



## Telecom Italia Capital

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

Issue price: 99.732%

Interest Payable on January 15 and July 15

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

Issue price: 99.651%

Interest Payable on March 30 and September 30

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

Issue price: 99.081%

Interest Payable on March 30 and September 30

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

**Telecom Italia S.p.A.**

---

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

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

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

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

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

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

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

---

*Joint Book-running Managers*

**GOLDMAN, SACHS & CO.**

**JPMORGAN**

**LEHMAN BROTHERS**

**MERRILL LYNCH & CO.**

**MORGAN STANLEY**

September 28, 2004

## TABLE OF CONTENTS

	<u>Page</u>
Where You Can Find More Information .....	1
Enforceability of Civil Liabilities Under the United States Securities Laws .....	3
Cautionary Statement Relating to Forward-looking Statements .....	4
Presentation of Certain Financial and Other Information .....	6
Summary .....	7
Description of the Companies .....	7
Recent Developments .....	8
The Offering .....	9
Summary Selected Financial Information .....	13
Risk Factors .....	21
Use of Proceeds .....	22
Capitalization .....	23
Description of Telecom Italia Capital .....	25
Description of Telecom Italia .....	27
Description of Notes and Guarantees .....	45
Book Entry Settlement and Clearance .....	61
Transfer Restrictions .....	63
Exchange Offer and Registration Rights .....	66
Tax Considerations .....	68
Plan of Distribution .....	74
Legal Matters .....	79
Independent Accountants .....	79
General Information .....	79
Financial Statements of Telecom Italia Capital .....	F-1

---

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

---

This listing memorandum may only be used for the purposes for which it has been published.

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

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

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

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

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

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

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

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

The information set out in the sections of this listing memorandum describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, and Clearstream in each case as currently in effect. The information in the sections of this listing memorandum concerning these clearing systems has been obtained from sources that we believe to be reliable, but we and the

Initial Purchasers take no responsibility for the accuracy of such information. If you wish to use the facilities of any of the clearing systems you should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. Telecom Italia, TI Capital and the Initial Purchasers will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records to such book-entry interests. See “Description of Notes and Guarantees” and “Book Entry Settlement and Clearance”.

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

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

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

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

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

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

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

## **NOTICE TO INVESTORS**

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

## **NOTICE TO INVESTORS IN ITALY**

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

## **NOTICE TO INVESTORS IN LUXEMBOURG**

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

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

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

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

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

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

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

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

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

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

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

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

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

### **NOTICE TO INVESTORS IN JAPAN**

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

### **NOTICE TO INVESTORS IN BELGIUM**

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

### **NOTICE TO INVESTORS IN SPAIN**

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

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



## WHERE YOU CAN FIND MORE INFORMATION

### Telecom Italia

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

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

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

### TI Capital

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

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

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

### Incorporation by reference

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

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



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

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

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

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

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

## CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

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

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

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

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

## **PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION**

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

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

## SUMMARY

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

### Description of the Companies

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

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

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

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

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

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

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

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

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

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

### **TI Capital**

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

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

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

### **Recent Developments**

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



### **The Offering**

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

<b>Issuer</b> .....	TI Capital
<b>Guarantor</b> .....	Telecom Italia
<b>Securities</b> .....	\$1,250,000,000 4% Guaranteed Senior Notes due 2010 (the “ <b>2010 notes</b> ”), \$1,250,000,000 4.95% Guaranteed Senior Notes due 2014 (the “ <b>2014 notes</b> ”) and \$1,000,000,000 6% Guaranteed Senior Notes due 2034 (the “ <b>2034 notes</b> ” and, together with the 2010 notes and the 2014 notes, the “ <b>notes</b> ”).
<b>Guaranty</b> .....	Telecom Italia will irrevocably and unconditionally guarantee the full and punctual payment of principal, interest, additional amounts and all other amounts, if any, that may become due and payable in respect of the notes. If TI Capital fails to punctually pay any such amount, Telecom Italia will immediately pay the same.
<b>Issue price</b> .....	99.732% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2010 notes, 99.651% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2014 notes and 99.081% of the principal amount, plus accrued interest from October 6, 2004, if any, for the 2034 notes.
<b>Maturities</b> .....	January 15, 2010 for the 2010 notes, September 30, 2014 for the 2014 notes and September 30, 2034 for the 2034 notes.
<b>Interest rate</b> .....	The 2010 notes will bear interest at a rate of 4% per annum, the 2014 notes will bear interest at a rate of 4.95% per annum and the 2034 notes will bear interest at a rate of 6% per annum.  The notes will bear interest from October 6, 2004 based upon a 360-day year consisting of twelve 30-day months.
<b>Interest payment dates</b> .....	January 15 and July 15 for the 2010 notes, March 30 and September 30 for the 2014 notes and March 30 and September 30 for the 2034 notes.
<b>Regular record dates</b> .....	January 1 and July 1 for the 2010 notes, March 15 and September 15 for the 2014 notes and March 15 and September 15 for the 2034 notes.
<b>Settlement date</b> .....	October 6, 2004.
<b>Use of proceeds</b> .....	We estimate that the net proceeds from this offering will be approximately U.S.\$3.464 billion. The net proceeds of this offering are intended to be used by the Guarantor and certain of its subsidiaries, not including the Issuer, for general corporate purposes, including the repayment of debt. See “Use of Proceeds” for additional information regarding the use of proceeds of this offering.
<b>Ranking</b> .....	The notes are unsecured by assets or property. The notes will rank equally in right of payment with all other senior unsecured

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

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

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

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

plus accrued interest thereon to the date of redemption.

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

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

**Form and denomination** . . . . . Delivery of the notes will be made on October 6, 2004 as described below.

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

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

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

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

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

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

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

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

For more details, see “Exchange Offer and Registration Rights”.

<b>Luxembourg listing</b> .....	TI Capital has applied to list the notes on the Luxembourg Stock Exchange in accordance with the rules and regulations of the Luxembourg Stock Exchange.
<b>Transfer restrictions</b> .....	The notes have not been registered under the Securities Act and are subject to restrictions on transfer. Italian investors should also note that under certain circumstances Italian taxes could apply. See “Transfer Restrictions”.
<b>Trustee, principal paying agent and registrar</b> .....	JPMorgan Chase Bank.
<b>Governing law</b> .....	New York. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded. In connection with a legal action or proceeding relating to the notes or the guarantees, TI Capital and Telecom Italia, respectively, will submit to the nonexclusive jurisdiction of any Federal or State court in the Borough of Manhattan, the City of New York.
<b>Ratings</b> .....	<p>Telecom Italia’s long-term rating is Baa2 with a stable outlook according to Moody’s, BBB+ with a positive outlook according to Standard &amp; Poors and A- with a stable outlook according to Fitch.</p> <p>A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.</p>
<b>Risk factors</b> .....	Prospective purchasers of the notes should consider carefully all of the information set forth in this listing memorandum and, in particular, the information set forth under “Risk Factors” and “Transfer Restrictions” and the discussion of risks relating to the business of the Telecom Italia Group set forth under the heading “Risk Factors” appearing in the Telecom Italia Annual Report incorporated by reference herein before making an investment in the notes.
<b>Selling restrictions</b> .....	There are restrictions on persons that can be sold notes, and on the distribution of this listing memorandum, as described in “Plan of Distribution”.
<b>Further issues</b> .....	TI Capital may issue as many distinct series of notes under the indenture as it wishes. TI Capital may, subject to certain conditions, without the consent of any holder of the notes, “reopen” the notes and issue additional notes having the same ranking, maturity and other terms (except for the issue date and issue price) as the notes to which this listing memorandum relates. Any further issue will be considered to be part of the notes offered hereby, will be fungible therewith after any applicable restricted period and will rank equally and ratably with the notes to which this listing memorandum relates.

### **Summary Selected Financial Information**

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

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

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

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

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

	Year ended December 31,					
	2000 pro forma (Unaudited)					
	1999(1)	2000(1)	(1)(2)	2001(1)	2002(1)	2003(1)
	(millions of Euro, except per share amounts)					
<b>Amounts in accordance with U.S. GAAP:</b>						
Total revenues	—	—	—	30,849	30,432	30,519
Operating income	—	—	—	3,661	7,225	8,095
Net income (loss) before minority interests, discontinued operations and cumulative effect of accounting changes	—	—	—	(2,932)	6,231	3,135
Minority interests	—	—	—	18	(3,016)	(1,523)
Net income (loss) from discontinued operations	—	—	—	(1,112)	(1,259)	250
Cumulative effect of accounting changes, net of tax	—	—	—	20	—	(21)
Net income (loss)	—	—	—	(4,006)	1,956	1,841
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Basic	—	—	—	(0.85)	0.79	0.18
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Diluted	—	—	—	(0.85)	0.79	0.18
Net income (loss) per Share from discontinued operations—Basic	—	—	—	0.01	0.00	0.00
Net income (loss) per Share from discontinued operations—Diluted	—	—	—	0.01	0.00	0.00
Net income (loss) per Share from cumulative effect of accounting changes— Basic	—	—	—	0.01	0.00	(0.00)
Net income (loss) per Share from cumulative effect of accounting changes— Diluted	—	—	—	0.01	0.00	(0.00)
Net income (loss) per Share—Basic(6)	—	—	—	(1.17)	0.48	0.20
Net income (loss) per Share—Diluted(6)	—	—	—	(1.17)	0.48	0.20

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



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

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

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

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

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

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

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

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

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

The calculations take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the Shares; until July 2000 the par value of ordinary, savings and preferred shares was Lire 1,000 per share. Furthermore, the Extraordinary Shareholders’ Meeting of Telecom Italia (formerly Olivetti S.p.A.) held on July 4, 2000 approved the conversion of 15,221,888 preferred shares and 78,629,488 savings shares, at par value, into an equal number of ordinary shares. Approval was also given during the same Extraordinary Shareholders’ Meeting to the free of charge share capital increase by utilizing unrestricted reserves, increasing the par value from Lire 1,000 to Lire 1,936.27 (corresponding to €1) of all the ordinary shares (both issued ordinary shares and shares that would have been issued in the future by implementing the resolutions previously passed with regard to conversion of bonds and the exercise of warrants), with the concurrent redenomination of share capital in euros. Finally, following the Merger, effective from August 4, 2003, the Telecom Italia share capital has consisted of Shares and Savings Shares. Net income per Savings Share was €1.04 in 1999, €0.08 in 2003, €0.07 in the first half of 2003 and €0.03 in the first half of 2004.

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

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

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

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

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

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

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

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

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

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

and then subtracting:

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

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

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

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

(12) Data exclude internal lines.

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

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

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

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

## **RISK FACTORS**

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

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

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

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

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

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

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

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

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

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

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

## **USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the notes will be approximately U.S.\$3.464 billion, after deducting the initial purchasers' discounts and commissions, which, at the exchange rate on September 28, 2004 of euro 1 = U.S.\$1.2335 as announced by the European Central Bank, corresponds to approximately €2.809 billion. The net proceeds of this offering are intended to be used by the Guarantor and certain of its subsidiaries, not including the Issuer, for general corporate purposes, including the repayment of debt.



## CAPITALIZATION

### Telecom Italia Group

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

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

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

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

(1) Since June 30, 2004, we have, on July 30, 2004, redeemed, at par and at maturity, €3,550 million principal amount of notes 1999-2004 (coupon 5<sup>3</sup>/<sub>8</sub>% + 0.45% step-up) issued by Telecom Italia Finance S.A. and included under total short-term debt through the use of cash and cash equivalents.

(2) The U.S.\$3,500 million aggregate principal amount of the notes to which this listing memorandum relates which were issued on October 6, 2004 has been translated into Euro using the Euro/U.S. dollar exchange rate of Euro 1 = U.S.\$1.2335 on September 28, 2004 as announced by the European Central Bank.

### Description of Capital Stock

There are two classes of Telecom Italia capital stock outstanding: Ordinary Shares and Savings Shares. As of June 30, 2004, the full paid-in capital stock amounted to €8,857,323,681.80 and was constituted of 10,308,303,807 Ordinary Shares and 5,795,921,069 Savings Shares, each of €0.55 par value.

## Telecom Italia Capital

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

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

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

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

TI Capital's share capital of 100,000 shares, nominal value € 23.36 per share, as set forth in the table above, has not changed since June 30, 2004. TI Capital has no outstanding securities convertible or exchange for its capital shares.

TI Capital is an indirect and direct wholly-owned subsidiary of Telecom Italia. TI Capital has no subsidiaries.

