

EMTN PROGRAMME PROSPECTUS

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



TELECOM ITALIA S.p.A.

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

TELECOM ITALIA FINANCE S.A.

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

€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.

In addition, the minimum denomination for any Notes issued under the Programme shall be €50,000, or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €50,000.

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

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a Final Terms supplement (the **Final Terms**) which, with respect to Notes to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the official list of the Luxembourg Stock Exchange, will be filed with the Luxembourg Stock Exchange.

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

Subject to and as set out in “*Terms and Conditions of the Notes — Taxation*”, Telecom Italia shall not be liable to pay any additional amounts to holders of the Notes in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of 1st April, 1996 (as the same may be amended or supplemented from time to time) where the Notes are held by a Noteholder resident for tax purposes in a country which does not allow for a satisfactory exchange of information with Italy and otherwise in the circumstances described in Condition 8.

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

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

LEHMAN BROTHERS

Dealers

BARCLAYS CAPITAL

BNP PARIBAS

CABOTO

DEUTSCHE BANK

JPMORGAN

LEHMAN BROTHERS

MCC S.p.A.

MEDIOBANCA S.p.A.

UBM — UNICREDIT BANCA MOBILIARE

The date of this EMTN Programme Prospectus is 2nd December, 2005.

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

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

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

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

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

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

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

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

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

This EMTN Programme Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this EMTN Programme Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuers, the Guarantor, the Dealers and the Trustee represent that this EMTN Programme Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this EMTN Programme Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this EMTN Programme Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this EMTN Programme Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this EMTN Programme Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this EMTN Programme Prospectus and the offer or sale of Notes in the United States, Japan and the European Economic Area (including the United Kingdom, Italy, the Grand-Duchy of Luxembourg (*Luxembourg*) and the Netherlands). See “*Subscription and Sale*”.

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

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

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s) in the applicable Final Terms) may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and/or listed on the official list of the Luxembourg Stock Exchange, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

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OVERVIEW OF THE PROGRAMME

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

This overview constitutes a general description of the EMTN Programme Prospectus for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

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

Issuers:	Telecom Italia S.p.A. Telecom Italia Finance S.A.
Guarantor:	Telecom Italia S.p.A. (in respect of Notes issued by TI Finance)
Risk Factors:	There are certain Risk Factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. There are also certain factors that may affect the Guarantor’s ability to fulfil its obligations under the Guarantee. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme (see “Risk Factors”).
Description:	Euro Medium Term Note Programme
Arrangers:	J.P. Morgan Securities Ltd. Lehman Brothers International (Europe)
Dealers:	Barclays Bank PLC BNP PARIBAS Banca Caboto s.p.a. Deutsche Bank AG, London Branch 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.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this EMTN Programme Prospectus. Notes having a maturity of less than one year Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See “ <i>Subscription and Sale</i> ”.
Issuing and Principal Paying Agent:	JPMorgan Chase Bank, N.A.
Trustee:	J.P. Morgan Corporate Trustee Services Limited

Programme Size:	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.
Distribution:	Notes may be distributed on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro.
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued as specified in the relevant Final Terms on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both.

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

Dual Currency Notes:

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

Zero Coupon Notes:

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

Redemption:

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

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

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

Denomination of Notes:

The minimum denomination for any Notes issued under the Programme shall be €50,000 or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €50,000.

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount 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.

Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	The Notes will constitute unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <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.
Guarantee:	Notes issued by TI Finance will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <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.
Listing and admission to trading:	<p>Application has been made to the CSSF to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the official list of the Luxembourg Stock Exchange.</p> <p>Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s).</p>
Governing Law:	The Notes will be governed by, and construed in accordance with, English law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10th August, 1915, as amended, are excluded.
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Italy, Luxembourg, the Netherlands and Japan, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "<i>Subscription and Sale</i>".</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>

RISK FACTORS

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

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

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

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

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

Strong domestic competition exists in all of the principal telecommunications business areas in Italy in which Telecom Italia operates, including, most significantly, the fixed-line and mobile voice telecommunications businesses. This competition may increase further due to the consolidation and globalisation of the telecommunications industry in Europe and elsewhere. Consolidation is increasing rapidly and competition is expected to rise at all levels in the future. In addition, the use of the single European currency and the liberalisation of the Italian telecommunication market has further intensified competition by facilitating international operators' entry into the Italian market and direct competition with Telecom Italia's fixed line and mobile telephony businesses, particularly in the local and long-distance markets. As of 31st December, 2004, there were a number of significant competitors offering fixed-line services and three other operators (besides the Telecom Italia businesses then operated as TIM) offering mobile services in the Italian domestic market; the third mobile competitor (H3G) entered the market in 2003, offering third generation commercial services. Although Telecom Italia stopped the decline in its market share of voice traffic in its fixed line business during 2003 and maintained its market share in 2004, continuing pressures on prices due to competition and further erosion in market shares could adversely affect its results of operations. Continuing changes to the regulatory regime, including carrier preselection, number portability and local loop unbundling as well as the implementation of new EU telecommunications directives and the continuing entry of strong international operators in its markets are increasing competition for the services it provides, particularly in its fixed line business, which could also adversely affect its business.

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

In order to sustain growth in revenues despite increased competition and lower prices, particularly in Telecom Italia's core Italian domestic market, its strategy has been to introduce new services in its fixed-line and wireless businesses to increase traffic on its networks and find alternative revenue sources, in addition to carrying voice traffic on its networks. These services include non-voice services such as ADSL, which provides services such as fast Internet, multimedia and video conferencing, data traffic and value-added services such as interactive mobile services that allow users to receive news or engage in simple banking transactions. Other revenue sources also include increased interconnection traffic from other operators using Telecom Italia fixed-line network. In addition to the introduction of new services in recent years, Telecom Italia continues to develop new products and services, such as new data services for business customers, broadband services, enhanced communication services and new equipment and voice packages, in order to attract and retain customers, particularly business customers, and to stimulate usage of its fixed and wireless telecommunications network. Telecom Italia is also investing in new infrastructure and technologies to enable it to introduce new products and services. These

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

Telecom Italia's business will be adversely affected if it is unable to successfully implement its business plans, particularly in the light of the Merger and the TIM Acquisition. Factors beyond its control may prevent it from successfully implementing its strategy.

Following the change in control of Old Telecom Italia in late 2001, Telecom Italia adopted its 2002-2004 Industrial Plan (the **Industrial Plan**) and established priorities for this three year period. The main objectives were to:

- strengthen competitive capabilities;
- improve cost efficiency; and
- strengthen the financial structure.

The most significant objectives of the Industrial Plan were achieved, particularly the sale of non-core assets and debt reduction. Telecom Italia also took steps to strengthen its competitive position in its core Italian domestic market through the introduction of new products and tariff packages and its focus on lowering costs through the reduction of operating expenses and capital expenditures.

In order to satisfy a series of business needs, prompted by the progressive convergence between fixed and mobile platforms, Telecom Italia decided to make the TIM Acquisition. The strategic and industrial objectives of the TIM Acquisition are to:

- simplify the chain of ownership of the group;
- unify management of the fixed and mobile businesses to improve business opportunities;
- realise significant synergies from the integrated management of fixed and mobile telecommunications in Italy and abroad; and
- optimise financial and cash flows within the Telecom Italia Group by managing its debt more efficiently, making better use of financial leverage and reducing its weighted average cost of capital.

In connection with the Merger and the TIM Acquisition, Telecom Italia confirmed the objectives and guidelines of the Industrial Plan and established certain targets for the 2005-2007 period, which include strict capital expenditures and cost controls and instituting other actions to ensure the reduction of the debt level it has as a result of the Merger and the TIM Acquisition. See “— As a result of the Merger and the TIM Acquisition Telecom Italia remains highly leveraged”.

Factors beyond Telecom Italia's control that could affect the implementation and achievement of the strategic objectives of the TIM Acquisition and reaching its targets for the period 2005-2007 include:

- its ability to manage costs;
- its ability to attract and retain highly-skilled and qualified personnel;
- its ability to effectively integrate the Telecom Italia and TIM organisations;
- its ability to achieve the synergies anticipated from the TIM Acquisition;
- its ability to leverage on its core skills with particular focus on Latin America mobile and international broadband operations;
- difficulties in developing and introducing new technologies, managing innovation, providing value-added services and increasing usage of its networks;
- its ability to manage the fixed to mobile substitution trends;
- its ability to divest additional non-core businesses and the adequacy of the returns of such divestitures;
- the need to establish and maintain strategic relationships;
- declining prices for some of its services and increasing competition;
- the effect of adverse economic trends on its principal markets;

- the effect of foreign exchange fluctuations on its results of operations; and
- the success of new “disruptive” technologies that could cannibalise fixed and mobile revenues.

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

Telecom Italia’s fixed and mobile telecommunications operations, as well as its broadband services businesses, are subject to significant extensive regulatory requirements in Italy and its international operations and investments are subject to regulation in their host countries. In Italy, Telecom Italia is the only operator subject to universal service obligations, which require it to provide:

- fixed line public voice telecommunications services in non-profitable areas; and
- public payphones.

In addition, the Italian regulator responsible in Italy for the regulation of the telecommunications, radio and television broadcasting sector (the **National Regulatory Authority**) has identified Telecom Italia as an operator having significant market power in all relevant markets. As a result, it is, and, if it continues to be identified as having significant market power in all relevant markets, will be, subject to a number of regulatory constraints, including:

- a requirement to conduct its business in a transparent and non-discriminatory fashion;
- a requirement to have its prices for fixed voice telephony services and Reference Interconnection Offer, the tariff charged to other operators to utilise its network, subject respectively to a price cap and a network cap mechanism. This cap mechanism places certain limits on its ability to change its prices for certain services; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-orientated prices. These services include allowing other operators to connect to its network and transport traffic through the network as well as offering certain services related to its local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from it.

As a member of the EU, Italy is required to adapt its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002 which has been effective in Italy since September 2003. Included within this new framework is the obligation on the part of the National Regulatory Authority to identify operators with “significant market power” based on a market analysis in 18 separate retail and wholesale markets, in which it is considered necessary to intervene to protect free competition. The National Regulatory Authority is currently conducting its analysis. The new framework establishes criteria and procedures for identifying remedies applicable to operators with “significant market power”. The conclusion of this analysis and the implementation of these revised telecommunications regulations and possible future decisions relating thereto, which is expected to be completed before the end of 2005, may change the regulatory environment in a manner adverse to Telecom Italia, particularly as they relate to new services which may not currently be part of the 18 identified markets.

Telecom Italia is unable to predict the impact of any proposed or potential changes in the regulatory environment in which it operates both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect its business and competitiveness. In particular, its ability to compete effectively in its existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which it is subject or extend them to new services and markets. In addition, changes in tax laws in countries in which it operates could adversely affect its results of operations. Finally, decisions by regulators regarding the granting, amendment or renewal of licences, to Telecom Italia or to third parties, could adversely affect its future operations in Italy and in other countries where it operates.

Telecom Italia may not achieve the expected return on its significant investments and capital expenditures made in Latin America and in its other selected international investments due to the competitive environment in these markets.

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

- consolidating its international presence in Latin America, Europe and the Mediterranean Basin;

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

As a result of this change in strategy, in the 2002-2003 period Telecom Italia divested certain of its most significant European assets such as BDT (Bouygues Decaux Telecom), Autel (Mobilkom Austria), Telekom Austria, 9Telecom group and Auna. Consistent with its strategy to focus its Latin American operations principally in Brazil, Telecom Italia recently disposed of Entel Chile (Chile) and TIM Perù. Telecom Italia intends to sell its interests in Corporacion Digitel (Venezuela) and Entel Bolivia and will continue to seek to divest certain international non-strategic assets. Telecom Italia also recently disposed of its stake in TIM Hellas, its Greek mobile telecommunications operator. In addition, certain investments which were made during the 1999-2001 period declined significantly in value resulting in write-downs and asset impairments which materially adversely affected its results of operations in 2002, and to a lesser degree in 2003 and 2004. Telecom Italia will continue to target its international investments in Latin America, particularly mobile telecommunications in Brazil, European broadband and mobile telecommunications in selected markets. These investments will continue to require significant capital expenditures and there can be no assurance that Telecom Italia will be able to achieve a satisfactory return on its investments or that it will not suffer further losses and write-downs in markets where it has decided to focus its investments.

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

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

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

Telecom Italia's business is dependent on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect its business and results of operations. Telecom Italia may also be adversely affected by political and economic developments in other countries where it has made significant investments in telecommunications operators. Some of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which it has invested and impair the value of these investments. Telecom Italia has had investments in Turkey, Argentina and Brazil in recent years in which it has had to take significant write-downs in value due to political and economic developments in those countries. A significant additional risk of operating in emerging market countries is that foreign exchange restrictions could be established. This could effectively prevent Telecom Italia from receiving profits from, or from selling its investments in, these countries.

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

Because Telecom Italia has made substantial international investments, primarily in U.S. dollars, and has significantly expanded its operations outside the euro zone, particularly in Latin America, movements in the exchange rates of the euro against other currencies can adversely affect its revenues and operating results. A rise in the value of the euro relative to other currencies in certain countries in which it operates or has made investments will reduce the relative value of the revenues or assets of its operations in those countries and, therefore, may adversely affect its operating results or financial position. In addition, Telecom Italia has raised,

and may raise in an increasing proportion in the future, financing in currencies other than the euro, principally the U.S. dollar. Accordingly, the value of those liabilities will be affected by fluctuations of the currencies of the countries in which it operates against the currency in which the financing is denominated. Telecom Italia generally enters into a number of forward currency transactions, swaps and options to manage foreign currency risk exposure with respect to its non-euro denominated liabilities. However, it can give no assurances that it will be successful in managing foreign currency risk exposure, taking into consideration that appropriate foreign currency swaps and options may not be available as needed on the relevant financial markets. In recent years reported results of its Latin American operations have been adversely affected by changes in local currencies against the euro. In particular, in 2004 the strengthening of the euro against the local currencies in Latin America adversely affected the revenues of the Mobile Business Unit by €150 million.

Under IFRS, Telecom Italia's total gross financial debt as of 30th June, 2005 was €50,912 million, as compared to €43,627 million at year end 2004. This increase was mainly due to the Cash Tender Offer for TIM shares as part of the TIM Acquisition. In particular, on 28th January, 2005 in connection with this Tender Offer, Telecom Italia borrowed an additional €11.3 billion under a €12 billion Term Loan Facility, granted by a pool of Italian and international banks (€0.7 billion of Tranche A was partially cancelled at the time of drawdown). On 11th February, 2005, the remaining €2.3 billion of Tranche A was repaid in advance and cancelled, leaving €9 billion outstanding under the Term Loan Facility. Before the re-financing and amendment of the Term Loan Facility, which occurred on 1st August, 2005, interest on this debt was calculated by applying an average spread over EURIBOR of 0.55 basis points. As a result, Telecom Italia's total interest payable will increase in 2005 compared to 2004 and its exposure of total debt subject to floating interest rates has increased as well (for further information regarding events since 30th June, 2005 please refer to "Recent Developments" included under "Description of Telecom Italia").

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

Telecom Italia may not realise the benefits of its investment in its UMTS licence and related capital expenditures.

Telecom Italia, through TIM, has acquired a third generation mobile telephone, or UMTS, licence to commence operations of UMTS services in Italy. The Telecom Italia businesses then operating as TIM committed to pay €2,417 million for its licence, with €2,066 million paid in December 2000 and three instalments of €117 million paid in November 2001, November 2002 and December 2003. The size of the market for UMTS products and services is unknown and may fall short of the industry's expectations. Telecom Italia cannot be certain that the demand for such services will justify the related costs. It has made investments, although required under its licence, which may not be commercially desirable. In addition, there are a number of significant competitors in Italy offering these services including one competitor only offering third generation services, which entered the market prior to TIM third generation services being available.

TIM has made significant investments, in accordance with the terms and conditions of its licence, to create the infrastructure to offer UMTS services. The Telecom Italia businesses then operating as TIM commenced offering UMTS services in Italy in the second half of 2004 and it is not yet possible to assess the response of the market. Given the substantial costs of upgrading its existing networks to support UMTS and the uncertainty regarding the commercial adoption of UMTS, TIM may not be able to recoup its investment according to its estimates, if at all.

The mobile telecommunications market in Italy has matured and become saturated in recent years, and growth has slowed significantly, which means Telecom Italia's revenues may not grow as rapidly as in the past.

In recent years, Telecom Italia's consolidated revenues have grown or remained stable in large part because of the rapid growth in the mobile communications business, which has offset flat or declining revenues in its Italian fixed line business. This growth has been driven largely by the rapid expansion of the mobile telecommunications market in Italy. However, as a result of this growth, the Italian market is approaching saturation levels, with penetration rates now around 109 per cent. (due to many subscribers having more than one line). The domestic market share of the Telecom Italia businesses then operating as TIM declined in 2004 from approximately 46 per cent. in the past two years to 42 per cent. at the end of 2004. As a result, revenue growth is no longer driven by the rapid subscriber growth which TIM experienced in the 1998-2001 period. Offsetting this decline has been growth in international markets, particularly Brazil, but these markets on the whole are not yet profitable.

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

- the activities of Telecom Italia competitors, including consolidation, tariff reductions and handset subsidies;
- competitive pressures and regulations applicable to retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and their attractiveness to customers;
- the success of new disruptive technologies;
- customer usage habits;
- general economic conditions; and
- health risks or safety concerns associated with mobile telephones and transmission equipment.

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

Devaluations of telecom assets and write-downs could adversely affect Telecom Italia's financial condition and results of operations.

In recent years the market for telecom stocks and credit ratings of market participants, as well as Telecom Italia's ongoing review and refinement of its business plan, resulted in substantial impairment write-downs of its assets (in particular goodwill) which materially adversely affected its results of operations in 2001 and 2002. Although the negative impact of write-downs in 2003 and 2004 was much lower than in 2001 and 2002, there can be no assurance that similar events in the future may not result in further substantial impairment write-downs from assets.

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

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

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users' preferences;
- broadband penetration in Italy and other European countries does not grow as it expects;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that it can offer; and
- it experiences any network interruptions or related problems with network infrastructure.

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

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

As a result of the Merger and the TIM Acquisition Telecom Italia remains highly leveraged.

Under IFRS, Telecom Italia's gross financial debt was €50,912 million at 30th June, 2005 compared with €43,627 million at 31st December, 2004, and its total net financial debt was €44,111 million as of 30th June, 2005 compared with €32,862 million at 31st December, 2004. See "Telecom Italia Group — Summary Selected Financial Information and Statistical Operating Data — Financial information under IFRS as of and for the Six Months Ended 30th June, 2004 and 2005 — Note 3" which reconciles Telecom Italia's net financial debt to its gross financial debt. For further information regarding events since 30th June, 2005 please refer to "Recent Developments" included under "Description of Telecom Italia".

As described above, the increases in gross and net financial debt were mainly due to the Cash Tender Offer for the TIM shares. Telecom Italia is targeting reducing its net financial debt through:

- significant cash flow generation by its core businesses; and
- net proceeds from disposals used to reduce outstanding debt.

There can be no assurance that factors beyond Telecom Italia control, including but not limited to deterioration in general economic conditions, will not significantly affect its ability to generate cash to reduce debt or to refinance existing debt through further borrowing.

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

Telecom Italia's technical infrastructure (including its network infrastructure for fixed-line and mobile telecommunication services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at its facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of its services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm its reputation.

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

Various reports have alleged that certain radio frequency emissions from wireless handsets and transmission equipment may be linked to various health concerns and may interfere with various electronic devices. Telecom Italia cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future. Telecom Italia's mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability.

In addition, although Italian law already requires strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services.

Telecom Italia is obliged to adopt IFRS in 2005 which will impact its financial results and results of operations as IFRS differs in significant respects from Italian GAAP.

Until 31st December, 2004, Telecom Italia prepared its consolidated financial statements in accordance with Italian GAAP. In June 2002, the Council of Ministers and the Parliament of the EU adopted new regulations requiring all listed EU companies, including Telecom Italia, to apply IFRS (previously known as "International Accounting Standards" or "IAS") in preparing their consolidated financial statements from 1st January, 2005. Because Telecom Italia's consolidated financial statements prepared in accordance with IFRS differ from its consolidated financial statements prepared in accordance with Italian GAAP, the methods used by the financial community to assess its financial performance and value its publicly-traded securities could be affected.

Please see "Statements of reconciliation to International Financial Reporting Standards (IFRS) at 1st January, 2004, at 31st December, 2004 and for the year ended 31st December, 2004" included in Telecom Italia's First Quarter 2005 Report as well as Note 35 to Telecom Italia Group's consolidated financial statements at 30th June, 2005, "Impact of the application of IAS/IFRS", included in Telecom Italia's First Half 2005 Report, and the consolidated interim financial data of Telecom Italia as at and for the nine months ended 30th September, 2005 both incorporated herein by reference, for a more complete description of the expected impact of IFRS reporting on Telecom Italia's consolidated financial statements.

Risks associated with Telecom Italia's ownership chain.

Although, as a result of the Merger, no shareholder controlled Telecom Italia, because of the *voto di lista* system for the election of directors, currently 15 out of 20 of Telecom Italia directors (of whom, however, 11 are considered independent) were elected from a slate of candidates proposed by Olimpia, which is currently the largest shareholder in Telecom Italia. As a result of a series of transactions entered into by Olimpia, as of the date hereof, Olimpia holds 21.4 per cent. of Telecom Italia's ordinary shares. Upon completion of the merger in connection with the TIM Acquisition, Olimpia's stake in Telecom Italia was diluted back to approximately 18 per cent. on completion of the merger of TIM into Telecom Italia. Please see "Description of Telecom Italia — Overview".

In addition, Marco Tronchetti Provera and Carlo Orazio Buora, respectively Executive Chairman and Managing Director of Telecom Italia, are also, respectively, Chairman and Managing Director of Pirelli & C. S.p.A., which currently owns a 57.66 per cent. stake in Olimpia. Mr. Tronchetti Provera is Chairman of Olimpia and Mr. Buora is a member of Olimpia's board of directors. Please see "Directors, Executive Officers and Statutory Auditors — Description of Directors' outside interests".

Although Olimpia does not and will not own a controlling interest in Telecom Italia voting shares, Olimpia retains significant power as a result of its proposal of a majority of the present Telecom Italia Board members who were elected in May 2004. As a result, Olimpia may be able to influence certain corporate actions and may exert a significant influence on all matters to be decided by a vote of shareholders. In principle, the interests of Olimpia in deciding these matters could be different from the interests of Telecom Italia's other ordinary shareholders and it is possible that certain decisions could be taken that may be influenced by the needs of Olimpia.

