the following transactions occurred:

- Olivetti shareholders who either voted against the Merger or did not attend the shareholders' meeting held on 26th May, 2003 benefited from a withdrawal right of €0.9984 per share (which was the arithmetic mean of the daily official share price of the Olivetti shares in the six months preceding the date the Merger resolution was adopted; such date was 26th May, 2003). Olivetti shareholders were entitled to such a right by law due to the change in the corporate objectives of Olivetti which, following the completion of the Merger, changed its name to "Telecom Italia S.p.A.". Olivetti shareholders exercised such right with respect to 10,958,057 shares representing 0.12% of the outstanding ordinary shares. Olivetti shareholders received an aggregate payment of €10,940,524 when the Merger became effective.
- Voluntary cash tender offers (from 23rd June, 2003 to 18th July, 2003) by Olivetti for a portion of the outstanding Old Telecom Italia ordinary shares and savings shares were made in connection with the Merger (although the cash tender offer was not made to savings shareholders in the United States). Olivetti tendered for 908,873,776 (17.3%) of Old Telecom Italia ordinary shares (including those represented by ADSs) and 354,560,274 (17.3%) of the Old Telecom Italia savings shares. Olivetti acquired approximately 9.73% and 11.83% of the Old Telecom Italia ordinary shares and savings shares, respectively, through the cash tender offers. Aggregate consideration paid after the Merger became effective was €5,274 million.

In connection with financing the withdrawal right and the cash tender offers, Olivetti entered into a Term Loan Facility with a syndicate of banks pursuant to which it borrowed €5,274 million with respect to the above transactions. Olivetti also entered into a €6.5 billion Revolving Credit Facility to refinance Old Telecom Italia's €7.5 billion facility which was cancelled providing for working capital and general corporate purposes for Telecom Italia.

As a result of, and immediately after, the Merger, the proportionate ownership of Telecom Italia's ordinary share capital by shareholders unaffiliated with Olimpia or its principal shareholder Pirelli increased substantially from 45.06% to 88.43% of Telecom Italia's outstanding Ordinary Shares. Olimpia is Telecom Italia's largest shareholder. Olimpia owned 11.57% of Telecom Italia's ordinary share capital immediately following the Merger. On 15th October, 2003, Olimpia announced that it had acquired an additional 266.3 million Ordinary Shares of Telecom Italia representing approximately 2.6% of Telecom Italia's ordinary share capital. After such acquisition, Olimpia holds approximately 14.16% of Telecom Italia's ordinary share capital. The Olimpia Shareholders Meeting, held on 13th November, 2003, approved a capital increase of up to €770 million, most of which (approximately €700 million) has been used to purchase Telecom Italia Ordinary Shares. Consequently, on 18th December, 2003, Olimpia's holding of Telecom Italia ordinary share capital increased to around 17%.

### **SEAT Spin-off and Sale**

On 1st April, 2003, the Board of Directors of SEAT approved the proposed proportional spin-off of the directories and almost all of the directory assistance and business information business segments of SEAT into New SEAT, a newly incorporated company which assumed the current name of "Seat Pagine Gialle S.p.A.".



Effective as of 1st August, 2003, the date of the spin-off, the corporate name of the remaining part of SEAT became “Telecom Italia Media S.p.A.”. The spin-off plan was approved by the SEAT extraordinary shareholders’ meeting held on 9th May, 2003.

The shares of both companies are listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

The spin-off created two independent companies, each focused on its core businesses. It was SEAT management’s view that SEAT operated in two broad market sectors that had increasingly developed separate and distinct characteristics in terms of strategy, operations and competitive landscape. The first sector is that of targeted advertising and telephone services, in which SEAT operated through its directories, directory assistance and business information segments, providing answers to queries via printed, online and telephone products and services.

The second sector is that of traditional advertising and the internet, in which SEAT operated through its internet, TV and other business segments, primarily providing access and content services. In SEAT management’s view, both sectors presented interesting development prospects (including broadband access and digital TV).

The strategic objective of the spin-off was to allow SEAT’s businesses in each of the two sectors to more rapidly respond to market developments and exploit market opportunities, with a more focused management and a resource allocation consistent with the development prospects of each business line.

The spin-off provided for the transfer to New SEAT of the following companies within the directories, directory assistance and business information business segments of SEAT:

Directories: Directory Italia Seat Pagine Gialle S.p.A. division, Annuari Italiani S.p.A., Euredit S.A., TDL Group, Euro directory S.A.

Directories Assistance: Directories Assistance Seat Pagine Gialle division, Telegate Group, Telegate Holding GmbH, IMR S.r.l.

Business Information: Consodata S.A., Consodata Group Ltd (including Netcreations Inc., Pan Adress).

The other companies and business segments remained in SEAT, which, as noted above, changed its name to Telecom Italia Media.

#### *Sale of Telecom Italia’s stake in New SEAT*

On 10th June, 2003, Old Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira (**Silver S.p.A.**) entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT which, at the time of the agreement, the Telecom Italia Group was expected to receive after the spin-off transaction creating New SEAT (including the shares resulting from the exercise of the J.P. Morgan Chase put option for which Telecom Italia paid €2,272 million, of which €17 million to hedge interest rate exposure). The parties agreed on a sale price of €0.598 per New SEAT ordinary share, representing an enterprise value of approximately €5.65 billion and a price for Telecom Italia’s stake of €3.033 billion. The sale was completed on 8th August, 2003. Taking into consideration New SEAT net financial indebtedness at the date of finalisation of the sale (€648 million), the transaction allowed Telecom Italia to reduce its net financial consolidated debt by €3,681 million.

The agreements relating to the sale of Telecom Italia’s stake in New SEAT include Telecom Italia’s undertaking to provide, on an ongoing basis, Telecom Italia Media with the funds necessary to service Telecom Italia Media’s debt and other obligations in existence as of the date of SEAT spin-off. The undertaking provides for Telecom Italia Media to have funds sufficient to meet such obligations and that New SEAT be indemnified from potential liabilities vis-à-vis any creditors of Telecom Italia Media deriving from New SEAT’s statutory joint liability for such obligations.

#### **Recent Developments**

##### *Agreement between Telecom Italia Group, France Telecom group and Argentine Wertheim group*

In September 2003, the Telecom Italia Group and the France Telecom Group set up a mutually owned Argentine registered holding company, Sofora Telecomunicaciones S.A. (**Sofora**). The creation of Sofora falls under the contractual agreements signed on 9th September, 2003 by the Telecom Italia Group, the France Telecom Group and the Argentine Wertheim Group.

In short, the agreements signed call for:

- the formation of a mutually owned Argentine-registered company named Sofora Telecomunicaciones S.A. (share capital of AR Pesos 12,000, owned 32.5% by Telecom Italia, 17.5% by Telecom Italia International, 32.5% by France Cable et Radio and 17.5% by Atlas Telecommunication S.A.) to which the Telecom Italia Group and the France Telecom Group will contribute, after approval is received by the competent Argentine authorities, the entire investments currently held by them in Nortel Inversora S.A. (**Nortel**) through a share capital increase;
- following the contribution of their participation in Nortel share capital, France Telecom Group will sell a 48% of its stake in Sofora's share capital to the Werthein Group, to which it will also grant a call option on the remaining 2% of the shares held by France Telecom Group in Sofora, which can be exercised between 31st January, 2008 and 31st December, 2013;
- the purchase of a call option by Telecom Italia International on the investment that the Werthein Group will in turn purchase from France Telecom Group (Telecom Italia International was specifically granted a call option for the purchase of 48% of Sofora share capital which can be exercised on 31st December, 2008 accordingly to the provisions set forth in the call option agreement, plus an additional call option on 2% of Sofora's share capital held by Werthein Group for a price equal to U.S.\$6,637 million, which can be exercised between 31st December, 2008 and 31st December, 2013). Telecom Italia International will pay the sum of U.S.\$60 million, in consideration of the call options rights granted by the Werthein Group, upon the consummation of the acquisition by Werthein Group of the 48% Sofora's share capital held by France Telecom Group;
- at the same time, a shareholders agreement was signed between Telecom Italia International and the Werthein Group for the joint management of Sofora, Nortel, Telecom Argentina and its affiliates, which will come in full force and effect upon the consummation of the acquisition by Werthein Group of the 48% stake in Sofora's share capital held by France Telecom Group.
- on 19th December, 2003, following receipt of the relevant authorisations from the Argentinean authorities, the transaction described above was implemented: France Telecom Group sold 48% of Sofora's share capital to Werthein Group. At the same time as the transaction's conclusion the above-mentioned shareholders' agreement and call option agreement came into full force and effect among the parties.

#### *Telecom Italia International transactions*

In October 2003, Telecom Italia International sold 7.75% of the share capital of Euskaltel for an amount of €34 million, received at the closing, retaining a 6.1% stake.

In the same month, Telecom Italia International signed an agreement to set up an integrated fixed-mobile telecommunications operator through Etec S.A.'s absorption of the two cell phone operators currently operating in Cuba (C-Com and Cubacell). As a result of the merger, Telecom Italia International's investment was reduced from 29.9% to 27% of the share capital of the new integrated operator while substantially maintaining the same governance rights stated in the agreements currently in force.

On 29th October, 2003, the 40% sale to Forthnet of the investment held by Telecom Italia International in the Greek subsidiary Mediterranean Broadband Access S.A. was concluded for an amount of €7.04 million.

At the same time, as established by the shareholders agreements in force, a share capital increase in Forthnet reserved for Telecom Italia International was subscribed to and paid for the same amount. Telecom Italia International will therefore receive 1,278,274 new shares that, after completing the necessary formalities, will be listed on the Athens Stock Exchange. The stake acquired is equal to 7.81% of the ordinary share capital of Forthnet.