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

## DESCRIPTION OF TELECOM ITALIA CAPITAL

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

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

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

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

### Capitalization

See "Capitalization—Telecom Italia Capital".

### Business

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

### Board of Directors

The Directors of TI Capital are:

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

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

## Financial Information

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

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

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

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

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

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

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

## Financial Notices

Financial notices concerning TI Capital and intended for holders of debt securities are published in papers of general circulation in Luxembourg.

## Financial Year

The financial year of TI Capital is the calendar year.

## No Material Adverse Change

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

## Recent Developments

Except as disclosed in this listing memorandum, there has not been any material change or developments in the business of Telecom Italia Capital since June 30, 2004, other than the issuance of the 2010 notes, the 2014 notes and the 2034 notes.

## DESCRIPTION OF TELECOM ITALIA

*Unless indicated, statistical, operational and other information discussed in this section refers to the periods covered by the report of Telecom Italia on Form 6-K filed with the SEC on September 23, 2004, incorporated by reference herein.*

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. The duration of the company extends until December 31, 2100. The registered office and principal executive offices of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. Telecom Italia is registered at the Company Registry of Milan with inscription number 00488410010. The telephone number is +39-02-85951.

On July 18, 1997, Old Telecom Italia's predecessor company was merged with and into STET, its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to "Telecom Italia S.p.A.". In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatization of Telecom Italia selling substantially all of its stake in the Old Telecom Italia Group through a global offering, and a private sale to a stable group of shareholders.

On May 21, 1999, Olivetti, through a tender offer, obtained control of the Old Telecom Italia Group when approximately 52.12% of Old Telecom Italia ordinary shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

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

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

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

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

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

## **Capitalization**

See “Capitalization—Telecom Italia Group”

## **Business**

The corporate objects of Telecom Italia, as set out in Article 3 of the Bylaws, are:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating licensed telecommunications services for public use, and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

The following are the Directors of Telecom Italia:

**Marco Tronchetti Provera**  
**Gilberto Benetton**  
**Carlo Orazio Buora**  
**Riccardo Ruggiero**  
**Paolo Baratta**  
**John Robert Sotheby Boas**  
**Giovanni Consorte**  
**Domenico De Sole**  
**Francesco Denozza**  
**Luigi Fausti**  
**Guido Ferrarini**  
**Jean Paul Fitoussi**  
**Gianni Mion**  
**Massimo Moratti**  
**Marco Onado**  
**Renato Pagliaro**  
**Pasquale Pistorio**  
**Carlo Alessandro Puri Negri**  
**Luigi Roth**

## **Financial Information**

See “Summary—Summary Selected Financial Information”.

## **Financial Year**

The financial year of Telecom Italia is the calendar year.

## **No Material Adverse Change**

Since June 30, 2004 there has been no material adverse change, or any development reasonably likely to involve any adverse change, in the condition (financial or otherwise) of Telecom Italia, except as otherwise described herein.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Telecom Italia Group Results for the Six Months ended June 30, 2004 compared to June 30, 2003

The information in this section should be read in conjunction with the Telecom Italia Group's Unaudited Interim Consolidated Financial Statements, and the Notes thereto, included in Telecom Italia's report on Form 6-K filed with the SEC on September 23, 2004.

The summary selected financial data for the Telecom Italia Group as of June 30, 2004, and for the six months ended June 30, 2004 and 2003, have been extracted or derived from the unaudited interim consolidated financial statements prepared in accordance with Italian GAAP which, in our opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our results of operations for the unaudited interim periods. Results for the six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year.

#### Organic growth

Throughout the discussion which follows we use the term "organic growth". Organic growth means that the percentage changes provided assume that, on a six month period to six month period comparison basis, the effects of changes in the scope of consolidation are excluded and exchange rates are calculated on a constant currency basis. Constant currency means that the difference in exchange rates between periods are eliminated by using the same exchange rate. The historical results for the first half of 2004 are presented, while the results for the first half of 2003 have been adjusted to reflect changes in the scope of consolidation and to eliminate exchange rate effects. The following table reconciles first half 2003 historical figures to first half 2003 adjusted figures to show organic growth from the six months ended June 30, 2003 to the six months ended June 30, 2004 for operating revenues, gross operating profit and operating income. Management believes that providing this additional information enables the reader to better understand the actual operating changes which are impacting the results of operations.

	Six months ended June 30,		Growth	
	2004 (A)	2003 (B)	Amount (A-B)	%
	(millions of Euro, except percentages)			
<b>Operating revenues on a historical basis</b>	<b>15,222</b>	<b>15,149</b>	<b>73</b>	<b>0.5</b>
Changes in the scope of consolidation	—	(642)		
<i>Of which from the sale of New SEAT</i>	—	(563)		
Changes in exchange rates	—	(47)		
<b>Operating revenues on a comparable basis</b>	<b>15,222</b>	<b>14,460</b>	<b>762</b>	<b>5.3</b>
<b>Gross Operating Profit on a historical basis</b>	<b>7,089</b>	<b>6,921</b>	<b>168</b>	<b>2.4</b>
Changes in the scope of consolidation	—	(236)		
<i>Of which from the sale of New SEAT</i>	—	(242)		
Changes in exchange rates	—	(10)		
Cancellation of the TLC license fee impact	—	119		
<b>Gross Operating Profit on a comparable basis</b>	<b>7,089</b>	<b>6,794</b>	<b>295</b>	<b>4.3</b>
<b>Operating income on a historical basis</b>	<b>3,596</b>	<b>3,281</b>	<b>315</b>	<b>9.6</b>
Changes in the scope of consolidation	—	(138)		
<i>Of which from the sale of New SEAT</i>	—	(128)		
Changes in exchange rates	—	0		
Cancellation of the TLC license fee impact	—	143		
<b>Operating income on a comparable basis</b>	<b>3,596</b>	<b>3,286</b>	<b>310</b>	<b>9.4</b>



### ***Telecom Italia Group Consolidated Results***

For the six months ended June 30, 2004, our **consolidated net income** was €405 million (net income of €863 million before minority interests) compared to consolidated net income of €1,056 million (net income of €1,592 million before minority interests) for the first six months ended June 30, 2003.

The decrease in our consolidated net income (a decrease of €651 million) was due to the following factors:

- an increase in operating income (an increase of €315 million, of which €143 million was attributable to the cancellation of the TLC license fee following the verdict handed down by the European Court of Justice in September 2003);
- the improvement in financial income (expense), net of €342 million;
- the improvement in other income and (expense), net of €384 million;
- the lower minority interests in earnings of €78 million; and
- the higher income taxes of €1,770 million; in the first six months of 2003, the income taxes reflected a tax benefit of €288 million mainly as a result of the recognition of deferred tax assets (€1,286 million) which became recoverable due to the Merger between Olivetti and Old Telecom Italia. Without this benefit income taxes payable in the first six months of 2004 was a charge of €1,482 million.

Our **consolidated operating revenues** for the six months ended June 30, 2004 were €15,222 million, an increase of €73 million or 0.5% compared to the same period in 2003. Excluding the negative effects of exchange rate fluctuations (€47 million, of which €27 million related to the South America telecommunication companies) and changes to the consolidation area (€642 million, of which €563 million related to the sale of New SEAT from the Internet and Media Business Unit which occurred on August 1, 2003), organic growth reached 5.3% (an increase of €762 million).

Organic growth of consolidated operating revenues reflected:

- a significant increase in the revenues of the Mobile Business Unit (an increase of €664 million), which was driven by the domestic market—voice traffic and value-added services (an increase of €304 million)—and by the Brazilian market;
- an increase of €74 million in the revenues of the Wireline Business Unit, largely attributable to the success in developing the Broadband market and innovative services—in particular Web services—the maintenance of our position in the core market of Retail Telephone and further enhancements to the offering of wholesale services;
- an increase of €48 million in the revenues of the Internet and Media Business Unit, €17 million in the IT Market Business Unit and €14 million in the Olivetti Tecnost Business Unit; and
- a decrease of €45 million in the revenues of wireline/integrated companies in South America (mainly due to the Entel Chile Group).

Operating revenues from telecommunications services are shown gross of the portion due to third-party operators of €2,271 million (€2,268 million in the first half of 2003).

The table below sets forth, for the periods indicated, gross operating revenues and consolidated operating revenues by Business Unit and the percentage contribution of such Business Unit to our consolidated operating revenues.

	Six months ended June 30,					
	2003(1)			2004		
	Gross Operating Revenues(2)	Consolidated Operating Revenues(3)	% of Consolidated Operating Revenues	Gross Operating Revenues(2)	Consolidated Operating Revenues(3)	% of Consolidated Operating Revenues
	(millions of Euro, except percentages)					
Wireline(4)(5) .....	8,569	7,657	50.6%	8,684	7,762	51.0%
Mobile .....	5,534	5,401	35.7%	6,152	6,032	39.6%
South America(6) .....	559	551	3.6%	533	531	3.5%
Internet and Media(7) .....	863	767	5.1%	306	205	1.4%
IT Market .....	358	308	2.0%	355	322	2.1%
IT Group .....	465	22	0.1%	454	15	0.1%
Olivetti Tecnost .....	332	324	2.1%	306	291	1.9%
Other activities(5)(6)(8) .....	546	119	0.8%	570	64	0.4%
<b>Total operating revenues .....</b>	<b>17,226</b>	<b>15,149</b>	<b>100.0%</b>	<b>17,360</b>	<b>15,222</b>	<b>100.0%</b>

- (1) The data relating to the six months ended June 30, 2003 have been reclassified and presented consistent with the first half of 2004 presentation.
- (2) Gross operating revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).
- (3) Consolidated operating revenues are revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.
- (4) Starting from January 1, 2004, the company Telefonía Mobile Sanmarinese S.p.A., 51% owned by Intelcom San Marino, is consolidated on a line by line basis in the Wireline Business Unit.
- (5) Starting from September 2003, BBNed is no longer included in Other Activities and became part of Wireline Business Unit.
- (6) The data refer to Entel Chile Group and Entel Bolivia Group. On March 1, 2004, the Latin America Operations function was disbanded. This function was set up in 2002 and reported to the head of the Mobile Business Unit for mobile telecommunications and to the CEO Carlo Buora for wireline telecommunications and was responsible for the global coordination of all the activities of the Telecom Italia Group in Latin America. Telecom Italia Latam S.A. has now taken over the new role of the delocalized Corporate function in Latin America, consistent with our chosen strategy to consolidate and develop our international presence in the Latin America geographical area. Paolo Dal Pino, from March 1, 2004, was appointed by Telecom Italia's Chairman Marco Tronchetti Provera as Representative of Telecom Italia Group in Latin America. The Wireline and Mobile business units with their present corporate organizational structure are nevertheless responsible for the results of the subsidiaries in Latin America under their control. As a result of this reorganization and with effect on January 1, 2004, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia are included in Other Activities. The data relating to the first half ended June 30, 2003 has been reclassified and presented consistent with the first half ended June 30, 2004 presentation.
- (7) New SEAT, the beneficiary company of the spin-off from Seat Pagine Gialle which took place on August 1, 2003, was sold on August 8, 2003. As a result of this, the figures related to the six months ended June 30, 2003 include the results of operations of New SEAT Group that was subsequently disposed of, as well as the results of operations of the remaining part of Seat Pagine Gialle that after the spin-off was renamed Telecom Italia Media.
- (8) The data include the operations of the TILab Corporate Function, as well as the financial companies, the centralized Telecom Italia Group services, the staff Functions, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia.

The table below sets forth, for the periods indicated, consolidated operating revenues by geographic area and the percentage of total consolidated operating revenues.

Geographic Area	Six months ended June 30,			
	2003		2004	
	(millions of Euro, except percentages)			
		%		%
Italy . . . . .	12,216	80.6	12,071	79.3
Rest of Europe . . . . .	1,228	8.1	1,225	8.0
North America . . . . .	308	2.0	243	1.6
Central and South America . . . . .	1,175	7.8	1,442	9.5
Australia, Africa and Asia . . . . .	222	1.5	241	1.6
Total consolidated operating revenues . . . . .	15,149	100.0	15,222	100.0

Our **consolidated gross operating profit**, as calculated below, was €7,089 million for the six months ended June 30, 2004 compared to €6,921 million for the six months ended June 30, 2003 (please see table below), an increase of €168 million or 2.4%.

Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. Telecom Italia believes that Gross Operating Profit provides a useful measure of the Telecom Italia Group's operating performance. Gross Operating Profit provides shareholders with an additional level of detail, after operating revenues and before operating income, showing what we believe is an accurate indicator of the Telecom Italia Group's and individual segments' operating results before certain cash and non-cash charges and income arising primarily from ancillary activities. In addition the Telecom Italia Group also believes (although other telecommunications operators will calculate such information differently) that Gross Operating Profit permits an adequate comparison of the Telecom Italia Group's performance against its peer group. Telecom Italia uses Gross Operating Profit, among other measures, as a target for operating performance both internally in our business plan and externally to investors and analysts. As such, Gross Operating Profit is monitored periodically by Telecom Italia management in order to measure Telecom Italia's performance relative to our target. As calculated, Gross Operating Profit is intended to provide shareholders with an operating measure which reflects our consolidated operating revenues less our consolidated operating expenses most directly related to the operations of our business, such as personnel costs. As noted above, Gross Operating Profit eliminates certain cash and non-cash charges which are part of operating our businesses but reflect estimates based on our judgment in applying accounting principles, such as bad debt reserves to cover customers who do not pay their bills, rather than expenses directly related to the operations of our businesses. In addition, Telecom Italia management monitors Gross Operating Profit or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to measure our performance relative to such companies. In certain instances, Gross Operating Profit is also used as a benchmark for purposes of assessing the variable component (i.e., annual bonuses) of our employees' compensation, including in negotiations with our employees' labor unions. Gross Operating Profit is reported in our Italian annual report to shareholders and is used in presentations to investors and analysts. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Six months ended June 30,	
	2003	2004
	(millions of Euro)	
<b>Operating income</b> .....	<b>3,281</b>	<b>3,596</b>
Depreciation and Amortization .....	3,357	3,212
Other external charges: (*)		
• Provision for bad debts .....	200	132
• Write-downs of fixed assets and intangibles .....	2	1
• Provision for risks .....	61	34
• Other provisions and operating charges .....	171	230
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered) .....	(151)	(116)
<b>Gross Operating Profit</b> .....	<b>6,921</b>	<b>7,089</b>

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

Excluding the charges for the TLC license fee (€119 million) recorded in the six months ended June 30, 2003, our consolidated Gross Operating Profit increased by €49 million or 0.7%. Moreover, excluding the negative effects of exchange rate fluctuations (€10 million) and the changes in the scope of consolidation (€236 million, mainly due to the disposal of New SEAT), organic growth of Gross Operating Profit was 4.3% (an increase of €295 million) and arose principally from the Mobile Business Unit (an increase of €245 million, of which €185 million related to the domestic market) and Wireline Business Unit (an increase of €78 million).

Gross Operating Profit was impacted by:

- the lower costs of personnel—a decrease of €174 million, from €2,229 million in the six months ended June 30, 2003 to €2,055 million in the six months ended June 30, 2004—as a result of the changes in the scope of consolidation (mainly related to the Internet and Media Business Unit) and the reduction at the parent company Telecom Italia in the average number of employees. As a percentage of operating revenues, personnel costs decreased from 14.7% in the six months ended June 30, 2003 to 13.5% in the six months ended June 30, 2004; and
- the increase in costs of external services rendered (included under Other external charges) and cost of materials mainly as a result of continuing development of the telecommunications activities.

**Gross operating margin** was 46.6% in the six months ended June 30, 2004 compared to 46.5% in the six months ended June 30, 2003 on a comparable basis which excludes only the TLC license fee from the first half of 2003.

Our **consolidated operating income** amounted to €3,596 million for the six months ended June 30, 2004 compared to €3,281 million for the six months ended June 30, 2003, an increase of €315 million or 9.6%. Excluding the charges for the TLC license fee (€143 million) recorded in the six months ended June 30, 2003, operating income increased by €172 million or 5.0%. Moreover, excluding the effects of the changes to the scope of consolidation, organic growth was €310 million or 9.4%.

The increase in operating income was largely due to the decrease of €145 million in depreciation and amortization (from €3,357 million in the six months ended June 30, 2003 to €3,212 million in the six months ended June 30, 2004) and the decrease in the provision for bad debts (from €200 million in the six months ended June 30, 2003 to €132 million in the six months ended June 30, 2004, mainly as a result of the decrease at parent company Telecom Italia). The decrease in depreciation and amortization was principally due to the following:

- the decrease of €206 million in amortization of goodwill from €985 million in the six months ended June 30, 2003 to €779 million in the six months ended June 30, 2004, mainly due to the disposal of New SEAT and the write-down of goodwill made in 2003; and

- the increase in amortization and depreciation of fixed intangible (other than goodwill) and tangible assets of €61 million from €2,372 million in the six months ended June 30, 2003 to €2,433 million in the six months ended June 30, 2004, principally due to the amortization of the UMTS license by TIM S.p.A.

As a percentage of operating revenues, operating income was 23.6% in the six months ended June 30, 2004 compared to 22.6% in the six months ended June 30, 2003 on a comparable basis which excludes only the TLC license fee from the first half of 2003.

Total **financial income and expense, net** showed an expense balance of €931 million in the six months ended June 30, 2004 (an expense balance of €1,273 million in the six months ended June 30, 2003), representing an improvement of €342 million compared to the first half of 2003.

**Financial income** (which includes interest and other income on securities, interest income from banks, affiliated and other companies and gain on foreign exchange as well as certain other miscellaneous income, including income on derivative contracts) increased by €51 million from €453 million in the first half of 2003 to €504 million in the first half of 2004. In particular, financial income included €62 million of gains on the sale in January 2004 of the residual stake (14.78%) held by the Telecom Italia Group in Telekom Austria.

**Financial expense** (which includes interest expense on financial indebtedness, foreign exchange losses and income or loss from equity investees) decreased by €291 million from €1,726 million in the first half of 2003 to €1,435 million in the first half of 2004. Such improvement was principally attributable to the fact that in the first half of 2003 this item included the provision of €143 million relating to certain put/call options with J.P. Morgan exercised early, and finalized in August 2003, relating to Seat Pagine Gialle shares, as well as the expenses and commissions connected with the Merger of Old Telecom Italia and Olivetti (€47 million).

**Other income and (expense), net** improved from a net expense of €704 million in the first half of 2003 to a net expense of €320 million in the first half of 2004, a decrease of €384 million.

**Other income** of €146 million decreased by €34 million compared to the first half of 2003 and comprised:

- gains of €69 million on the sale of equity investments, fixed assets and business segments (gains for the first half of 2003 totaled €46 million); and
- other income of €77 million (€134 million in the first half of 2003, of which €131 million was for prior period income arising from the recovery of pre-amortization interest—on the expenses for employee benefit obligations under Law No. 58/1992 that were paid, with reserve, to INPS up to 1999—following the termination of litigation after the courts ruled in Old Telecom Italia's favor).

**Other expenses** amounted to €466 million and decreased by €418 million mainly as a result of the following costs and expenses incurred in the first half of 2003: the expenses in connection with the sale of New SEAT (€252 million); the expenses connected with the Merger between Old Telecom Italia and Olivetti (€110 million); the provision relating to the transaction with Pagine Italia (€55 million) and the write-down of the goodwill of EPIClink and other provisions related to equity investments (€70 million). In the first half of 2004, other expenses included:

- €282 million relating to the costs incurred in connection with the transaction with De Agostini ended through the acquisition of a 40% equity interest in Webfin (which owns 66% of Matrix) at a selling price of €325 million against a value, as assessed by evaluations carried out by third parties, of €43 million;
- €45 million (€86 million in the first six months of 2003) of expenses and provisions for employee cutbacks and layoffs (of which €36 million was borne by the parent company Telecom Italia; €58 million for the first half of 2003);

- €39 million of expenses under the Law No. 58/1992 to cover employees under the former “Telephone Employees Pension Fund” (FPT) (€43 million for the first half of 2003);
- €3 million for prior period taxes (€30 million in the first half of 2003 for the portion of the cost of the tax amnesty not covered by the reserve for income taxes); and
- €2 million for losses on the sale of intangible, fixed assets and long-term investments (€6 million for the first half of 2003), €11 million for provisions to reserve for risks and charges and €84 million for prior period expenses and other miscellaneous expenses (€83 million for the first half of 2003).

\* \* \*

As of June 30, 2004, the Telecom Italia Group had 93,178 units compared with 93,187 units at December 31, 2003. Such change was due to the changes to the scope of consolidation (a decrease of 614 units, of which 188 units and 123 units relating to the sale of CIPI and GPP group, respectively, by the Internet and Media Business Unit and 257 units as a result of the outsourcing of the “Document management” activities by Telecom Italia and Emsa Servizi) substantially offset by turnover (an increase of 605 units).

The table below sets forth, for the periods indicated, the number of employees related to the Telecom Italia Group.

	As of June 30, 2004	As of December 31, 2003	As of June 30, 2003
Italy .....	77,478	78,069	83,362
Abroad .....	15,700	15,118	19,179
<b>Total employees</b> .....	<b>93,178</b>	<b>93,187</b>	<b>102,541</b>

## Liquidity

The table below summarizes, for the periods indicated, the Telecom Italia Group’s cash flows.

	Six months ended June 30,	
	2003	2004
	(millions of euro)	
Net cash provided by operating activities .....	4,414	4,417
Net cash provided by (used in) investing activities .....	(7,633)	200
Net cash provided by (used in) financing activities .....	4,821	(3,838)
Effect of exchange rate changes on cash and cash equivalents .....	(2)	(4)
<b>Net increase in cash and cash equivalents</b> .....	<b>1,600</b>	<b>775</b>
<b>Cash and cash equivalents:</b>		
<b>Beginning of the period</b> .....	<b>4,426</b>	<b>4,937</b>
<b>End of the period</b> .....	<b>6,026</b>	<b>5,712</b>

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities was €4,417 million in the six months ended June 30, 2004 and increased by €3 million compared to the six months ended June 30, 2003 (€4,414 million) primarily as a result of the following:

- significantly lower levels of net income before minority interests (€863 million of income in the six months ended June 30, 2004 compared to income of €1,592 million in the six months ended June 30, 2003), a decrease of €729 million;



- the decrease in the levels of depreciation and amortization of €145 million (from €3,357 million in the six months ended June 30, 2003 to €3,212 million in the six months ended June 30, 2004); and
- a €547 million decrease in the contribution of the change in operating assets and liabilities, which decreased cash from operating activities by €92 million in the six months ended June 30, 2004 against a positive contribution of €455 million in the six months ended June 30, 2003.

Such effects were partially offset by:

- an improvement in change in deferred tax assets, net equal to €1,192 million (with a negative contribution of €1,115 million in the six months ended June 30, 2003 compared to a positive contribution of €77 million in the six months ended June 30, 2004);
- the higher levels of write-downs of fixed assets and other investments (from €129 million in the six months ended June 30, 2003 to €301 million in the six months ended June 30, 2004); and
- €29 million for the decrease in the payment of employee termination indemnities (from €73 million in the six months ended June 30, 2003 to €44 million in the six months ended June 30, 2004).

*Net Cash Provided by (used in) Investing Activities.* The net cash provided of €200 million in the six months ended June 30, 2004 compared to net cash used of €7,633 million in the six months ended June 30, 2003 was principally due to:

- capital expenditures that amounted to €1,993 million in the six months ended June 30, 2004 (€1,723 million in the six months ended June 30, 2003); in the six months ended June 30, 2004 they included €1,317 million of investments in fixed assets (€1,181 million in the six months ended June 30, 2003) and €676 million of additions to intangible assets (€542 million in the six months ended June 30, 2003);
- additions to other investments that decreased by €326 million from €436 million in the six months ended June 30, 2003 to €110 million in the six months ended June 30, 2004;
- acquisition of investments in consolidated subsidiaries, net of cash acquired that amounted to €325 million in the six months ended June 30, 2004 (the amount was nil in the six months ended June 30, 2003);
- a cash use of €5,274 million in the six months ended June 30, 2003 for the voluntary cash tender offers by Olivetti for a portion of the outstanding Old Telecom Italia ordinary shares and savings shares made in connection with the Merger;
- net change in marketable securities with a positive contribution of €2,360 million in the six months ended June 30, 2004 compared to a negative contribution of €366 million in the six months ended June 30, 2003; and
- the increase by €102 million in the proceeds from sale or redemption value of tangible and intangible assets, and other investments (from €166 million in the six months ended June 30, 2003 to €268 million in the six months ended June 30, 2004).

*Net Cash Provided by (Used in) Financing Activities.* Net cash provided by (used in) financing activities was a net cash use of €3,838 million in the six months ended June 30, 2004 compared to net cash provided of €4,821 million in the six months ended June 30, 2003.