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

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

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

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

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

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

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this EMTN Programme Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

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

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

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

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

Variable rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

Modification, waivers and substitution

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

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15 of the conditions of the Notes.

EU Savings Directive

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

Change of law

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

Integral multiples of less than €50,000

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- the audited consolidated and unconsolidated annual financial statements for the financial year ended 31st December, 2004 of Telecom Italia;
- the audited unconsolidated annual financial statements for each of the financial years ended 31st December, 2004 and 2003 of TI Finance;
- the audited consolidated annual financial statements for the financial year ended 31st December, 2003 of Telecom Italia;
- for information purposes only, the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January, 2004, at 31st December, 2004 and for the year ended 31st December, 2004;
- the consolidated and unconsolidated interim financial data of Telecom Italia as at and for the six months ended 30th June, 2005; and
- the consolidated interim financial data of Telecom Italia as at and for the nine months ended 30th September, 2005,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this EMTN Programme Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this EMTN Programme Prospectus. Any information not listed in the table below but included in the documents incorporated by reference is provided for information purposes only.

The Issuers and (in the case of Notes issued by TI Finance) the Guarantor will provide, without charge upon request, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Issuers or to the Guarantor at their respective offices set out at the end of this EMTN Programme Prospectus. In addition, such documents will be available free of charge at the principal office in Luxembourg of J.P. Morgan Bank Luxembourg S.A. for Notes admitted to trading on the Luxembourg Stock Exchange's regulated market and/or listed on the official list of the Luxembourg Stock Exchange and will be available on the website of the Luxembourg Stock Exchange: www.bourse.lu.

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

The following information from Telecom Italia's and TI Finance's annual reports is incorporated by reference, and the following cross-reference lists are provided to enable investors to identify specific items of information so incorporated:

<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31st December, 2003	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
	Balance sheet	pp. 202-203
	Income statement	pp. 204-205
	Statement of cash flows	p. 34
	Accounting policies	pp. 208-212
	Explanatory notes	pp. 206-264
	Independent Auditors' report	p. 266

<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>	
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31st December, 2004	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:		
	Balance sheet	pp. 212-213	
	Income statement	pp. 214-215	
	Statement of cash flows	p. 37	
	Accounting policies	pp. 218-223	
	Explanatory notes	pp. 216-280	
Telecom Italia's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2004	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:		
	Balance sheet	pp. 284-285	
	Income statement	pp. 286-287	
	Statement of cash flows	p. 54	
	Accounting policies	pp. 289-292	
	Explanatory notes	pp. 288-344	
Telecom Italia's Interim Consolidated Financial Statements for the Six Months Ended 30th June, 2005	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:		
	Balance sheet	p. 103	
	Income statement	p. 104	
	Statement of cash flows	p. 106	
	Telecom Italia's Interim Unconsolidated Financial Statements for the Six Months Ended 30th June, 2005	Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
		Balance sheet	pp. 237-239
Income statement		p. 240	
Statement of cash flows		p. 294	
Telecom Italia's Interim Consolidated Financial Statements for the Nine Months Ended 30th September, 2005		Financial information concerning Telecom Italia's assets and liabilities, financial position and profits and losses:	
		Balance sheet	p. 20
	Income statement	p. 12	
	Statement of cash flows	p. 28	

<u>Document</u>	<u>Information incorporated</u>	<u>Location</u>
TI Finance's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2004	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses.	
	Balance sheet	p. 6
	Income statement	p. 7
	Accounting policies	pp. 1-5
	Explanatory notes	pp. 13-24
	Independent Auditors' report	p. 25
TI Finance's Audited Unconsolidated Annual Financial Statements for the Financial Year Ended 31st December, 2003	Financial information concerning TI Finance's assets and liabilities, financial position and profits and losses.	
	Balance sheet	p. 4
	Income Statement	p. 5
	Accounting policies	pp. 11-12
	Explanatory notes	pp. 11-19
	Independent Auditors' report	p. 20

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent Global Note (a **Permanent Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for, Euroclear Bank S.A./N.V., 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 Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon 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 Final Terms or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

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

APPLICABLE FINAL TERMS

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

[Date]

TELECOM ITALIA S.p.A.

TELECOM ITALIA FINANCE, société anonyme

(having its registered office at 287-289, route d'Arlon L-1150 Luxembourg Grand Duchy of Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-76, 448)

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the EMTN Programme Prospectus dated [date] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the EMTN Programme Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the EMTN Programme Prospectus. The EMTN Programme Prospectus is available for viewing at www.telecomitalia.it and www.bourse.lu and copies may be obtained free of charge from the Issuer [or the Guarantor] at [its/their respective] registered office[s]. In addition, this EMTN Programme Prospectus will be available from the specified office of each of the Paying Agents.

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

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus⁽¹⁾ dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [current date] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [current date] and [original date]. Copies of such Prospectuses are available for viewing at www.telecomitalia.it and www.bourse.lu and copies may be obtained from the Issuer [or the Guarantor] at [its/their respective] office[s] as well as from the specified office of each of the Paying Agents.]

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

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

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

- | | |
|-----------------------|--|
| 1. (a) Issuer: | Telecom Italia S.p.A.
Telecom Italia Finance S.A. |
| (b) Guarantor: | Telecom Italia S.p.A. (in the case of Notes issued by TI Finance only) |
| 2. (a) Series Number: | [] |
| (b) Tranche Number: | [] |

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

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

3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount of Notes admitted to trading:
(a) [Series: []]
(b) [Tranche: []]
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations: []
[]
So long as the Notes are represented by a temporary Global Note or permanent Global Note, the Notes will be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradeable Amount (specified in Part B paragraph 9 below) in excess thereof.
(N.B. The minimum denomination must be €50,000 or a denomination in another currency provided that the value of such denomination when converted into euro amounts to at least €50,000)
7. (a) Issue Date: []
(b) Interest Commencement Date: []
8. Maturity Date: [Fixed rate - specify date/
Floating rate - Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Status of the Notes: [Senior/[Dated/Perpetual]]
[Status of the Guarantee: [Senior/[Dated/Perpetual]]]

[Date [Board] approval for issuance of Notes [and Guarantee] obtained:

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

14. Method of distribution:

[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions:

[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Rate(s) of Interest:

[] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition [Interest])

(b) Interest Payment Date(s):

[[] in each year up to and including the Maturity Date]/[specify other]
(N.B. This will need to be amended in the case of long or short coupons)

(c) Fixed Coupon Amount(s):

[] per [] 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 (ICMA) or [specify other]]

(f) Determination Date(s):

[] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]

(g) Other terms relating to the method of calculating interest for Fixed Rate Notes:

[None/Give details]

16. Floating Rate Note Provisions

[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Specified Period(s)/Specified Interest Payment Dates:

[]

(b) Business Day Convention:

[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]

(c) Additional Business Centre(s):

[]

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

[Screen Rate Determination/ISDA Determination/specify other]

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

[]

(f) Screen Rate Determination:

[]

Reference Rate:

(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)

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

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

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount 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 to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee])
21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

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

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

23. Early Redemption Amount 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 [Redemption and Purchase - Early Redemption Amounts]): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
 [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
 [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
(Ensure that this is consistent with the wording in the "Form of the Notes" section in the EMTN Programme Prospectus and the Notes themselves)
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]

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

DISTRIBUTION

31. (a) If syndicated, names of Managers: [Not Applicable/give names]
 (b) Stabilising Manager(s) (if any): [Not Applicable/give name(s)]
32. If non-syndicated, name of relevant Dealer: [Name]
33. Date of the underwriting agreement: [Date]
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]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €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 Final Terms.

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By: _____
Duly authorised

By: _____
Duly authorised]

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].]
[Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: []

2. RATINGS

The Notes to be issued have been rated:

[S & P: []]

[Moody's: []]

[[Other]: []]

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

3. NOTIFICATION

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

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

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

5. YIELD (*Fixed Rate Notes only*)

Indication of yield:

[]

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

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

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

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

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

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

8. OPERATIONAL INFORMATION

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

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

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

9. GENERAL

Tradeable Amount: []

(So long as the Notes are represented by a temporary Global Note, permanent Global Note or Global Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if there is more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the "Tradeable Amount" in excess thereof. Such Tradeable Amount must be specified here.)

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Telecom Italia S.p.A. (**Telecom Italia**) or Telecom Italia Finance S.A. (**TI Finance** and, together with Telecom Italia (in its capacity as an issuer), the **Issuers** and each an **Issuer**) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 2nd December, 2005 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 2nd December, 2005 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 Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

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

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

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the principal office for the time being of the Trustee being at 2nd December, 2005 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 Final Terms are available for viewing at www.telecomitalia.it and www.bourse.lu and copies may be obtained from the Issuer or (in the case of Notes issued by TI Finance) the Guarantor at their respective registered offices, as well as from the specified office of each of the Paying Agents, save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

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

1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. 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 Final Terms or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

2. STATUS OF THE NOTES AND THE GUARANTEE

2.1 Status of the Notes

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

2.2 Status of the Guarantee

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

3. RESTRICTIONS ON SECURITY INTERESTS

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

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

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

As used herein:

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

Permitted Encumbrance means:

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

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

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

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

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

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

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

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

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

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

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

Telecom Italia Group means Telecom Italia and its Subsidiaries.

4. MERGERS AND SIMILAR EVENTS

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

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

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

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

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest 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 Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

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

If interest is required to be calculated for a period other than a Fixed Interest Period, 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 (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

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

In these Conditions:

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

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

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest 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 Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

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

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

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

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

(b) Rate of Interest

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

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

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

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

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

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

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

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

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

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

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

(e) Notification of Rate of Interest and Interest Amounts

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

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

(f) Determination or Calculation by Trustee

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

(g) Certificates to be final

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

5.3 Interest on Dual Currency Interest Notes

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

5.4 Interest on Partly Paid Notes

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

5.5 Accrual of interest

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

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

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

a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

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

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

6.2 Presentation of definitive Notes, Receipts and Coupons

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

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

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

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

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

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

6.3 Payments in respect of Global Notes

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

6.4 General provisions applicable to payments

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

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

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

6.5 Payment Day

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

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

6.6 Interpretation of principal and interest

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

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

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

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

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

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

7.2 Redemption for tax reasons

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

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

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

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

such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

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

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

If Issuer Call is specified in the applicable Final Terms, the relevant Issuer may, having given (unless otherwise specified in the Final Terms) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. So long as the Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and/or listed on the official list of the Luxembourg Stock Exchange, such exchange will be informed once in each year of all Redeemed Notes and the aggregate principal amount of Notes outstanding. 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 Final Terms, upon the holder of any Note giving to the relevant Issuer not less than 15 nor more than 30 days' notice in accordance with Condition 14, the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

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

7.5 Early Redemption Amounts

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

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

7.6 Instalments

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

7.7 Partly Paid Notes

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

7.8 Purchases

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

7.9 Cancellation

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

7.10 Late payment on Zero Coupon Notes

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

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

8. TAXATION

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

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

For the avoidance of doubt, any withholding or deduction for or on account of *imposta sostitutiva* imposed following any amendment or supplement to or replacement of Decree No. 239 after the date on which agreement is reached to issue the first Tranche of the Notes shall not be an exception to the payment by Telecom Italia of the relevant additional amounts payable with respect to such Note, Receipt or Coupon, to the extent that the amount of such withholding or deduction exceeds the amount of *imposta sostitutiva* payable by Telecom Italia with respect to such Note, Receipt or Coupon pursuant to Decree No. 239 as amended and/or supplemented or superseded at the date on which agreement is reached to issue the first Tranche of the Notes.

Furthermore, no additional amount shall be payable by Telecom Italia with respect to any Note, Receipt or Coupon for or on account of *imposta sostitutiva* if the holder becomes subject to *imposta sostitutiva* after the date on which agreement is reached to issue the first Tranche of the Notes by reason of an amendment or supplement to or replacement of the list of countries which provide for a satisfactory exchange of information with Italy, according to Article 6 of Decree No. 239, as amended and/or supplemented or superseded as at the date on which agreement is reached to issue the first Tranche of the Notes; or

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

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

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

As used herein:

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

9. PRESCRIPTION

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

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

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

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

- (a) *Non-payment*: default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 10 days in the case of principal and 30 days in the case of interest; or
- (b) *Breach of other obligations*: the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and the failure continues for the period of 60 days next following the service by the Trustee on the relevant Issuer or (as the case may be) the Guarantor of notice requiring the same to be remedied; or
- (c) *Cross-default of Issuer or Guarantor*:
 - (i) any Capital Markets Indebtedness of the relevant Issuer or (in the case of Notes issued by TI Finance) the Guarantor in excess of €100,000,000 (or the equivalent thereof in other currencies) has to be repaid prematurely due to a default under its terms;

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

10.2 Enforcement

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

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

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. PAYING AGENTS

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

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

- (a) there will at all times be an Agent;

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

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

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

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

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

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

15.1 Meetings in respect of Notes issued by TI Finance

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

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

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

15.2 Meetings in respect of Notes issued by Telecom Italia

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

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

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

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

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

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

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

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

17. FURTHER ISSUES

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

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing law

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

19.2 Submission to jurisdiction

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

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

19.3 Appointment of Process Agent

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

USE OF PROCEEDS

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

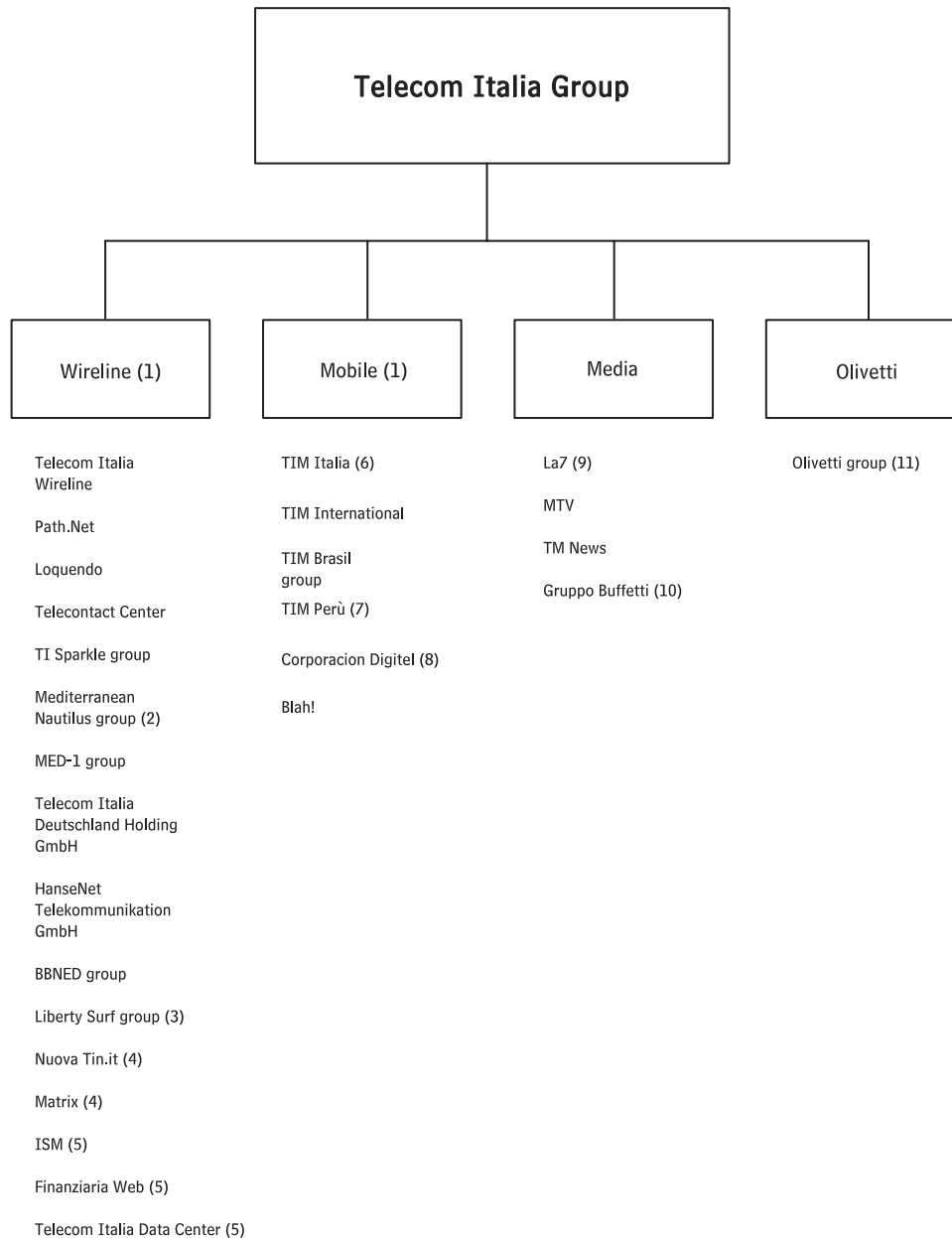
DESCRIPTION OF TELECOM ITALIA

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

The registered office and principal executive offices of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. Its telephone number is +39-02-85951.

Overview of the Telecom Italia Group's major business areas

Telecom Italia is the parent company of the Telecom Italia Group. The following chart presents the Telecom Italia Group's Business Units as of 30th September, 2005:



(1) On 5th October, 2005, the Board of Directors of Telecom Italia approved the "One Company" organisation model to manage the integration of the Telecom Italia's fixed and mobile platforms. This model replaces a model that employed separate Wireline and Mobile Business Units and responsibility for the development of the fixed telephony, mobile telephony and Internet services businesses is now contained in a single organisational unit. For further details please see "Recent Developments".

(2) On 5th July, 2005, Telecom Italia and Telecom Italia International purchased from FTT Investments B.V. a 30 per cent. shareholding in Mediterranean Nautilus S.A. On the same date, FTT Investments B.V. purchased from Mediterranean Nautilus S.A. a 30 per cent. shareholding in Elettra S.p.A. Furthermore, on 8th July, 2005, Mediterranean Nautilus S.A. purchased 49 per cent. of MED Nautilus Ltd. from the minority shareholders. For further details please see "Recent Developments".

- (3) On 31st May, 2005, an agreement between Telecom Italia and Tiscali was executed for the purchase of Tiscali's investment in Liberty Surf Group S.A. Consequently, Telecom Italia launched on the French market a public tender offer and subsequently a public withdrawal offer on Liberty Surf Group S.A. shares. For further details please see "Recent Developments".
- (4) On 4th April, 2005, the Boards of Directors of Telecom Italia and Telecom Italia Media authorised the restructuring of the Telecom Italia Group's Internet business. As a result of this, on 1st June, 2005, Telecom Italia acquired all of Telecom Italia Media's Internet activities (Tin.it and Matrix).
- (5) On 5th October, 2005, the Board of Directors of Telecom Italia concluded the approval process (begun on 8th September, 2005) for the merger through incorporation into Telecom Italia of the 100 per cent. controlled subsidiaries Telecom Italia Data Center S.r.l., ISM S.r.l. and Finanziaria Web S.p.A. These operations should be finalised by the end of 2005. For further details, please see "Recent Developments".
- (6) On 24th February, 2005, TIM proceeded to spin-off the corporate operations relating to the domestic mobile communications business to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on 1st March, 2005. The merger of TIM S.p.A. with and into Telecom Italia took effect on 30th June, 2005.
- (7) On 10th August, 2005, Telecom Italia, through its subsidiary TIM International N.V., completed the disposal of 100 per cent. of the share capital of TIM Perù S.A.C. to Sercotel S.A. de C.V. For further details please see "Recent Developments".
- (8) As regards Corporacion Digitel, on 21st November, 2004, stock purchase agreement for its sale was executed by and between TIM International and CANTV (Compania Anonima Nacional Teléfonos de Venezuela). On 5th May, 2005, regulatory authorities in Venezuela decided not to grant authorisation for the proposed sale. Following this decision, TIM International on 25th May, 2005, sent a termination notice to CANTV in order to finally terminate, between the parties, the Stock Purchase Agreement and all the agreements related thereto. However, Telecom Italia continues to intend to sell Corporacion Digitel.
- (9) On 3rd October, 2005, the Board of Directors of Telecom Italia Media approved the merger by incorporation of La7 Televisioni S.p.A. into Telecom Italia Media S.p.A. This merger will become effective during December 2005. For further details please see "Recent Developments".
- (10) On 26th September, 2005, Telecom Italia Media entered into an agreement with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. regarding the sale of its 100 per cent. stake in the Gruppo Buffetti S.p.A. For further details please see "Recent Developments".
- (11) On 5th April, 2005, Olivetti Tecnost S.p.A. was renamed Olivetti S.p.A.

Furthermore, it is important to note that:

- the operating activity, IT Group, is no longer characterised as a Business Unit, as it is now included in the Wireline Business Unit and in Other Activities following the merger of IT Telecom in Telecom Italia, which took place at the end of 2004;
- Entel Bolivia is included in Other Activities; on 19th July, 2005, Telecom Italia International N.V. signed a preliminary agreement for the sale of its stake in Entel Bolivia (for further details please see "Recent Developments").

Overview

On 18th July, 1997, Old Telecom Italia's predecessor company was merged with and into Società Finanziaria Telefonica—per Azioni (**STET**), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to "Telecom Italia S.p.A.". In November 1997, the Ministry of the Treasury of the Republic of Italy (the **Ministry of the Treasury**) completed the privatisation of Telecom Italia, selling substantially all of its shareholding in the Old Telecom Italia through a global offering and a private sale to a stable group of shareholders.

On 21st May, 1999, Olivetti obtained control of the Old Telecom Italia Group through a tender offer, whereby Olivetti acquired approximately 52.12 per cent. of the outstanding ordinary shares of Old Telecom Italia. Through a series of transactions which started in July 2001, Olimpia S.p.A. (**Olimpia**) acquired a 28.7 per cent. shareholding in Olivetti and effected 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 interests in Old Telecom Italia's ordinary and savings share capital.