#### *Sale of the stake held in Cirsa*

On 17th October, 2003, Olivetti Rap S.A. (a wholly-controlled company of the Telecom Italia Group), concluded an agreement with Leisure&Gaming Corp. to sell the minority interest, equal to 4.98% of share capital, held in Cirsa Business Corporation S.A. On the same date, the sale was concluded for the first 2.46% tranche of Cirsa's capital for €40 million. The remaining 2.52% investment will be the subject of successive purchase and sale commitments by the contracting parties. The transaction falls under the Telecom Italia Group's divestiture plan for non-core businesses.

### *Sale of Sogei It*

On 9th October, 2003, after authorisation was received from the Antitrust Authority, Finsiel sold its investment in SOGEI IT, consisting of 25,480 ordinary shares, equal to 49% of share capital, at the price of €1.6 million.

### *Sale of Business Segments*

On 16th October, 2003, the Board of Directors of IT Telecom approved the spin-off of the Facility Management business segment to EMSA Servizi consisting of 43 human resources. On 20th October, 2003, under the plan to reorganise and rationalise back-office operations and administrative area services, the Sales Back End business segment of Olivetti Tecnost S.p.A. (consisting of 24 resources) was sold to the Accenture group, with which an outsourcing contract was signed.

### *Notes Issue*

On 10th October, 2003, as part of the plan to refinance short and long-term borrowings falling due, the Board of Directors of Telecom Italia voted to set up the Programme. These notes will be issued, when market conditions permit, by Telecom Italia and/or its subsidiary Telecom Italia Finance, with a guarantee by Telecom Italia.

On the same date, the Board of Directors also approved the undertaking by Telecom Italia of a guarantee for the issue of notes to be placed with qualified investors principally in the United States of America pursuant to Rule 144A of the U.S. Securities Act of 1933, for a maximum amount of U.S.\$4 billion. As a consequence of this resolution, on 29th October, 2003, Telecom Italia Capital S.A. (a wholly-controlled company of Telecom Italia) finalised the issue of fixed-rate multi-tranche notes in U.S. dollars, with a full and unconditional guarantee by Telecom Italia.

Details are as follows:

- Series A notes for U.S.\$1 billion, 4% annual coupon, issue price of 99.953%, maturing 15th November, 2008;
- Series B notes for U.S.\$2 billion, 5.25% coupon, issue price of 99.742%, maturing 15th November, 2013;
- Series C notes for U.S.\$1 billion, 6.375% coupon, issue price of 99.558%, maturing 15th November, 2033.

On 18th December, 2003, as part of the plan referred to above, the Board of Directors passed a resolution to issue notes under the Programme during 2004 up to an aggregate amount of €5.1 billion.

### *Regulatory developments*

On 16th September, 2003, the Italian Parliament adopted the new code for “electronic communications networks and services” (the **Code**). The Code implements four European Directives adopted by the European Union in March 2002: the Framework, Authorisation, Access and Universal Service Directives (the **Directives**) (another directive, the “Personal Data Directive” has already been implemented).

The Code implemented the Directives without substantial changes or departures from the text adopted at European Union level.

In implementing the Directives, the Code expressly abolished the former legal framework for regulation of the telecommunications sector in Italy mainly represented by the Presidential Decree no. 318 of 19th September, 1997, which was effective since 7th October, 1997.

The main characteristics of the Directives are as follows:

- Redefinition of the concept of “significant market power” and of the threshold for imposing obligations on certain operators, with the introduction of the obligation of the National Regulatory Authority to implement periodical market analysis before taking any decision related to the definition of remedies to be imposed on the operators;
- The introduction of the term “electronic communication services and networks” (a broader term which now encompasses the term “telecommunications”);

- “electronic communication services and networks” can now be provided pursuant to a “general authorisation”;
- more flexibility by national regulatory agencies to select which access and interconnection obligations to impose on operators notified as having “significant market power” in a relevant market; and
- redefinition of certain sections relating to retail price regulation and extension of number portability to mobile operators.

Moreover, the Directives (and other EU-related regulatory interpretations and recommendations) as implemented by the Code provide for guidelines on market analysis and calculation of “significant market power” and identifies those 18 markets at retail and wholesale level where such analyses shall be conducted by the National Regulatory Authority before imposing any obligations upon the significant market power operators. According to the Code, the Italian National Regulatory Authority will have to conduct a new evaluation of the operators having “significant market power” and propose applicable remedies by mid-January 2004. Within the authority allowed by EU law, the Code also provides for the following:

- allows the trading of the rights of use of frequencies among operators, offering the same type of services;
- excludes from the category of universal service (and its related obligations), the provision of directory information services;
- provides for specific and more defined rules aimed at reducing the burden of current legislation and local regulations which regulates the installation of networks;
- redefines the assignment of roles and responsibilities among the Italian Ministry of Communications and the National Regulatory Authority mainly by assigning to the Ministry of Communications the task of supervising the authorisation process and compliance with the universal service obligations and to the National Regulatory Authority the task of conducting market analyses and proposing remedies; and
- introduces a new definition of and specific references to “broadband services”, encouraging their development also at regional level.

#### *Sale of shares in Telekom Austria*

On 21st January, 2004, Telecom Italia International entered into a private placement agreement for the sale of its shares in Telekom Austria, representing 14.78% of its total share capital, at a price per share of €10.55. Settlement of the transaction is expected to be on 27th January, 2004.

The table below sets forth certain key data for each Business Unit of Telecom Italia.

		Wireline (*) <sup>(1)</sup>	Mobile	South America (1) (2)	Internet and Media <sup>(3)</sup>	IT Market (4)	IT Group (4)	Olivetti Tecnost	Sub-total	Other activities and eliminations (5)	Consolidated Total
<i>(millions of Euro, except number of employees)</i>											
Gross operating revenues . . .	2002	17,022	10,867	1,409	1,991	912	1,215	914	34,330	(2,922)	31,408
	2001	17,168	10,250	1,534	1,957	1,198	1,198	1,097	34,402	(2,386)	32,016
	2000 (pro forma) <sup>(6)</sup>	17,419	9,418	312	263	1,135	1,332	1,130	31,009	(2,635)	28,374
	2000	17,419	9,418	2,100	263	1,135	1,332	1,130	32,797	(2,681)	30,116
Gross operating profit (**)	2002	7,965	5,039	450	593	104	140	59	14,350	(335)	14,015
	2001	7,750	4,760	527	444	166	188	57	13,892	(188)	13,704
	2000 (pro forma) <sup>(6)</sup>	7,403	4,447	172	(35)	136	203	60	12,386	(170)	12,216
	2000	7,403	4,447	1,073	(35)	136	203	60	13,287	(170)	13,117
Operating income (**)	2002	4,700	3,358	146	232	61	(21)	4	8,480	(2,422)	6,058
	2001	4,361	3,136	187	31	123	22	4	7,864	(2,739)	5,125
	2000 (pro forma) <sup>(6)</sup>	3,904	2,988	99	(73)	105	(15)	(10)	6,998	(1,919)	5,079
	2000	3,904	2,988	473	(73)	105	(15)	(10)	7,372	(1,928)	5,444
Capital expenditures . . . . .	2002	2,462	1,715	216	81	30	158	26	4,688	213	4,901
	2001	2,801	3,151	406	175	30	162	42	6,767	464	7,231
	2000 (pro forma) <sup>(6)</sup>	2,710	4,206	68	34	37	159	51	7,265	296	7,561
	2000	2,710	4,206	592	34	37	159	51	7,789	296	8,085
Number of employees at the year end . . . . .	2002	53,682	18,702	5,461	7,715	4,493	7,327	4,527	101,907	4,713	106,620
	2001	57,895	16,721	5,746	9,264	6,441	6,844	4,896	107,807	8,213	116,020
	2000 (pro forma) <sup>(6)</sup>	62,366	15,257	1,087	7,515	7,400	6,385	5,370	105,380	8,095	113,475
	2000	62,366	15,257	8,585	7,515	7,400	6,385	5,370	112,878	8,095	120,973

(\*) As of June 16, 2003, Domestic Wireline changed its name to Wireline.

(\*\*) As a result of the merger, in 2003 Telecom Italia changed the way in which it accounts for bond issuance expenses. Consequently this change impacted certain statement of operations items. As a result of this change, the previous periods have been reclassified and presented consistent with the first half of 2003 presentation.

(1) The data relating to 2001 and 2000 have been reclassified and presented consistent with the 2002 presentation.

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

(3) Does not give effect to the spin-off and sale of New SEAT.

(4) In early 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group. Beginning January 1, 2002, Saritel S.p.A. was consolidated in the Information Technology Group Operating Activity instead of the Wireline Business Unit.

(5) The data presented include the operations of the Foreign Holdings Corporate Function and the Business Unit Satellite Services (the Telespazio group) which was disposed of during the fourth quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002.

(6) 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.