Net cash used in financing activities in the six months ended June 30, 2004 reflected mainly the following:

- a decrease in short-term debt of €4,703 million, from €10,613 million at December 31, 2003 (including current portion of long-term debt of €9,289 million) to €5,910 million (including current portion of long-term debt of €4,724 million) at June 30, 2004;



- an increase of €3,633 million in long-term debt, from €30,852 million at December 31, 2003 to €34,485 million at June 30, 2004; and
- payment of dividends of €2,780 million with respect to the 2003 calendar year.

Net cash provided by financing activities in the six months ended June 30, 2003 reflected mainly the following:

- an increase in short-term debt (including current portion of long-term debt) of €520 million and in long-term debt of €64 million;
- €5,285 million in financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger; and
- payment of dividends on income and reserves of €1,049 million with respect to the 2002 calendar year.

## Capital Resources

### *Gross Financial Debt*

On a consolidated basis, at June 30, 2004, our outstanding long-term debt was €34,485 million (€30,852 million at December 31, 2003) and our short-term debt was €5,910 million (including current portion of long-term debt of €4,724 million) compared to €10,613 million at December 31, 2003 (including current portion of long-term debt of €9,289 million). At June 30, 2004, short-term debt included €3,550 million of Telecom Italia Finance S.A.'s fixed rate notes (with an annual fixed-rate coupon of 5 3/8% + a 0.45% step-up) maturing on July 30, 2004 and €500 million of Telecom Italia Finance S.A.'s floating rate notes (with a quarterly coupon indexed to the Euribor 3-month rate + 130 basis points) maturing on March 14, 2005. With reference to the €500 million notes, the noteholder has the option to extend the maturity for successive periods of 21 months up to a total maximum tenor of 10 years.

In the first six-month period of 2004, the decrease of €1,070 million in gross financial debt (from €41,465 million at December 31, 2003 to €40,395 million at June 30, 2004) was more than offset by the decrease of €1,155 million in cash and cash equivalents, marketable securities and financial receivables under current assets (from €8,482 million at December 31, 2003 to €7,327 million at June 30, 2004).

As of June 30, 2004, approximately 84% of our long-term debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais, Japanese Yen and Chilean Peso.

The following table sets out the currency of our gross financial debt:

	As of June 30, 2004						As of December 31, 2003	
	Euro	%	Foreign currency	%	Total	%	Total	%
	(millions of euro, except percentages)							
Medium/long-term debt . . . . .	28,585	84	5,900	93	34,485	85	30,852	74
Short-term debt, including current portion of long-term debt . . . . .	5,489	16	421	7	5,910	15	10,613	26
<b>Total gross financial debt . . . . .</b>	<b>34,074</b>	<b>100</b>	<b>6,321</b>	<b>100</b>	<b>40,395</b>	<b>100</b>	<b>41,465</b>	<b>100</b>

In the first six-months of 2004, the share of our long-term debt (excluding current portion) as a percentage of total gross financial debt increased from 74% to 85%. At June 30, 2004, approximately 32% of our long-term debt carried a floating rate.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. To this effect, we issued long-term debt in the capital markets under, among the others, the Telecom Italia EMTN Program, the Olivetti EMTN Program and the Old Telecom Italia Global Note Program.

As of June 30, 2004, notes and bonds outstanding amounted to €36,782 million (€37,365 million at December 31, 2003) and decreased by €583 million, mainly as a result of new issues and repayment of long-term debt.

In the first six-month period of 2004, Telecom Italia S.p.A. issued three new series of notes under its €10 billion Euro Medium Term Note Program authorized by the Board of Directors of Telecom Italia S.p.A. on October 10, 2003:

- on January 29, 2004, notes issued in the principal amount of €3,000 million, divided into three tranches:
  - notes 2004-2007 in the principal amount of €1,000 million with a quarterly coupon indexed to the Euribor 3-month rate + 0.33%, maturing on October 29, 2007 (issue price 99.927%);
  - notes 2004-2011 in the principal amount of €750 million with an annual fixed-rate of 4.5%, maturing on January 28, 2011 (issue price 99.56%); and
  - notes 2004-2019 in the principal amount of €1,250 million with an annual fixed-rate of 5.375%, maturing on January 29, 2019 (issue price 99.07%);
- on April 8, 2004, notes issued, in private placement, at par, in the principal amount of €110 million with a quarterly coupon indexed to the Euribor 3-month rate + 0.60%, maturing on March 30, 2009; and
- on June 24, 2004, notes issued in the principal amount of GBP850 million (€1,289 million) with an annual fixed-rate coupon of 6.375%, maturing on June 24, 2019 (issue price 98.85%).

During the first half 2004, notes were repaid representing an aggregate principal amount of €4,247 million, of which:

- on January 1, 2004, €1,331 million of convertible notes issued by Telecom Italia S.p.A.;
- on March 19, 2004, €385 million of convertible notes issued by Olivetti Finance N.V.S.A. with a guarantee by Telecom Italia S.p.A.;
- on March 22, 2004, €1,500 million of floating rate notes issued by Telecom Italia S.p.A., originally maturing June 21, 2005. These notes were repaid in advance, at par, in accordance with a resolution approved by the Telecom Italia Board of Directors on February 17, 2004;
- on April 20, 2004, €1,000 million of floating rate notes issued by Telecom Italia Finance S.A. (originally Sogerim); and
- €31 million relating to Notes and Bonds issued by Entel Chile.

During the first half 2004, Telecom Italia also repurchased bonds part of the 2002-2022 bond issue reserved for subscription by the employees of the Telecom Italia Group for an equivalent face value of €8 million. The purchase took place as the company, in accordance with the bond indenture, is the counterpart required for the sales made by the holders of this category of securities; the bonds thus purchased are held for possible future trading.

On March 26, 2004, notes were cancelled representing an aggregate principal amount of €850 million of notes issued by Olivetti Finance N.V.S.A. after their buy-back. These notes included €650 million of notes issued by Olivetti Finance N.V.S.A. (originally Olivetti International Finance N.V.) in the principal amount of €4,200 million, maturing in July 2004 (consequently the outstanding notes decreased to €3,550 million) and €200 million of floating rate notes issued by Olivetti Finance N.V.S.A. maturing in February 2005 (consequently the debt was completely cancelled).

On March 30, 2004, a New Credit Facility of €6.5 billion with a three year maturity was signed. The New Facility replaced the Revolving Credit Facility (divided into two tranches: Tranche D of €4.5 billion maturing on April 2004 and Tranche E of €2.0 billion maturing on April 2006) made by Olivetti in connection with the Merger. The New Facility does not contain any financial covenants and does not place any constraints on how we operate our business.

Our debt due to banks was €2,372 million at June 30, 2004 (€2,460 million at December 31, 2003), of which €1,299 million (€1,278 million at December 31, 2003) of short-term debt, including the current portion of long-term debt.

As of June 30, 2004, the amount of unutilized bank lines of credit of Telecom Italia Group was €8,829 million (€9,110 million as of December 31, 2003), of which €6,500 million related to the New Facility. Approximately 97% of our lines of credit were denominated in Euro and had varying interest rates. Of the total amount, €6,985 million were Telecom Italia S.p.A. unutilized bank lines of credit (€6,153 million as of December 31, 2003).

### ***Off-balance Sheet Arrangements***

Off-balance sheet arrangements refer to any transaction, agreement, or other contractual arrangement involving an unconsolidated entity (other than contingent liabilities arising from litigation, arbitration or regulatory actions), under which Telecom Italia has:

- guarantee contracts required to be initially recorded at fair value under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45);
- retained or contingent interests in transferred assets;
- any obligation under derivative instruments classified as equity; or
- any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging, or research and development arrangements with the company.

As of June 30, 2004, Telecom Italia has the following items that are considered to be off-balance sheet.

As of June 30, 2004, the Telecom Italia Group had purchase commitments totaling €229 million (€184 million as of December 31, 2003). In particular, as of June 30, 2004, the purchase commitments mainly referred to orders to suppliers of Telenergia (€168 million) relating to the agreement for the supply of electric power with Società Endesa Italia for the years 2004-2006.

Furthermore, the Telecom Italia Group had commitments for the purchase from the minority shareholders of the 49% stakes in Mediterranean Nautilus Ltd and Med-1 Submarine Cables Ltd based on the fair market value of these companies.

As of June 30, 2004, the Telecom Italia Group had sale commitments totaling €8 million (€24 million as of December 31, 2003).

The purchase and sale commitments above refer to commitments that do not fall within the normal “operating cycle” of the Telecom Italia Group.

As of June 30, 2004, the Telecom Italia Group has given guarantees of €1,166 million (€1,155 million as of December 31, 2003). The amount of the guarantees provided is presented net of counter-guarantees received amounting to €452 million (€476 million as of December 31, 2003). Guarantees provided mainly consist of sureties provided by Telecom Italia and TIM on behalf of affiliated companies (of which €648 million on behalf of TT&TIM Turkey) and others for medium/long-term loan transactions and guarantees on bids to acquire TLC licenses abroad.

As of June 30, 2004, the Telecom Italia Group has also issued support letters totaling €237 million (€197 million as of December 31, 2003) on behalf of affiliated companies to guarantee insurance policies, lines of credit arrangements and overdraft agreements with financial institutions. Furthermore, in connection with the integration process between Aria—Is TIM and Aycell in TT&TIM, the TIM group undertook, by December 31, 2006, to subscribe to capital increases of up to a maximum of U.S.\$150 million and to provide sureties up to a maximum of U.S.\$150 million.

See also Note 18 of Notes to the Unaudited Interim Consolidated Financial Statements included in Telecom Italia's report on Form 6-K filed with the SEC on September 23, 2004 and incorporated by reference herein.

### ***Contractual Obligation and Commitments***

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future. As of June 30, 2004, the amounts payable were as follows:

	Twelve Months Ended June 30,						
	2005	2006	2007	2008	2009	After 2009	Total
	(millions of Euro)						
Notes and bonds	4,051	6,870	3,097	2,753	2,436	17,575	36,782
Loans and other debt	649	505	483	270	48	329	2,284
Finance lease	24	20	19	18	15	47	143
Total long-term debt	4,724	7,395	3,599	3,041	2,499	17,951	39,209
Rental obligations to IMSER 60, TIGLIO I, TIGLIO II, FMP Italy 1 (formerly Ireos) (1)	255	255	255	255	255	2,862	4,137
<b>Total contractual obligations and commitments</b>	<b>4,979</b>	<b>7,650</b>	<b>3,854</b>	<b>3,296</b>	<b>2,754</b>	<b>20,813</b>	<b>43,346</b>

(1) Aggregate contractual rental payments due between 9 and 21 years.

The table above does not include short-term financial debt of €1,186 million (excluding current portion of long-term debt) outstanding at June 30, 2004.

Total long-term debt of €4,724 million, €16,534 million and €17,951 million is scheduled to become due for repayment during the twelve month period ended June 30, 2005, during the period between July 1, 2005 and June 30, 2009 and after June 30, 2009, respectively.