On 4th August, 2003, Old Telecom Italia merged with and into Olivetti (the **Merger**). Olivetti, as the surviving company, changed its name to "Telecom Italia S.p.A.". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Olimpia or Pirelli & C. S.p.A. (**Pirelli**), Olimpia's largest shareholder, increased substantially to approximately 88.43 per cent. of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the TIM acquisition, as described immediately hereafter, Olimpia held approximately 17 per cent. of Telecom Italia's Ordinary Shares, making it the largest shareholder of Telecom Italia. Pursuant to the TIM acquisition, in January 2005 Telecom Italia completed a partial cash tender offer for two thirds of TIM ordinary share free float and all of TIM savings shares and on 20th June, 2005, Telecom Italia and TIM signed the merger deed. The merger of TIM S.p.A. (**TIM**) with and into Telecom Italia took effect on 30th June, 2005 (the **TIM Acquisition**).

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

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

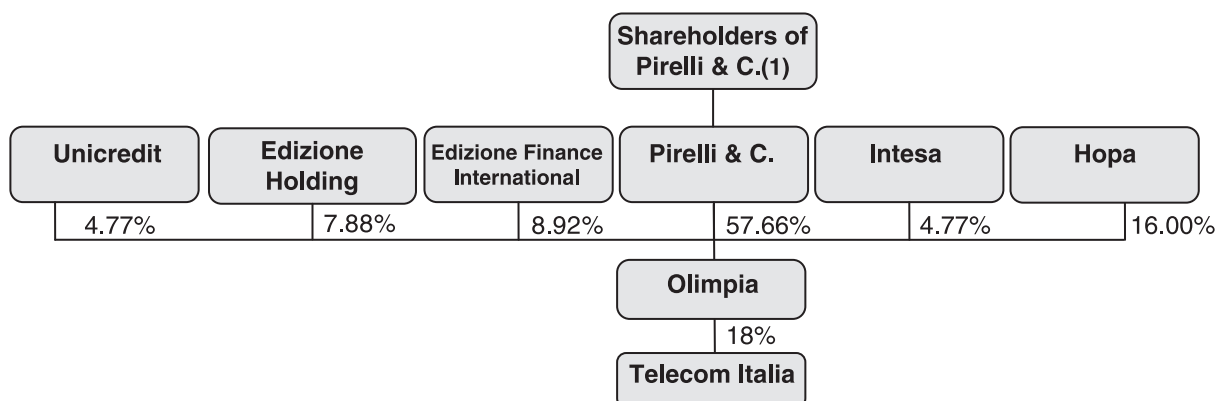
The share capital of Olimpia is presently held by Pirelli, Edizione Holding S.p.A., Edizione Finance International S.A., UniCredito Italiano S.p.A., Banca Intesa S.p.A. and Hopa S.p.A. (**Hopa**) in the following respective proportions: 57.66 per cent., 7.88 per cent., 8.92 per cent., 4.77 per cent., 4.77 per cent. and 16 per cent..

According to publicly available filings with Consob, as of 1st June, 2005, the shareholders of Pirelli with a 5 per cent. shareholding or greater in Pirelli's voting capital were Camfin CAM Finanziaria S.p.A. (25.387 per cent.) and Assicurazioni Generali S.p.A. (5.251 per cent.). Shareholders of Camfin CAM Finanziaria S.p.A. with a 5 per cent. shareholding or greater in the voting capital of the company included Mr. Marco Tronchetti Provera (through Gruppo Partecipazioni Industriali S.p.A. (50.180 per cent.)) and Mr. Carlo Acutis (through Vittoria Assicurazioni S.p.A. (4.648 per cent.) and Yura International Holding BV (4.649 per cent.)).

In January 2004, Hopa announced it had acquired a shareholding then equal to 3.367 per cent. of Telecom Italia's Ordinary Shares, held, in part, directly (13,203,484 Ordinary Shares) and in the remaining part through Holinvest S.p.A. ("Holinvest"), a company owned by Hopa (80.001 per cent.) and Olimpia (19.999 per cent.). On 15th April, 2004, Holinvest exchanged with JPMorgan Ltd. 95,606,875 of Telecom Italia's convertible bonds for 46,343,969 Ordinary Shares.

As of 7th April, 2005 (when Telecom Italia annual shareholders' meeting took place), Hopa, directly and through Holinvest, owned 451,364,703 Ordinary Shares (equal to 4.02 per cent. of the outstanding Ordinary Shares), while Pirelli directly owned 47,155,300 Ordinary Shares.

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



(1) Shareholders of Pirelli with a 5 per cent. shareholding or greater in the voting capital of the company include: Camfin CAM Finanziaria S.p.A. (25.387 per cent.) and Assicurazioni Generali (5.251 per cent.).

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

In its domestic Italian market, the Telecom Italia Group is both a technological and market leader in the fastest-growing market segments (mobile, broadband and data transmission). Its international operations are concentrated mainly in Latin America, Europe and the Mediterranean basin.

In particular, at 30th September, 2005, the Telecom Italia Group was one of the world's largest fixed telecommunications operators, with approximately 25.4 million subscriber fixed-lines installed (including ISDN equivalent lines). In addition, through TIM Italia, the company which resulted from the spin-off of the domestic mobile activity of TIM, the Telecom Italia Group is the leading mobile operator in Italy, with approximately 27.3 million lines. At 30th September, 2005, the Telecom Italia Group also had approximately 18.3 million lines outside of Italy, held through its subsidiaries, for a total of 45.6 million lines worldwide (excluding the lines of the consolidated companies considered as discontinued operations/assets held for sale).

TIM Italia S.p.A. is one of the three mobile operators licensed to provide services using GSM 900 technology in Italy and one of the three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of five operators (of which four currently operate) holding a UMTS licence to provide third-generation telephony services in Italy.

RECENT DEVELOPMENTS

The Italian Antitrust Authority has begun an investigation into Telecom Italia's mobile business, Vodafone and Wind

At its meeting on 23rd February, 2005, the Italian Antitrust Authority resolved to commence an investigation of TIM, Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A., to ascertain whether they had violated articles 81 and/or 82 of the EC Treaty.

The investigation followed complaints by a number of telecommunications operators, alleging that Telecom Italia (then operating as TIM), Vodafone and Wind had abused their dominant position in the market for access to the cellular telephone infrastructure network and the individual mobile networks termination market, and had refused to conclude agreements (as described below) on the access market, the final mobile telephony services market and in commercial offerings for their business customers.

First, it is alleged that Telecom Italia (then operating as TIM), Vodafone and Wind, which together hold a dominant position over network infrastructure, had refused to negotiate access agreements with the purpose of preventing entry to the mobile communications services retail market by any alternative operators, including MNVO (Mobile Virtual Network Operators), ESP (Enhanced Service Providers) and Resellers. Moreover it is alleged that such conduct, performed homogeneously and simultaneously by all three mobile telephony operators against all the applicant operators, might also constitute an anti-competitive agreement.

Secondly, the investigation will examine the alleged cases of abuse by Telecom Italia (then operating as TIM), Vodafone and Wind, each of which has a dominant position over its own mobile network, whereby they allegedly charge their competitors higher prices for their landline-mobile termination services than those charged to their own business customers for the entire integrated landline-mobile service. More specifically, Telecom Italia (then operating as TIM), Vodafone and Wind are alleged to engineer favourable financial or technical conditions for their own commercial divisions for the sale of terminal services that are designed to exclude their competitors from the business customer integrated services market, which would be in violation of article 82 of the EC Treaty.

Lastly, the three mobile operators have allegedly engaged in commercial practices designed to prevent telecommunications operators from using business contract resell services to their end customers, thereby preventing any competition on the mobile services retail market. The conduct allegedly has the same effects of excluding competition and, allegedly, such conduct by all three companies could be the result of an agreement to restrict competition.

It is alleged that this conduct is prejudicial to trade among the member states of the European Community by virtue of the fact that it affects a substantial part of the common market, and for that reason violates articles 81 and/or 82 of the EC Treaty.

The investigation procedure by the Italian Antitrust Authority has commenced; in particular, on 6th June, 2005, the hearing of TIM before the Italian Antitrust Authority took place. The investigation of these three companies will be concluded by 28th April, 2006.

Privatisation of Turk Telekom

On 1st July, 2005, Oger Telecoms Joint Venture Group, a newly created joint venture organised with the participation of (i) Oger Telecom, in which Telecom Italia Group and Saudi-Lebanese group Saudi Oger Limited will hold shares, and, (ii) Saudi Oger Limited, won the tender conducted by the Privatisation Administration of the Republic of Turkey, with an offer of U.S.\$6,550 million for the privatisation of a majority stake (55 per cent.) in the Turkish telecommunications operator, Turk Telekom. The Telecom Italia Group – through TIM International – will initially invest U.S.\$200 million in Oger Telecom. The partnership between the Telecom Italia Group and Saudi Oger Limited will be mainly focused on the mobile telephony business, because Oger Telecom will continue its cooperation in fixed-line telephony with BT Telconsult. Once the closing of the privatisation takes place, Telecom Italia and Saudi Oger Limited intend to sign a four-year Technical Assistance Agreement with Avea, the Turkish mobile operator in which TIM International has a 40.6 per cent. stake, Turk Telekom has a 40.6 per cent. stake and IsBank, a Turkish bank, has an 18.8 per cent. stake.

The agreements with Saudi Oger Limited provide TIM International with various contingent rights to sell its stake in Avea, principally for shares in Oger Telecom. The total valuation of Avea shares held by TIM International, which was initially agreed to be a range of between U.S.\$400 million and U.S.\$600 million, has now been fixed at U.S.\$500 million.

A listing of Oger Telecom on the Dubai DIFX stock exchange is expected to take place in the next three years, with the possibility for TIM International to participate pro rata in the initial placement. Saudi Oger Limited has agreed to grant TIM International a put option to sell to Saudi Oger Limited the Oger Telecom shares which TIM International may receive for the sale of its Avea shares plus U.S.\$50 million worth of additional Oger Telecom shares subscribed for in the initial transaction if Oger Telecom is not listed on the terms provided. In turn, if this put option is not exercised by TIM International, Saudi Oger Limited can exercise a call option on the same shares.

Med Group Reorganisation

In July 2005, the Telecom Italia Group executed the agreement reached last December with the minority shareholders of Med Nautilus S.A., Med Nautilus Ltd and Med 1. The agreement was negotiated to resolve certain conflicts regarding the put option held by Med Nautilus S.A. and Telecom Italia/Telecom Italia International, respectively, on 49 per cent. of Med Nautilus Ltd and Med 1 shares, and to resolve the arbitration proceedings set in motion in Luxembourg by the Fishman group (FTT) aimed at recovering sums paid to Telecom Italia International in 2000 for the purchase of a 30 per cent. stake in Med Nautilus S.A. As a result of the agreement, which allows Telecom Italia Group to strengthen its presence in the sector of IP services and wholesale data in the East Mediterranean, Telecom Italia and Telecom Italia International now hold 100 per cent. stakes in Med Nautilus Ltd (through Med Nautilus S.A.) and Med 1. Concurrently, non-strategic activities were sold relating to certain local Israeli operations, today managed by the same Med Nautilus Ltd and Med 1 (for the latter, the entire investment in Med 1 IC-1 (1999) Ltd was sold). Furthermore, the Fishman group, in disposing of its investment in Med Nautilus S.A., acquires a 30 per cent. stake in the subsidiary Elettra S.p.A. Overall, the agreement entailed a net disbursement of €49 million.

Agreement for the sale of Entel Bolivia

On 19th July, 2005, International Communication Holding N.V. (ICH), 100 per cent.-owned by Telecom Italia International N.V., signed a preliminary agreement of sale with Cooperativa de Telecomunicaciones de Santa Cruz Cotas Ltda (Cotas), for the sale of its 100 per cent. interest in Euro Telecom International N.V. (ETI), which holds 50 per cent. of the share capital of Empresa Nacional de Telecomunicaciones S.A. (Entel Bolivia).

The signing of the contract between ICH and Cotas is subject to the execution of certain conditions, including a significant reimbursement of capital by Entel Bolivia. With regard to the reimbursement, an Extraordinary Shareholders' Meeting of Entel Bolivia on 20th September, 2005, approved payment of Bolivians 3,202,247,000 (ETI's share is Bolivians 1,601,123,500). The procedure for the reimbursement of capital was recently finalised and, on 28th October, 2005, ETI received its share of the capital reimbursement equal to U.S.\$198.2 million or €162.9 million.

Acquisition of a further stake in Liberty Surf Group S.A.

After finalising the purchase of the 94.89 per cent. investment held by Tiscali in Liberty Surf Group S.A., a leading internet service provider operating on the French market, Telecom Italia, in accordance with the requirements of the French law, launched a takeover bid between 21st July, 2005 and 8th August, 2005 for the

remaining capital of Liberty Surf Group S.A. at a price of €2.78 per share. At the end of that period, 2,920,719 shares were acquired for an outlay of €8,120 thousand. After this transaction, Telecom Italia came to hold 92,242,963 shares representing 97.99 per cent. of Liberty Surf Group S.A.'s share capital. In September 2005, Telecom Italia launched a further takeover bid for all the shares of Liberty Surf Group S.A. that were not yet owned directly and not held by Liberty Surf Group S.A., again for a price of €2.78 per share. It acquired 243,225 shares, representing 0.26 per cent. of Liberty Surf Group S.A.'s share capital for €676 thousand.

This transaction was followed by a squeeze-out, as provided by French law, for the remaining 1,588,126 Liberty Surf Group S.A. shares at €2.78 per share, representing 1.68 per cent. of its share capital, for which a deposit of €4,415 thousand was made at BNP Paribas.

After these transactions, Telecom Italia owns 94,074,314 Liberty Surf Group S.A. shares, which equals 99.93 per cent. of its share capital. Liberty Surf Group S.A. holds treasury stocks for the remaining 0.07 per cent. of capital.

Refinancing and amendment of the Term Loan related to the Cash Tender Offer for TIM shares

On 1st August, 2005, an anticipated partial refinancing as well as the amendment of the Term Loan signed in December 2004 for the purpose of the cash tender offer for TIM shares were concluded. In particular, Tranche B of this loan, equal to €6 billion, maturing in January 2008, has been converted into a new revolving loan in the same amount with a lengthening of its maturity to 2012, and more favourable conditions.

Tranche C, in the amount of €3 billion, maturing January 2010, has been changed only by reducing its margin from 0.70% to 0.275%, in order to reflect the new and more favourable conditions in the syndicated loan market.

Term Loan for TIM Tender Offer

On 20th October, 2005, €1.5 billion of the revolving loan of €6 billion maturing in 2012 was repaid. The amount of the loan that remains utilised is €4.5 billion. As a result of this repayment (which was made with a portion of the liquidity accumulated during the course of the year) commitments of €1.5 billion were cancelled on the unutilised portion of the loan of €6.5 billion maturing in 2007, as a result of which the total amount available is now €5 billion.

Agreement for the purchase of Tiscali International fibre optic network

On 2nd August, 2005, Telecom Italia Sparkle and Tiscali reached an agreement for the purchase by Telecom Italia Sparkle of the fibre optic network of Tiscali International Network SAS (**TINet SAS**), for a total consideration of €8 million.

TINet SAS, a subsidiary of Tiscali, owns 15,000 km of fibre optic cable covering 12 European countries.

The transaction, which has received approval by the competent authorities, does not include the disposal of IP and VoIP (Voice over IP) international and national networks, which are controlled by Tiscali International Network B.V.

Sale of TIM Perù

On 10th August, 2005, Telecom Italia, through its subsidiary TIM International N.V., disposed of 100 per cent. of the share capital of TIM Perù S.A.C. to Sercotel S.A. de C.V., a subsidiary of America Movil S.A. de C.V., for a consideration of approximately €329 million. At the consolidated level, this disposal gave rise to a capital gain of €120 million and a reduction of net financial debt of over €400 million.

The disposal of the activities of TIM Perù is consistent with the Telecom Italia Group's strategy of rationalising its international portfolio, concentrating on countries with a high rate of growth and where there is potential to exploit the benefits of fixed-mobile platform convergence.

New notes issued for a total amount of U.S.\$2.5 billion

On 21st September, 2005, Telecom Italia announced that Telecom Italia Capital S.A. concluded the launch of U.S.\$2.5 billion notes guaranteed by Telecom Italia, divided into three tranches:

- 5-year floating-rate notes in the principal amount of U.S.\$400 million, with a quarterly coupon indexed to the 3-month U.S.\$ LIBOR + 0.48 per cent., issue price of 100 per cent. of the principal amount, maturing on 1st February, 2011;

- 5-year fixed-rate notes in the principal amount of U.S.\$700 million, with an annual fixed-rate coupon of 4.875 per cent., issue price of 99.898 per cent. of the principal amount, maturing on 1st October, 2010. The annual effective yield upon maturity is 4.958 per cent., corresponding to a yield of 91 basis points over the corresponding U.S. treasury notes; and
- 10-year fixed-rate notes in the principal amount of U.S.\$1,400 million, with an annual fixed-rate coupon of 5.25 per cent., issue price of 99.370 per cent. of the principal amount, maturing on 1st October, 2015. The annual effective yield upon maturity is 5.403 per cent., corresponding to a yield of 116 basis points over the corresponding U.S. treasury notes.

The issuance of U.S.\$2.5 billion in notes, the first under the U.S.\$10 billion Shelf Registration Program filed with the SEC in August 2005, aims to refinance debt maturities and diversify the currency and investor base of Telecom Italia's notes. The issuance will also allow the Group to reduce its average cost of debt.

Settlement of the issuance took place on 28th September, 2005.

Agreement for the sale of the Buffetti Group

On 26th September, 2005, Telecom Italia Media signed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of its 100 per cent. stake held in Gruppo Buffetti S.p.A. The sale is based upon an enterprise value of the company equal to €77.5 million. The execution of the sale, scheduled to take place by the end of 2005, is subject to completion of all the procedures with the relevant agencies of the sector.

Merger by incorporation of La7 Televisioni into Telecom Italia Media

On 3rd October, 2005, the Board of Directors of Telecom Italia Media approved the merger by incorporation of La7 Televisioni S.p.A. into Telecom Italia Media S.p.A.

As announced on 6th September, 2005, this is the final step in Telecom Italia Media's restructuring plan. Through the merger, Telecom Italia Media will be able to rationalise its capital structure and complete its strategy of focusing on its core media business, while at the same time achieving efficiency gains in its holding company structure and simplifying operational, administrative and corporate management processes. Once the merger is complete, Telecom Italia Media will hold direct control over MTV Italia and Telecom Italia Media Broadcasting, which is currently owned by La7 Televisioni.

The merger, which was also approved by the Board of Directors of La7 Televisioni on 3rd October, 2005, will not result in any changes to Telecom Italia Media's company bylaws, nor will it entail an increase in Telecom Italia Media's share capital, as Telecom Italia Media already holds 100 per cent. of La7 Televisioni's shares, which will be subsequently cancelled without exchange, as a result of the merger.

The merger will become effective during December 2005.

Merger by incorporation of Telecom Italia Data Center, ISM and Finanziaria Web into Telecom Italia

On 5th October, 2005, the Board of Directors of Telecom Italia concluded the approval process (begun on 8th September, 2005) for the merger through incorporation into Telecom Italia of the 100 per cent.-controlled subsidiaries, Telecom Italia Data Center S.r.l., ISM S.r.l. and Finanziaria Web S.p.A.

This initiative continues the process of restructuring the IT segment as well as the reorganisation of the internet sector. The reorganisation has been achieved through (a) the incorporation of the Group's cross-sector assets (essentially IT Telecom S.r.L. and TIM Italia data centres) and (b) the shortening of the control chain of Matrix S.p.A. (the entire capital of which is divided between ISM and Finanziaria Web), giving it more direct influence over the activities of the Virgilio portal which it manages.

Completion of the transaction (which will not require a capital increase by Telecom Italia, the incorporating entity) is expected by the end of 2005.

Telecom Italia approved the "One Company model" to manage the integration of the fixed and mobile platforms

On 5th October, 2005, the Board of Directors of Telecom Italia decided to accelerate the process launched in December 2004, and approved a totally integrated business model designed to ensure the best possible service to customers, in accordance with enforced regulations.

Changes in the demand for telecommunications services, increased competitive pressure and technological innovations are progressively erasing the traditional distinctions between fixed and mobile business areas.

Consequently, the Telecom Italia Group has long seen a strategy of convergence as the means of developing a competitive advantage which is sustainable in the long term and of achieving its targets of growth and profitability. The Group, driven by the unified management of network infrastructures, systems and computer applications, will develop integrated offers and seek to deliver efficiency gains. Furthermore, the sharing of points of excellence already existing within the Group and the unified areas of marketing and commercial policies is expected to lead to improved competitive positions for the Group in the fixed and mobile businesses. At the same time, the rationalisation of costs/investments is expected to create conditions necessary for an increase in the activities of Research and Development and technological innovation, therefore putting the potential benefits of new technologies at the disposal of Italy.

The resulting “One Company” organisational model replaces a model that employs separate Wireline and Mobile Business Units; thereby converging responsibility for the development of the fixed telephony, mobile telephony and Internet services businesses into a single organisational unit. The unified management of the business, as well as the unified management of the corporate structure, will take effect immediately.

In the new “One Company” model, responsibilities are divided as follows:

- the Chief Executive Officer, Riccardo Ruggiero, will be responsible for Operations with the aim of guaranteeing the management and development of the business;
- the Chief Executive Officer, Carlo Buora, will be responsible for the activities of direction and control connected with the business, as well as overseeing all cross-over business activities; and
- the Chairman, Marco Tronchetti Provera, will coordinate the activities of the Chief Executive Officers as well as defining, together with them, strategies regarding the Group’s general direction and development policies. He will have direct responsibility for institutional affairs, communication and image and investor relations.

The Board of Directors of Telecom Italia accepted the resignation of the company’s Chief Executive Officer, Marco De Benedetti, from all operational activities in the Group. However, Mr. De Benedetti, given his broad and widely acknowledged competence in the telecommunications sector, will continue to contribute as an adviser to the Chairman.

Completion of the exchange offer by Telecom Italia Capital

On 12th October, 2005, Telecom Italia Capital completed an exchange offer in respect of debt securities issued on 6th October, 2004 (not registered with the SEC) in a total amount of U.S.\$3.5 billion, which were unconditionally guaranteed by Telecom Italia and divided into three tranches (i.e., the Notes due 2010, the Notes due 2014 and the Notes due 2034, together the **unregistered notes**). The unregistered notes were exchanged into newly-issued debt securities registered with the SEC pursuant to the Securities Act, which have the same terms and conditions as those of the unregistered notes.