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

	<b>Year ended 31st December,</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Subscription and Customers:</b>			
Subscriber fixed-lines at period-end (thousands) <sup>(1)</sup> .....	27,153	27,353	27,142
Subscriber fixed-line growth(%) .....	2.5	0.7	(0.8)
Subscriber fixed-lines per full-time equivalent employee at period-end <sup>(2)</sup> .....	409	448	496
ISDN equivalent lines at period-end (thousands) <sup>(3)</sup> .....	4,584	5,403	5,756
TIM lines at period-end (thousands) .....	21,601	23,946	25,302
TIM lines growth per annum(%) .....	16.6	10.9	5.7
Average revenue per mobile line per month(€) <sup>(4)</sup> .....	30.5	29.1	28.8
Cellular penetration at period-end (TIM lines per 100 inhabitants)(%) .....	37.5	41.6	43.9
Cellular market penetration at period-end (lines for the entire market per 100 inhabitants)(%) .....	73.3	89.0	95.0
<b>Retail Traffic<sup>(5)</sup>:</b>			
Average minutes of use per fixed-line subscriber during period <sup>(6)</sup> .....	4,722	4,739	4,292
Of which:			
Local traffic during period (in average minutes) <sup>(7)</sup> .....	3,621	3,575	3,198
Long-distance traffic during period (domestic and international) (in average minutes) .....	1,101	1,163	1,094
Growth in international incoming and outgoing traffic in minutes(%) <sup>(8)</sup> .....	5.4	12.1	5.7
Total mobile outgoing traffic per month (millions of minutes) .....	1,569	1,795	1,960
<b>Internet and Media:</b>			
Page Views Virgilio (millions) .....	2,218	3,945	5,267
Active Users (at year-end, thousands) .....	1,656	1,804	2,226

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

(2) Ratio is based on employees of Telecom Italia only.

(3) Data exclude internal lines.

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

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

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

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

(8) Data include incoming and outgoing wholesale traffic and retail outgoing traffic.



## Strategy

### General

Telecom Italia Group's strategic priorities include:

- consolidating its leadership in the domestic wireline market by increasing customer loyalty through innovative offers and stimulating the market for value added and broadband services, with special reference to ADSL technology:
  - in the mobile market, to increase traffic volumes and develop value added services in line with user expectations (MMS, community videotelephony), in part through the introduction of UMTS technology; and
  - in the Internet and Media sector, to continue the development of broadband services and portals;
- expanding the Telecom Italia Group's presence abroad in markets where it can capitalise on its marketing and technological know-how: in the mobile business, in Latin America and especially in Brazil and, in the wireline business, through the development of the pan-European broadband network;
- continuing to manage the Telecom Italia Group according to rigorous criteria of efficiency, relying on synergies deriving from the organisational model based on so-called "professional families" and service centres, cost control systems, and the careful selection of investment projects, aimed primarily at fostering innovation and growth.

Industrial investments will be directed towards reinforcing the following strategy:

- focus on innovation;
- continuing leadership in the domestic market; and
- development of value added services.

The industrial investments planned for the three years 2003-2005 will be between €14 billion and €16 billion, more or less consistent with the forecast for the three years 2002-2004. The breakdown by sector of activity is shown in the table below.

	<b>Approximate % of Industrial Investments</b>
Wireline .....	45%
Mobile.....	40%
Internet and Media .....	2%
Other .....	13%

### Wireline

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

In particular, the Telecom Italia Group intends to:

- maintain its domestic leadership in its core business (voice services, internet access, data transmission services for businesses, national and international wholesale services);
- expand the wireline broadband offer throughout Europe (facility based operators providing broadband and VAS);
- consolidate its operational capabilities with the objective of offering best in class service levels to its customers and leverage opportunities to retain its client base by enhancing customer loyalty (through billing, customer relations management and customer contact);
- concentrate on developing value added services, both for corporate and residential customers, to sustain revenue and margin levels, building, in particular, on the increasing penetration of internet and broadband services, but also on innovation in voice services and terminals, equipped with new facilities, similar to mobile phone functions;
- run efficient operations and continue its cost-cutting program (personnel, real estate, general and administrative, network); and

- maintain competitive services and focus investment on enhancing network evolution and innovation (optical transport, IP services, etc.).

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

### ***Mobile***

TIM's strategy is focused on maintaining its leadership in the wireless market, in particular:

- defending its share of the voice and SMS market;
- developing a new GPRS and UMTS Mobile Data generation (in Italy and Greece);
- developing GSM services in Brazil and acquire leadership in the GSM Latin American market; and
- completing the start-up phase of some subsidiaries.

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

- focus on the customer, to be achieved through focusing on high spending clients, caring, segmentation of the offer and defence/increase of market share;
- technological innovation and leadership, characteristics associated with the TIM brand, to be maintained through: GPRS/UMTS development, launching innovative value added services, maintenance of high standards of quality for the Network and IT services and the progressive migration from a TDMA network to a GSM network for some controlled companies;
- excellence in human resources, through recruitment, development and retention of "key" human resources, analysis and selection of methods for increasing flexibility of resources and the management of internal innovation process;
- maintenance of high profitability levels in the core business;
- enhancing of plug and play strategy;
- rationalisation and integration of the financial structures and investments of TIM's subsidiaries within the TIM group; and
- strengthening of TIM's global position through partnerships and alliances.

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

## BUSINESS UNITS

### Wireline

Wireline operates on a national level as the consolidated market leader in wireline telephone and data service and call centres, for consumers and other operators. On an international level, Wireline develops fiber-optic networks for wholesale customers, mainly in Europe and Latin America.

The Wireline Business Unit (which, until 16th June, 2003 was called Domestic Wireline) accounted for gross operating revenues of €17,022 million in 2002, €17,168 million in 2001 and €17,419 million in 2000.

The organisational structure of the Wireline Business Unit as of 30th September, 2003 was as follows:

Telecom Italia Wireline	National Subsidiaries	International Subsidiaries
Wireline TLC services: <ul style="list-style-type: none"> <li>. Retail Phone and Access</li> <li>. Internet</li> <li>. Data Business</li> <li>. Phone and Data VAS</li> <li>. National Wholesale</li> </ul>	Atesia S.p.A. Path.Net S.p.A. Loquendo S.p.A. Telecontact Center S.p.A.	Latin American Nautilus Group Mediterranean Nautilus Group Med-1 Group Intelcom San Marino S.p.A. Telecom Italia Deutschland GmbH HanseNet Telekommunikation GmbH BBNED Group
	Telecom Italia Sparkle Group <ul style="list-style-type: none"> <li>- Telecom Italia Sparkle S.p.A.</li> <li>- Pan European Backbone</li> <li>- Telecom Italia of N.A. Inc.</li> </ul>	

### *Major corporate events/scope of consolidation*

As a result of the 2002 Reorganisation, Saritel (a company specialising in internet operations and value added services for fixed and mobile telecommunications such as internet hosting, e-business solutions, on-line services and vocal recognition software) was moved to the Information Technology Group Operating Activity and Intelcom San Marino S.p.A. is now included as part of the Wireline Business Unit. Since 1st January, 2003, Loquendo was transferred from IT Group Operating Activity to the Wireline Business Unit.

During the first half of 2003, Wireline acquired a minority stake in LISIT S.p.A., following the bid that was awarded, jointly with Finsiel S.p.A., for the Health Care Information System and the Regional Service Card of the Lombardy Region.

The Wireline Business Unit is leveraging its resources and assets by launching broadband services in France. For this purpose, Telecom Italia France, a wholly owned subsidiary of Telecom Italia, is rolling out services in eight major metropolitan areas: Paris, Marseilles, Nice, Lyon, Lille, Nantes, Bordeaux and Strasbourg. The Telecom Italia France strategy is oriented towards unbundling of the local loop and leveraging a proprietary IP protocol-based network infrastructure. Telecom Italia France already has a 1,900 km fibre optic network in France. The network is designed to carry next generation IP protocol-based services.

In September 2003, the acquisition of the 100% stake in the company HanseNet Telekommunikation GmbH, a broadband operator in the Hamburg area, was finalised by the Wireline Business Unit with e.Biscom for a total investment of €243 million. To this end, Telecom Italia previously acquired the company Telecom Italia Deutschland GmbH, which at this date holds the entire investment in HanseNet.

In September 2003, the BBNed group (previously part of International Affairs) moved to the Wireline Business Unit.

### Mobile

The Mobile Business Unit accounted for gross operating revenues of €10,867 million in 2002, €10,250 million in 2001 and €9,418 million in 2000.

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

Among the large mobile telecommunications operators in Europe at the end of 2002, TIM has the largest number of lines in its domestic market (source: Mobile Communication magazine) and has been the fastest growing area of the Telecom Italia Group's business for many years. Line growth was 17% in 2000, 11% in 2001 and 6% in 2002. Gross operating revenues from TIM totalled €7,929 million, €8,357 million and €9,022 million (€8,915 million net of Blu merger effect) in 2000, 2001 and 2002, respectively.

As of 30th September, 2003, the business unit was organised as follows:

Mobile								
National Subsidiaries	International Subsidiaries	Affiliated companies						
TIM - Telecom Italia Mobile S.p.A.	<table border="1"> <thead> <tr> <th>Mobile South America</th> <th>Other subsidiaries</th> </tr> </thead> <tbody> <tr> <td colspan="2">TIM Interanational N.V.</td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>. TIM Brasil Group</li> <li>-Tele Nordeste Celular Group Participações (Brazil)</li> <li>-Tele Celular Sul Group Participações (Brazil)</li> <li>-Maxitel S.A. (Brazil)</li> <li>-TIM Celular S.A. (Brazil)</li> <li>-Blah! S.A. (ex TIMNet.com S.A. Brazil)</li> <li>-Starcel Ltda (Brazil)</li> <li>. TIM Perú S.A.C.</li> <li>. Corporacion Digitel C.A. (Venezuela)</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>Stet Hellas Telecommunications S.A. (Greece)</li> <li>Telesoft Hellas S.A. (Greece)</li> </ul> </td> </tr> </tbody> </table>	Mobile South America	Other subsidiaries	TIM Interanational N.V.		<ul style="list-style-type: none"> <li>. TIM Brasil Group</li> <li>-Tele Nordeste Celular Group Participações (Brazil)</li> <li>-Tele Celular Sul Group Participações (Brazil)</li> <li>-Maxitel S.A. (Brazil)</li> <li>-TIM Celular S.A. (Brazil)</li> <li>-Blah! S.A. (ex TIMNet.com S.A. Brazil)</li> <li>-Starcel Ltda (Brazil)</li> <li>. TIM Perú S.A.C.</li> <li>. Corporacion Digitel C.A. (Venezuela)</li> </ul>	<ul style="list-style-type: none"> <li>Stet Hellas Telecommunications S.A. (Greece)</li> <li>Telesoft Hellas S.A. (Greece)</li> </ul>	IS TIM T.H.A.S. (Turkey)
Mobile South America	Other subsidiaries							
TIM Interanational N.V.								
<ul style="list-style-type: none"> <li>. TIM Brasil Group</li> <li>-Tele Nordeste Celular Group Participações (Brazil)</li> <li>-Tele Celular Sul Group Participações (Brazil)</li> <li>-Maxitel S.A. (Brazil)</li> <li>-TIM Celular S.A. (Brazil)</li> <li>-Blah! S.A. (ex TIMNet.com S.A. Brazil)</li> <li>-Starcel Ltda (Brazil)</li> <li>. TIM Perú S.A.C.</li> <li>. Corporacion Digitel C.A. (Venezuela)</li> </ul>	<ul style="list-style-type: none"> <li>Stet Hellas Telecommunications S.A. (Greece)</li> <li>Telesoft Hellas S.A. (Greece)</li> </ul>							