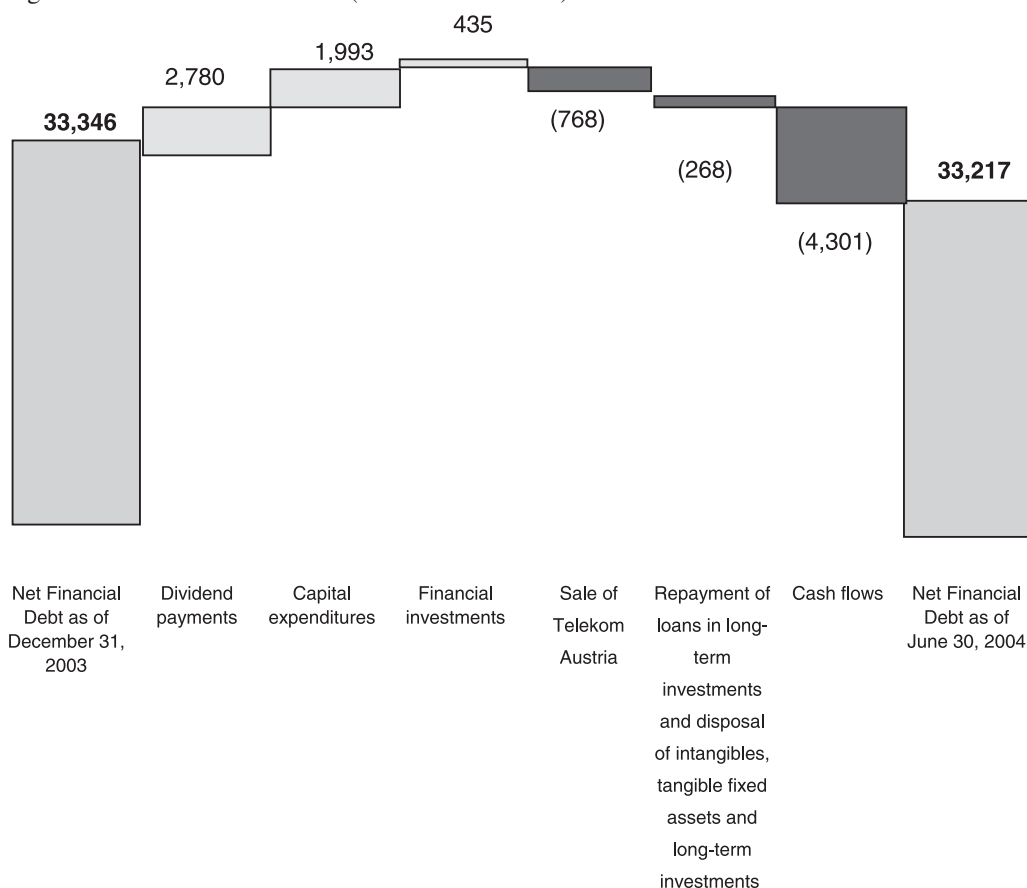
### ***Net Financial Debt***

On a consolidated basis, at June 30, 2004, Net Financial Debt was €33,217 million compared to €33,346 million at the end of 2003 (a decrease of €129 million).

Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. Although Net Financial Debt is a non-GAAP measure, it is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. Telecom Italia believes Net Financial Debt provides an accurate indicator of Telecom Italia's ability to meet its financial obligations, represented by gross debt, from its available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to total

shareholders' equity (including minority interests), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or net debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Telecom Italia management believes that Telecom Italia's financial structure is sufficient to achieve our business plan and financial targets. Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally-generated funds versus funds from third parties. Net Financial Debt is reported in our Italian annual report to shareholders and is used in presentations to investors and analysts.

The following chart summarizes the major components which had an impact on the change in Net Financial Debt during the first six months of 2004 (in millions of Euro):



In particular:

- financial investments of €435 million relate to investments in long-term credits of €110 million (of which Etec S.A. Cuba €26 million and Sky Italia €36 million) and to the purchase of the 40% stake in Webfin from De Agostini Group for €325 million;
- repayments of loans in long-term investments and disposal of intangibles, tangible fixed assets and long-term investments of €268 million make reference to the sales of Euskaltel (€14 million), CIPI (€10 million), Cirsa (€31 million), Netco Redes (€30 million), returns from Tiglio I as reimbursement of shareholder loans and distribution of reserves (€45 million) and other sales and repayments of long-term credits (€138 million).

Furthermore, securitization and factoring arrangements led to a positive impact in consolidated net financial debt as at June 30, 2004 of €1,037 million (€1,201 million as at December 31, 2003), of which €874 million (€851 million as at December 31, 2003) is attributable to the securitization program.

A reconciliation of Net Financial Debt with the financial statement line items is presented in the table below.

	As of June 30, 2004			As of December 31, 2003
	Maturing			
	Within 12 months	Beyond 12 months	Total	Total
Notes and bonds .....	4,051	27,135	31,186	30,053
Convertible notes .....	—	5,596	5,596	7,312
<b>Total notes and bonds .....</b>	<b>4,051</b>	<b>32,731</b>	<b>36,782</b>	<b>37,365</b>
Debt to banks .....	1,299	1,073	2,372	2,460
Debt to other financial institutions .....	454	604	1,058	1,012
Payables to associated companies .....	30	18	48	42
Suppliers .....	3	3	6	9
Other .....	73	56	129	577
<b>Total other financial payables .....</b>	<b>1,859</b>	<b>1,754</b>	<b>3,613</b>	<b>4,100</b>
<b>Total gross financial debt .....</b>	<b>5,910</b>	<b>34,485</b>	<b>40,395</b>	<b>41,465</b>
Cash and cash equivalents:				
• Bank and postal accounts .....	(5,689)		(5,689)	(4,870)
• Cash and valuables on hand .....	(10)		(10)	(7)
• Receivables for securities held under reverse repurchase agreements .....	(13)		(13)	(60)
Marketable securities (*) .....	(1,054)		(1,054)	(2,719)
Financial accounts receivable (included under “Receivables” and “Other current assets”) .....	(561)		(561)	(826)
<b>Total cash and cash equivalents, marketable securities and financial receivables under current assets .....</b>	<b>(7,327)</b>		<b>(7,327)</b>	<b>(8,482)</b>
<b>Financial prepaid expense/deferred income, net and accrued financial income/expense, net .....</b>	<b>469</b>	<b>(320)</b>	<b>149</b>	<b>363</b>
<b>Net Financial Debt (1) .....</b>	<b>(948)</b>	<b>34,165</b>	<b>33,217</b>	<b>33,346</b>

(\*) As of June 30, 2004, marketable securities include: Euro commercial paper (€304 million), own notes (€293 million), notes and bonds (€435 million) and other securities (€22 million). As of December 31, 2003, marketable securities include: Euro commercial paper (€735 million), own notes (€1,341 million), notes and bonds (€583 million) and other securities (€60 million).

(1) Although Net Financial Debt is a non-GAAP measure, it is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company’s financial structure. Telecom Italia believes Net Financial Debt provides an accurate indicator of Telecom Italia’s ability to meet its financial obligations, represented by gross debt, from its available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to total shareholders’ equity (including minority interests), or leverage, are used to

evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or net debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Telecom Italia management believes that Telecom Italia's financial structure is sufficient to achieve our business plan and financial targets. Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally-generated funds versus funds from third parties. Net Financial Debt is reported in our Italian annual report to shareholders and is used in presentations to investors and analysts.

At June 30, 2004, we had cash and cash equivalents, marketable securities and financial accounts receivable in excess of €7,327 million (€8,482 million at December 31, 2003). We believe that these financial assets will make it possible to meet our debt obligations maturing in the next 18 months, as detailed below:

Financial debt maturing in the period July 2004—December 2005			
	Notes and Bonds	Loans, other debt and finance lease (millions of euro)	Total
July 2004—June 2005 . . . . .	4,051	673	4,724
July 2005—December 2005 . . . . .	805	384	1,189
<b>Total . . . . .</b>	<b><u>4,856</u></b>	<b><u>1,057</u></b>	<b><u>5,913</u></b>

In addition to the financial assets above, we also have available at June 30, 2004 the unutilized committed bank facilities maturing in March 2007 amounting to €6,500 million.

### Capital Expenditures

The table below sets forth, for the periods indicated, our total capital expenditures based on the organization by Business Unit at June 30, 2004.

	Six months ended June 30,	
	2003(1)	2004
	(millions of Euro)	
Fixed assets:		
Wireline(2)(3) . . . . .	777	714
Mobile . . . . .	266	444
South America(4) . . . . .	58	49
Internet and Media(5) . . . . .	10	6
IT Market . . . . .	7	10
IT Group . . . . .	38	22
Olivetti Tecnost . . . . .	7	8
Other Activities(3)(4) . . . . .	18	64
Total fixed assets(6) . . . . .	1,181	1,317
Intangible assets (other than goodwill)(7) . . . . .	542	676
<b>Total capital expenditures(8) . . . . .</b>	<b><u>1,723</u></b>	<b><u>1,993</u></b>

- (1) The data relating to the six months ended June 30, 2003 have been reclassified and presented consistent with the first half ended June 30, 2004 presentation.
- (2) Starting from January 1, 2004, the company Telefonía Mobile Sanmarinese S.p.A., 51% owned by Intelcom San Marino, is consolidated on a line by line basis in the Wireline Business Unit.



- (3) The data include BBNet, that, starting from September 2003, is no longer included in Other Activities and became part of Wireline Business Unit.
- (4) The data refer to Entel Chile Group and Entel Bolivia Group.
- (5) New SEAT, the beneficiary company of the spin-off from Seat Pagine Gialle which took place on August 1, 2003, was sold on August 8, 2003. As a result of this, the figures related to the six months ended June 30, 2003 include the additions to fixed assets of New SEAT Group that was subsequently disposed of, as well as the additions to fixed assets of the remaining part of Seat Pagine Gialle that after the spin-off was renamed Telecom Italia Media.
- (6) Capital expenditures in fixed assets are mainly related to local and long distance networks, exchange equipment, investment in subscribers' equipment, radio and transmission equipment.
- (7) Intangible assets, other than goodwill, include investments such as software for telecommunications systems and licenses.
- (8) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the six months ended June 30, 2004 and 2003, cash flows from operating activities (€4,417 million and €4,414 million, respectively) exceeded capital expenditures in fixed and intangible assets (€1,993 million in the six months ended June 30, 2004 and €1,723 million in the six months ended June 30, 2003).

### **Research and Development Activities**

The Telecom Italia Group spent approximately €70 million on research and development in the first half 2004. The Telecom Italia Group also receives grants from research and development national and international programs.

## DESCRIPTION OF NOTES AND GUARANTEES

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

**This “Description of Notes and Guarantees” is qualified by reference to all the provisions of the indenture, including, without limitation, the definitions of certain terms used in the indenture. For the sake of clarity, the use of the defined term Telecom Italia in this section of the listing memorandum means Telecom Italia S.p.A. in its capacity as guarantor of TI Capital’s obligations under the notes without reference to the consolidated subsidiaries of Telecom Italia S.p.A. Wherever particular provisions or defined terms of the indenture are referred to, these provisions or defined terms are incorporated in this listing memorandum by reference. We urge you to read the indenture because it defines your rights as a holder of notes. The indenture is available for inspection at the office of the Trustee at the offices of the paying agent in Luxembourg, BNP Paribas Securities Services, Luxembourg Branch, 23 Avenue de la Porte Neuve, L-2083, Luxembourg.**

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

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

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

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

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

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

### The Notes

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

If any interest payment date or maturity date or date of redemption for the notes falls on a day that is not a Business Day (as described below), the related payment of principal or interest will be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such interest payment date or maturity date, as the case may be.

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

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

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

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

## **Guarantees**

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

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

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

## **Further issues of same series**

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

## Legal Ownership

### *Book-Entry System*

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

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

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

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

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

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

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

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

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

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

### ***Definitive Notes***

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

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

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

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

### **Additional Mechanics**

#### ***Payment and Paying Agents***

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

TI Capital has appointed BNP Paribas Securities Services, Luxembourg Branch, to act as its Luxembourg paying agent. TI Capital will maintain a paying agent in Luxembourg until no notes remain outstanding. TI Capital may also arrange for additional payment offices, and may cancel or change these offices, including its use of the Trustee’s corporate trust office. These offices are called paying agents. TI Capital may also choose to act as its own paying agent. TI Capital must notify you of changes in the paying agents for the notes. Notice of a change in the paying agents will also be published in a newspaper of general circulation in Luxembourg.

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

The Luxembourg paying agent will make payments of principal of and interest on the notes, and interests in the notes will be transferred, through the facilities of DTC and its participants including Euroclear and Clearstream.

Payments of principal of and interest on the notes will be made to the registered holders of the notes not to street name and other indirect holders, consequently street name and other indirect holders should consult their banks or brokers, which have procedures, which are subject to change, for transferring applicable payments to street name and other indirect holders that hold the notes through them, for information on how they will receive payments.

### *Notices*

TI Capital and the Trustee will send notices only to direct holders, using their addresses as listed in the Trustee's records. Such notices will be mailed to holders of registered securities and published in a newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*.

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

### **Mergers and Similar Events**

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

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

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

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

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

## **Modification and Waiver**

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

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

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

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

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

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

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

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



## Further Details Concerning Voting

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

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

The approvals of noteholders that may be required if TI Capital seeks to change the terms of the indenture or request a waiver described above refer to the approvals of the registered holders of the notes and not street name and other indirect holders. Consequently street name and other indirect holders should consult their banks or brokers which DTC will instruct in respect of the procedures for granting or denying any such approval, which procedures are subject to change, for information on how approval may be granted or denied if TI Capital seeks to change the terms of the indenture or request a waiver.

## Redemption at TI Capital's Option

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

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

plus accrued interest thereon to the date of redemption.