By the end of the exchange offer period, U.S.\$3,498,520,000 of the unregistered notes (U.S.\$1,248,845,000 as to the Notes due 2010, U.S.\$1,249,675,000 as to the Notes due 2014 and U.S.\$1,000,000,000 as to the Notes due 2034) had been exchanged, representing approximately 99.96 per cent. of the nominal amount of the unregistered notes.

Telecom Italia Group results for the nine months ended 30th September, 2005

On 8th November, 2005, the Telecom Italia Board of Directors approved the consolidated interim financial data of Telecom Italia as of and for the nine months ended 30th September, 2005. This financial data, including data for periods presented for comparison purposes, has been prepared in accordance with IFRS issued by the IASB and approved by the European Union (“EU GAAP”), as provided by article 82 of the Regulation for Issuers No. 11971 issued by Consob on 14th May, 1999, and subsequent amendments and additions.

Consolidated net income of the Telecom Italia Group for the first nine months of 2005 was €2,625 million (€3,056 million before minority interests); in the first nine months of 2004, the consolidated net income of the Telecom Italia Group was €1,677 million (€2,415 million before minority interests).

The increase in the consolidated net income of the Telecom Italia Group (+€948 million or +56.5 per cent.) was due to the following factors:

- improvement in operating income (+€125 million);
- a lower share of earnings of equity investments in associated companies accounted for by the equity method (-€61 million);
- lower financial expenses, net of financial income (€116 million). In particular, in the first nine months of 2005, financial income included the release of reserves booked in respect of sureties issued to banks which had financed the associated company AVEA (as there is no longer a risk following the cancellation of part of the guarantees (€423 million)), and higher financial expenses due to the increase in financial debt connected with the cash tender offer for TIM shares;
- higher income taxes of €45 million;
- higher net income from discontinued operations/assets held for sale of €506 million, including €410 million relating to the net gain realised on the sale of TIM Hellas and €120 million relating to the net gain realised on the disposal of TIM Perù; and
- lower minority interests in net income (€307 million), particularly as a result of TIM Acquisition through which TIM became a wholly-owned subsidiary of Telecom Italia.

Capital expenditures totalled €3,202 million, which represented an increase of €200 million compared to the first nine months of 2004.

Net financial debt amounted to €42,020 million at 30th September, 2005, with an increase of €9,158 million compared to €32,862 million at the end of 2004. The debt increase was mainly due to the takeover of TIM and other acquisitions of TIM shares (€13,832 million) and dividend payments (€2,328 million), which were partly offset by the partial conversion of the 2001/2010 Bond (approximately €1,700 million) as well as by the disposal of non-strategic equity investments (€3,182 million) and net cash flow generated during the first nine months of 2005.

Further details on the Telecom Italia Group results for the first nine months of 2005 are available on the corporate website <http://www.telecomitalia.it>.

Plan of merger of TIM Italia with and into Telecom Italia

On 8th November, 2005, the Telecom Italia Board of Directors implemented the organisational decisions taken on 5th October, 2005, approving, on the basis of the company's balance sheet at 30th September, 2005, the plan to merge TIM Italia with and into Telecom Italia.

Considering that TIM Italia is totally controlled by Telecom Italia, the merger will be deliberated by the respective Boards of Directors and will not involve a share exchange.

BUSINESS UNITS

Key financial data under IFRS for the six-month periods ended 30th June, 2004 and 2005

In all periods presented, the Entel Chile group (disposed of in March 2005), the Finsiel group and TIM Hellas (both disposed of during the month of June 2005) and Corporacion Digitel (classified as assets held for sale) have been treated as discontinued operations.

In particular, in the first half of 2005:

- the statement of operations of Entel Chile group was included for the first three months of 2005, as the company was sold at the end of March 2005;
- the statement of operations of TIM Hellas was included for the first five months of 2005, as the company was sold at the beginning of June 2005; and
- the statement of operations of the Finsiel group was included for the first six months of 2005, as the group was disposed of during the month of June 2005.

The table below sets forth certain key financial data under International Financial Reporting Standards (IFRS) for each Business Unit for the six-month periods ended 30th June, 2005 and 2004 and for the year ended 31st December, 2004:

	<u>Period</u>	<u>Wireline (1)(2)</u>	<u>Mobile</u>	<u>Media⁽¹⁾</u>	<u>Olivetti⁽³⁾</u>	<u>Other activities (2)(4)</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
		<i>(Unaudited)</i>						
		<i>(millions of euro, except number of employees)</i>						
Revenues	2005 first half ⁽⁵⁾	8,844	6,248	154	223	808	(1,585)	14,692
	2004 first half ⁽⁵⁾⁽⁶⁾	8,658	5,651	157	298	844	(1,640)	13,968
	Year 2004 ⁽⁵⁾⁽⁶⁾	17,431	11,875	295	590	1,635	(3,253)	28,573
EBITDA	2005 first half ⁽⁵⁾	3,965	2,827	(43)	2	(220)	(12)	6,519
	2004 first half ⁽⁵⁾⁽⁶⁾	3,908	2,586	(22)	20	(140)	1	6,353
	Year 2004 ⁽⁵⁾⁽⁶⁾	7,809	5,451	(56)	28	(335)	5	12,902
Operating income	2005 first half ⁽⁵⁾	2,528	1,910	(62)	(6)	(408)	27	3,989
	2004 first half ⁽⁵⁾⁽⁶⁾	2,506	1,844	(35)	12	(293)	(278)	3,756
	Year 2004 ⁽⁵⁾⁽⁶⁾	4,756	3,841	(90)	17	(715)	(212)	7,597
Capital expenditures . . .	2005 first half ⁽⁵⁾	1,428	609	23	8	117	(4)	2,181
	2004 first half ⁽⁵⁾⁽⁶⁾	1,104	609	14	8	176	(19)	1,892
	Year 2004 ⁽⁵⁾⁽⁶⁾	2,267	2,325	41	15	393	—	5,041
Number of employees	As of 30th June, 2005 ⁽⁵⁾	54,637	19,013	1,039	1,809	5,899	—	82,397
	As of 30th June, 2004 ⁽⁵⁾⁽⁶⁾	54,423	17,473	1,207	2,289	6,699	—	82,091
	As of 31st December, 2004 ⁽⁵⁾⁽⁶⁾	53,428	18,034	1,228	2,108	6,001	—	80,799

(1) On 1st June, 2005, Telecom Italia acquired all of Telecom Italia Media's Internet activities (Tin.it and Matrix); as a result of this, the Internet activities are included in the Wireline Business Unit for all periods presented, while they have been considered as discontinued operations in the Media Business Unit.

(2) The operating activity, IT Group, is no longer presented since it is now included in the Wireline Business Unit and in Other Activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.

(3) On 5th April, 2005, Olivetti Tecnost S.p.A. changed its name to Olivetti S.p.A.

(4) Other activities are principally constituted by the functions and by the companies which provide centralised services to the Group (R&D, real estate, training, audit and financial services) as well as the Corporate Functions. Furthermore, "Other activities" comprise the foreign activities not included in the Business Units (the consolidated subsidiary Entel Bolivia and the associates Telecom Argentina and Brasil Telecom).

(5) All financial data exclude those relating to the consolidated companies considered as discontinued operations / assets held for sale.

(6) The data relating to the six months ended 30th June, 2004 and the year ended 31st December, 2004 have been reclassified and presented consistent with the first half of 2005 presentation.

As of 30th June, 2005, the Telecom Italia Group Business Units were the following:

Wireline

The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services for final (retail) customers and other (wholesale) providers. On an international level, Wireline develops fibre optic networks for wholesale customers (in Europe and in South America) and offers innovative broadband services in the most interesting metropolitan areas of Germany, France and The Netherlands.

Mobile

The Mobile Business Unit operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America (Brazil).

Media

The Media Business Unit (which was renamed following the sale of certain Internet assets described above) operates in the following segments:

- **Television:** in the production and broadcasting of editorial content through television transmission networks under concession (La7 and MTV), as well as in the marketing of advertising space in TV programming. In September and in October 2004, La7 Televisioni S.p.A. acquired the rights to broadcast the home matches of eight Serie A soccer teams using digital terrestrial technology;
- **Office Products:** in the distribution of office-related products, services and solutions through the Buffetti retail network. On 26th September, 2005, Telecom Italia Media entered into an agreement for the sale of its 100 per cent. stake in the Gruppo Buffetti S.p.A. (for further details please see “Recent Developments”); and
- **News:** with TM News, a national press agency operating 24 hours a day, 7 days a week which operates under the APCOM brand.

Olivetti

The Olivetti Business Unit operates through: (i) the Office Products Division in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS); (ii) the Gaming & Service Automation and Specialised Printers Division which provides specialised applications for the banking field and commerce and information systems for gaming and lottery management; and (iii) Nuove Iniziative Industriali in fixed and cell phone repairs. The Olivetti Business Unit’s primary markets are Europe and Asia.

Other Telecom Italia Group activities

The “Other activities” of the Telecom Italia Group principally include the functions and the companies that provide centralised services to the Group (e.g., R&D, real estate, training, audit and financial services) as well as the Corporate Functions. Beginning 1st January, 2005, “Other activities” comprise the foreign activities not included in other Business Units (the consolidated subsidiary Entel Bolivia, previously under the South America structure, and the associates Telecom Argentina and Brasil Telecom).

Strategy

General

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

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

In addition to these recent developments, elements of discontinuity in technology and market tendencies are leading towards a progressive reduction in the traditional distinctions between wireline and mobile business areas.

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

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

The evolution of the market requires an update of current business models and organisational strategies, an objective that the TIM Acquisition is intended to promote.

To ensure effective governance of the evolution of the post-TIM Acquisition business and organisation structure, working groups have been formed to identify specific areas which may offer efficiency gains in activities, processes and products in the fixed and mobile sectors. €1.5 billion of cumulative synergies for the 2005-2007 period have been identified by these groups thus far. An additional advantage of the TIM Acquisition is a further opportunity to optimise financial structure and cash flow within the Telecom Italia Group by managing its debt more efficiently and making better use of financial leverage.

In particular, from a business perspective, the Telecom Italia Group's main focus during the 2005-2007 period will be on the following areas:

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

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

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

- leveraging its strong position in the Brazilian market;
- expanding selectively in the European broadband market; and
- evaluating integrated investment opportunities in Turkey.

Capital expenditures of approximately €14 billion are planned for the three years from 2005 to 2007. A breakdown of these capital expenditures by sector of activity is shown in the table below:

	<u>Approximate % of Capital Expenditures</u>
Wireline	52%
Mobile	40%
Telecom Italia Media	1%
Other	7%

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

Wireline

The Wireline Business Unit is planning to invest approximately €7.3 billion from 2005 to 2007 to further develop broadband services both in the domestic market and in other selected European countries (France, Germany and The Netherlands), as well as investing in innovative infrastructures and systems.

Mobile

The Mobile Business Unit is planning to invest approximately 30 per cent. of its €5.6 billion planned expenditures from 2005 to 2007 for international development, particularly in Brazil. It will continue the start-up of PCS operations and the overlay of GSM in areas previously covered with the TDMA.

In Italy, TIM Italia has planned the development of innovative services based on EDGE technology and UMTS.

Telecom Italia Media

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

Competition

Fixed-line domestic and international telecommunications services

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

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

The new Electronic Communications Code (the **Code**) implemented the Directives without substantial changes or departures from the text adopted at the European Union level. In implementing the Directives, the Code expressly abolished the former legal framework for regulation of the telecommunications sector in Italy mainly represented by the Telecommunications Regulations, which had been in effect since 7th October, 1997.

The main characteristics of the Code are as follows:

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

Moreover, the Directives (and other EU-related regulatory interpretations and recommendations) as implemented by the Code provide for guidelines on market analysis and calculation of “significant market power” and identify 18 markets at the retail and wholesale level where such analyses and identification shall be conducted. According to the Code, the Italian National Regulatory Authority is still conducting a new evaluation of the operators having “significant market power” and will soon propose applicable remedies. Within the authority allowed by EU law, the Code also provides for the following:

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

So far the National Regulatory Authority has opened public consultation on 16 of the 18 markets subject to analysis.

Since the beginning of 1997 about 170 licences have been activated in Italy, although at the end of 2004 approximately 50 OLOs (Other Licensed Operators) were still active and offering telecommunication services. In fact, in this period, many companies failed or were involved in merger and acquisition operations.

In its domestic market Wireline competes against, among others, two national players, Tele2 and Wind, and three other focused competitors: Fastweb (which is focused on broadband and specific cities), Albacom (which is focused on business customers) and Tiscali (which is focused on the Internet). Of these competitors only Fastweb and Albacom have their own network facilities, while the others principally implement a reseller model utilising Telecom Italia's network. The development of broadband solutions has been pushing some operators (i.e., Wind, Fastweb) to utilise an ULL model.

Telecom Italia's market share in retail traffic volumes – retail voice and on-line traffic only – at 31st December, 2004 was 72.2 per cent. compared to 72.0 per cent. at 31st December, 2003. Significant competitors are Tele2 and Wind; Albacom and Fastweb are less significant competitors, focused on specific targeted markets (business customers for Albacom; high spending consumers for Fastweb).

In addition, the Italian fixed telecommunications market has been influenced by the development of mobile operators that attract voice traffic through their wide range of value added services and more personalised terminals.

In this competitive environment during 2004 Wireline was nonetheless able to increase revenues and improve profitability. The improvements were primarily due to:

- the strong growth of broadband with 4,430,000 access lines at the end of 2004 (of which 420,000 were in the European market), which represented 2,230,000 more accesses than 2003;
- significant revenue growth derived from ADSL (+108 per cent. compared to the end of 2003), innovative data transmission (+20 per cent. compared to the end of 2003) and value added data services (+35 per cent. compared to the end of 2003); and
- the maintenance of its market share on "Voice-Online" traffic (which increased by 0.2 per cent. compared to 31st December, 2003) primarily due to a successful loyalty campaign (with more than 5.8 million loyalty packages subscribed) and the limited impact on its customer base from the unbundling of the local loop.

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

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

Mobile telecommunications services

The Italian mobile market. The mobile telephone market continued to grow in Italy in 2004, faster than in previous years (10.8 per cent. in 2004 compared to 3.6 per cent. in 2003 and 7 per cent. in 2002). By 31st December, 2004, the number of cellular phone lines in Italy reached 63.2 million, corresponding to a penetration rate of approximately 109 per cent. of the population.

This increase was mainly due to the performance of H3G(3), the mobile services operator offering exclusively UMTS services in Italy. Competition for mobile telecommunications services remained strong in 2004. Consequently, TIM's strategy has been focused on strengthening its leadership with customers with a high mobile phone usage. TIM's strategy to attract and retain such customers has been to:

- offer innovative tariff schemes and services;
- focus on customer care and service for these valuable customers;
- provide quality performance;
- reinforce the core voice business; and
- introduce "TIM's Way for 3G" and develop the new generation of "Mobile data".

There are three principal competitors to TIM (now TIM Italia) in the Italian mobile market: Vodafone, Wind and H3G(3). At 31st December, 2004, TIM remained the market leader in Italy with a market share of approximately 42 per cent., with Vodafone, Wind and H3G(3) having market shares of approximately 35 per cent., 19 per cent. and 4 per cent., respectively. In 2004, TIM had an 8.2 per cent. market share of net additional GSM lines, corresponding to 0.5 million of net lines, compared to 1.5 million for Vodafone, 2.2 million for Wind and the remaining 2.3 million attributable to H3G(3). It should be noted that TIM's figures did not include 688,000 "silent" lines, in order to ensure greater consistency between the number of lines managed and the actual underlying business development.

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

The Brazilian mobile market. There is significant competition in Brazil from a number of local and international operators, the most significant of which are Vivo (a Brazilian company owned by Telefonica) and Claro (a company owned by the Mexican group America Movil). The Telecom Italia Group expects competition to increase in the future with continued consolidation in the market.

The regulatory framework

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

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

On 28th January, 2005, the National Regulatory Authority published a public consultation on the telephony calls termination market on single mobile networks (Order No. 465/04/CONS on the relevant market No. 16 (mobile termination)). The main new issues are related to:

- the designation of all mobile network operators (TIM, Vodafone, Wind and H3G) as dominant in the telephony calls termination market on their networks;
- for all mobile operators, the introduction of obligations of non-discrimination and publication of a Reference Interconnection Offer which includes – at least – information about the termination rates and the location of interconnection points;
- the application of a network cap on the termination rates for TIM, Vodafone and Wind for the years 2005-2007; and
- the definition for TIM, Vodafone and Wind of a “target value” for the termination rate in 2007 of €8.7 cent/min, starting in June 2005 from a value of €12.6 cent/min for Vodafone and TIM and €14.95 cent/min for Wind.

No decision has been taken yet on market No. 16 as the consultation procedure was only opened by the National Regulatory Authority on 28th January, 2005 (Order No. 465/04/CONS).

TIM Italia’s role in the New Economy. The opportunities offered by new technologies are expected to accelerate the ICT (Information and Communication Technology) convergence process, linking the two currently fastest growing businesses: mobile communications and the Internet. TIM Italia’s strategic choice with respect to this convergence is the open model. TIM Italia does not focus on Internet content but, rather, it creates 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.

Traditional business and value added services. The development of new advanced services is necessarily impacting TIM Italia’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 Italia’s growth will be increasingly dependent on its ability to develop data traffic and innovative services.

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

TIM Italia intends to seek out commercial synergies with web-oriented companies on the market which will increasingly demand mobile services (e.g. information and media, on-line banking and trading and geographic positioning information systems).

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

EDGE – which at present involves only upgrading the GSM/GPRS software and which is complementary to UMTS – permits TIM Italia customers to have prompt access to the main third generation services, as the EDGE network has a speed similar to that of UMTS (200 kbit/s for EDGE vs 384 kbit/s for UMTS). Due to the availability of dual mode terminals (EDGE/UMTS) marketed with the Turbo TIM brand, TIM Italia customers are able to use the band they need for a specific service regardless of the network they are using.

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

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

LITIGATION

An update of the status of the principal disputes, litigations and legal proceedings involving the Telecom Italia Group compared to those disclosed in the 2005 First Half Report and in the 2005 Third Quarter Report is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions in its reserves for future risks and charges because of the absence of defined and objective elements and/or because a negative outcome to the litigation is not considered probable.

Poste Italiane

Appeals are pending against the Rome Court's rulings in favour of the Company regarding payments for the disputed supply of products and services by Olivetti to Poste Italiane (the compensation sought amounts to approximately €50 million). The cases involve events dating back to the late 1980s/early 1990s. A specific reserve is recorded in the unaudited interim consolidated financial statements.

Personal computer business

In connection with the disposal by Olivetti of its personal computer business in 1997, lawsuits brought by the following parties, among others, are pending before the Ivrea Court:

- by Centenary Corporation and Centenary International (purchasers of the business) for damages estimated at approximately €130 million; and
- by ex-employees of OP Computers S.p.A. (the special-purpose entity to which the business was transferred pending the sale) to have the contracts relating to the disposal of the business declared null and void and to obtain their reinstatement as employees of Olivetti with payment of salary differences and damages amounting to approximately €212 million. In June 2004 an initial ruling was handed down in favour of Telecom Italia. Telecom Italia's financial statements continue to include a specific reserve.

Galactica

In 2001 and 2002, a complex dispute arose with the Internet Service Provider Galactica S.p.A. (now ServInternet S.p.A., in liquidation) over the failure to renew an agreement for testing a flat-rate Internet access service. ServInternet S.p.A. has claimed damages of approximately €90 million.

Teleque Communications

In November 2002, Teleque Communications S.p.A., a company operating in the field of prepaid cards for international telephone services, brought an action against Telecom Italia before the Rome Court of Appeals for alleged unfair trade practices, claiming damages of €65 million.

In particular, Teleque Communications (which went bankrupt in December 2003) claimed that Telecom Italia had gained a competitive advantage by imposing additional costs on the supply of interconnection services that it did not charge to its own final customers for prepaid international services.

Cecchi Gori

In connection with the complex legal dispute initiated by the Cecchi Gori group against Seat (now Telecom Italia Media), the following cases remain pending in the ordinary courts:

- before the Rome Court of Appeals:
 - appeal by the Cecchi Gori group against the decision which rejected its request to find the 11th August, 2000 resolution of the extraordinary shareholders' meeting of Cecchi Gori Communications (now Holding Media Communications, which controls the television broadcaster La7) null and void. The resolution regards certain amendments to the company's bylaws;
 - appeal by the Cecchi Gori group against the decision which rejected the request for annulment of the resolutions approving the financial statements and related balance sheet of Cecchi Gori Communications for the year ended 31st December, 2000 on the grounds that Seat was not entitled to vote the shares owned by Cecchi Gori Media Holding pledged to it and for the alleged excess and abuse of power by Seat. In view of the losses shown in the balance sheet at that date, the shareholders' meeting of 27th April, 2001 wrote off and then recapitalised the share capital of Cecchi Gori, which was entirely subscribed only by Seat;
- before the Milan Court:
 - claim for damages caused as result of the alleged illegal conduct by Seat and the directors which it appointed to the board of Cecchi Gori Communications. Such conduct was allegedly aimed at removing the majority shareholder, Cecchi Gori Media Holding; and
- before the Milan Court of Appeals:
 - appeal against the decision rejecting the request for annulment or cancellation of the deed under which the Cecchi Gori Communications shares belonging to Cecchi Gori Media Holding were pledged to Seat.

Vodafone

In July 2003, Telecom Italia initiated an arbitration proceeding with Vodafone to obtain damages (for a total amount of approximately €38.7 million) in relation to the mobile operator's decision to bar its customers from access to the Company's "12" information services between August 2002 and April 2003. Vodafone contended that its conduct was lawful and filed a counterclaim for an identical amount.

In May 2005, the parties reached an agreement under which Vodafone paid approximately €7 million to Telecom Italia.

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On 2nd November 2005, Vodafone served Telecom Italia with an extrajudicial request of payment of €16 million in return of the corresponding amount paid to Telecom Italia by Vodafone for the supply of interconnection services from the 1st January to 24th July 1998.

The aforesaid dispute is connected with the petition filed by Omnitel (currently, Vodafone) challenging the part of National Regulatory Authority resolution No. 1/CIR/98 (approving Telecom Italia's offer of interconnection) that established, pursuant to a Ministerial Decree of 23rd April 1998, that the new economic terms and conditions for interconnection would become effective for the GSM concession-holders of the time (TIM and Omnitel) from 25th July 1998 (the date Telecom Italia's Reference Offer was submitted) rather than from 1st January, as envisaged for the fixed-line operators. The Administrative Court of Appeal (Consiglio di Stato) annulled the National Regulatory Authority's measure, rectifying the judgement already issued on the matter by the Regional Administrative Court (TAR of Lazio), and ordered the National Regulatory Authority to execute the decision.