#### ***Major corporate events/scope of consolidation***

In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. As a result of this reorganisation, all the companies based in Latin America are now co-ordinated by Latin America Operations (LAO). Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for wireline telecommunication and to Marco De Benedetti, the CEO of the Mobile Business Unit, for mobile telecommunication.

On 12th May, 2003 Tim International signed a Term Sheet with Turk Telekom (the incumbent fixed line operator) outlining a set of guidelines for the integration of Is Tim and Aycell (the 4th Turkish mobile operator wholly owned by Turk Telekom). The agreement aims at obtaining significant operating and financial synergies through the combination of the two companies. The closing of the operation is expected to occur within the next few months.

On 26th September, 2003, TIMNet.com S.A. changed its name to Blah! S.A., thus completely identifying the name of the company with its commercial trademark.

On 30th September, 2003, the merger of TIM Brasil S.A. and Bitel Participações S.A. became effective. The acquiring company took the name of TIM Brasil Serviços e Participações S.A. (in shortened form, TIM Brasil). The transaction is part of the process currently underway to simplify the Group structure.

#### **South America**

All the activities conducted by the Latin American subsidiaries (whether controlled by Telecom Italia International or by TIM International) are currently co-ordinated by Latin America Operations (LAO) and are developed in accordance with the Telecom Italia Group's overall strategic plan. LAO reports to the International Steering Committee, composed of the Chairman and CEO. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Wireline and Mobile Business Units. Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for Wireline telecommunication, and to Marco De Benedetti for Mobile telecommunication.

As of 30th September, 2003, LAO was organised as follows:

LATIN AMERICA OPERATIONS		
Subsidiaries		Affiliates
<ul style="list-style-type: none"> <li>. TIM Brasil Group</li> <li>. TIM Perù S.A.C.</li> <li>. Corporacion Digitel C.A. (Venezuela)</li> </ul>	<ul style="list-style-type: none"> <li>. Entel Chile Group</li> <li>. Entel Bolivia Group</li> <li>. Telecom Italia America Latina</li> </ul>	<ul style="list-style-type: none"> <li>. Telecom Argentina Group</li> </ul>

### ***Major corporate events/scope of consolidation***

In January 2003, the Telecom Italia Group disposed of its stake (28.57%) in GLB Serviços Interactivos (Globocom) to TVGlobo LTDA.

In September 2003, the Telecom Italia Group and the France Telecom group set up a mutually owned Argentine holding company, Sofora Telecomunicaciones S.A. The formation of this company falls under the contractual agreements signed on 9th September by the Telecom Italia Group with the France Telecom group and the Argentine Wertheim group.

### **Internet and Media**

On 9th May, 2003, the SEAT extraordinary shareholders' meeting approved the proposed proportional spin-off of substantially all of the Directories, Directory Assistance and Business Information business segments of SEAT into New SEAT. The spin-off became effective on 1st August, 2003. On the same date, the corporate name of old SEAT became "Telecom Italia Media S.p.A.". The shares of both companies are listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

Following the spin-off and sale of New SEAT, Internet and Media Business Unit operates in the following segments:

- Internet, in the management of access services (ISP), the management and development of portals and in web services, where it occupies a leadership position in the Italian market;
- Television, with MTV and La7, both in the sectors of production and broadcasting of editorial content through the television transmission networks entrusted under concession and of the marketing of advertising space in TV programming;
- Office Products and Services in the sector of the distribution of products, services and solutions for the office through the Buffetti retail network and in the sector of promotional articles with Cipi S.p.A.;
- Professional Publishing in the sector of specialised technical publishing.

As of 30th September, 2003 the Business Unit is organised as follows (the table shows the main companies/consolidated activities):

INTERNET AND MEDIA				
INTERNET	TV	NEWS	OFFICE PRODUCTS	PROFESSIONAL PUBLISHING
Tin.it Matrix	Holding Media e Comunicazione Group	TM News (*)	Buffetti Group CiPi	Giallo Professional Publishing

(\*) Purchased on 30th September, 2003.

## Information Technology Market

The Information Technology Market (ITM) Business Unit was created in early 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services Business Unit by type of customer. The ITM Business Unit includes the Finsiel group and is responsible for the information technology activities of the Telecom Italia Group for local and central government entities, as well as for banks, insurance companies, manufacturers and service companies. This Business Unit is also a supplier of system integration and IT consulting to the Italian government and local government authorities.

As of 30th September, 2003, the ITM Business Unit includes the following companies:

Information Technology Market
Finsiel Group: Finsiel S.p.A. Banksiel S.p.A. Insiel S.p.A. Tele Sistemi Ferroviari S.p.A.
Webegg Group: Webegg S.p.A. Software Factory S.p.A. Teleap S.p.A.
Eustema S.p.A.

### *Major corporate events/scope of consolidation*

As of 1st January, 2003, the NETikos group, the Webegg group and the company Eustema were transferred from IT Group Operating Activity to IT Market Business Unit. On 23rd July, 2003, IT Telecom and My Qube announced the closing of the sale of NETikos. The parties agreed on a sale price of €2 million.

## Information Technology Group

The Information Technology Group (ITG) operating activity is responsible for the information technology activities of the Telecom Italia Group and covers the entire range of information services. It is oriented towards increasing efficiency and quality of service activities directed at all the Business Units of the Telecom Italia Group.

The Operating Activity was established in early 2002, completing a plan to integrate various companies. As of 30th September, 2003, the Information Technology Group Operating Activity includes the following companies:

Information Technology Group
IT Telecom Group - IT Telecom S.p.A. - Teco Soft Argentina SA - Telesoft Russia ZAO
Epiclink S.p.A.

### *Major corporate events/scope of consolidation*

In June 2002, Telecom Italia contributed its shares in Netsiel S.p.A. (68.65%), Telesoft S.p.A. (60%), Sodalìa S.p.A. (100%) and NETikos S.p.A. (25%) to IT Telecom S.p.A. (**IT Telecom**) (a wholly-owned subsidiary of Telecom Italia). IT Telecom also purchased the remaining stake of Netsiel S.p.A. (31.35%), Telesoft S.p.A. (40%) and NETikos S.p.A. (75%) from Finsiel S.p.A., through a capital contribution received from Telecom Italia.

On 27th June, 2002, IT Telecom S.p.A. bought Olivetti's 50% stake in Webegg S.p.A. (**Webegg**). The price paid by IT Telecom was €57.5 million and was agreed on the basis of independent evaluations carried out by KPMG Corporate Finance for Telecom Italia and IT Telecom and by UBM for Olivetti. Following this operation, Webegg is owned by IT Telecom (69.8%) and Finsiel (30.2%).



In December 2002, Netsiel, Saritel, Sodalia and Telesoft, wholly owned by IT Telecom, were merged into IT Telecom. The merger was carried out to obtain more efficiency and effectiveness in the information technology services rendered to the Telecom Italia Group and to focus consistently on innovation, services and products. On 1st January, 2003, the new operating activity IT Telecom S.p.A. became operational.

In February 2003, Telecom Italia and Hewlett-Packard (**HP**) reached an agreement in the area of Management Services and Outsourcing with a total value of €225 million. Under the terms of this agreement, HP will supply asset management, help desk, maintenance and workstation management, while IT Telecom will manage HP Italia's operational activities in the SAP environment, housing the systems in its Data Centres. On 16th April, 2003, the agreement became operational and, on the same date, the contract was finalised for the sale of IT Telecom's Desktop Management services business segment to HP DCS (Distributed Computing Services).

On 31st July, 2003, IT Telecom transferred to Shared Services Center — former Pirelli Informatica S.p.A., a software company owned by Pirelli — the product division “Corporate Solutions” (which comprises approximately 270 employees) in exchange for a 45% stake in the capital stock.

### **Olivetti Tecnost Business Unit**

Olivetti Tecnost and its subsidiaries (the **Olivetti Tecnost group**) are active in office products (Office Products Division) and specialised application for service automation in banking, retail, gaming and public authorities (Systems Division). Gross revenues in 2002 were €914 million (of which €906 million were derived from customers outside the Olivetti group) which represented approximately 2.9% of consolidated net revenues of the Telecom Italia Group.

The Olivetti Tecnost group operates in a number of international markets (which account for 68% of its aggregate revenues). While its primary focus is in Europe (29%), Asia (12%) and Latin America (15%), it is also active in the consumer sector in North America (11%) through the subsidiary Royal Consumer Information Product Inc.