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

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

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the comparable treasury issue (if no maturity is within three months before or after the remaining life, yields for the two published maturities most closely corresponding to the comparable treasury issue will be determined and the treasury rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

- if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) of the comparable treasury issue, calculated using a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

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

Comparable treasury issue means the U.S. Treasury security selected by the quotation agent as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

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

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

Reference treasury dealer means:

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

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

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

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

TI Capital will give DTC a notice of redemption at least 30 but not more than 60 days before the redemption date. If any notes are to be redeemed in part only, the notice of redemption that relates to such notes will state the

portion of the principal amount thereof to be redeemed. A new note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original note.

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

In the case of redemption of TI Capital's option, the Luxembourg Stock Exchange will be informed of the redemption and a notice will be published in a newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*.

### **Optional Tax Redemption**

Other than as described above under “—Redemption at TI Capital's Option,” TI Capital will have the option to redeem the notes in the two situations described below. The redemption price for the notes will be equal to the principal amount of the notes being redeemed plus accrued interest and any additional amounts due to the date fixed for redemption. Furthermore, TI Capital must give you between 30 and 60 days' notice before redeeming the notes.

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

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

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

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

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

### **Payment of Additional Amounts**

Luxembourg or Italy may require TI Capital, as issuer, or Telecom Italia, as guarantor, to withhold amounts from payments of principal or interest on the notes or any amounts to be paid under the guarantees, as the case

may be, for taxes or any other governmental charges. If Luxembourg or Italy requires a withholding of this type, TI Capital or Telecom Italia, as the case may be, may be required to pay you additional amounts so that the net amount you receive will be the amount specified in the note to which you are entitled.

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

- the existence of any present or former connection between you and Luxembourg or Italy, as the case may be, other than the mere holding of the note and the receipt of payments thereon;
- the application of the European Directive 2003/48/EC of June 3, 2003, on the taxation of income from savings, as well as any equivalent measure adopted according to such directive;
- a failure to comply with any certification, documentation, identification, information or other reporting requirements concerning your nationality, residence, identity or connection with Luxembourg or Italy, as the case may be, if such compliance is required as a precondition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that you are not resident in Luxembourg or Italy or are not an individual resident of a member state of the European Union);
- a change in law that becomes effective more than 30 days after a payment on the notes becomes due and payable or on which payment thereof is duly provided for, whichever occurs later; or
- any tax or other governmental charge imposed on non-residents for income tax purposes in Italy as provided under Italian laws and regulations relating to countries which do not have an adequate exchange of information with Italy (i.e., other than the countries listed under the heading “Transfer Restrictions—Other Restrictions”).

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

For additional information, see section 803 of the indenture.

## **Restrictive Covenants**

### ***Restrictions on Liens***

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

As used here, encumbrance means:

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

As used here, permitted encumbrance means:

- any encumbrance existing on the date of issuance of the notes;
- any encumbrance over or affecting any asset acquired by TI Capital or Telecom Italia after the date of the indenture, and subject to which such asset is acquired, if:
  - such encumbrance was not created in contemplation of the acquisition of such asset by TI Capital or Telecom Italia;
  - the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by TI Capital or Telecom Italia;
- any encumbrance over or affecting any asset of any company which becomes an obligor under the notes after the date of the indenture, where such encumbrance is created prior to the date on which such company becomes an obligor under the notes, if:
  - such encumbrance was not created in contemplation of that company becoming an obligor under the notes, and
  - the amount thereby secured has not been increased in contemplation of, or since the date of, that company becoming an obligor under the notes;
- any netting or set-off arrangement entered into by any member of the Telecom Italia Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- any title transfer or retention of title arrangement entered into by any member of the Telecom Italia Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- encumbrances created in substitution of any encumbrance permitted under the first two bullet points above over the same or substituted assets. This only applies if: (a) the principal amount secured by the substitute encumbrance does not exceed the principal amount outstanding and secured by the initial encumbrance; and (b) in the case of substituted assets, if the market value of the substituted assets at the time of the substitution does not exceed the market value of the assets replaced;
- encumbrances created to secure:
  - loans provided, supported or subsidized by a governmental agency, national or multinational investment guarantee agency, export credit agency or a lending organization established by the United Nations, the European Union or other international treaty organization, including, without limitation, the European Investment Bank, the European Bank for Reconstruction and Development and the International Finance Corporation;
  - project finance indebtedness (as described below);

this will, however, only apply if the encumbrance is created on an asset of the project being financed by such loans (and/or on the shares in, and/or shareholder loans made to, the company conducting such project) or, as the case may be, such project finance indebtedness and remains confined to that asset (and/or shares and/or shareholder loans);
- encumbrances arising out of the refinancing of any capital market indebtedness secured by any encumbrance permitted by the preceding bullet points. These encumbrances will, however, only be permitted if the amount of such capital market indebtedness is not increased and is not secured by an encumbrance over any additional assets;

- any encumbrance arising by operation of law;
- any encumbrance created in connection with convertible bonds or notes where the encumbrance is created over the assets into which the convertible bonds or notes may be converted and secures only the obligation of the issuer to effect the conversion of the bonds or notes into such assets;
- any encumbrance created in the ordinary course of business to secure capital market indebtedness under hedging transactions entered into for the purpose of managing risks arising under funded debt obligations such as credit support annexes and agreements;
- any encumbrance over or affecting any asset of Telecom Italia to secure capital market indebtedness under a permitted leasing transaction (as described below); provided that the aggregate capital market indebtedness secured by all such encumbrances does not exceed €1 billion;
- any encumbrance created on short-term receivables used in any asset-backed financing;
- any encumbrance on real estate assets of Telecom Italia, any subsidiary or any person to which such real estate assets may be contributed by Telecom Italia or any subsidiary in connection with the issuance of any indebtedness, whether such indebtedness is secured or unsecured by such real estate assets or any other assets of such person to which real estate assets have been contributed by Telecom Italia or any subsidiary; and
- any other encumbrance securing capital market indebtedness of an aggregate amount not exceeding 10% of the total net worth of Telecom Italia (as disclosed in the most recent audited consolidated balance sheet of Telecom Italia).

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

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

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

- recourse to such debtor for amounts limited to the cash flow from such asset; and/or
- recourse to such debtor generally, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation, representation or warranty (not being a payment obligation, representation or warranty or an obligation, representation or warranty to procure payment by another or an obligation, representation or warranty to comply or to procure compliance by another with any financial ratios or other test of financial condition) by the person against whom such recourse is available; and/or



- if such debtor has been established specifically for the purpose of constructing, developing, owning and/or operating the relevant asset and such debtor owns no other significant assets and carries on no other business, recourse to all of the assets and undertaking of such debtor and the shares in the capital of such debtor and shareholder loans made to such debtor.

### **Discharge and Defeasance**

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

- TI Capital or Telecom Italia deposits in trust for your benefit and the benefit of all other direct holders of the notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, premium, if any, principal and any other payments on the notes on their various due dates.
- TI Capital or Telecom Italia delivers to the Trustee a legal opinion of their counsel confirming that there has been a change in U.S. federal income tax law, and under then current U.S. federal income tax law TI Capital or Telecom Italia may make the above deposit without causing you to be taxed on the notes any differently than if TI Capital or Telecom Italia did not make the deposit and just repaid the notes themselves. TI Capital or Telecom Italia would not have to deliver this opinion if TI Capital or Telecom Italia received from, or there has been published by, the U.S. Internal Revenue Service (the “**IRS**”) a ruling that states the same conclusion.
- If the notes are listed on the Luxembourg Stock Exchange or another exchange, TI Capital or Telecom Italia must deliver to the Trustee a legal opinion of their counsel confirming that the deposit, defeasance and discharge will not cause the notes to be delisted from such exchange.

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

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

### **Ranking**

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

### **Events of Default**

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

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

- The failure by TI Capital or Telecom Italia to pay principal on a note within 10 days from the relevant due date or the failure to pay interest on a note within 30 days from the relevant due date;



- The failure by TI Capital to perform any other obligation under the notes or the failure by Telecom Italia to perform any obligation under its guarantee and such failure continues for more than 60 days after the Trustee has received notice of it from the affected holder of the notes;
- Any of TI Capital's or Telecom Italia's capital market indebtedness (as defined above in "—Restrictive Covenants—Restrictions on Liens") in excess of €100 million (or the equivalent thereof in other currencies) has to be repaid prematurely due to a default under its terms;
- The failure by TI Capital or Telecom Italia to fulfill any payment obligation exceeding €100 million or its equivalent under any capital market indebtedness (as defined above in "—Restrictive Covenants—Restriction on Liens") of TI Capital or Telecom Italia, or under any guarantee provided for any such capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) of others, and this failure remains uncured for 30 days;
- Any security or guarantee relating to capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) provided by TI Capital or Telecom Italia is enforced by the lenders and such enforcement is not contested in good faith by TI Capital or Telecom Italia or TI Capital or Telecom Italia publicly announces their inability to meet their financial obligations;
- A court opens insolvency or equivalent proceedings against TI Capital or Telecom Italia which are not resolved within six months, unless such proceedings are frivolous or vexatious and contested in good faith and appropriately and do not result in court orders; or TI Capital or Telecom Italia apply for such insolvency or equivalent proceedings;
- TI Capital or Telecom Italia approves a resolution pursuant to which it goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by TI Capital or Telecom Italia, in connection with the notes; or
- Telecom Italia's guarantee relating to the notes ceases to be valid or legally binding for any reason.

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

The price which will be payable to the holders of a note of any affected series in the event of a declaration of acceleration of maturity in respect of a series of the notes upon the occurrence of an event of default will equal the unpaid principal amount of the note and premium, if any, plus all accrued but unpaid interest as of the date of acceleration.

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

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

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

- The Trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.

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

The procedures for giving notice or direction to or make a request of the Trustee described above apply to direct holders of the notes and not street name and other indirect holders, consequently street name and other indirect holders should consult their banks or brokers, which DTC all instruct in respect of the procedures for giving notice or direction to or make a request of the Trustee or to make or cancel a declaration of acceleration, which are subject to change, for information on how to give notice or direction to or make a request of the Trustee and to make or cancel a declaration of acceleration.

### **Regarding the Trustee**

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

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

### **Global Clearance and Settlement**

#### ***The Clearing systems***

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

#### ***DTC***

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

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

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

#### ***Clearstream, Luxembourg***

Clearstream (formerly Cedelbank) is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities

transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream interfaces with domestic markets in several countries. As a bank, Clearstream is subject to regulation by the *Commission de Surveillance du Secteur Financier*. Clearstream participants are financial institutions around the world, including the Initial Purchasers, other securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

### ***Euroclear***

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

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

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

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

### ***Clearing Numbers***

The clearing numbers of the notes are set forth below:

<u>Note</u>	<u>Common Codes</u>	<u>CUSIP Numbers</u>	<u>ISIN Numbers</u>
2010 notes distributed pursuant to Rule 144A . . . . .	020253835	87927V AG 3	US87927VAG32
2010 notes distributed pursuant to Regulation S . . . . .	020253851	T92762 AD 4	UST92762AD47
2014 notes distributed pursuant to Rule 144A . . . . .	020253908	87927V AH 1	US87927VAH15
2014 notes distributed pursuant to Regulation S . . . . .	020253932	T92762 AE 2	UST92762AE20
2034 notes distributed pursuant to Rule 144A . . . . .	020253983	87927V AJ 7	US87927VAJ70
2034 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AF 9	UST92762AF94

## BOOK ENTRY SETTLEMENT AND CLEARANCE

### The Global Notes

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

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

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

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

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

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

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

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

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

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

## **Exchanges Among the Global Notes**

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

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

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

## TRANSFER RESTRICTIONS

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

You acknowledge that:

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

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

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

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

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

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

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

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

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

You also acknowledge that:

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

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



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

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

### **Other Restrictions**

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

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

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

## EXCHANGE OFFER AND REGISTRATION RIGHTS

In connection with the issuance of the notes, TI Capital and Telecom Italia entered into a registration rights agreement (the “Registration Rights Agreement”) with Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch International and Morgan Stanley & Co. Incorporated, as the Initial Purchasers. The following summary of selected provisions of the Registration Rights Agreement is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement. Copies of the Registration Rights Agreement are available from TI Capital and Telecom Italia upon request. Copies of the Registration Rights Agreement are also available at the office of the paying agent in Luxembourg.