Telecom Italia intends to submit a complaint for the revocation of the decision of the Consiglio di Stato before the highest Italian court (Corte di Cassazione).

Fastweb

In an arbitration procedure requested by the telecommunications operator Fastweb, it alleges non-fulfilment by Telecom Italia of a contract to provide disaggregated access services to the local network, claiming in particular that Telecom Italia provided incorrect information as to the state of the network and challenging its rejection of Fastweb's requests for unbundling (in approximately 17,000 cases compared to approximately 400,000 requests successfully satisfied). Fastweb is seeking damages of €150 million. Telecom Italia has requested the total rejection of Fastweb's demands based on the inaccurate and generic nature of its claims.

Tele2

At the end of June 2005, the telecommunications operator Tele2 brought a lawsuit against Telecom Italia before the Milan Court of Appeals for alleged abuse of a dominant position in the markets for fixed voice telephony access and services, objecting specifically to the "Hello gratis" offer which contemplates a 90-minute period of free calls.

In seeking damages of over €100 million, Tele2 maintains that the offer will take traffic away from competitors, since users would be induced to take advantage of the free calls opportunity regardless of their existing contracts with other operators. The introduction of "Hello Gratis" by Telecom Italia is alleged to be abusive on the grounds that it is aimed both at unduly ensuring the loyalty of Telecom Italia's own customers and (indirectly) at luring customers away from competing operators not in a position to match the offer. Tele2 also claimed the offer allegedly hinders the use of comparative advertising, since it would prevent a direct, consistent comparison with telephone rates per minute offered by other operators.

* * *

Tele2 has filed a petition for urgent measures before the Milan Court of Appeals against Telecom Italia for abuse of a dominant position in the market for broadband data access, with a request for damages to be quantified during the course of the case.

In particular, Tele2 objects to the allegedly abusive conduct of Telecom Italia in relation to an agreement of August 2004 to provide ADSL wholesale service, whereby Tele2, using the Telecom Italia network, is able to provide broadband data access services to its final customers. The economic conditions of that service are allegedly abusive because they provide for payment not only of an activation charge but also a monthly charge which covers five hours of traffic. This allegedly is a disguised imposition on the other licensed operators of an improper minimum purchase obligation, designed purely to exclude such other operators from the market. On 28th September, 2005, the Milan Court of Appeals (notwithstanding that Telecom Italia's offer for such wholesale services has been previously approved by the National Regulatory Authority) granted a measure which prevented Telecom Italia from imposing on Tele2 – in the provision of ADSL wholesale "a tempo" service – offers which provide for an obligation of payment of at least five hours of monthly traffic included in the monthly charge of €6.30 Euro/month. Telecom Italia has submitted a complaint against this decision.

In the meantime, Tele2 brought an action before the Milan Court seeking damages of at least €15 million in terms of alleged loss of profit, customers and commercial repute.

* * *

In July 2005, Tele2 also served Telecom Italia with an additional urgent petition before the Milan Court of Appeals alleging an abuse of a dominant position in the market for broadband data access services using ADSL technology. The claimed abuse is alleged to consist of (i) improper activation of such services for users who have not requested them, allegedly done to prevent Tele2 from offering its own ADSL services, and (ii) a delay in deactivating such improperly activated ADSL services. The scheduled hearing of 5th October, 2005 was postponed to 3rd November, 2005.

On 3rd November 2005 the Court of Appeal, granting the petition, ordered Telecom Italia to activate links to ADSL services within the maximum contractual time limit of 42 days from Tele2's request, "*except where the service is already effectively being supplied or in cases of effective renunciation by the customers.*"

* * *

An action by Telecom Italia against Tele2 and its Swedish parent company, Tele2 AB, is pending before the ordinary courts of Milan for unfair trade practices (related to the comparative advertising campaigns promoted by Tele2), seeking damages of at least €200 million.

Tele2 has presented a counterclaim in such action seeking to establish that the conduct of Telecom Italia (in particular, the free calls period in the above-described “Hello gratis” offer) constitutes a case of tort. In essence, it has reiterated the arguments presented before the Milan Court of Appeals, as described above, and, pending a decision in that case, has asked the court to suspend the suit brought by Telecom Italia and to impose on Telecom Italia the same damages payable in the case pending before the Milan Court of Appeals.

Eutelia

On 30th September 2005, Eutelia filed a petition for urgent measures before the Milan Court of Appeal for alleged abusive conduct in the market of broadband data access. The claimed abuse is alleged to consist of improper activation of such services for users who have not requested them, allegedly done to prevent Eutelia from offering its services, and delay in deactivating such improperly activated services.

In addition, Eutelia maintains that Telecom Italia subjects, allegedly illegitimately, the activation of its ADSL services to the condition that the customers have a contract subscribing to the telephone service with Telecom Italia and correspondingly deactivates ADSL connections for users who decided to terminate the above-mentioned basic telephone service contract.

On 3rd November 2005 the Milan Court of Appeal, in rejecting the petition as regards the other allegations, granted the request regarding the activation of ADSL wholesales services without an underlying subscription contract with Telecom Italia, prohibiting the “deactivation of the ADSL retail service for Eutelia customers terminating the ISDN telephony contracts” that they have previously signed with Telecom Italia.

Wind

The so-called “interconnection agreement”, in effect since 1998 between TIM (now TIM Italia) and Wind, governs the economic conditions of the termination service on the TIM network of calls generated by the Wind mobile network and vice versa (so-called mobile-mobile termination), as well as termination on the TIM network of calls generated by the Wind fixed network (so-called “fixed-mobile termination”). While the fees agreed for the fixed-mobile termination service were subsequently the subject of numerous actions by the National Regulatory Authority, which introduced specific rates, those for mobile-mobile termination remained freely negotiable by the parties.

Wind recently objected to the fee due contractually to TIM Italia for the mobile-mobile termination service, recalculating it and unilaterally making its recalculation retroactive to 1st June, 2003, as well as consequently making the claimed adjustment in its subsequent payments. TIM Italia challenged Wind’s claim and after an attempt at conciliation requested the arbitration procedure contemplated in the interconnection agreement.

Meanwhile, through a petition to the National Regulatory Authority, Wind invoked a specific procedure for resolving controversies related to interconnection. This procedure obliges the parties, should they fail to reach an understanding within 45 days, to separately present a plan of agreement to the offices of the Authority, which is empowered to issue a non-binding decision within 90 days thereafter and, should the parties fail to accept it, to issue a binding decision.

During the first hearing at the Authority, TIM Italia requested the suspension of this procedure since the arbitral panel has exclusive jurisdiction over all controversies arising under the interconnection agreement. After the conciliation attempt requested by the Authority failed to produce a settlement, the parties deposited their respective arguments with the Authority. Meanwhile, the Authority adopted a temporary injunction with regard to the highest prices that can be applied to “mobile-mobile terminations”; it extended the principle of tariff reductions already applied in fixed-mobile terminations to mobile-mobile terminations for the period 1st September, 2005 to 31st January, 2006. TIM Italia has filed an appeal against the Authority’s decision.

Il Numero Italia

- On 19th July, 2005, Il Numero Italia S.r.l. (**Il Numero Italia**) and Directory Assistance Company S.r.l. (**DA**) filed an urgent petition before the Milan Court against Telecom Italia for alleged violations of regulations related to directory information services. On 12th August, 2005, the Court accepted the petition and obliged Telecom Italia to desist from any reference, through its “12” and “412” directory information services, to any of its numbering, including the “892412” numbering. On 18th August,

2005, Telecom Italia submitted a complaint before the Milan Court for the revocation of this decision. On 30th August, 2005, the complaint submitted by Telecom Italia was rejected by the Milan Court.

On 16th September, 2005, the beginning of the trial on the merits was notified to Telecom Italia with request for actual damages of €14.4 million and for loss of anticipated profits of €60 million per year (to be multiplied for an adequate number of years as determined according to general economic practice). The first hearing will take place on 12th December, 2005.

- On 28th July, 2005, Telecom Italia petitioned the Milan Court to order Il Numero Italia to terminate the advertising campaign it launched to publicise its directory information services provided via the telephone number “892.892”. Telecom Italia claims that the campaign violates the laws concerning misleading advertising and is an unfair trade practice. Telecom Italia believes that the advertising messages give the impression that the “12” service (operated exclusively by Telecom Italia) and the “412” service (operated by Telecom Italia and the principal mobile operators) will no longer be available, while in reality they can be accessed using different numbers. Furthermore, such services are publicised in the campaign in a manner that disparages Telecom Italia and generates confusion as to the provider of the “892.892” service: by making reference to the “12” and “412” services, the advertising message creates the impression that Telecom Italia is advertising this new service as its own. On 22nd September, 2005, the Milan Court stated that the “new” advertising campaign of Il Numero Italia, together with the launch of the “1254” advertising campaign of Telecom Italia, overcame any risk of confusion relating to Telecom Italia.
- On 20th September, 2005 Il Numero Italia and DA – according to the provision of article 700 of the Italian Civil Procedure Code – petitioned the Milan Court to grant interim measures against Telecom Italia. Il Numero Italia and DA alleged that Telecom Italia’s behaviour, subsequent to their submission of an urgent petition against Telecom Italia on 19th July, 2005 (see above), regarding the “1254” advertising campaign launched by Telecom Italia and the anticipated opening to the public of the “1254” numbering constituted conduct contrary to the rules of fair competition according to article 2589, n. 3 of the Italian Civil Code and an abuse of dominant position according to article 82 of the EC Treaty. The parties alleged that the above-mentioned conduct would jeopardise, seriously and irreparably, the opening process of the directory information services market in Italy, and would be prejudicial to trade among the member states of the European Community.

Il Numero Italia and DA requested the Milan Court to prevent Telecom Italia from continuing the alleged abusive/unfair conducts, with particular reference to the “1254” advertising campaign and the anticipated opening to the public of the “1254” numbering. The petition of Il Numero Italia and DA was rejected by the Milan Court.

After the court had denied the petition, Il Numero Italia and DA filed a complaint against the precautionary order.

- On the same date (20th September, 2005) Il Numero Italia and DA petitioned the Milan Court stating, among other things, that Telecom Italia did not comply with the Court’s decision outlined above in relation to desisting from any reference, through its “12” and “412” directory information services, to any of its numbering, including the “892412” numbering. Therefore the parties requested the granting of any measures to prevent Telecom Italia from continuing the asserted unlawful conduct and in particular to desist from any reference, through its “12” and “412” directory information services, to its “892412” numbering. The petition of Il Numero Italia and DA was rejected by the Milan Court.

Nhai

In September 2005, Nhai S.r.l. (formerly, Help S.p.A.) filed a lawsuit against Telecom Italia to obtain a decision from the Court of Rome as to whether, in the first half of 1990, Telesoft (a company that, subsequently, merged with and into Telecom Italia), as member of a consortium (*Consorzio per la raccolta e l’elaborazione automatica dei dati di traffico telefonico*, a member of which was also Nhai), failed to perform its obligations under the consortium agreements with a consequent request for damages, against Telecom and in favour of the consortium and Nhai, quantified in an amount between €16 million and €25 million.

According to Nhai, Telesoft promoted independent commercial initiatives with Telecom Italia and other international operators, deliberately concealing negotiations and the contracts acquired. This conduct, contrary to the principles of contractual good faith and to specific contractual stipulations, is alleged to have caused Help to suffer a significant fall in sales revenues and to have induced Help to accept an early dissolution of the consortium in 1996, ahead of its scheduled expiration in 2001, for lack of business opportunities.

In addition, Nhai requested to ascertain that Telesoft, allegedly in breach of the obligations assumed under the consortium agreements, utilised the software elaborated by Nhai, with a consequent request for damages of €1 million.

Interministerial Decree, dated 22nd February, 2005.

In July, H3G served Telecom Italia with an extraordinary appeal before the President of the Republic, against the Minister of the Telecommunications and the Minister of the Treasury, in order to obtain the suspension and annulment of the Interministerial Decree dated 22nd February, 2005 regarding government aid for the purchase of instruments for the transmission of broadband data by internet. The challenge by H3G is limited to the part of the Decree which does not extend such aid to customers who own prepaid cards. In August 2005, Telecom Italia obtained the change of the jurisdiction submitting the dispute before the TAR of Lazio.

In connection with this change of jurisdiction, H3G has filed a petition with the same TAR of Lazio in order to obtain the annulment of certain provisions adopted by the Minister of Telecommunications for the implementation of the Decree, and asked, on grounds of related matter, for the two appeals to be heard together.

Universal service

As a consequence of the complex actions taken by some operators against the National Regulatory Authority's decisions concerning the universal service net cost-sharing mechanism, the following cases remain pending:

- the petition submitted by Vodafone to the TAR of Lazio for annulment of the decision of the Authority which in renewing the order concerning the application of the universal service net cost-sharing mechanism for 1999, calculated the amount of Vodafone's contribution;
- the petitions submitted respectively by Vodafone to the TAR of Lazio and by Wind to the Head of State for annulment of the decision governing the same cost-sharing mechanism for 2000. Vodafone has requested that the issue be referred as a preliminary matter to the European Court of Justice for a ruling on the interpretation of the Community directives; and
- the petitions by Vodafone to the TAR of Lazio for annulment of the communications of the Minister of Communications which requested Vodafone to pay the contributions for the financing of the universal service, as determined by the National Regulatory Authority for the years 2000 and 2002.

Levy pursuant to article 20.2 of Law No. 448/1998

Petitions by Telecom Italia and TIM (now TIM Italia) are still pending before the TAR of Lazio to obtain a ruling on the right not to pay any additional amount as a licence fee for 1998 and to obtain restitution of the €529 million already paid. The request is based on the illegitimacy of the provisions of Article 21 of Presidential Decree No. 318/1997 that maintained the license fee in effect even after Directive 97/13/EU came into force and the time limit for its introduction into Italian law had expired. The European Court of Justice, by its ruling of 18th September, 2003, has already found that the levy is incompatible with Community law.

* * *

Also pending is an appeal submitted by Telecom Italia to the TAR of Lazio for cancellation of the communication issued by the Minister of Communications dated 9th July, 2003 in which the Minister challenged the exclusion of several items of revenue used for the basis of the assessment for the licence fee for 1997 and 1998. The adjustment resulting from the recalculation would amount to €31 million for 1997 and €41 million for 1998. The petition follows others that Telecom Italia had already lodged concerning the licence fee computation method in connection with the gradual liberalisation of the telecommunications sector. A reserve for these disputes has been set aside in the financial statements.

Lastly, an appeal by TIM is pending before the TAR of Lazio against the ministerial decisions regarding the calculation of the licence fee for the years 1995, 1996, 1997 and 1998. The amounts in dispute are set aside in a reserve in the financial statements.

With reference to the lawsuit brought by Telecom Italia and TIM against the article 20 of the Law No. 1998/448, on 4th January 2005, the decision issued by the TAR of Lazio was published regarding the annulment of the Minister of the Telecommunications Decree dated 21st March 2000. The companies had challenged the

compatibility of Article 20 of Law 448/1998 with Community law and in particular with the principle according to which telecommunications operators may not be required to pay capital charges in addition to and different from those provided for by Community law (examination expenses, use of so called “scarce resources” and financing of the universal service). The two companies requested the return of the sum of €500 million improperly paid for the year 1999 according to the provision of the Decree before its annulment (subsequently, Telecom and TIM ceased to pay the levy and allocated corresponding amounts to reserves).

The annulment of the Decree resulted in an obligation on the part of the state to return the amounts paid.

Since the government has not yet returned the sums paid by Telecom and TIM, it has been decided to make a formal application to the state, so as to create the conditions for a petition to the TAR of Lazio for enforcement ruling ordering the state to return the amounts due and providing, if the Minister for the Economy and Finance and the Minister of the Telecommunications continued to fail to act, for the appointment of a “commissario ad acta”.

Directory Information Services

At the end of December 2004, Telecom Italia petitioned the TAR of Lazio to nullify, with prior suspension, the decision of November 2004 (No. 15/04/CIR) by which the National Regulatory Authority regulated the procedure for assigning, and the rights for using, the numbers assigned to directory information services, supplementing its previous decision of July 2003. This latter decision had amended the numbering plan in the telecommunications sector by establishing that numbers “12XY” would be assigned to the directory information services. This means that these services will have numbers composed of the digits “12” followed by two more digits, distinctive for each operator. The initial measure had deferred to a subsequent measure the definition of an implementation timetable, the subjective requirements for the rights of use and the procedure for assigning the numbers reserved to the directory information services.

Under its decision No. 15/04/CIR, the National Regulatory Authority, in effect, regulated the procedure for assigning the rights of use of the new numbering system “12XY”, giving the timetable for the start of the sale of the corresponding services and the end of the “old” numbering systems: “12” from 1st October, 2005 and “412” from 1st December, 2005. The decision also regulates the procedure for communicating this change to customers and the obligation to deliver a message to users who select the number 12 that indicates, in an unbiased manner, the possibility of accessing the services of the new “12XY” numbering system.

In Telecom Italia’s view, the required procedure is discriminatory, since it is not permitted to freely publicise the new numbers, resulting in substantial financial damage, including that associated with the foreseeable effect of shifting customers toward the numbers of other operators.

The restrictions imposed upon Telecom Italia in this regard were confirmed by decision No. 21/05/CIR dated 16th June, 2005 entitled “Order to the company Telecom Italia to comply with the provisions of article 5 of decision No. 15/04/CIR”. Under this decision, the National Regulatory Authority also stated that the messages regarding the “12” and “412” services must not contain indications of any specific new numbering system assigned to Telecom Italia.

Non-observance of this order was notified to Telecom Italia by an act dated 23rd August, 2005.

Alleged violations of antitrust law

On 16th November, 2004, the Italian Antitrust Authority issued a decision concluding its proceeding A 351 (opened on 5th June, 2003) by finding that Telecom Italia had abused its dominant position in violation of Article 3 of Law No. 287/1990. Between 2001 and the date of the decision, the Antitrust Authority determined that Telecom Italia had abused its dominant position by:

- (a) applying contractual conditions to corporate users containing exclusive agency clauses, penalties for failure to fulfil spending targets and clauses permitting it to match a competing offer made to its customer; and
- (b) establishing economic and technical conditions for business customers that competitors could not replicate and that constituted discriminatory practices in the relevant markets for intermediate services insofar as Telecom Italia applied economic and technical conditions to its competitors that were discriminatory compared with those it applied to its own commercial divisions.

Consequently, the Italian Antitrust Authority imposed a €152 million fine on Telecom Italia and ordered it to cease immediately from the competition-distorting conduct referred to above, and to inform the Italian Antitrust Authority of the measures taken to end the infractions within 90 days of the notification of the order.

On 31st December, 2004, Telecom Italia petitioned the TAR of Lazio, requesting annulment of the decision of the Italian Antitrust Authority and temporary suspension of its effects. In its petition, Telecom Italia argued that the Authority's decision was based on an investigation that failed to establish the facts of Telecom Italia's responsibility for the alleged abuse of dominant position.

On 22nd February, 2005, the TAR of Lazio issued its decision, stating that Telecom Italia's appeal was partially granted. According to the final decision (which was published on 11th May, 2005), the fine was cancelled. On 24th June, 2005, Telecom Italia was notified that the Italian Antitrust Authority had appealed such final decision to the Consiglio di Stato. On 22nd July, 2005, Telecom Italia submitted an incidental appeal (*appello incidentale*) before the Consiglio di Stato in order to amend the part of the decision of the TAR of Lazio which did not grant the action requested by Telecom Italia. On 22nd November, 2005, the Consiglio di Stato decided to postpone the hearing to 10th February, 2006.

Telecom Italia set aside an amount corresponding to the fine in its 2004 financial statements.

* * *

Acting on a complaint filed by competing operators, in 2003 the National Regulatory Authority cited Telecom Italia for pursuing commercial strategies detrimental to the development of the market and initiated sanction procedures. Such actions and the subsequent resolutions have been challenged; the appeals are pending before the TAR of Lazio.

Mediterranean Nautilus

In October 2003, FTT Investments B.V. (FTT) (the minority shareholder of Mediterranean Nautilus S.A.) commenced an arbitration proceeding for cancellation of the agreement signed in March 2001 with Telecom Italia International, Telecom Italia and Mediterranean Nautilus S.A. for the sale by Telecom Italia International to FTT of 30 per cent. of the shares of Mediterranean Nautilus S.A. which was settled on 16th June, 2005. Telecom Italia provided a reserve in its consolidated financial statements for the year ended 31st December, 2004 in relation to the probable effects of the settlement. See "Recent Developments" above for the terms of the reorganisation effected by the settlement. On 29th July, 2005, the Arbitral Tribunal issued the relevant order of closure.

Brazil

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

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

The aforesaid proceedings are definitely terminated (the termination of the arbitration proceedings are in the process of being finalised) with the exception of proceedings before the Rio de Janeiro Court, with reference to which certain indirect shareholders of Techold have challenged the homologation validity of the settlement. The matter is currently pending.

The aforesaid settlements reached on 28th April, 2005 are the subject of a wide number of disputes pending before various courts and for various reasons, between the Group and, on the other side, the shareholders of Telecom Italia International in Solpart, certain shareholders of such shareholders, Solpart itself and Brasil Telecom Participações.

ETEC S.A.

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

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

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

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

Etec S.A. filed an appeal before the Paris Court of Appeals to nullify the award which, in the meantime, the Rome Court of Appeals (at the request of Bancomext) declared to be enforceable in Italy.

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

In the meantime, Telecom Italia International (which has a letter from the Cuban government relieving it of any possible detrimental consequences arising from the award) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate Etec S.A., while reserving its right to take every protective measure.

Telecom Italia France

France Telecom brought an action before the Commercial Court of Paris against Telecom Italia France claiming damages allegedly derived from unfair trade practices. Telecom Italia France requested suspension of the proceedings until completion of the preliminary investigation currently pending before the district attorneys of Marseilles and Lyons for alleged illegalities in concluding contracts with final customers, initiated by complaints filed by consumers.