As of 30th September, 2003 the Business Unit includes the following companies:

<b>Olivetti Tecnost Group</b>
Olivetti Tecnost S.p.A.
Olivetti I-Jet S.p.A.
Innovis S.p.A.
CellTel S.p.A.
Wirelab S.p.A.
Olivetti Tecnost International B.V. (foreign sales companies)

### **Other Telecom Italia Group Activities**

As of 30th September, 2002, the “Other Activities” of the Telecom Italia Group are principally constituted by the TILAB Operating Activity, the companies managed by the International Affairs Function, the companies which provide centralised services to the Group and Staff Functions.

### **Competition**

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

The operation of telecommunications infrastructure for the provision of all telecommunications services other than fixed-line public voice telephony services was opened to competition by the Maccanico Law during 1997 and by other Telecommunications Regulations, in particular the Presidential Decree No 318/97 (the **Telecommunications Act**) (effective 22nd September, 1997). Pursuant to the Telecommunications Regulations, fixed-line public voice telephony services and the operation of the fixed-line network for the provision of such services was liberalised effective 1st January, 1998. Until 1st January, 1998, the Telecom Italia Group was the sole provider of fixed-line public voice telephony services, which consist of local, long distance and international telecommunications and fixed to mobile services, in Italy.

Since then, the competitive environment has completely changed, both at the Italian and the European level. In November 1999, the EC published its Communication Review (COM (1999) 539) thus starting a process of regulatory reform aimed at designing new rules more appropriate to the actual level of competition in the EU.

After extensive debate a new regulatory framework has emerged, which consists of four Directives (Framework (2002/21/EC) — Access and Interconnection (2002/19/EC) — Authorisation (2002/20/EC) — Universal Service (2002/22/EC)) published in the Official Journal in April 2002. The Italian Parliament turned the new European regulatory package into law by adopting a new Code of Communications on 1st August, 2003. Any future regulatory action decided by AGCom (the Italian National Regulatory Authority (**NRA**)) should be compliant with the new Code.

In particular the NRA should carry out a market analysis in each of the 18 markets listed in the EU Recommendation on Relevant Markets

The new regulatory framework sets out clearly the purposes of the Regulation. It is aimed at

- promoting competition, efficient investment in infrastructure and innovation; and
- ensuring that users derive maximum benefit in terms of choice, price, and quality.

The new regulatory framework introduces a number of significant changes in the regulations:

- A specific market analysis must be implemented before any ex ante regulation is imposed on a relevant market.
- The market analysis must define the market perimeter, then identify if Significant Market Power (SMP) operators do exist and finally evaluate which remedies have to be imposed on those SMP operators.
- Ex ante regulation can therefore be imposed only where the market is not effectively competitive, that is where one or more operators have been notified as SMP operators.
- Where the market is effectively competitive, NRA cannot impose any ex ante regulation and, if some ex ante regulation is present, it must remove it.
- Ex ante regulation must be proportionate to the specific problems observed through the market analysis.
- The remedies defined in Directive 97/33 constitutes the maximum level of regulation that can be imposed; and
- NRAs must take the utmost account of the desirability of making regulations technologically neutral.

Since 1998, as a result of the liberalisation process in the markets for telecommunications networks and services, the Telecom Italia Group has faced increased competition in the domestic market, including competition from Italian subsidiaries of foreign telecommunications operators. Among the main competitors are Wind (also the 3rd operator in the mobile market), Tele2 and Albacom in the fixed services; and Vodafone in the mobile services. Fastweb is a rapidly growing operator providing direct broadband access (via fiber and LLU) in the main metropolitan districts.

On 31st March, 2003 the number of licenses for the provision of both fixed voice telephony service and building public telecommunications networks granted by the Ministry of Communications and the National Regulatory Authority was approximately 163 even if the number of “active” operators is less than the actual number of licenses granted.

Although increased competition has affected the Telecom Italia Group’s operations, management believes that it will be able to keep revenues from domestic telecommunications services growing as a result of:

- the introduction and continued growth of new telecommunications services (in particular, non-voice services as broadband services), capitalising on the Telecom Italia Group’s advanced fixed network,
- growth due to increased internet and data usage,
- increased interconnect traffic, as a result of the growth of other fixed and mobile telecommunications operators in Italy,
- continued growth of the Telecom Italia Group’s mobile telecommunications businesses; and
- continued focus on customer service quality and marketing initiatives.

The Telecom Italia Group expects its revenue mix to continue to change for domestic fixed telecommunications due to regulatory and competitive reasons, and the new business opportunities driven by data and internet services and broadband access. As to voice services, the Telecom Italia Group will seek to implement a strategy based on a greater efficiency of its internal structure and competitive offerings in its services portfolio aimed at reducing market share losses.

Although management has taken steps over the last several years in response to increased competitive pressure, there has been, as expected, a decrease in fixed-line telephony services market share, in particular, in domestic long distance (including fixed to mobile traffic) and outgoing international traffic. Revenues from fixed-line telecommunications services were primarily affected by increased competition due to the development of carrier selection operators. Any decline in market share is expected to be offset in part by increased interconnection revenues as new competitors utilise Telecom Italia's domestic fixed-line network. Telecom Italia maintained its subscriber lines volume in 2002, as the unbundling of the local loop did not have a significant impact in this year. In 2003, the number of subscriber lines fell slightly due to an increase in the number of unbundled lines and direct fiber access of new operators (mainly Fastweb).

Among the measures to counterbalance the increased competition, Telecom Italia introduced a number of innovative price schemes and loyalty packages, (such as "Teleconomy" and "Ricomincio da te"). About 24% of Telecom Italia Group's customer base has subscribed to a loyalty package.

The Telecom Italia Group's overall strategy is to focus on pricing, customer service and loyalty, and new offers to achieve customer retention in order to stop or slow further losses in market share. As a result, in the year ended on December 2003, Telecom Italia was able to increase slightly its market share on total traffic revenues as compared to December 2002.

In the domestic wireline telecommunications services market, the Telecom Italia Group continues to pursue the new opportunities offered by the broadband internet (about 1,900,000 broadband access lines at the end of September 2003, considering all platforms in Italy) and data services which have shown remarkably strong rates of growth in revenues.

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

**The Italian Mobile Market:** The mobile telephone market continued to grow in Italy in 2002, but at a slower pace (7% in 2002 compared to 21% in 2001 and 40% in 2000). By 31st December, 2002, the number of cellular phone lines reached 54.8 million, corresponding to a penetration rate of around 95% of the population.

After several years of strong growth, the demand growth curve has reached its inflexion point and the remaining potential market will be smaller than the one already acquired. In addition, the increasing saturation means that new customers to be acquired are likely to result in lower revenues per customer as has been the case in recent years. Competition for mobile telecommunications services remained strong in 2002. Consequently TIM's strategy has been focused on strengthening its leadership through innovative offers, CRM actions, quality performance, reinforcement of the core voice business and marketing VAS.

At 30th June, 2003, TIM was the leading Italian operator with a market share of 47.1%. Vodafone Omnitel had 36.0%, while Wind obtained 16.7% and H3G(3) had 0.2%.

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

In a scenario of increasing liberalisation, the decisions taken by the National Regulatory Authority have greater impact. The most significant measures taken by the National Regulatory Authority were the designation of TIM and Omnitel as providers with significant market power in the market of mobile communication, and the introduction of mobile number portability.

**TIM's role in the New Economy:** The opportunities offered by new technologies will accelerate the Information and Communication Technology (ICT) convergence process, linking the two currently fastest growing businesses: mobile communications and the internet. TIM's strategic choice with respect to this convergence is the open model. TIM will not focus on internet content but, rather, it will create alliances with the best content producers in order to provide its customers with the most innovative and the widest range of opportunities, while guaranteeing customers transaction security through TIM's authentication centre.

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

Technological development in data transmission (GPRS, UMTS) and platforms (MMS) will generate new business models based on the capability of offering information, entertainment and advertising through mobile phones and of executing an increasing number of complete commercial and banking transactions.

This means the mobile economy will play a fundamental role in the new economy as a whole, and it is one of the segments with the highest potential growth rates and profitability.

TIM will seek out commercial synergies with web-oriented companies in the market, which will increasingly demand mobile services (information and media, on-line banking and trading, geographic positioning information system). A further objective will be the consummation of partnerships with prime content and service providers to develop m-commerce.

## BOARD OF DIRECTORS

As at the date of this Offering Circular, the Board of Directors of Telecom Italia comprises the following:

<u>Name</u>	<u>Position</u>
Marco Tronchetti Provera	Director, Chairman
Gilberto Benetton	Director, Vice Chairman
Carlo Buora	Managing Director
Riccardo Ruggiero	Managing Director
Umberto Colombo	Director
Giovanni Consorte	Director
Francesco Denozza	Director
Luigi Fausti	Director
Guido Ferrarini	Director
Natalino Irti	Director
Gianni Mion	Director
Pietro Modiano	Director
Massimo Moratti	Director
Carlo Alessandro Puri Negri	Director
Pier Francesco Saviotti	Director

Certain members of the Board of Directors of Telecom Italia and certain other companies in the Telecom Italia Group are also members of the Board of Directors and/or officers of certain of the Dealers and/or affiliates of the Dealers.

## TELECOM ITALIA — SUMMARY SELECTED FINANCIAL INFORMATION

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

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

- New Telecom Italia's selected financial data for the nine months ended 30th September, 2003 and as of 30th September, 2003 have been extracted or derived from the unaudited interim consolidated financial statements of New Telecom Italia for the nine-month period ended 30th September, 2003 and as of 30th September, 2003. The nine-month period ended 30th September, 2002 has not been adjusted but provides a reasonable comparison as Olivetti fully consolidated Old Telecom Italia.
- New Telecom Italia's selected financial data as of and for each of the years ended 31st December, 2000, 2001 and 2002 have been extracted or derived (other than the 2000 pro forma data) from Olivetti'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 31st December, 2001 and 2002), and PricewaterhouseCoopers S.p.A. (for the year ended 31st December, 2000).