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

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

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

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

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

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

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

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

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

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

If TI Capital effects the exchange offer described above, application will be made to list the exchange notes on the Luxembourg Stock Exchange. Notices informing the holders of the notes of the beginning of the exchange period as well as the result of the exchange offer will be published in a newspaper of general circulation in Luxembourg. It will be possible to participate in the exchange offer through an agent in Luxembourg through the facilities of DTC and its participants including Euroclear and Clearstream, or otherwise by returning transmittal forms to the exchange agent in Luxembourg. The documents relating to the exchange offer will be available in Luxembourg at the offices of the paying agent, BNP Paribas, Securities Services, Luxembourg Branch, 23 Avenue de la Porte Neuve, L-2083 Luxembourg.

## **TAX CONSIDERATIONS**

### **Luxembourg Tax Considerations**

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

#### ***Tax Residency***

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

#### ***Withholding tax***

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

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

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

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

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

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

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

### *Taxation of Luxembourg residents – General*

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

#### *Luxembourg resident individuals*

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

#### *Luxembourg resident companies*

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

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

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

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

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

#### *Net Wealth Tax*

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

#### **Other Taxes**

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

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes.

Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

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

### **Italian Tax Considerations**

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

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

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

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

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

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

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

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

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

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

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

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

### ***Early Redemption***

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

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

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

### ***General***

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

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



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

#### *Payments of Interest*

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

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

#### *Registration of a Note*

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

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

#### *Exchange of Notes*

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

### *Disposition of a Note*

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

### *Mergers or Assumptions of the Notes*

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

### *Backup Withholding and Information Reporting*

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

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

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

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

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

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

## PLAN OF DISTRIBUTION

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

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

The Initial Purchasers agreed to purchase:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Selling Restrictions***

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

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

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

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

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

*United States of America.* Each Initial Purchaser acknowledges that the notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.

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

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

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

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

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

- it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such notes, will not offer or sell any such notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 or, in abbreviated form, the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to TI Capital or Telecom Italia; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such notes in, from or otherwise involving the United Kingdom.

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



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

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

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

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

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

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

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



## **LEGAL MATTERS**

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

The validity of the notes and the guarantees to which this listing memorandum relates under New York law will be passed upon for the Initial Purchasers by Sullivan & Cromwell LLP. Certain matters of Italian law will be passed upon for the Initial Purchasers by Chiomenti Studio Legale.

## **INDEPENDENT ACCOUNTANTS**

Ernst & Young S.A., independent registered public accounting firm, has audited the unconsolidated financial statements of Telecom Italia Capital at December 31, 2002 and 2003 and for each of the years ended December 31, 2002 and December 31, 2003 as stated in their reports appearing in this listing memorandum.

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

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

## **GENERAL INFORMATION**

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

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

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

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

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

<u>Note</u>	<u>Common Codes</u>	<u>CUSIP Numbers</u>	<u>ISIN Numbers</u>
2010 notes distributed pursuant to Rule 144A . . . . .	020253835	87927V AG 3	US87927VAG32
2010 notes distributed pursuant to Regulation S . . . . .	020253851	T92762 AD 4	UST92762AD47
2014 notes distributed pursuant to Rule 144A . . . . .	020253908	87927V AH 1	US87927VAH15
2014 notes distributed pursuant to Regulation S . . . . .	020253932	T92762 AE 2	UST92762AE20
2034 notes distributed pursuant to Rule 144A . . . . .	020253983	87927V AJ 7	US87927VAJ70
2034 notes distributed pursuant to Regulation S . . . . .	020254041	T92762 AF 9	UST92762AF94

According to Chapter VI, Article 3, Point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the notes of each class shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled. The notes have been accepted for delivery through DTC and its participants including Euroclear and Clearstream.

## INDEX TO FINANCIAL STATEMENTS OF TELECOM ITALIA CAPITAL

	<u>Page</u>
Auditor's Report .....	F-2
Balance Sheet as of December 31, 2002 .....	F-3
Profit and Loss Account as at December 31, 2002 .....	F-4
Comparison between Balance Sheets of December 31, 2002 and December 31, 2001 .....	F-5
Comparison between Profit and Loss Accounts of December 31, 2002 and December 31, 2001 .....	F-6
Appendix to the December 31, 2002 Annual Accounts .....	F-7
Auditor's Report .....	F-12
Balance Sheet Data as of December 31, 2003 .....	F-13
Profit and Loss Accounts at December 31, 2003 .....	F-14
Comparison between Balance Sheets of December 31, 2003 and December 31, 2002 .....	F-15
Comparison between Profit and Loss Accounts of December 31, 2003 and December 31, 2002 .....	F-16
Financial Statement Explanatory Notes .....	F-17

## **RAPPORT DU REVISEUR D'ENTREPRISES**

Aux actionnaires de  
TELECOM ITALIA CAPITAL S.A.  
Société Anonyme  
Luxembourg

Conformément au mandat donné par l'Assemblée Générale des actionnaires du 7 mars 2001, nous avons contrôlé les comptes annuels ci-joints de TELECOM ITALIA CAPITAL S.A. pour l'exercice se terminant le 31 décembre 2002 et avons pris connaissance du rapport de gestion y relatif. Les comptes annuels et le rapport de gestion relèvent de la responsabilité du Conseil d'Administration. Notre responsabilité est, sur base de nos travaux de révision, d'exprimer une opinion sur ces comptes annuels et de vérifier la concordance du rapport de gestion avec ceux-ci.

Nous avons effectué nos travaux de révision selon les normes internationales de révision. Ces normes requièrent que nos travaux de révision soient planifiés et exécutés de façon à obtenir une assurance raisonnable que les comptes annuels ne comportent pas d'anomalies significatives. Une mission de révision consiste à examiner, sur base de sondages, les éléments probants justifiant les montants et informations contenus dans les comptes annuels. Elle consiste également à apprécier les principes et méthodes comptables suivis et les estimations significatives faites par le Conseil d'Administration pour l'arrêté des comptes annuels, ainsi qu'à effectuer une revue de leur présentation d'ensemble. Nous estimons que nos travaux de révision forment une base raisonnable à l'expression de notre opinion.

A notre avis, les comptes annuels ci-joints donnent, en conformité avec les prescriptions légales et réglementaires en vigueur au Luxembourg, une image fidèle du patrimoine et de la situation financière de TELECOM ITALIA CAPITAL S.A. au 31 décembre 2002 ainsi que des résultats de l'exercice se terminant à cette date.

Le rapport de gestion est en concordance avec les comptes annuels.

ERNST & YOUNG  
Société Anonyme  
Réviseur d'entreprises

/s/ JEAN-MARIE GISCHER  
Jean-Marie GISCHER

Le 20 février 2003

**BALANCE SHEET AS AT DECEMBER 31, 2002**  
(EUR)

	<u>12.31.2002</u>
<b>ASSETS</b>	
<b>A. Fixed assets</b>	
Initial expenses (note 4) .....	92,673
<b>B. Floating assets</b>	
Sums receivable from associated companies .....	3,210,357
	<u>3,210,357</u>
Financial year loss .....	267,677
<b>TOTAL</b> .....	<u><b>3,570,707</b></u>
<b>LIABILITIES</b>	
<b>A. Net worth</b> (note 5)	
Share capital .....	2,336,000
Other restricted reserve .....	592,830
	<u>2,928,830</u>
<b>B. Debts</b>	
Sums payable to associated companies (note 6) .....	626,284
Other debts .....	15,593
	<u>641,877</u>
<b>TOTAL</b> .....	<u><b>3,570,707</b></u>

Notes 1-9 are an integral part of these accounts

**PROFIT AND LOSS ACCOUNT AS AT DECEMBER 31, 2002**  
(EUR)

	<u><b>12.31.2002</b></u>
<b>EXPENSES</b>	
Personnel costs .....	108,576
Adjustments of value on initial expenses .....	7,065
Other operating expenses (note 7) .....	19,787
Interest and assimilated charges	
—on sums payable to associated Companies .....	83,203
—other financial charges (note 8) .....	68,865
	<u>152,068</u>
Other taxes .....	62
<b>TOTAL</b> .....	<u><b>287,558</b></u>
 <b>REVENUE</b>	
Other interest and assimilated revenues	
—on credit establishments .....	651
—on assimilated Companies .....	2,355
—other financial revenues .....	16,875
	<u>19,881</u>
Financial year loss .....	<u>267,677</u>
<b>TOTAL</b> .....	<u><b>287,558</b></u>

Notes 1-9 are an integral part of these accounts

# COMPARISON BETWEEN 12.31.2002/12.31.2001 BALANCE SHEETS

	12.31.2002 in EUR	12.31.2001 in USD	12.31.2001 in EUR	Difference in EUR
<b>ASSETS</b>				
<b>A) Fixed assets</b>				
Initial expenses (note 4) . . . . .	92,673	28,084	27,337	65,336
<b>B) Floating assets</b>				
Sums receivable from associated Companies . . . . .	3,210,357	—	—	3,210,357
	<u>3,210,357</u>	<u>—</u>	<u>—</u>	<u>3,210,357</u>
<b>C) Equalization account</b>	—	—	—	—
Loss for the period . . . . .	267,677	4,225,893	4,113,592	(3,845,915)
<b>TOTAL</b> . . . . .	<u><b>3,570,707</b></u>	<u><b>4,253,977</b></u>	<u><b>4,140,929</b></u>	<u><b>(570,222)</b></u>
<b>LIABILITIES</b>				
<b>A. Net worth (note 5)</b>				
Share capital . . . . .	2,336,000	1,000,000	973,425	1,362,575
Other restricted reserve . . . . .	592,830	—	—	592,830
Results carried forward . . . . .	—	(765,321)	(744,983)	744,983
	<u>2,928,830</u>	<u>234,679</u>	<u>228,442</u>	<u>2,700,388</u>
<b>B. Debts</b>				
Sums payable to credit establishments . . . . .	—	31	30	(30)
Sums payable to associated companies (note 6) . . . . .	626,284	3,131,139	3,047,931	(2,421,647)
	<u>15,593</u>	<u>888,128</u>	<u>864,526</u>	<u>(848,933)</u>
Other debts . . . . .	641,877	4,019,298	3,912,487	(3,270,610)
<b>TOTAL</b> . . . . .	<u><b>3,570,707</b></u>	<u><b>4,253,977</b></u>	<u><b>4,140,929</b></u>	<u><b>(570,222)</b></u>

Notes 1-9 are an integral part of these accounts



**COMPARISON BETWEEN 12.31.2002/12.31.2001 PROFIT AND LOSS ACCOUNTS  
(EUR)**

	<u>12.31.2002</u> <u>in EUROS</u>	<u>12.31.2001</u> <u>in USD</u>	<u>12.31.2001</u> <u>in EUROS</u>	<u>Difference</u> <u>in EUROS</u>
<b>EXPENSES</b>				
Personnel costs . . . . .	108,576	84,867	82,612	25,964
Value adjustments on initial expenses . . . . .	7,065	6,139	5,976	1,089
Other operating expenses (note 7) . . . . .	19,787	489,922	476,902	(457,115)
Interest and assimilated charges				
—on associated companies . . . . .	83,203	119,555	116,378	(33,175)
—other financial charges (note 8) . . . . .	68,865	3,553,996	3,459,550	(3,390,685)
	<u>152,068</u>	<u>3,673,551</u>	<u>3,575,928</u>	<u>(3,423,860)</u>
Other taxes . . . . .	62	55	53	9
<b>TOTAL</b> . . . . .	<u><b>287,558</b></u>	<u><b>4,254,534</b></u>	<u><b>4,141,471</b></u>	<u><b>(3,853,913)</b></u>
	<u>12.31.2002</u> <u>in EUR</u>	<u>12.31.2001</u> <u>in USD</u>	<u>12.31.2001</u> <u>in EUR</u>	<u>Difference</u> <u>in EUR</u>
<b>INCOME</b>				
Other interest and assimilated income				
—on sums receivable from credit establishments . . . . .	651	429	417	234
—on sums receivable from associated companies . . . . .	2,355	2,867	2,791	(436)
—other financial income . . . . .	16,875	25,345	24,671	(7,796)
	<u>19,881</u>	<u>28,641</u>	<u>27,879</u>	<u>(7,998)</u>
Financial year loss . . . . .	267,677	4,225,893	4,113,592	(3,845,915)
<b>TOTAL</b> . . . . .	<u><b>287,558</b></u>	<u><b>4,254,534</b></u>	<u><b>4,141,471</b></u>	<u><b>(3,853,913)</b></u>

Notes 1-9 are an integral part of these accounts

## APPENDIX TO THE DECEMBER 31, 2002 ANNUAL ACCOUNTS

### **Note 1—Incorporation of the Company**

The Company was incorporated on September 27, 2000 for an unlimited term. It elected its headquarters at 12-14 boulevard Grande Duchesse Charlotte L—1330 Luxembourg and is registered with the Luxembourg Companies Register under number B77.970.