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

Financial Information under Italian GAAP as of and for the Two Years Ended 31st December, 2003 and 2004

The summary selected financial data set forth below include consolidated financial data of the Telecom Italia Group as of and for each of the years ended 31st December, 2003 and 2004. The data have been extracted or derived from the audited consolidated financial statements of the Telecom Italia Group, which have been prepared in accordance with Italian GAAP and have been audited by Reconta Ernst & Young S.p.A., independent auditor. The financial information set forth below should be read in conjunction with Telecom Italia's audited consolidated financial statements and the notes thereto for the years ended 31st December, 2003 and 2004.

	Year ended 31st December,	
	2003	2004
	<i>(millions of euro, except per share amounts)</i>	
Statement of Operations Data (in accordance with Italian GAAP):		
Operating revenues	30,850	31,237
Other income	345	315
Total revenues	<u>31,195</u>	<u>31,552</u>
Cost of materials	2,081	2,414
Salaries and social security contributions	4,303	4,045
Depreciation and amortisation ⁽¹⁾	6,779	6,646
Other external charges	11,934	12,014
Changes in inventories	114	(25)
Capitalised internal construction costs	<u>(805)</u>	<u>(742)</u>
Total operating expenses ⁽¹⁾	<u>24,406</u>	<u>24,352</u>
Operating income ⁽¹⁾	<u>6,789</u>	<u>7,200</u>
Financial income	992	1,381
Financial expense ⁽¹⁾	(3,256)	(3,215)
<i>Of which write-downs and equity in affiliated and other companies, net</i>	<i>(91)</i>	<i>(30)</i>
Other income and (expense), net	<u>(1,083)</u>	<u>(410)</u>
Income before income taxes and minority interests	3,442	4,956
Income taxes	<u>(1,014)</u>	<u>(3,054)</u>
Net income before minority interests	2,428	1,902
Minority interests	<u>(1,236)</u>	<u>(1,121)</u>
Net income	<u>1,192</u>	<u>781</u>
Net income per ordinary share ⁽²⁾	0.07	0.04
Dividends per ordinary share	0.1041	0.1093 ⁽³⁾
Dividends per savings share	0.1151	0.1203 ⁽³⁾
	As of 31st December,	
	2003	2004
	<i>(millions of euro)</i>	
Balance Sheet Data (in accordance with Italian GAAP):		
Total current assets ⁽¹⁾	22,429	21,980
Tangible assets, net	18,324	17,717
Intangible assets, net ⁽¹⁾	33,853	32,874
Total assets	80,501	76,609
Short-term debt	10,613	2,027
Total current liabilities	23,373	14,650
Long-term debt	30,852	36,817
Total liabilities	59,912	56,748
Total shareholders' equity before minority interests	16,092	15,172
Total shareholders' equity	20,589	19,861

As of 31st December,

2003 2004

(%)

Financial Ratios (in accordance with Italian GAAP):

Operating income/Operating revenues (ROS)	22.0	23.0
Net debt/Net invested capital (debt ratio) ⁽⁴⁾	61.8	59.8

- (1) *Beginning in 2003, Telecom Italia changed the manner in which it accounted for bond issuance expenses by 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.*
- (2) *Net income per ordinary share in 2003 is calculated on the basis of 15,996,955,942 shares outstanding, of which 10,201,034,873 were ordinary shares and 5,795,921,069 were savings shares. The 10,201,034,873 ordinary shares outstanding are net of 101,208,867 shares of treasury stock already held by the Company and its subsidiary Olivetti International S.A. (now Telecom Italia Finance S.A.) resulting from the redistribution of the share capital in connection with the Merger.*

Significant changes in share capital occurred in 2003, mainly due to the merger of Old Telecom Italia into Olivetti, effective from 4th August, 2003, which provided for an exchange ratio of seven Olivetti ordinary shares, with a par value of €1 each, for each ordinary share of Old Telecom Italia, with a par value of €0.55 each, as well as seven Olivetti savings shares, with a par value of €1 each, for each savings share of Old Telecom Italia, with a par value of €0.55 each. The change in the number of issued shares for the year ended 31st December, 2003, can be analysed as follows:

- *Prior to 4th August, 2003: (a) 11,361,740 ordinary shares were issued, of which (i) 11,137,324 ordinary shares were issued upon the conversion of "Olivetti 1.5 per cent. 2001-2010 Convertible Bonds with a Redemption Premium", (ii) 141,134 ordinary shares were issued upon the exercise of "Olivetti 2001-2002 Ordinary Share Warrants" and (iii) 83,282 ordinary shares were issued upon the conversion of "Olivetti 1.5 per cent. 2001-2004 Convertible Bonds with a Redemption Premium"; (b) 10,958,057 ordinary shares were cancelled following the exercise of withdrawal rights of dissenting shareholders, as permitted in accordance with the terms of the Merger; and (c) the remaining 8,845,643,315 ordinary shares (including 214,628,828 treasury shares), with a par value of €1 each, were cancelled to be replaced by new ordinary shares.*
- *On and after 4th August, 2003: (a) 10,287,061,839 new ordinary shares (including 101,208,867 treasury shares), with a par value of €0.55 each, and 5,795,921,069 new savings shares, with a par value of €0.55 each, were issued in substitution for the cancelled shares; and (b) 15,181,901 new ordinary shares were issued, of which (i) 11,009,743 ordinary shares were issued upon the exercise of "Ex Telecom Italia 1999 Stock Option Plan" options, (ii) 4,028,290 ordinary shares were issued upon the conversion of "Olivetti 1.5 per cent. 2001-2010 Convertible Bonds with a Redemption Premium" and (iii) 143,868 ordinary shares were issued upon the conversion of "Olivetti 1.5 per cent. 2001-2004 Convertible Bonds with a Redemption Premium".*

Net income per ordinary share in 2004 is calculated on the basis of 16,016,713,271 shares outstanding, of which 10,220,792,202 were ordinary shares and 5,795,921,069 were savings shares. The 10,220,792,202 ordinary shares outstanding are net of 101,208,867 shares of treasury stock already held by the Company and its subsidiary Telecom Italia Finance S.A. resulting from the redistribution of the share capital in connection with the Merger.

The per share calculations take into account the requirement that holders of savings shares are entitled to an additional dividend equal to 2 per cent. of the par value of Telecom Italia shares (ordinary and savings shares) in addition to dividends paid on the ordinary shares. Net income per savings share was €0.08 in 2003 and €0.05 in 2004.

- (3) *The ex-dividend date for Telecom Italia's dividend in relation to the year ended 31st December, 2004, was 18th April, 2005. The dividend became payable on 21st April, 2005.*
- (4) *Telecom Italia believes that the line item "Net Financial Debt" provides an accurate indicator of Telecom Italia's ability to meet its financial obligations (represented by gross debt in the reconciliation table below) from its available liquidity (represented by the other items shown in the reconciliation table). Net Financial Debt is presented with a view to showing investors' trends in Telecom Italia's net financial condition over the periods presented. One limitation on the usefulness of the line item "Net Financial Debt" is that it assumes that gross debt can be reduced through the use of Telecom Italia's cash and other liquid assets. In fact, it is unlikely that Telecom Italia would use all of its liquid assets to reduce its gross debt all at once, as such assets are needed to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Telecom Italia's management sometimes uses Net Financial Debt and the ratio of Net Financial Debt to Total Shareholders' Equity (including minority interests), which it refers to as the "leverage" ratio, to evaluate Telecom Italia's financial structure in terms of its sufficiency, the cost of capital, debt levels, debt rating and funding cost, as well as whether its financial structure is adequate to achieve its business and financial targets (including its debt ratio, or net debt divided by net invested capital—the latter meaning net assets, excluding Net Financial Debt). Telecom Italia's management believes that Telecom Italia's financial structure is sufficient to achieve its business and financial targets. Telecom Italia's management monitors Net Financial Debt and leverage ratios, or similar measures, as reported by other telecommunications operators in Italy and abroad, as well as other major listed companies in Italy, in order to assess its liquidity and financial structure relative to such companies. Telecom Italia's management also monitors trends in its Net Financial Debt and leverage ratio to optimise the use of internally-generated funds versus funds from third parties. Net Financial Debt is reported in Telecom Italia's annual report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:*

	As of 31st December,	
	2003	2004
	<i>(millions of euro)</i>	
Short-term debt, including current portion of long-term debt	10,613	2,027
Long-term debt	30,852	36,817
Gross debt	41,465	38,844
Cash and cash equivalents:		
• Bank and postal accounts	(4,870)	(8,558)
• Cash and valuables on hand	(7)	(4)
• Receivables for securities held under reverse repurchase agreements	(60)	(2)
Marketable securities	(2,719)	(932)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(826)	(382)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(307)	(282)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	670	841
Net Financial Debt	33,346	29,525

Financial Information under IFRS as of and for the Six Months Ended 30th June, 2004 and 2005

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

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

The financial information described below should be read in conjunction with Telecom Italia Group's 2005 First Half Report. In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of Telecom Italia reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia's consolidated results of operations for the unaudited interim periods. Results for the six months ended 30th June, 2005, are not necessarily indicative of results that may be expected for the entire year.

Unless otherwise indicated, amounts presented in this section are prepared in accordance with IFRS. Until 31st December 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual data) in accordance with Italian GAAP. The accompanying IFRS financial data has been prepared in accordance with those EU GAAP effective, or issued and early adopted, at 30th June, 2005. The EU GAAP that will be applicable at 31st December, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparation of the accompanying financial data. As a result, the accounting policies used to prepare this financial data are subject to change up to the reporting date of Telecom Italia's first IFRS financial statements.

	Year ended 31st December, 2004(*)	Six Months ended 30th June,	
		2004(*)	2005(*)
	<i>(Unaudited) (**) (Unaudited) (Unaudited)</i> <i>(millions of Euro,</i> <i>except per share amounts)</i>		
Statement of Operations Data (in accordance with IFRS):			
Revenues	28,573	13,968	14,692
Other income	1,100	177	224
Total revenues and operating income	29,673	14,145	14,916
Purchases of materials and external services	(12,052)	(5,769)	(6,116)
Personnel costs	(3,842)	(1,892)	(1,919)
Other operating expenses	(1,617)	(548)	(650)
Changes in inventories	26	113	77
Capitalised internal construction costs	714	304	211
Operating income before depreciation and amortisation, gains/ losses and impairment losses/reversals on non-current assets (EBITDA)	12,902	6,353	6,519
Depreciation and amortisation	(4,852)	(2,305)	(2,520)
Gains/losses on disposals of non-current assets ⁽¹⁾	(9)	(6)	(1)
Impairment losses/reversals on non-current assets	(444)	(286)	(9)
Operating income (EBIT)	7,597	3,756	3,989
Share of earnings of equity investments in associates accounted for by the equity method	(4)	(18)	(15)
Financial income	1,806	754	1,374
Financial expenses	(3,807)	(1,787)	(2,236)
Income from continuing operations before taxes	5,592	2,705	3,112
Income taxes for the period	(2,657)	(1,311)	(1,354)
Net income from continuing operations	2,935	1,394	1,758
Net income (loss) from discontinued operations/assets held for sale	(101)	24	421
Net income for the period	2,834	1,418	2,179
Attributable to:			
• Parent Company	1,815	979	1,775
• Minority interests	1,019	439	404
Basic and Diluted earnings per ordinary share⁽²⁾			
• Net income per ordinary share from continuing operations	0.12	0.06	0.08
• Net income per ordinary share from discontinued operations/assets held for sale	(0.01)	—	0.02
• Net income per ordinary share	0.11	0.06	0.10

	As of 30th June, 2004(*)	As of 31st December, 2004(*)	As of 30th June, 2005(*)
	(Unaudited)	(Unaudited) (**)	(Unaudited)
		(millions of Euro)	
Balance Sheet Data (in accordance with IFRS):			
Non-current assets:			
Goodwill and other intangible assets with a indefinite life	26,532	26,814	44,105
Intangible assets with a finite life.....	5,879	6,456	6,598
Tangible assets.....	18,158	18,009	18,352
Other non-current assets and deferred tax assets.....	8,069	6,787	7,246
Total non-current assets.....	58,638	58,066	76,301
Total current assets.....	17,112	20,165	16,688
Total assets held for sale	4,585	4,376	383
Total assets.....	80,335	82,607	93,372
Shareholders' equity:			
Attributable to Parent Company.....	15,404	16,251	24,128
Attributable to Minority interests.....	3,872	4,592	1,656
Total shareholders' equity.....	19,276	20,843	25,784
Non-current liabilities:			
Non-current financial liabilities (Long-term debt)	35,111	38,229	42,037
Other non-current liabilities	4,908	4,712	4,810
Total non-current liabilities	40,019	42,941	46,847
Current liabilities:			
Current financial liabilities (Short-term debt)	7,066	4,336	8,725
Other current liabilities	11,657	12,321	11,799
Total current liabilities.....	18,723	16,657	20,524
Total liabilities relating to assets held for sale.....	2,317	2,166	217
Total liabilities	61,059	61,764	67,588
Total shareholders' equity and liabilities	80,335	82,607	93,372
	As of 30th June, 2004(*)	As of 31st December, 2004(*)	As of 30th June, 2005(*)
	(Unaudited)	(Unaudited) (**)	(Unaudited)
		(%)	
Financial Ratios (in accordance with IFRS):			
Operating income/Revenues (ROS)	26.9	26.6	27.2
Net financial debt/Net invested capital (debt ratio) ⁽³⁾	64.8	61.2	63.1

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digital Venezuela and TIM Hellas.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January 2004, at 31st December 2004 and for the year ended 31st December 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditor's report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

(1) Excluding gains/losses on disposals of assets classified as discontinued operations/ assets held for sale and equity investments in companies other than subsidiaries.

(2) In accordance with IAS 33 "Earnings per share", basic earnings per ordinary share is calculated by dividing the Group's net income available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

Since Telecom Italia, has both ordinary and savings shares outstanding, the calculations take also into account the requirement that holders of savings shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the ordinary shares.

For the purpose of these calculations, the weighted average number of ordinary shares was 10,205,420,272 for the six months ended June 30th, 2004, 11,326,277,714 for the six months ended 30th June, 2005 and 10,208,294,477 for the year ended 31st December, 2004.

- (3) For a discussion of the line item "Net Financial Debt", see "Summary Selected Financial Information and Statistical Operating Data – Financial Information under Italian GAAP as of and for the Two Years Ended 31st December 2003 and 2004". Net Financial Debt is calculated as follows:

	As of 30th June, 2004(*) <i>(Unaudited)</i>	As of 31st December, 2004(**) <i>(Unaudited)**</i> <i>(millions of Euro)</i>	As of 30th June, 2005(*) <i>(Unaudited)</i>
Gross Financial Debt			
Non-current financial liabilities (Long-term debt)			
—Financial payables	33,312	36,392	40,195
—Finance lease liabilities	1,798	1,834	1,841
—Other financial liabilities	1	3	1
	35,111	38,229	42,037
Current financial liabilities (Short-term debt)			
—Financial payables	6,841	4,107	8,491
—Finance lease liabilities	220	224	229
—Other financial liabilities	5	5	5
	7,066	4,336	8,725
Financial debt relating to assets held for sale	1,244	1,062	150
Total Gross Financial Debt (A)	43,421	43,627	50,912
Financial Assets			
Non-current financial assets			
—Securities other than equity investments	9	7	6
—Financial receivables and other non-current financial assets	429	438	671
Current financial assets			
—Securities other than equity investments	641	786	444
—Financial receivables and other current financial assets	859	765	1,537
—Cash and cash equivalents	5,566	8,401	4,106
Financial assets relating to assets held for sale	428	368	37
Total Financial Assets (B)	7,932	10,765	6,801
Net Financial Debt (A-B)	35,489	32,862	44,111

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January 2004, at 31st December 2004 and for the year ended 31st December 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditor's report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

Statistical Operating Data

The following table presents certain statistical data regarding the Telecom Italia Group's operations:

	As of 31st December, 2003	As of 31st December, 2004	As of 31st December, 2004 (*)(**)	As of 30th June, 2004(*)	As of 30th June, 2005(*)
	<i>(in accordance with Italian GAAP)</i>		<i>(in accordance with IFRS)</i>		
Employees:					
Employees (number in Group at period-end)	93,187	91,365	80,799 ⁽¹⁾	82,091 ⁽¹⁾	82,397 ⁽¹⁾
Employees (average number in Group)	95,804	88,892	78,450 ⁽¹⁾	78,344 ⁽¹⁾	77,670 ⁽¹⁾
Revenues/Employees (average number in Group) (thousands of €)	322.0	351.4	364.2	178.3	189.2
Wireline:					
Subscriber fixed-lines in Italy (thousands) ⁽²⁾	26,596	25,957	25,957	26,264	25,615
ISDN equivalent lines in Italy (thousands) ⁽³⁾	6,027	5,805	5,805	5,941	5,673
Broadband Access in Italy and abroad (thousands) ⁽⁴⁾	2,200	4,430	4,430	3,273	5,568
Voice flat-rate plans (thousands) ⁽⁵⁾	5,547	5,883	5,883	5,704	6,190
Page views Virgilio (millions, up to respective date for period)	6,612	7,902	7,902	3,833	4,565
Network infrastructure in Italy:					
— access network in copper (millions of km—pair)	105.2	105.2	105.2	105.2	105.2
— access network and transport in fibre optics (millions of km of fibre optics)	3.6	3.7	3.7	3.6	3.7
Network infrastructure abroad:					
— European backbone (km of fibre optics)	39,500	39,500	39,500	39,500	39,500
Mobile:					
Mobile lines in Italy at period-end (thousands) ⁽⁶⁾	26,076	26,259	26,259	26,011	26,117
Mobile foreign lines at period-end (thousands)	18,438	27,563	14,690 ⁽⁷⁾	11,189 ⁽⁷⁾	18,207 ⁽⁷⁾
Total mobile lines at period-end (Italy + foreign in thousands)	44,514	53,822	40,949 ⁽⁷⁾	37,200 ⁽⁷⁾	44,324 ⁽⁷⁾
GSM ⁽⁸⁾ penetration in Italy (% of population)	99.8	99.8	99.8	99.8	99.8
E-TACS ⁽⁹⁾ penetration in Italy (% of population)	97.9	97.9	97.9	97.9	97.9
Media:					
La7 ⁽¹⁰⁾ average audience share (%)	2.2	2.4	2.4	2.3	2.6
La7 ⁽¹⁰⁾ audience share (month of December or June, respectively) (%)	2.2	2.6	2.6	2.7	2.8

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digital Venezuela and TIM Hellas.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January 2004, at 31st December 2004 and for the year ended 31st December 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditor's report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

(1) Excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale.

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

(3) Data exclude internal lines.

(4) Number of contracts.

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

(6) Includes TACS, GSM and UMTS services, including Prepaid Customers and excludes the "silent" lines. The Italian market, which has a high penetration of prepaid cards, is characterized by certain customers acquiring multiple lines in order to take advantage of specific/time-limited commercial offers. Once these offers expire these customers tend not to continue the use of such lines which is facilitated by the prepaid nature of the arrangement. As a result, TIM Italia excludes the silent lines in order to provide greater consistency between the number of lines managed by the Company and the development of the business.

(7) Foreign lines exclude those of the consolidated companies considered as discontinued operations/assets held for sale.

(8) Global System for Mobile Communications.

(9) Extended Total Access Communication System.

(10) Refers to La7 television programming.

Financial Information under IFRS as of and for the Nine Months Ended 30th September, 2004 and 2005

The table below sets forth the selected financial and statistical data as of and for the nine months ended 30th September, 2005.

For further details please see “Recent Developments”.

	Year ended 31st December, 2004(*) <i>(Unaudited)**</i>	Nine months ended 30th September,		Three months ended 30th September,	
		2004(*)	2005(*)	2004(*)	2005(*)
		<i>(Unaudited)</i>			
		<i>(millions of euro)</i>			
Statement of Operations Data (in accordance with IFRS):					
Revenues	28,292	20,808	21,958	6,978	7,430
Other income	1,099	260	330	84	107
Total revenues and operating income	29,391	21,068	22,288	7,062	7,537
Purchases of materials and external services	(11,850)	(8,436)	(9,233)	(2,775)	(3,230)
Personnel costs	(3,814)	(2,764)	(2,779)	(887)	(875)
Other operating expenses	(1,603)	(834)	(936)	(293)	(294)
Changes in inventories	27	70	39	(41)	(33)
Capitalised internal construction costs	713	466	325	162	114
Operating income before depreciation and amortisation, gains/losses and impairment losses/reversals on non-current assets (EBITDA)					
	12,864	9,570	9,704	3,228	3,219
Depreciation and amortisation	(4,808)	(3,497)	(3,806)	(1,214)	(1,310)
Gains/losses on disposals of non-current assets ⁽¹⁾	(9)	(8)	-	(2)	1
Impairment losses/reversals on non-current assets	(444)	(302)	(10)	(16)	(1)
Operating income (EBIT)	7,603	5,763	5,888	1,996	1,909
Share of earnings of equity investments in associates accounted for by the equity method	(5)	22	(39)	40	(24)
Financial income and expenses, net	(1,992)	(1,496)	(1,380)	(466)	(522)
Income from continuing operations before taxes					
	5,606	4,289	4,469	1,570	1,363
Income taxes for the period	(2,654)	(1,910)	(1,955)	(602)	(603)
Net income from continuing operations	2,952	2,379	2,514	968	760
Net income (loss) from discontinued operations/ assets held for sale	(118)	36	542	29	117
Net income for the period	2,834	2,415	3,056	997	877
Attributable to:					
• Parent Company	1,815	1,677	2,625	698	850
• Minority interests	1,019	738	431	299	27

	As of 30th September, 2005(*)	As of 31st December, 2004(*)	As of 30th June, 2005(*)
	<i>(Unaudited)</i>	<i>(Unaudited)**</i> <i>(millions of euro)</i>	<i>(Unaudited)</i>
Balance Sheet Data (in accordance with IFRS):			
Non-current assets:			
Goodwill and other intangible assets with an indefinite life	44,124	26,794	44,086
Intangible assets with a finite life	6,452	6,295	6,425
Tangible assets	18,144	17,869	18,197
Other non-current assets and deferred tax assets	6,959	6,761	7,222
Total non-current assets	75,679	57,719	75,930
Total current assets	20,520	20,052	16,555
Total assets held for sale	521	4,871	914
Total assets	96,720	82,642	93,399
Shareholders' equity:			
Attributable to Parent Company	25,072	16,251	24,128
Attributable to Minority interests	1,756	4,592	1,656
Total shareholders' equity	26,828	20,843	25,784
Non-current liabilities:			
Non-current financial liabilities (Long-term debt)	44,099	38,186	41,996
Other non-current liabilities	4,660	4,685	4,781
Total non-current liabilities	48,759	42,871	46,777
Current liabilities:			
Current financial liabilities (Short-term debt)	9,090	4,292	8,681
Other current liabilities	11,755	12,245	11,711
Total current liabilities	20,845	16,537	20,392
Total liabilities relating to assets held for sale	288	2,391	446
Total liabilities	69,892	61,799	67,615
Total shareholders' equity and liabilities	96,720	82,642	93,399

	As of 30th September, 2004(*)	As of 31st December, 2004(*)	As of 30th September, 2005(*)
	<i>(Unaudited)</i>	<i>(Unaudited)**</i> <i>(%)</i>	<i>(Unaudited)</i>
Financial Ratios (in accordance with IFRS):			
Operating income/Revenues (ROS)	27.7	26.9	26.8
Net financial debt/Net invested capital (debt ratio) ⁽²⁾	62.1	61.2	61.0

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digital Venezuela, TIM Hellas, TIM Perù and the Buffetti group.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January, 2004, at 31st December, 2004 and for the year ended 31st December, 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditors' report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

(1) Excluding gains/losses on disposals of assets classified as discontinued operations/ assets held for sale and equity investments in companies other than subsidiaries.