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

The financial information described below should be read in conjunction with Olivetti's audited consolidated financial statements and notes thereto for the fiscal years ended 31st December, 2000, 2001 and 2002 and with the unaudited interim consolidated financial statements of New Telecom Italia for the nine-month period ended 30th September, 2003 and as of 30th September, 2003.

The consolidated operating revenues of Old Telecom Italia represented 96.0%, 95.8%, 96.3% and 96.8% of Olivetti's consolidated operating revenues in 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively.



Telecom Italia — Selected Financial Data

	Year ended 31st December				Nine months ended 30th September	
	2000 <sup>(1)</sup>	2000 pro forma <sup>(1)(2)</sup>	2001	2002	2002	2003
	<i>(in millions of Euro)</i>				<i>(Unaudited)</i>	
<b>Statement of Operations Data in accordance with Italian GAAP:</b>						
Operating revenues.....	30,116	28,374	32,016	31,408	23,203	22,682
Other income.....	483	459	476	504	352	234
Total revenues.....	<u>30,599</u>	<u>28,833</u>	<u>32,492</u>	<u>31,912</u>	<u>23,555</u>	<u>22,916</u>
Cost of materials.....	3,058	2,931	2,640	2,315	1,551	1,424
Salaries and social security contributions...	5,245	4,965	4,919	4,737	3,550	3,220
Depreciation and amortisation <sup>(3)</sup> .....	6,946	6,509	7,612	7,227	5,300	5,012
Other external charges.....	11,136	10,476	12,687	12,188	8,805	8,628
Changes in inventories.....	(318)	(296)	92	62	(21)	(100)
Capitalised internal construction costs.....	(912)	(831)	(583)	(675)	(356)	(482)
Total operating expenses <sup>(3)</sup> .....	<u>25,155</u>	<u>23,754</u>	<u>27,367</u>	<u>25,854</u>	<u>18,829</u>	<u>17,702</u>
Operating income <sup>(3)</sup> .....	<u>5,444</u>	<u>5,079</u>	<u>5,125</u>	<u>6,058</u>	<u>4,726</u>	<u>5,214</u>
Financial income.....	1,202	1,162	1,446	1,569	990	600
Financial expense <sup>(3)</sup> .....	(3,857)	(3,648)	(6,559)	(4,647)	(3,556)	(2,411)
<i>Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net....</i>	<i>(1,025)</i>	<i>(1,011)</i>	<i>(1,618)</i>	<i>(467)</i>	<i>(401)</i>	<i>(81)</i>
Other income and (expense), net.....	<u>135</u>	<u>165</u>	<u>(3,109)</u>	<u>(5,496)</u>	<u>(551)</u>	<u>455</u>
Income (loss) before income taxes and minority interests.....	2,924	2,758	(3,097)	(2,516)	1,609	3,858
Income taxes.....	<u>(1,923)</u>	<u>(1,813)</u>	<u>(579)</u>	<u>2,210</u>	<u>(1,057)</u>	<u>(969)</u>
Net income (loss) before minority interests.....	1,001	945	(3,676)	(306)	552	2,889
Minority interest.....	<u>(1,941)</u>	<u>(1,885)</u>	<u>586</u>	<u>(467)</u>	<u>(1,412)</u>	<u>(1,008)</u>
Net income (loss).....	<u>(940)</u>	<u>(940)</u>	<u>(3,090)</u>	<u>(773)</u>	<u>(860)</u>	<u>1,881</u>

**Telecom Italia — Selected Financial Data**

	As of 31st December				As of 30th September
	2000 pro forma				2003
	2000 <sup>(1)</sup>	(1)(2)	2001	2002	
					<i>(Unaudited)</i>
	<i>(in millions of Euro, except percentages and statistical data)</i>				
<b>Balance Sheet Data in accordance with Italian GAAP:</b>					
Total current assets <sup>(3)</sup> .....	21,097	20,359	23,417	22,597	22,425
Fixed assets, net .....	23,776	21,072	22,097	19,449	18,311
Intangible assets, net <sup>(3)</sup> .....	39,528	39,062	39,045	34,412	34,689
Total assets .....	95,360	91,832	94,227	83,384	81,683
Short-term debt .....	16,927	16,536	9,072	6,827	13,447
Total current liabilities .....	30,179	29,207	22,984	20,385	24,426
Long-term debt .....	27,485	25,950	37,747	33,804	29,280
Total liabilities .....	63,994	61,304	67,874	62,760	60,506
Total stockholders' equity before minority interest .....	13,856	13,856	12,729	11,640	16,814
Total stockholders' equity .....	31,366	30,528	26,353	20,624	21,177
<b>Financial Ratios in accordance with Italian GAAP:</b>					
Gross operating margin (Gross operating profit/ operating revenues)(%) <sup>(4)</sup> .....	43.6	43.1	42.8	44.6	46.9
Operating income/operating revenues (ROS)(%) .....	18.0	17.9	16.8	19.3	23.0
Net debt/Net invested capital (debt ratio)(%) <sup>(5)</sup> .....	54.5	53.9	59.3	61.8	61.8
<b>Statistical Data:</b>					
Subscriber fixed lines (thousands) <sup>(6)</sup> .....	27,153	27,153	27,353	27,142	27,022
ISDN equivalent lines (thousands) <sup>(7)</sup> .....	4,584	4,584	5,403	5,756	6,067
TIM lines in Italy (thousands) <sup>(8)</sup> .....	21,601	21,601	23,946	25,302	26,051
Page views Virgilio (millions) .....	2,218	2,218	3,945	5,267	4,833
Active Users (at period-end, thousands) .....	1,656	1,656	1,804	2,226	2,392
Group's employees (at period-end) .....	120,973	113,475	116,020	106,620	95,447
Group's employees (average number) .....	131,266	123,994	113,974	107,079	97,222
Operating revenues/Group's employees (average number) (thousands) .....	216.2	242.9	280.9	293.3	233.3

Note:

- (1) Beginning with the consolidated financial statements for the year ended 31st December, 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.
- (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 the first half of 2003, Telecom Italia changed the way in which it accounts for bond issuance expenses including them under current assets (prepaid expenses). Previously, such costs were included in Intangible assets, net. Consequently this change also impacted certain statement of operations items. As a result of this change, the previous periods have been reclassified and presented consistent with the first nine months of 2003 presentation.
- (4) Gross Operating Profit was €13,117 million, €12,216 million, €13,704 million, €14,015 million in each of 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively and €10,479 million and €10,648 million in each of the nine months ended 30th September, 2002 and 2003, respectively. Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Regulation G of the 1934 Act. Telecom Italia believes that Gross Operating Profit provides the best indication of the Telecom Italia Group's operating performance and is meaningful information for investors. In addition, the Telecom Italia Group also believes (although other telecommunication 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. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Year ended 31st December				Nine months ended 30th September	
	2000 <sup>(1)</sup>	2000 pro forma	2001	2002	2002	2003
		<sup>(1)(2)</sup>				
	<i>(millions of Euro)</i>					
Operating income .....	5,444	5,079	5,125	6,058	4,726	5,214
Depreciation and amortisation .....	6,946	6,509	7,612	7,227	5,300	5,012
Other external charges:						
• Provision for bad debts	495	412	448	546	329	284
• Write-downs of fixed assets and intangibles .....	48	48	17	58	2	4
• Provision for risk .....	154	143	389	114	129	45
• Other provisions and operating charges .....	417	388	431	466	316	304
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered) .....	(387)	(363)	(318)	(454)	(323)	(215)
<b>Gross Operating Profit</b> .....	<b>13,117</b>	<b>12,216</b>	<b>13,704</b>	<b>14,015</b>	<b>10,479</b>	<b>10,648</b>

(5) For purposes of calculating the debt ratio, net financial debt is calculated as follows:

	As of 31st December				As of 30th September
	2000 <sup>(1)</sup>	2000 pro forma	2001	2002	2003
		<sup>(1)(2)</sup>			
	<i>(in millions of Euro)</i>				
Short-term debt, including current portion of long-term debt .....	16,927	16,536	9,072	6,827	13,447
Long-term debt .....	27,485	25,950	37,747	33,804	29,280
Cash and cash equivalents:					
• Bank and postal accounts .....	(2,763)	(2,745)	(3,626)	(4,363)	(5,435)
• Cash and valuables on hand .....	(8)	(7)	(76)	(7)	(30)
• Receivables for sales of securities .....	(1)	(1)	(4)	(56)	(75)
Marketable debt securities .....	(2,909)	(2,759)	(3,616)	(1,927)	(2,259)
Financial accounts receivable (included under "Receivables" and "Other current assets") .....	(1,210)	(1,210)	(894)	(994)	(805)
Financial prepaid expense/deferred income, net and accrued financial income/ expense, net (long-term) .....	(328)	(328)	(705)	(512)	(474)
Financial prepaid expense/deferred income, net and accrued financial income/ expense, net (short-term) .....	331	292	464	627	604
<b>Net Financial Debt</b> .....	<b>37,524</b>	<b>35,728</b>	<b>38,362</b>	<b>33,399</b>	<b>34,253</b>

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

(7) Data exclude internal lines.