(2) For a discussion of the line item "Net Financial Debt", see "Summary Selected Financial Information and Statistical Operating Data - Financial Information under Italian GAAP as of and for the Two Years Ended 31st December 2003 and 2004". Net Financial Debt is calculated as follows:

	As of 30th September, 2005(*)	As of 31st December, 2004(*)	As of 30th June, 2005(*)
	<i>(Unaudited)</i>	<i>(Unaudited)**</i>	<i>(Unaudited)</i>
	<i>(millions of euro)</i>		
Gross Financial Debt			
Non-current financial liabilities (Long-term debt)			
- Financial payables	42,276	36,351	40,155
- Finance lease liabilities	1,822	1,832	1,840
- Other financial liabilities	1	3	1
	44,099	38,186	41,996
Current financial liabilities (Short-term debt)			
- Financial payables	8,847	4,064	8,448
- Finance lease liabilities	239	223	228
- Other financial liabilities	4	5	5
	9,090	4,292	8,681
Financial debt relating to assets held for sale	168	1,171	255
Total Gross Financial Debt (A)	53,357	43,649	50,932
Financial Assets			
Non-current financial assets			
- Securities other than equity investments	7	7	6
- Financial receivables and other non-current financial assets	547	438	671
Current financial assets			
- Securities other than equity investments	423	786	444
- Financial receivables and other current financial assets	782	765	1,537
- Cash and cash equivalents	9,532	8,418	4,122
Financial assets relating to assets held for sale	46	373	41
Total Financial Assets (B)	11,337	10,787	6,821
Net Financial Debt (A-B)	42,020	32,862	44,111

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digital Venezuela, TIM Hellas, TIM Perù and the Buffetti group.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January, 2004, at 31st December, 2004 and for the year ended 31st December, 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditor's report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

Statistical Operating Data

The following table presents certain statistical data regarding the Telecom Italia Group's operations:

	As of 31st December, 2004 (*) (**)	As of 30th September, 2004 (*)	As of 30th September, 2005 (*)
	<i>(in accordance with IFRS)</i>		
Employees:			
Employees (number in Group at period-end) ⁽¹⁾	79,970	81,504	81,778
Employees (average number in Group) ⁽¹⁾	77,649	77,715	77,108
Revenues/Employees (average number in Group) (thousands of €)	364.4	267.7	284.7
Wireline:			
Subscriber fixed-lines in Italy (thousands) ⁽²⁾	25,957	26,156	25,407
ISDN equivalent lines in Italy (thousands) ⁽³⁾	5,805	5,883	5,589
Broadband Access in Italy and abroad (thousands) ⁽⁴⁾	4,430	3,655	5,943
Voice flat-rate plans (thousands) ⁽⁵⁾	5,883	5,790	6,290
Page views Virgilio (millions, up to respective date for period)	7,902	5,719	6,948
Network infrastructure in Italy:			
—access network in copper (millions of km – pair) . . .	105.2	105.2	105.2
—access network and transport in fibre optics (millions of km of fibre optics)	3.7	3.6	3.7
Network infrastructure abroad:			
—European backbone (km of fibre optics)	39,500	39,500	39,500
Mobile:			
Mobile lines in Italy at period-end (thousands) ⁽⁶⁾	26,259	26,203	27,254
Mobile foreign lines at period-end (thousands) ⁽⁷⁾	13,588	11,724	18,340
Total mobile lines at period-end (Italy + foreign in thousands) ⁽⁷⁾	39,847	37,927	45,594
GSM ⁽⁸⁾ penetration in Italy (per cent. of population)	99.8	99.8	99.8
E-TACS ⁽⁹⁾ penetration in Italy (per cent. of population)	97.9	97.9	97.9
Media:			
La7 ⁽¹⁰⁾ average audience share (per cent.)	2.4	2.3	2.6
La7 ⁽¹⁰⁾ audience share (month of December or September, respectively) (per cent.)	2.6	2.5	2.7

(*) In the periods under comparison, the following have been considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digital Venezuela, TIM Hellas, TIM Perù and the Buffetti group.

(**) On 14th June, 2005, Reconta Ernst & Young S.p.A. issued an auditors' report, based on local audits standards, on the Statements of Reconciliation to IFRS of the Telecom Italia Group at 1st January, 2004, at 31st December, 2004 and for the year ended 31st December, 2004 (the "IFRS Reconciliation Statements") as part of the Group's conversion to IFRS. The IFRS Reconciliation Statements, which are incorporated by reference elsewhere herein, are based on the audited consolidated financial statements of the Group as of 31st December, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which the auditors had previously audited and for which they had issued an auditors' report dated 16th March, 2005. However, the data presented in the IFRS Reconciliation Statements may require adjustments before its inclusion as comparative information in the first complete set of consolidated financial statements of Telecom Italia under IFRS, as new IFRS standards or IFRIC interpretations may be adopted with retroactive effect during the intervening period.

(1) Excludes employees relating to the consolidated companies considered as discontinued operations/assets held for sale.

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

(3) Data exclude internal lines.

(4) Number of contracts.

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

(6) Includes TACS, GSM and UMTS services, including Prepaid Customers and excludes the "silent" lines. The Italian market, which has a high penetration of prepaid cards, is characterized by certain customers acquiring multiple lines in order to take advantage of specific/time-limited commercial offers. Once these offers expire these customers tend not to continue the use of such lines which is facilitated by the prepaid nature of the arrangement. As a result, TIM Italia excludes the silent lines in order to provide greater consistency between the number of lines managed by the Company and the development of the business.

(7) Foreign lines exclude those of the consolidated companies considered as discontinued operations/assets held for sale.

(8) Global System for Mobile Communications.

(9) Extended Total Access Communication System.

(10) Refers to La7 television programming.

DIRECTORS, EXECUTIVE OFFICERS AND STATUTORY AUDITORS

Directors

All Directors of Telecom Italia (with the exception of Marco De Benedetti and Enzo Grilli) were elected at the Telecom Italia shareholders' meeting held on 6th May, 2004 for a three-year term, which will expire at the annual shareholders' meeting to be called to approve the Company's financial statements for the year ended 31st December, 2006. The shareholders' meeting of 7th April, 2005 resolved to enlarge the Board of Directors by increasing the number of Directors from nineteen to twenty-one and appointed, as additional Directors, Marco de Benedetti and Enzo Grilli. The new Directors were elected to serve concurrently with the other Directors, until the shareholders' meeting that will be called to approve the financial statements for the year ended 31st December, 2006. On 26th July, 2005, Marco de Benedetti was appointed Managing Director of Telecom Italia and on 5th October, 2005, he resigned from all operational activities in the Telecom Italia Group. Currently the Board is composed of twenty Directors.

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

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

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Marco Tronchetti Provera ⁽¹⁾	Chairman	2004
Gilberto Benetton ⁽¹⁾	Deputy Chairman	2004
Carlo Orazio Buora ⁽¹⁾	Managing Director	2004
Riccardo Ruggiero ⁽¹⁾	Managing Director—General Manager	2004
Paolo Baratta ⁽²⁾	Director	2004
John Robert Sotheby Boas ⁽²⁾	Director	2004
Giovanni Consorte	Director	2004
Domenico De Sole ⁽²⁾	Director	2004
Francesco Denozza ⁽²⁾	Director	2004
Luigi Fausti ⁽²⁾	Director	2004
Guido Ferrarini ⁽²⁾	Director	2004
Jean Paul Fitoussi ⁽²⁾	Director	2004
Enzo Grilli ⁽²⁾	Director	2005
Gianni Mion	Director	2004
Massimo Moratti	Director	2004
Marco Onado ⁽²⁾	Director	2004
Renato Pagliaro	Director	2004
Pasquale Pistorio ⁽²⁾	Director	2004
Carlo Alessandro Puri Negri	Director	2004
Luigi Roth ⁽²⁾	Director	2004

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

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

Description of Directors' Outside Interests

Marco Tronchetti Provera: Marco Tronchetti Provera is Chairman of Pirelli & C. S.p.A., of Pirelli & C. Real Estate S.p.A., of Olimpia S.p.A., Camfin S.p.A., Marco Tronchetti Provera & C. S.p.A. and GPI – Gruppo Partecipazioni Industriali S.p.A., Deputy Chairman of Confindustria, a Director of Luigi Bocconi University, of Teatro alla Scala Foundation, Chairman of the Council for Relations between Italy and the United States and of the Silvio Tronchetti Provera Foundation, and a member of the European Round Table of Industrialists, of the Italian Group of the Trilateral Commission, of the International Advisory Board of Allianz, of the International Council of J.P. Morgan, of the New York Stock Exchange European Advisory Committee and of the Assonime Steering Committee.

Gilberto Benetton: Gilberto Benetton is Deputy Chairman of Olimpia S.p.A., Chairman of Edizione Holding S.p.A., Autogrill S.p.A., Ragione s.p.a. and Verde Sport S.p.A., Vice Chairman of Fondazione Benetton and Director of Benetton Group S.p.A., Banca Antonveneta S.p.A., Pirelli & C. S.p.A., Mediobanca S.p.A., Schemaventotto S.p.A., Lloyd Adriatico S.p.A., Autostrade S.p.A. and Beni Stabili S.p.A.

Carlo Orazio Buora: Carlo Orazio Buora is Chairman of TIM Italia S.p.A. He is also Managing Director of Pirelli & C. S.p.A. and a Director of Pirelli & C. Real Estate S.p.A., of Olimpia S.p.A., of RCS Mediagroup S.p.A., of Ras S.p.A., and of Mediobanca S.p.A. Mr. Buora has been Deputy Chairman of F.C. Internazionale S.p.A. since January 2004.

Riccardo Ruggiero: Riccardo Ruggiero is Managing Director of TIM Italia S.p.A.

Paolo Baratta: Paolo Baratta is a member of the Società Italiana degli Economisti and is Chairman of the Comitato Venezia Internazionale, the Centro per la Proprietà Intellettuale di Venezia and the Fondazione Lorenzo Valla. He is also a Director of Banca Finnat Euroamerica, Svimez-Roma, the Fondo per l'Ambiente Italiano (FAI) and the Istituto per gli Studi Storici in Naples.

Giovanni Consorte: Giovanni Consorte is Chairman and Managing Director of Unipol Assicurazioni and Finsoe S.p.A., Deputy Chairman and Managing Director of Unipol Banca S.p.A. and Unipol Merchant Banca per le Imprese and Deputy Chairman of Aurora Assicurazioni S.p.A. He is also a Director of Hopa S.p.A. and Euresa Holding S.p.A. Mr. Consorte is a member of the Executive Committee of A.N.I.A. (the Italian Association of Insurance Companies), the Management Board of the Lega Nazionale Cooperative e Mutue, the Scientific Committee of Nomisma and the General Council of Assonime (the Association for Italy's Limited Liability Companies). Mr. Consorte is also a Registered Auditor.

Domenico De Sole: Domenico De Sole is a Director of Procter & Gamble (member of the Audit and Governance and Nominating Committees), of Bausch & Lomb (member of the Audit Committee), Gap, Inc. (member of the Compensation Committee) and Delta Air Lines Inc. He is a member of the Advisory Board of the Harvard Law School.

Francesco Denozza: Francesco Denozza is Professor of Commercial Law at the University of Milan, a lawyer and co-editor of the legal review "Giurisprudenza Commerciale".

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

Guido Ferrarini: Guido Ferrarini is a professor of law at the University of Genoa and Director of the Centre of Law and Finance, He is also Chairman of TLX S.p.A. (a new Italian investment exchange) and Deputy Chairman of the European Corporate Governance Institute (ECGI), Brussels. Mr. Ferrarini is an independent Director of Autostrade S.p.A. and of Assogestioni (the Italian Asset Managers Association). Mr. Ferrarini is co-editor of the Rivista delle Società (Giuffrè) and editor of ECGI Law Working Papers.

Jean Paul Fitoussi: Jean-Paul Fitoussi is Professor of Economics at the Institut d'Études Politiques in Paris, where he has taught since 1982 and whose Scientific Committee he now chairs. He is currently President of the Observatoire Français des Conjonctures Économiques (OFCE), an economic research and forecasting institute. Mr. Fitoussi is managing editor of the Revue et Lettre de L'OFCE and serves on the scientific committee of the Revue Française d'Économie, the editorial board of Labour and of The International Journal of Development Planning Literature, and the scientific committee of International Labour Review and Critique Internationale. He is a commentator for La Repubblica and Le Monde. Since 2002 he has been Director of the Fondation Nationale des Sciences Politiques.

Enzo Grilli: Enzo Grilli is a Director of Generali S.p.A. and Impregilo S.p.A.

Gianni Mion: Gianni Mion is Deputy Chairman of TIM Italia S.p.A., Director of Telecom Italia Media S.p.A. and Olimpia S.p.A. and Managing Director of Edizione Holding S.p.A. and Schemaventotto S.p.A., Director of Benetton Group S.p.A., Autogrill S.p.A., 21-Investimenti, Autostrade S.p.A., Banca Antonveneta S.p.A., Cartiere Burgo S.p.A. and Luxottica Group S.p.A. Mr. Mion is also a Registered Auditor.

Massimo Moratti: Massimo Moratti is Director of Angelo Moratti—di Gianmarco e Massimo Moratti & C. S.p.A., Managing Director of Saras S.p.A. Raffinerie Sarde, Chairman of Sarint S.A. and Director of Interbanca S.p.A. and Pirelli & C. S.p.A.

Marco Onado: Marco Onado teaches at Bocconi University. He is a member of the Società Italiana degli Economisti, the Scientific Committee of the Ente per gli Studi Monetari, Bancari e Finanziari Luigi Einaudi and Prometeia—Associazione per le Previsioni Econometriche. He also sits on the editorial board of several

specialised reviews and is a columnist for the financial newspaper Il Sole 24 Ore. At present he is a member of the Consiglio Nazionale dell'Economia e del Lavoro (CNEL), designated by the President of the Republic. He has been Chairman of Pioneer Global Asset Management S.p.A. (Unicredit Group) since December 2004.

Renato Pagliaro: Renato Pagliaro is a Registered Auditor. In April 2003 he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A. Mr. Pagliaro is a Director and member of the Executive Committee of RCS Mediagroup S.p.A., Compass S.p.A. and Cartiere Burgo S.p.A. He is also a Director of Ferrari S.p.A., SelmaBipiemme Leasing S.p.A. and Cofactor S.p.A. Since 1993 he has been a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l.

Pasquale Pistorio: Pasquale Pistorio serves on the boards of MEDEA, the European programme for advanced technological research that is the successor to MEDEA (Microelectronics for European Applications), and of JESSI (Joint European Sub-micron Silicon Initiative). He is also a member of the Information and Communications Task Force created by the United Nations. In March 2005 Mr. Pistorio was appointed honorary Chairman of STMicroelectronics N.V.

Carlo Alessandro Puri Negri: Carlo Alessandro Puri Negri is Director of Aon Italia S.p.A. and Olimpia S.p.A. He is Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A., Deputy Chairman of Camfin S.p.A. and Pirelli & C. S.p.A. and Chairman of Pirelli & C. Ambiente S.p.A. Since 2003, Mr. Puri Negri has been a Director of Istituto Europeo di Oncologia S.r.l. and a member of the Real Estate Int. Advisory Board of Harvard University. He is also a Director and an Executive Committee member of Capitalia S.p.A. as well as a Director of Fondazione Cerba and Assoimmobiliare (real estate industrial association in Italy).

Luigi Roth: Luigi Roth became, in January 2001, Chairman of the Milan Fair Foundation, which controls Fiera Milano S.p.A. and Sviluppo Sistema Fiera. He is Deputy Chairman of Cassa Depositi e Prestiti S.p.A. and a Director of Intesa Gestione Crediti S.p.A., Banca MB S.p.A., BPM Private Equity, Bocconi University in Milan and Art'è S.p.A.

Executive Officers

As of 18th October, 2005 the executive officers of Telecom Italia and their respective position(s) and year of appointment as executive officers were as follows:

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Marco Tronchetti Provera	Executive Chairman ⁽¹⁾	2001
Carlo Orazio Buora	Managing Director ⁽¹⁾	2001
Riccardo Ruggiero	Managing Director ⁽¹⁾	2003
	General Manager of Telecom Italia	2003
	Head of Operations	2005
Giuseppe Sala	General Manager of Telecom Italia	2003

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

Board of Statutory Auditors

The following table lists the members of the Telecom Italia Board of Statutory Auditors, including the Alternate Auditors, with their respective position and year of appointment. The current Telecom Italia Board of Statutory Auditors was appointed by the Olivetti General Meeting on 26th May, 2003.

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Ferdinando Superti Furga	Chairman	2003
Rosalba Casiraghi ⁽¹⁾	Auditor	2003
Paolo Golia ⁽¹⁾⁽²⁾	Auditor	2003
Salvatore Spiniello	Auditor	2003
Gianfranco Zanda ⁽³⁾	Auditor	2003
Enrico Laghi	Alternate Auditor	2003
Enrico Maria Bignami ⁽¹⁾⁽²⁾	Alternate Auditor	2003

(1) Elected by minority shareholders.

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

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

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

Ferdinando Superti Furga	Director of Ipi S.p.A. and Risanamento S.p.A.; member of the Board of Auditors of Arnoldo Mondadori Editore S.p.A. and Edison S.p.A.
Rosalba Casiraghi	—
Paolo Golia	—
Salvatore Spiniello	Director of Fondiaria Sai S.p.A.; Chairman of the Board of Auditors of Immobiliare Lombarda S.p.A.; member of the Board of Auditors of Edison S.p.A., Telecom Italia Media S.p.A. and Unicredit Banca S.p.A.
Gianfranco Zanda	Member of the Board of Auditors of TIM Italia S.p.A.

Potential Conflicts of Interest

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

Some of the Directors and Statutory Auditors of Telecom Italia, besides their roles in Telecom Italia, perform management and/or supervisory duties in other companies and/or institutions (see “Directors”, “Description of Directors’ Outside Interests” and “Board of Statutory Auditors”). Consequently, it cannot be excluded that potential conflicts of interests may arise in the future, should said companies and/or institutions enter into commercial or other types of transactions with Telecom Italia which are not at arms’ length and within the ordinary course of business and/or are capable of significantly influencing the profits and losses, assets and liabilities and financial situation of Telecom Italia or the Telecom Italia Group.

DESCRIPTION OF TI FINANCE

The legal and commercial name of the company is Telecom Italia Finance.

Telecom Italia Finance S.A. (**TI Finance**) was incorporated on 2nd June, 2000 for an unlimited duration in the Grand-Duchy of Luxembourg as a *société anonyme*, governed by the Luxembourg law of 10th August, 1915 on commercial companies, as amended, and is a 99.9999 per cent.-owned subsidiary of Telecom Italia S.p.A. The following are the only subsidiaries of TI Finance, all of which are 100 per cent.-owned by TI Finance: Edotel S.p.A., Olivetti Holding B.V., Olivetti International (Service) S.A., Olivetti Systems Technology Corporation and Telsi Unlimited. One of TI Finance's principal purposes as a subsidiary of Telecom Italia is to raise funds for the Telecom Italia Group. TI Finance is registered with the Registre de Commerce et des Sociétés of Luxembourg under B-76.448. TI Finance's Articles of Incorporation were published in the *Mémorial C, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations n 773* on 21st October, 2000. The Articles of Incorporation have been modified several times. The latest modifications to the Articles of Incorporation of TI Finance were made on 8th October, 2004 and were published in the *Mémorial C, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations n. 37* on 13th January, 2005.

TI Finance's registered office and postal address is 287-289, Route d'Arlon, L-1150 Luxembourg, and its telephone number is +352 45 60601.

Capitalisation

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

Business

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

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

Board of Directors

All directors of TI Finance, with the exception of Ms. Francesca Petralia, were elected by the shareholders meeting held on 25th March, 2005, which resolved to appoint seven board members. Ms. Francesca Petralia was elected on 4th November, 2005 by the Board of Directors and confirmed by the shareholders meeting held on 21st November, 2005 in order to substitute one of the two board members who resigned between September and October 2005. The second director has not been replaced and the latter shareholders meeting resolved to reduce the number of members of the Board of Directors from seven to six. The mandate of all Board members shall expire at the shareholders general meeting to be called to approve the TI Finance financial statements for the year ended 31st December, 2007.

The following are the directors of TI Finance:

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

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

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

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

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

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

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

The business address of each of the Directors is c/o Telecom Italia Finance S.A., 287-289 route d'Arlon, L-1150, Luxembourg.

Description of Directors' Outside Interests

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

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

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

Statutory Auditor

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

Potential Conflicts of Interest

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

Financial Year

The financial year of TI Finance is the calendar year.

Financial Information

The first statutory financial statements of TI Finance to be externally audited were those for the year ended 31st December, 2000. TI Finance is not required under Luxembourg law to, and does not, publish interim financial statements, but it has nevertheless prepared interim financial statements as of 30th June and 30th September, 2005 for internal purposes only.

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

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

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

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

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 1.00 per cent Exchangeable (into TIM, or TI Media S.p.A. and Seat Pagine Gialle 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 S.A., a wholly-owned finance subsidiary that was merged in 2002 into TI Finance). On 15th March, 2004 the exercise of a put option by Noteholders holding €466,000 in principal amount of Notes reduced the outstanding amount to €1,964,034,000.

Following the payment of the 2002 dividend by TIM, the exchange ratio relating to TIM changed from 90.9091 TIM shares per €1,000 principal amount of Notes to 91.479542886. It was further adjusted to 91.879193537 following the 2003 TIM dividend payment. Due to the payment of the 2003 Seat Pagine Gialle dividend, the

exchange ratio of 168.6046 Seat Pagine Gialle shares was adjusted to 360.2080473 Seat Pagine Gialle ordinary shares per €1,000 principal amount of notes. Moreover, in November 2004, TI Media S.p.A. concluded a capital increase pursuant to which 564,333,957 TI Media ordinary shares were issued and the exchange ratio was consequently modified to 64.024481 TI Media shares per €1,000 principal amount of notes. The merger by TIM into its parent company Telecom Italia on 30th June, 2005, as a Relevant Event, resulted in the adjustment of the exchange ratio from 92.3924641834 TIM shares per €1,000 principal amount of notes (TIM paid the 2004 dividend in the meanwhile) to 159.838963073 Telecom Italia ordinary shares per €1,000 principal amount of notes.

Recent Developments

On 14th March, 2005, TI Finance repaid €283,000 in nominal amount related to the €500 million Floating Rate Extendable Notes, due 2005, issued by TI Finance and guaranteed by Telecom Italia. The Notes were held by noteholders that notified the Issuer, in December 2004, of their desire to be repaid upon the notes' maturity and not to extend maturity, as allowed under the terms and conditions.

On 18th March, 2005, the Special General Meeting of the Noteholders of the €1,500 million 5.00 per cent Guaranteed Notes due 2009 passed a resolution in order to, *inter alia*, exclude that any resolution passed by shareholders of Telecom Italia Mobile S.p.A. (**Telecom Italia Mobile**) approving the proposed merger of Telecom Italia Mobile with and into Telecom Italia shall constitute a resolution for the dissolution or winding-up of Telecom Italia Mobile within the meaning of the terms and conditions of the notes.

Since the beginning of 2005, TI Finance purchased certain of its own notes (originally €3,000 million, 6.125 per cent. fixed rate notes, maturing 20th April, 2006, with a remaining principal amount of €2,745 million as at 31st December, 2004) on the market in the principal amount of €183 million. The principal amount of debt outstanding with regard to these notes equalled approximately €2,562 million following the buyback.

From April to October 2005, TI Finance also purchased €141 million in nominal amount of its own 1 per cent. convertible notes, maturing 3rd November, 2005, on the market. On the maturity date of these notes, outstanding notes with a nominal value of €708,332,000 were redeemed for 113.40616 per cent. of their principal amount. From April to October 2005, TI Finance also purchased €209 million in nominal amount of its own 1 per cent. exchangeable notes, maturing 15th March, 2006.

On 30th May, 2005, as part of the restructuring of the Telecom Italia Group's Internet business, TI Finance transferred its wholly-owned subsidiary, ISM srl (an Italian company which directly and indirectly holds shareholdings in Matrix S.p.A., the owner of the Virgilio portal), to Telecom Italia for €97.8 million.

On 22nd June, 2005, TI Finance priced, for value date 29th June, 2005, an additional €250 million in nominal amount of its 7.75 per cent. fixed-rate notes due 2033, which are listed on the Luxembourg Stock Exchange. This increased the total amount of the notes outstanding in this series from an original nominal amount of €800 million to a nominal amount of €1,050 million. The issue was placed with a single investor and the proceeds of the issuance were used by TI Finance to repurchase €250 million in nominal amount of TI Finance's 7.77 per cent. fixed-rate notes, due 2032, from the same investor. On 21st July, 2005, the repurchased notes were cancelled.

In November 2005, TI Finance purchased €20 million in nominal amount of its own 6.5 per cent. fixed-rate notes, maturing 24th April 2007, on the market. In October and November 2005 TI Finance purchased €76 million in nominal amount of its own 5.875 per cent. fixed-rate notes, maturing 24th January, 2008.

The preceding description describes all events material to an evaluation of the Issuers' solvency.

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

Balance Sheets

	As of	As of
	31st December,	31st December,
	2004	2003
	<i>(euro)</i>	
Assets		
A) Fixed assets		
Intangible assets.....	20,370.74	28,395.08
Tangible assets.....	74,860.68	1,354,060.11
Financial assets:		
— Investments.....	1,714,466,106.62	119,494,352.10
— Receivables from parent company.....	12,974,678,779.38	5,479,980,000.00
— Receivables from affiliated companies.....	132,472,248.38	1,884,642,674.96
— Other securities.....	500,564,804.40	108,587,000.43
Total A).....	15,322,277,170.20	7,594,086,482.68
B) Current assets		
Receivables:		
— Receivables from parent company.....	—	67,000,000.00
— Receivables from affiliated companies.....	85,458,189.09	162,479,281.50
— Other financial receivables.....	29,165,014.52	63,076,710.63
— Other receivables.....	151,100.43	55,072.74
Securities:		
— Other securities.....	6,408,578,481.25	1,684,022,436.61
— Commercial paper.....	327,905,682.22	125,426,282.52
Cash at bank and bank deposit.....	2,275,861,600.11	1,754,241,533.33
Total B).....	9,127,120,067.62	3,856,301,317.33
C) Accrued income and prepaid expenses.....	1,178,507,520.68	503,442,814.29
D) Loss of the year.....		
	25,627,904,758.50	11,953,830,614.30
Contra Accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps.....	608,103,102.51	312,001,290.81
— Cross currency interest rate swaps and asset swaps.....	186,408,955.88	—
— Interest rate swaps.....	12,337,673,738.00	—
	13,132,185,796.39	312,001,290.81
Operations linked to variable-yield securities:		
— Equity linked Swap.....	—	1,749,211.84
	13,132,185,796.39	313,750,502.65

Notes:

(1) TI Finance's selected financial data as of and for the year ended 31st December, 2004 have been extracted from Telecom Italia Finance's financial statements for the year ended 31st December, 2004 prepared in accordance with Luxembourg GAAP, which have been approved by the shareholders of Telecom Italia Finance at its Annual Meeting of Shareholders held on 25th March, 2005.

(2) During year 2004, TI Finance incorporated the activities of two different Telecom Italia subsidiaries (Olivetti International S.A. and Olivetti Finance N.V., S.A.). Therefore the figures included in the 2003 and the 2004 financial statements are not comparable.

	As of 31st December, 2004	As of 31st December, 2003
	(euro)	
Liabilities		
A) Shareholders' equity		
Share capital	542,090,241.00	869,162,614.74
Reserve		
— Other reserve	1,500,241,636.76	1,466,614.22
Profit (loss) carried over	—	(947,784,705.42)
Net income for the year	(185,255,916.82)	333,253,324.56
Total A)	1,857,075,960.94	256,097,848.10
B) Reserve for future charges and risks		
Reserve for taxes	60,925,014.90	10,766,735.88
Other reserves for financial risks and charges	40,457,839.01	—
Extraordinary reserves for future other risks and charges on equity investments	9,559,613.32	—
	110,942,467.23	10,766,735.88
C) Liabilities		
— Long-term debt (> 12 months)		
Bonds	19,369,251,853.06	8,876,209,022.33
Due to third parties	143,215,180.81	148,093,298.78
— Short-term debt (< 12 months)		
Bonds	803,575,121.25	1,000,000,000.00
Due to affiliated companies	2,370,987,792.64	1,332,815,615.72
Due to third parties	920,111.69	1,942,274.16
Due to parent company	1,431,486.70	1,696,509.17
Other payables	3,033,339.95	1,874,955.89
Total C)	22,692,414,886.10	11,362,631,676.05
D) Accrued expenses and deferred income	967,471,444.23	324,334,354.27
	25,627,904,758.50	11,953,830,614.30
Contra accounts		
Operations linked to currency exchange rates and interest rates:		
— Cross currency swaps	608,103,102.51	312,001,290.81
— Cross currency interest rate swaps and asset swaps	186,408,955.88	—
— Interest rate swaps	12,337,673,738.00	—
	13,132,185,796.39	312,001,290.81
Operations linked to variable-yield securities:		
— Equity-linked swap		1,749,211.84
	13,132,185,796.39	313,750,502.65

Income Statements

	Year ended 31st December, 2004	Year ended 31st December, 2003
	<i>(euro)</i>	
Income		
Dividends	14,064,133.65	690,438.00
Other financial income	323,356,373.04	718,377,982.37
Other interests and financial income:		
— on commercial paper	9,360,465.24	3,766,271.13
— on receivables from parent company	443,712,763.88	110,566,241.46
— income on derivative financial instruments	155,328,026.25	15,780,532.40
— on receivables from banks	67,217,351.25	18,099,253.46
— on receivables from affiliated companies	68,559,625.47	35,380,160.20
— other financial incomes	35,380,740.23	5,209,346.24
	<u>779,558,972.32</u>	<u>188,801,804.89</u>
Extraordinary incomes	—	196,329.29
Revaluation of securities included in current assets	10,489,484.50	—
Revaluation of equity investments included in long-term investments	48,840,543.54	—
Absorption of reserve for write-down of receivables in current assets	823,658.00	—
Gains on extraordinary disposals of tangible assets	1,651,873.53	—
Gains on extraordinary disposals of equity investments and other securities	1,087,270.70	—
Rent	106,965.21	156,250.00
Other income	2,222,952.93	195.86
Loss for the year	185,255,916.82	—
	<u>1,367,458,144.24</u>	<u>908,223,000.41</u>
Expenses		
Personal expenses		
a) Wages and salaries	537,521.94	525,276.77
b) Social security contributions	340,036.96	213,362.81
	<u>877,558.90</u>	<u>738,639.58</u>
Amortisation of intangible and tangible assets	122,712.16	214,748.74
Writedowns of equity investments included in long-term investments	11,221,006.54	—
Prior years' income taxes	2,700,000.00	—
Extraordinary provision to reserve for future risks/charges on equity investments not valued with equity method	8,347,595.56	—
Losses on extraordinary disposal of long-term investments	—	11,895,825.33
Other expenses	2,265,669.71	2,451,789.62
Write-down of investments and securities	14,728,634.17	18,817,518.14
Interest and other financial expenses:		
— on note	958,187,743.97	462,464,096.98
— on amount due to banks	8,293,607.53	4,427,278.07
— on amount due to parent company	3,337,337.02	3,027,641.98
— on amount due to affiliated companies	130,741,495.39	33,095,879.05
— expenses on derivative financial instruments	113,011,715.61	12,971,700.54
— other financial expenses	68,035,586.96	14,157,728.12
	<u>1,281,607,486.48</u>	<u>530,144,324.74</u>
Extraordinary expenses	16,516.65	272,211.90
Other taxes	45,570,964.07	10,434,617.80
Net income for the year	—	333,253,324.56
	<u>1,367,458,144.24</u>	<u>908,223,000.41</u>

TAXATION

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

The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.

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. Legislative Decree No. 344 of 12th December, 2003 (**Decree No. 344**) published in the Italian Official Gazette of 16th December, 2003, No. 261 (Ordinary Supplement No. 190), effective as of 1st January, 2004, introduced the reform of taxation of companies and of certain financial income amending the Italian Income Taxes Consolidated Code. On 18th March, 2005, the Italian Government approved a draft of Legislative Decree (so-called “Correttivo IRES”), currently pending for necessary approval from the Parliament, that provides for some amendments to such part of the reform that may impact on the current provisions of the Italian Income Taxes Consolidated Code. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes, including the application to their particular situation of the tax considerations discussed below.

The Republic of Italy

Tax treatment of Notes issued by Telecom Italia

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

Italian resident Noteholders

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

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

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

Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund (a **Fund**) or a SICAV and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but to a 12.5 or to a 5 per cent. annual substitute tax (each a **Collective Investment Fund Tax**). The substitute tax is calculated on the net result accrued at the end of the tax period. Pursuant to Article 12 of Law Decree No. 269 of 30th September, 2003, (**Decree No. 269**), the 5 per cent. substitute tax on the net result accrued at the end of the tax period applies if: (i) according to the Fund management regulation or to the SICAV bylaws, the Fund or the SICAV hold a participation of at least two-thirds of their portfolio in small or medium capitalised companies listed on EU stock exchanges; and (ii) following the first year from the application of this tax regime and during the subsequent years (with certain days of tolerance in each year), the participation in small or medium capitalised companies is equal at least to two-thirds of the portfolio of the Fund or of the SICAV. For the purpose of Article 12 of Decree No. 269, a small or medium capitalised company is a company with a market capitalisation not greater than €800,000,000, calculated with reference to the market price as registered in the last trading day of each quarter. On 7th September, 2005, the EC decided that the 5 per cent. substitute tax violates the EU treaty State Aid rules. As a consequence, the EC requested Italy to eliminate this advantage and to remove the advantage with retroactive effect recovering the taxes that should be paid.

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

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

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

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

Non-Italian resident Noteholders

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

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

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

Early redemption

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

Notes with an original maturity of less than 18 months

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

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

Tax treatment of Notes issued by TI Finance

Decree No. 239 also provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by non-Italian resident issuers.

Italian resident Noteholders

Pursuant to Decree No. 239, an *imposta sostitutiva* equal to (a) 12.5 per cent. in relation to Notes issued with an original maturity of not less than 18 months and (b) 27 per cent. in relation to Notes issued with an original maturity of less than 18 months, is applied on any payment of interest, premium and other income accrued during the relevant holding period in respect of the Notes issued by TI Finance if payments are made to (i) an Italian individual, (ii) an Italian non-commercial partnership, (iii) an Italian non-commercial private or public institution, or (iv) an Italian investor exempt from Italian corporate income taxation. If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, *imposta sostitutiva* applies as a provisional tax.

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

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

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

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

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

Non-Italian resident Noteholders

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

Payments made by an Italian resident guarantor

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

Atypical securities

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

In the case of Notes issued by Telecom Italia, where the Noteholder is (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are connected, (iv) an Italian commercial partnership or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, the withholding tax is a final withholding tax. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

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

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income if realised by an Italian company or a similar commercial entity including the permanent establishment in Italy of foreign entities to which the Notes are connected or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non commercial partnership, (iii) a non commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to *imposta sostitutiva*, levied at the current rate of 12.5 per cent. Noteholders may set off losses with gains.

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

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

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

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

Any capital gains realised by a Noteholder who is an Italian real estate fund to which the provisions of Law Decree No. 351 as subsequently amended, apply will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund.

Any capital gains realised by a Noteholder who is an Italian Fund or a SICAV will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 12.5 per cent. or 5 per cent. substitute tax.

On 7th September, 2005, the EC decided that the 5 per cent. substitute tax violates the EU treaty State Aid rules. As a consequence, the EC requested Italy to eliminate this advantage and to remove the advantage with retroactive effect recovering the taxes that should be paid.

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

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

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

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

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

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

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.

Moreover, an anti-avoidance rule is provided for in case of gift of assets whose sale for consideration would give rise to capital gains to be subject to the *imposta sostitutiva* provided for by Legislative Decree No. 461 of 21st November, 1997, as subsequently amended, such as the Notes. In particular, if the donee sells the Notes for consideration within 5 years from their receipt as a gift, the donee is required to pay the relevant *imposta sostitutiva* as if the gift had never taken place.

Transfer tax

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

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

Tax monitoring

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

EU Savings Directive

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

Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (**Decree No. 84**). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid starting from 1st July, 2005 to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian qualified paying agents shall not apply the withholding tax and shall report details of the relevant payments and personal information on the individual beneficial owner to the Italian Tax Authorities. Such information is transmitted by the Italian Tax Authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

Luxembourg

Tax Residency

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

Withholding tax

Under Luxembourg tax law currently in effect and subject to the application of the Luxembourg laws dated 21st June, 2005 (the **Laws**) implementing the European Council Directive 2003/48/EC on the taxation of savings income (the **Directive**) and several agreements concluded between Luxembourg and certain dependent territories of the European Union, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to Luxembourg resident and non-resident Noteholders. There is also no Luxembourg withholding tax, subject to the application of the Laws, upon repayment of the principal or upon redemption or exchange of the Notes.

Luxembourg withholding tax will most likely be introduced as from 1st January, 2006 at the rate of 10 per cent. for interest payments made to Luxembourg individual residents.

Under the Directive, a Luxembourg based paying agent (within the meaning of the Directive) is required since 1st July, 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State, unless the beneficiary of the interest payments elects for an exchange of information. The same regime applies to payments to individuals resident in any of the following territories: Netherlands Antilles, Aruba, Guernsey, Jersey, the Isle of Man, Montserrat and the British Virgin Islands.

The withholding tax rate is initially 15 per cent. increasing steadily to 20 per cent. and to 35 per cent.. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries (the transitional period may therefore never end).

Taxation of the Noteholders

Taxation of Luxembourg non-residents

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

Taxation of Luxembourg residents

General

Luxembourg resident Noteholders, or non-resident Noteholders who have a permanent establishment or a fixed base of business in Luxembourg with which the holding of the Notes is connected, 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 redemption of the Notes, individual Luxembourg resident Noteholders must however include the portion of the redemption price corresponding to accrued but unpaid interest in their taxable income.

Luxembourg resident companies

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

Luxembourg resident companies benefiting from a special tax regime

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

Net wealth tax

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

Luxembourg net wealth tax will most likely be suppressed for Luxembourg individual resident Noteholders as from the year 2006.

Other taxes

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

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

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

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 2nd December, 2005, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuers have agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

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

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

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

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

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

United Kingdom

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

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

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 EMTN Programme Prospectus 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 EMTN Programme Prospectus 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 of 14th May 1999, as amended 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.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

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, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that no public offerings or sales of the Notes or any distribution of any offering material relating to any Notes will or may be made to the public in or from Luxembourg, except for Notes in respect of which the requirements of Luxembourg law concerning public offerings of securities in or from Luxembourg have been fulfilled. A listing of any Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in or from Luxembourg has been authorised.

General

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

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

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

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

GENERAL INFORMATION

Authorisation

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

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

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

Listing of Notes

Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities to approve this document as two base prospectuses, the base prospectus of Telecom Italia and the base prospectus of TI Finance. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this EMTN Programme Prospectus to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg's Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC). The Luxembourg Stock Exchange has allocated the number 12964 to Telecom Italia S.p.A. and the number 13163 to TI Finance.

Documents Available

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

- (a) the constitutional documents (with an English translation thereof) of each of Telecom Italia and TI Finance;
- (b) the consolidated and unconsolidated audited financial statements of Telecom Italia for the financial years ended 31st December, 2003 and 31st December, 2004 (with an English translation thereof);
- (c) the audited unconsolidated financial statements of TI Finance in respect of the financial years ended 31st December, 2003 and 31st December, 2004 (with an English translation thereof);
- (d) the most recently published audited annual financial statements of each of Telecom Italia and TI Finance and the most recently published interim financial statements (if any) of each of Telecom Italia and TI Finance (in each case with an English translation thereof) as soon as such translation is available, in each case together with any audit or review reports prepared in connection therewith. Telecom Italia currently prepares the six-month interim and full year financial statements on both a consolidated and unconsolidated basis. Commencing 1st January, 2005 Telecom Italia prepares the first and third quarter financial statements only on a consolidated basis. TI Finance currently prepares unconsolidated audited financial statements for the 12-month period to 31st December in each year. According to Luxembourg law, TI Finance is not obliged to publish interim accounts although such accounts are prepared on an unconsolidated and unaudited basis solely for the requirements of Telecom Italia and are not published;
- (e) the Programme Agreement, the Trust Deed, the Agency Agreement, the Guarantee and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (f) a copy of this EMTN Programme Prospectus, free of charge; and
- (g) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document) and the Final Terms relating to such Notes, which shall be available free of charge.

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

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

Except as disclosed in this EMTN Programme Prospectus, there has been no significant change in the financial or trading position of each of the Issuers since 30th September, 2005 and there has been no material adverse change in the financial position or prospects of each of the Issuers since 31st December, 2004.

Legal and Arbitration Proceedings

Save as disclosed in the section “Description of Telecom Italia — Litigation”, neither Telecom Italia nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Telecom Italia, TI Finance or the Telecom Italia Group.

Conditions for determining price

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

Auditors

The consolidated and unconsolidated financial statements of Telecom Italia, prepared under Italian GAAP, for the financial years ended 31st December, 2003 and 31st December, 2004 were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein.

The consolidated and unconsolidated interim financial statements of Telecom Italia, prepared under IFRS and Italian GAAP, respectively, for the six months ended 30th June, 2004 and 2005 were subject to a limited review, without qualification and in accordance with generally accepted auditing standards in Italy, by Reconta Ernst & Young S.p.A., as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein.

Reconta Ernst & Young S.p.A. is registered under No. 2 in the Special Register (Albo Speciale) maintained by CONSOB and set out at Article 161 of the Unified Text of the Rules for the Capital Markets (Testo Unico delle Disposizioni in materia di mercati finanziari) and under No. 70945 in the Register of Accountancy Auditors (Registro dei Revisori Contabili), in compliance with the provisions of the Legislative Decree 27th January, 1992, N°88. Reconta Ernst & Young S.p.A. is also a member of ASSIREVI, the Italian association of auditing firms.

The TI Finance financial statements at 31st December, 2004 and 2003 were audited, without qualification and in accordance with generally accepted auditing standards in Luxembourg by Ernst & Young S.A. (Luxembourg), independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference elsewhere herein. Ernst & Young S.A. (Luxembourg) is a member of the Institut des Reviseurs d'entreprises Luxembourgeois and the Ordre des Experts – Comptables Luxembourgeois.

Trustee's Reliance on Certificates and Reports

The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of either Issuer or, as the case may be, the Guarantor, or any other expert provided to the Trustee (whether or not addressed to the Trustee) in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein

notwithstanding that any such certificate or report or any engagement letter or other document entered into by the Trustee and such auditors or such other expert in connection therewith contains any limit on the liability of such auditors or such other expert.

Post-issuance Information

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

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

Piazza degli Affari, 2
20123 Milan
Italy

**REGISTERED AND HEAD OFFICE OF
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J.P. Morgan Corporate Trustee Services Limited

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ISSUING AND PRINCIPAL PAYING AGENT

JPMorgan Chase Bank, N.A.

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LUXEMBOURG PAYING AGENT

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

Allen & Overy

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To the Issuers as to Luxembourg law

Linklaters Loesch

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To the Issuers as to Italian tax law

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LUXEMBOURG LISTING AGENT

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