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

## CAPITALISATION OF TI FINANCE

The following table sets forth the total unaudited cash and cash equivalents, the short term debt and the capitalisation of TI Finance in accordance with the Luxembourg GAAP, as at 30th September, 2003:

	<b>As at 30th September, 2003</b>
	<i>(unaudited)</i>
	<i>(millions of Euro)</i>
<b>Cash and cash equivalents</b> .....	2,446
<b>Total short-term debt</b> .....	<u>2,569</u>
<b>Long-term debt</b>	
Debenture loans .....	5,000
Convertible debentures .....	2,312
Other long-term debt .....	304
<b>Total long-term debt (a)</b> .....	<u>7,616</u>
<b>Shareholders' equity:</b>	
Share capital .....	869
Reserves, retained earnings and loss for the period .....	(561)
<b>Total shareholders' equity (b)</b> .....	<u>308</u>
<b>Total capitalisation (a + b)</b> .....	<u>7,924</u>

Except as disclosed in the Offering Circular, there has been no material change in the capitalisation of TI Finance since 30th September, 2003.

## DESCRIPTION OF TI FINANCE

Telecom Italia Finance S.A. was incorporated (under the name of TI WEB S.A.) on 2nd June, 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a *Société Anonyme*, governed by the Luxembourg law of 10th August, 1915 on commercial companies, as amended, and is a 99.9999% subsidiary of Telecom Italia. One of TI Finance's principal purposes is raising funds for the Telecom Italia group. TI Finance is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under section B, number B-76448. TI Finance's Articles of Incorporation were published in *Mémorial C n.773, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* on 31st October, 2000. The Articles of Incorporation were modified by notarial deed on 28th September, 2001, published in *Mémorial C n.290, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* on 21st February, 2002. The last modification to the Articles of Incorporation took place on 16th December, 2002 and was published in the *Mémorial C n.1818 Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* on 27th December, 2002.

TI Finance's registered office and postal address is 12-14 Boulevard Grand-Duchesse Charlotte L-1330 Luxembourg, and its telephone number is +352. 45 60601.

### **Capitalisation**

Pursuant to a resolution passed at its Extraordinary General Meeting of Shareholders held on 16th December, 2002, TI Finance decided to convert its share capital from U.S.\$ into euro. The subscribed share capital of TI Finance is €869,162,614.74 consisting of 88,871,433 ordinary shares, nominal value €9.78 per share, all of the shares have been issued and are fully paid-up.

### **Business**

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

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

### **Board of Directors**

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

Mr. Francesco Tanzi, Chairman, resident in Milan, Manager.

Mr. Riccardo Varetto, Vice-Chairman, resident in Turin, Manager.

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

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

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

The remuneration of the directors is from time to time determined by the general meeting of shareholders of TI Finance. The directors are not remunerated in their capacity as directors. Apart from Mr. Trapletti who owns one (1) share, no director has an interest in the share capital of TI Finance.

### **Financial Year**

The financial year of TI Finance is the calendar year.

### ***Financial information***

The first statutory financial statements of TI Finance to be externally audited were those for the year ended 31st December, 2000. TI Finance is not required under Luxembourg law to, and does not, publish interim financial statements, but it has nevertheless prepared interim financial statements as of 30th June, 2003 for internal purposes only.

Pursuant to Luxembourg law, TI Finance is exempt from preparing consolidated annual accounts for the years ended 31st December, 2002 and 2001. TI Finance's accounts are included in the consolidated annual accounts of the Telecom Italia group, which are available at the registered office of Telecom Italia S.p.A., located in Piazza degli Affari 2, 20123 Milan.

The financial statements are available at the offices of the Luxembourg Paying Agent (J.P. Morgan Bank Luxembourg S.A., 5, rue Plaetis, L-2338 Luxembourg).

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

TI Finance, pursuant to a resolution taken at its Extraordinary General Meeting of Shareholders dated 16th December, 2002, decided, according to article 100 of the Luxembourg law of 10th August, 1915, as amended, to continue its activity despite the accumulated losses.

During the year 2003 TI Finance sold a portion of Telecom Italia bonds, which were issued in 2001 as private placements, at market conditions back to the issuer. With the proceeds of such a sale, TI Finance granted several loans to Telecom Italia at the then applicable market conditions. The sale of the bonds generated a gain which is and will be compensated by lower financial revenues. As a consequence TI Finance is currently reporting on a monthly basis and will report a loss of about €12 million up to the end of 2005.

### ***Exchangeable Bonds***

On 16th December, 2002 as part of the general reorganisation of certain Luxembourg based Telecom Italia subsidiaries, TI Finance became the issuer in respect of €2,500,000,000 of 1 per cent. exchangeable (into TIM or TI Media S.p.A. ordinary shares) notes due 2006 (in September 2002, the outstanding amount of the notes decreased by €535,500,000 to €1,964,500,000 as a result of the purchase and cancellation of the notes by Sogerim a wholly-owned finance subsidiary that was merged in 2002 into TI Finance).

### ***Recent Developments***

Since 30th September, 2003 TI Finance entered into the following material transactions:

- on 25th November, 2003 TI Finance acquired from an affiliated company a debt in the amount of JPY 20,000,000,000 owed to a third party, together with a credit of an equal amount towards an affiliated company. The two acquisitions were made at market value on the same terms and conditions;
- on 19th December, 2003 the Board of Directors of TI Finance called the general shareholders meeting on or around 20 February, 2004 in order to approve the proposal to absorb Olivetti International S.A. into TI Finance. Olivetti International S.A. is a 99.999975 per cent. Luxembourg based Telecom Italia subsidiary. According to the proposal TI Finance will issue 30,00,000 new shares having the same rights of the existing TI Finance shares;
- on 22nd December, 2003, TI Finance substituted Olivetti International N.V. (a 100 per cent. Telecom Italia subsidiary) in respect of €1,500,000,000 5 per cent. guaranteed notes due 2009;
- on 23rd December, 2003, TI Finance substituted Olivetti International N.V. in respect of CHF150,000,000 5.625 per cent. guaranteed notes due 2046; the current outstanding amount of the notes is CHF100,000,000.

Except as may be disclosed in any applicable supplement hereto and/or pricing supplement, there has been no material adverse change in TI Finance's financial position or prospects, that would affect the rights of the holders of debt securities issued by TI Finance, since 31st December, 2002.



TI FINANCE — SELECTED FINANCIAL INFORMATION <sup>(1)</sup>

Balance Sheets

	<u>31st December 2002</u>	<u>31st December 2001</u>
	<i>(in Euro)</i>	
<b>Assets</b>		
<b>A) Fixed assets</b>		
Intangible assets .....	36,418.56	7,712.01
Tangible assets .....	1,565,948.39	—
Financial assets .....		
— Investments .....	125,300,437.31	20,693,866.55
— Receivables to affiliated companies .....	287,975,588.83	—
— Other securities .....	237,689,113.56	—
<b>Total A) .....</b>	<b><u>652,567,506.65</u></b>	<b><u>20,701,578.56</u></b>
<b>B) Current assets</b>		
Receivables		
— Receivables from affiliated companies .....	756,458,617.77	—
— Other receivables .....	164,718.96	—
Securities		
— Other securities .....	6,898,107,998.76	—
Cash at bank and bank deposit .....	98,400,393.09	—
<b>Total B) .....</b>	<b><u>7,753,131,728.58</u></b>	<b><u>—</u></b>
<b>C) Accrued income and prepaid expenses .....</b>	<b>738,326,981.60</b>	<b>—</b>
<b>D) Loss of the year .....</b>	<b><u>108,041,967.90</u></b>	<b><u>838,550,763.43</u></b>
	<b><u>9,252,068,184.73</u></b>	<b><u>859,252,341.99</u></b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency interest rate swaps .....	1,171,760,788.06	—
— Interest rate swaps .....	145,262,815.87	—
	1,317,023,603.93	—

Note:

(1) During the last quarter of 2002, the Issuer incorporated the activities of four different Telecom Italia S.p.A. subsidiaries (Sogerim S.A.; Huit II s.à.r.l.; TI Media S.A. and Softe S.A.). Therefore the figures included in the 2001 and the 2002 financial statements are not comparable.

	<b>31st December 2002</b>	<b>31st December 2001</b>
	<i>(in Euro)</i>	
Operations linked to variable-yield securities:		
— Sales of options on securities .....	750,000,000.00	—
Guarantees and other direct substitutes for credit .....	2,006,492,323.82	—
	<b><u>4,073,515,927.75</u></b>	<b><u>—</u></b>
<b>Liabilities</b>		
<b>A) Shareholders' equity</b>		
Share capital .....	869,162,614.74	838,253,595.54
Reserve		
— Other reserve .....	1,466,614.22	—
Profit (Loss) carried over .....	<u>(839,742,737.52)</u>	<u>(1,191,974.28)</u>
<b>Total A) .....</b>	<b><u>30,886,491.44</u></b>	<b><u>837,061,621.26</u></b>
<b>B) Reserve for future charges and risks</b>		
— Reserve for taxes .....	516,125.13	—
<b>C) Liabilities</b>		
— <i>Long-term debt (&gt; 12 months)</i>		
Notes .....	8,312,020,050.00	—
Due to affiliated companies .....	303,843,294.28	—
— <i>Short-term debt (&lt; 12 months)</i>		
Due to bank .....	733,735.27	356.58
Due to affiliated companies .....	337,009,144.74	21,594,427.76
Other payables .....	<u>7,474,497.43</u>	<u>595,936.39</u>
<b>Total C) .....</b>	<b><u>8,961,080,722.02</u></b>	<b><u>22,190,720.73</u></b>
<b>D) Accrued expenses and deferred income .....</b>	<b>259,584,846.14</b>	<b>—</b>
	<b><u>9,252,068,184.73</u></b>	<b><u>859,252,341.99</u></b>
<b>Contra Accounts</b>		
Operations linked to currency exchange rates and interest rates:		
— Cross currency interest rate swaps .....	1,171,760,788.06	—
— Interest rate swaps .....	145,262,815.87	—
	1,317,023,603.93	—
Operations linked to variable-yield securities:		
— Sales of options on securities .....	750,000,000.00	—
Guarantees and other direct substitutes for credit .....	<u>2,006,492,323.82</u>	<u>—</u>
	<b><u>4,073,515,927.75</u></b>	<b><u>—</u></b>

## Income Statements

	<b>31st December 2002</b>	<b>31st December 2001</b>
	<i>(in Euro)</i>	
<b>Income</b>		
Dividends .....	2,653,044.35	—
Other Financial Income .....	75,021,227.79	—
Other Interests and Financial Income		
— on Receivables from banks .....	7,404,617.20	—
— on Receivables from affiliated companies .....	8,181,102.48	123.47
— other Financial Incomes .....	422,491.52	2,514.53
	<u>16,008,211.20</u>	<u>2,638.00</u>
Extraordinary Incomes .....	7,196.53	—
Loss of the year .....	<b>108,041,967.90</b>	<b>838,550,763.43</b>
	<b><u>201,731,647.77</u></b>	<b><u>838,553,401.43</u></b>
<b>Expenses</b>		
Personal expenses		
a) Wages and salaries .....	245,230.86	27,192.53
b) Social security contributions .....	28,254.28	5,346.66
	<u>273,485.14</u>	<u>32,539.19</u>
Amortisation of intangible and tangible asset .....	54,805.54	1,933.43
Write-Down of receivables in current asset .....	3,834,109.92	—
Other expenses .....	678,901.88	112,916.47
Write-Down of investments and securities .....	103,493,063.34	799,247,428.82
Interest other financial expenses		
— on note .....	78,205,122.15	—
— on amount due to banks .....	4,884,888.73	21.88
— on amount due to affiliated companies .....	7,690,448.65	39,157,506.37
— other Financial expenses .....	2,284,665.46	1,001.82
	<u>93,065,124.99</u>	<u>39,158,530.07</u>
Extraordinary Expenses .....	8,318.75	—
Other taxes .....	323,838.21	53.45
	<b><u>201,731,647.77</u></b>	<b><u>838,553,401.43</u></b>

## TAXATION

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

The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Law No. 80 of 7th April, 2003 for the reform of the Italian tax system was approved by the Italian Parliament on 26th March, 2003, authorising the Italian Government, *inter alia*, to issue, within two years of the entering into force of such law, legislative decrees introducing a general reform of the tax treatment of financial income, which may impact upon the tax regime of the Notes, as described under “The Republic of Italy” below. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes, including the application to their particular situation of the tax considerations discussed below.

### The Republic of Italy

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

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

#### *Italian resident Noteholders*

Where an Italian resident Noteholder is (i) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the “*risparmio gestito*” regime — see under “*Capital gains tax*” below), (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a tax withheld at source, referred to as *imposta sostitutiva*, levied at the rate of 12.5 per cent. If the Noteholders described under (i) to (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

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

Where an Italian resident Noteholder is an Italian real estate investment fund to which the provisions of Law Decree No. 351 of 25th September, 2001, as subsequently amended, apply, interest, premium and other income relating to the Notes will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund.

Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund or a SICAV and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 12.5 per cent. substitute tax.

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

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

An Intermediary must (i) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (ii) intervene, in any way, in the collection of interest or in the transfer of the Notes.

For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

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

#### *Non-Italian resident Noteholders*

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

For the purpose of the application of the exemption, the countries which allow for a satisfactory exchange of information with Italy are those listed in Ministerial Decree 4th September, 1996, as amended from time to time, which include, *inter alia*, all members of the European Union, Australia, Brazil, Canada, Japan and the United States of America, but exclude, *inter alia*, Switzerland and Cyprus.

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

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

#### *Early Redemption*

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

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

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

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

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

Decree 239 also provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling

within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by non-Italian resident issuers.

#### *Italian resident Noteholders*

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

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

Where an Italian resident Noteholder is an Italian real estate investment fund to which the provisions of Law Decree No. 351 of 25th September, 2001, as subsequently amended, apply, interest, premium and other income relating to the Notes will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund.

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

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

#### *Non-Italian resident Noteholders*

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

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

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

#### *Atypical securities*

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



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

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

### ***Capital gains tax***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Transfer tax***

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

However, the transfer tax does not apply, *inter alia*, to: (i) contracts entered into on regulated markets relating to the transfer of securities, including contracts between the intermediary and its principal or between qualified intermediaries; (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into (a) between banks, SIMs or other financial intermediaries regulated by Decree No. 415 of 23rd July, 1996 as superseded by Decree No. 58 of 24th February, 1998, or stockbrokers; (b) between the subjects mentioned in (a) above, on the one hand, and non-Italian residents, on the other hand; (c) between the subjects mentioned in (a) above, even if non-resident in Italy, on the one hand, and undertakings for collective

investment in transferable securities, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public offering (*offerta pubblica di vendita*) aimed at the listing on regulated markets, or involving financial instruments already listed on regulated markets, (iv) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

### ***Tax monitoring***

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

## **Luxembourg**

### ***Tax Residency***

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

### ***Withholding tax***

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

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

It is expected that as from 1st January, 2004 or 2005 a 10 per cent. Luxembourg withholding tax may be introduced for interest payments made to Luxembourg residents.

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

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

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

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

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

#### **Luxembourg resident individuals**

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

Luxembourg resident companies

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

Luxembourg resident companies benefiting from a special tax regime

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

#### *Net Wealth Tax*

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

#### ***Other Taxes***

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

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

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

#### **European Union Savings Directive**

On 3rd June, 2003, the European Union adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1st January, 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise. The ending of such transitional period depends on the conclusion of certain other agreements relating to information exchange with other countries.

## SUBSCRIPTION AND SALE

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

### United States

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

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

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

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

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

### United Kingdom

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

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

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

### **Italy**

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

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

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

### **Japan**

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

### **Luxembourg**

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

### **The Netherlands**

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



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

## **General**

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

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

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

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

## GENERAL INFORMATION

### Authorisation

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

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

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

### Listing of Notes

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

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

### Documents Available

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

- (a) the constitutional documents (with an English translation thereof) of each of Telecom Italia and TI Finance;
- (b) the consolidated and unconsolidated audited financial statements of Olivetti (now Telecom Italia) in respect of the financial years ended 31st December, 2000, 31st December, 2001 and 31st December, 2002 (with an English translation thereof);
- (c) the consolidated and unconsolidated 2003 first half report of Telecom Italia (with an English translation thereof). Telecom Italia prepares its half-yearly interim reports on an unconsolidated as well as consolidated basis, as required by CONSOB. Its first and third quarter interim reports are prepared on a consolidated basis only, as required by CONSOB;
- (d) the consolidated and unconsolidated audited financial statements of Old Telecom Italia in respect of the financial years ended 31st December, 2000, 31st December, 2001 and 31st December, 2002 (with an English translation thereof);
- (e) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31st December, 2001 and 31st December, 2002 (with an English translation thereof);
- (f) the most recently published audited annual financial statements of each of Telecom Italia and TI Finance and the most recently published unaudited interim financial statements (if any) of each of Telecom Italia and TI Finance (in each case with an English translation thereof). Telecom Italia currently prepares consolidated and unconsolidated audited financial statements for the 12 month period to 31st December in each year and consolidated unaudited interim financial statements on a quarterly basis. TI Finance currently prepares unconsolidated audited financial statements for the 12 month period to 31st December in each year. According to Luxembourg law, TI Finance is not obliged to publish interim accounts although such accounts are prepared on an unconsolidated and unaudited basis only for the requirements of Telecom Italia.
- (g) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (h) a copy of this Offering Circular;
- (i) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (j) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

**Clearing Systems**

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

**Significant or Material Change**

Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of each of Telecom Italia and its subsidiaries taken as a whole since 30th September, 2003 and there has been no material adverse change in the financial position or prospects of each of Telecom Italia and its subsidiaries taken as a whole since 31st December, 2002.

**Litigation**

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

**Auditors**

The financial statements of Olivetti for the financial year ended 31st December, 2000 were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by PricewaterhouseCoopers S.p.A., independent public accountant.

The financial statements of Olivetti for the financial years ended 31st December, 2001 and 31st December, 2002 were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., independent public accountant.

The auditors of TI Finance are Ernst & Young, who have audited TI Finance's accounts, without qualification, in accordance with generally accepted auditing standards in Luxembourg for the financial year ended on 31st December, 2002. The financial statements of TI Finance for the financial years ended 31st December, 2000 and 31st December, 2001 were audited by Arthur Andersen in accordance with the generally accepted auditing standards in Luxembourg, without qualification.

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

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

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

Piazza degli Affari, 2  
20123 Milan  
Italy

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

12-14 boulevard Grande-Duchesse Charlotte  
L-1330 Luxembourg

**TRUSTEE**

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

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
England

**ISSUING AND PRINCIPAL PAYING AGENT**

**JPMorgan Chase Bank**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
England

**LUXEMBOURG PAYING AGENT**

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

5, rue Plaetis  
L-2338 Luxembourg

**LEGAL ADVISERS**

*To the Issuers as to English law*

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

*To the Issuers as to Luxembourg law*

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

*To the Issuers as to Italian law*

**Gianni, Origoni, Grippo & Partners**

Via delle Quattro Fontane 20  
00184 Rome  
Italy

*To the Issuers as to Italian tax law*

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

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

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

*To the Trustee as to English law*

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

**AUDITORS**

*To Telecom Italia S.p.A.*

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

Via G. Romagnosi 18/A  
00196 Rome  
Italy

*To Telecom Italia Finance S.A.*

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

## DEALERS

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

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

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

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

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

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

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

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

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

## LUXEMBOURG LISTING AGENT

**J.P. Morgan Bank Luxembourg S.A.**  
5, rue Plaetis  
L-2338 Luxembourg