### **Note 2—Activity of the Company**

The object of the Company is to finance as widely as possible the companies and enterprises belonging to the Telecom Italia Group.

To this end, it may obtain all funds by issuing bonds, short term notes and any other instruments and by raising any loans in any form from banks and institutional investors and in any other way, the preceding list being strictly enunciative and non exhaustive.

It may also acquire participations in all Luxembourg and foreign companies and administer, manage and enhance their portfolio.

It may execute all commercial, financial, movable and immovable directly or indirectly linked to its object.

More generally, the company may carry out all transactions deemed useful to realize and develop the company's object.

The company's financial year starts on January 1 and ends on December 31.

### **Note 3—Accounting Principles and Methods**

The financial statements of TELECOM ITALIA CAPITAL SA for the 2002 financial year have been prepared in accordance with the accounting principles generally accepted in Luxembourg.

Among these principles, the most important are as follows:

#### ***Account currency***

*Note that, for accounting purposes, the data relative to the 2001 financial year, expressed in US\$ in the December 31, 2001 annual accounts, were converted at the exchange rate of 1 Euro to 1.0273 US dollars as stipulated in the notary deed of December 20, 2002, ruling on the conversion of the share capital into Euros.*

The company's social accounting and annual balance sheet are kept and expressed in Euros (EUR).

Transactions carried out in a currency other than the Euro (EUR) were converted into Euros (EUR) on the basis of the exchange rate current at the time of the transaction.

Conversion carried out at the date of the balance sheet for current, available and claimable items is based on the exchange rate current at the date of the balance sheet.

Latent capital losses are accounted for in the Profit and Loss account. Latent capital gains are ignored.

#### ***Initial expenses***

Initial expenses are amortized linearly at the rate of 20% per year.

## APPENDIX TO THE DECEMBER 31, 2002 ANNUAL ACCOUNTS—(Continued)

### Note 4—Initial Expenses

As at December 31, 2002, initial expenses are as follows:

	12/31/2002 in EUR	12/31/2001 in USD	12/31/2001 in EUR
Acquisition value at the start of the financial year . . . .	33,314	23,167	22,551
Acquisition during the financial year . . . . .	72,400	11,057	10,763
Acquisition value at the end of the financial year . . . .	105,714	34,224	33,314
Value adjustments at the start of the financial year . . . .	5,976	1	1
Value adjustments during the financial year . . . . .	7,065	6,139	5,976
Value adjustments at the end of the financial year . . . .	13,041	6,140	5,977
Net accounting value at the end of the financial year . . . . .	<u>92,673</u>	<u>28,084</u>	<u>27,337</u>

### Note 5—Shareholders' Equity

The company was incorporated with a share capital of US\$30,000 (thirty thousand) constituted of 3,000 (three thousand) shares with a nominal value of US\$10 (ten) each, fully paid in.

During the Extraordinary general Meeting of March 5, 2001, the share capital was increased to US\$1,000,000 (one million) by issuing 97,000 (ninety seven thousand) shares with a nominal value of US\$10 (ten) each, fully paid in.

Within the restructuring of the Telecom Italia Group's Luxembourg companies, SOGERIM S.A., holder of one TELECOM ITALIA CAPITAL share, was dissolved on October 15, 2002 and its assets and liabilities were all acquired by SOFTE S.A. On December 16, 2002, the latter was absorbed by TELECOM ITALIA FINANCE (formerly TI WEB S.A.) who inherited the TELECOM ITALIA CAPITAL share.

The Extraordinary General Meeting of December 20, 2002, held before a notary, resolved to increase the capital from US\$1,000,000 to US\$8,000,000 by increasing the nominal value of the shares from US\$10 to US\$80. It then resolved to reduce the capital by US\$5,600,000 by absorbing reported losses.

The difference between the amount of reported losses to clear and the capital reduction amount was appropriated to a restricted reserve item for an amount of 592,609 EUR. That restricted reserve will be used exclusively to offset new losses in the future.

It then resolved to convert the social capital into Euros at the exchange rate of 1 Euro to 1.0273 US dollar and to reduce the capital after conversion to the amount of 221.16 EUR by setting up a new reserve, increasing the latter to 592,830 EUR.

As at December 31, 2002, the share capital amounted to EUR 2,336,000, divided into 100,000 shares with a nominal value of EUR 23.36 per share.

	Number of shares 12/31/2002	Number of shares 12/31/2001
TELECOM ITALIA S.p.A . . . . .	99,999	99,999
SOGERIM S.A. . . . .	—	—
TELECOM ITALIA FINANCE S.A. . . . .	1	1
	<u>100,000</u>	<u>100,000</u>

## APPENDIX TO THE DECEMBER 31, 2002 ANNUAL ACCOUNTS—(Continued)

### Note 6—Sums Payable to Associated Companies

As at December 31, 2002, sums payable to associated companies are as follows:

	<u>12/31/2002</u> <u>in EUR</u>	<u>12/31/2001</u> <u>in USD</u>	<u>12/31/2001</u> <u>in EUR</u>
Advance granted by Softe S.A. . . . .	—	3,128,755	3,045,611
Softe S.A.'s current accounts . . . . .	—	97	94
Telecom Italia Finance's current accounts . . . . .	7		
Interest accrued on advance granted by Softe S.A. . .	—	2,287	2,226
Commercial debt payable to Telecom Italia Finance S.p.A . . . . .	626,277	—	—
	<u>626,284</u>	<u>3,131,139</u>	<u>3,047,931</u>

### Note 7—Other Operating Charges

As at December 31, 2002, other operating charges are as follows:

	<u>12/31/2002</u> <u>in EUR</u>	<u>12/31/2001</u> <u>in USD</u>	<u>12/31/2001</u> <u>in EUR</u>
Consulting and legal costs . . . . .	6,680	476,593	463,928
Rent . . . . .	5,094	5,566	5,418
Other current administrative expenses . . . . .	6,054	4,240	4,127
Audit costs . . . . .	1,959	3,523	3,429
	<u>19,787</u>	<u>489,922</u>	<u>476,902</u>

### Note 8—Other Financial Charges

As at December 31, 2002, other financial charges are as follows:

	<u>12/31/2002</u> <u>in EUR</u>	<u>12/31/2001</u> <u>in USD</u>	<u>12/31/2001</u> <u>in EUR</u>
Rating fees . . . . .	—	912,303	888,059
SEC fees . . . . .	—	2,640,000	2,569,843
Exchange losses . . . . .	28,019	1,349	1,313
Banking costs . . . . .	40,846	344	335
	<u>68,865</u>	<u>3,553,996</u>	<u>3,459,550</u>

### Note 9—Situation Regarding Taxation

The Company is subject to the common taxation laws applicable to all corporate enterprises in Luxembourg.

#### *Share capital (following the Extraordinary General Meeting of December 20, 2002)*

“The share capital of the company is set at two million three hundred and thirty six thousand Euros (EUR 2,336,000) divided into one hundred thousand (100,000) shares with a nominal value of twenty three Euros thirty six cents (EUR 23.36) per share”.

## APPENDIX TO THE DECEMBER 31, 2002 ANNUAL ACCOUNTS—(Continued)

### *Board of Directors*

1. Mr. Francesco Tanzi, Company Director, residing in Milan (Italy), Chairman.
2. Mr. Adriano Trapletti, Company Director, residing in Luxembourg, Deputy Director.
3. Mrs. Stefania Saini, executive, residing in Luxembourg, Financial Director.
4. Mr. Alex Bolis, Company Director, residing in Milan, Director.
5. Mr. Jacques Loesch, attorney, residing in Luxembourg, Director.

### *Auditors:*

Mr. Riccardo Varetto, Company Director, residing in Turin (Italy).

### *Extract of the minutes of the Extraordinary General Meeting of March 5, 2003:*

The Chairman proposes to carry over the EUR 267,677.31 loss for the financial year ended December 2002, 31 to the following financial year;

The General Meeting approves the appropriation of the loss to the 2002 financial year.

The Meeting sets the number of Company directors to five (5) and nominates as new directors of the Company:

- Mrs. Stefania SAINI
- Mr. Alex BOLIS
- Mr. Jacques LOESCH
- Mr. Francesco TANZI
- Mr. Adriano TRAPLETTI

Their mandate will end at the General Meeting of Shareholders deciding on the approval of the annual accounts as at December 31, 2005.

The General Meeting sets the number of Company Auditors to one (1) and nominates as new Company Auditor Mr. Riccardo VARETTO, his mandate ending at the General Meeting of Shareholders deciding on the approval of the annual accounts as at December 31, 2005.

For the Company  
**TELECOM ITALIA CAPITAL**  
The Deputy Director  
/s/ ADRIANO TRAPLETTI  
Adriano Trapletti

**APPENDIX TO THE DECEMBER 31, 2002 ANNUAL ACCOUNTS—(Continued)**

Registered in Luxembourg—Companies, on APRIL 15, 2003

Reference: LSO AD/03214

Received:

Registration fee: 12 EUR

[illegible] fee: 26 EUR

Standard fee—Memorandum —

Total 38 EUR The Registrar  
Daniella HARTMANN

*Register of Companies*

B77970 No. L030015356.6

Deposited on: 04/16/2003

SCL Code: 000 Not resumed N/A

## **RAPPORT DU REVISEUR D'ENTREPRISES**

Aux actionnaires de  
TELECOM ITALIA CAPITAL S.A.  
Société Anonyme  
Luxembourg

Conformément au mandat donné par l'Assemblée Générale des actionnaires du 7 mars 2001, nous avons contrôlé les comptes annuels ci-joints de TELECOM ITALIA CAPITAL S.A. pour l'exercice se terminant le 31 décembre 2003 et avons pris connaissance du rapport de gestion y relatif. Les comptes annuels et le rapport de gestion relèvent de la responsabilité du Conseil d'Administration. Notre responsabilité est, sur base de nos travaux de révision, d'exprimer une opinion sur ces comptes annuels et de vérifier la concordance du rapport de gestion avec ceux-ci.

Nous avons effectué nos travaux de révision selon les normes internationales de révision. Ces normes requièrent que nos travaux de révision soient planifiés et exécutés de façon à obtenir une assurance raisonnable que les comptes annuels ne comportent pas d'anomalies significatives. Une mission de révision consiste à examiner, sur base de sondages, les éléments probants justifiant les montants et informations contenus dans les comptes annuels. Elle consiste également à apprécier les principes et méthodes comptables suivis et les estimations significatives faites par le Conseil d'Administration pour l'arrêté des comptes annuels, ainsi qu'à effectuer une revue de leur présentation d'ensemble. Nous estimons que nos travaux de révision forment une base raisonnable à l'expression de notre opinion.

A notre avis, les comptes annuels ci-joints donnent, en conformité avec les prescriptions légales et réglementaires en vigueur au Luxembourg, une image fidèle du patrimoine et de la situation financière de TELECOM ITALIA CAPITAL S.A. au 31 décembre 2003 ainsi que des résultats de l'exercice se terminant à cette date.

Le rapport de gestion est en concordance avec les comptes annuels.

ERNST & YOUNG  
Société Anonyme  
Réviseur d'entreprises

/s/ JEAN-MARIE GISCHER  
Jean-Marie GISCHER

Luxembourg, le 15 avril 2004



The financial statements as at December 31, 2003, including the balance sheet and profit and loss accounts, together with the explanatory notes, are presented below.

## BALANCE SHEET AS AT DECEMBER 31, 2003 (EURO)

### ASSETS

#### A. Fixed assets

Initial expenses (note 4) .....	71,529.73
<b>Total A) .....</b>	<b><u>71,529.73</u></b>

#### B. Floating assets

Receivables	
—Sums receivable from parent Company (note 5) .....	3,167,062,549.49
—Sums receivable from associated Companies .....	1,402,787.08
<b>Total B) .....</b>	<b><u>3,168,465,336.57</u></b>

<b>C. Equalization account (note 6) .....</b>	<b><u>66,078,698.49</u></b>
	<b><u>3,234,615,564.79</u></b>

### LIABILITIES

#### A. Net worth

Share capital (note 7) .....	2,336,000.00
Reserves	
—Other reserves (note 8) .....	592,829.57
Results carried forward .....	(267,677.31)
<b>Profits for the financial year .....</b>	<b><u>42,247.29</u></b>
<b>Total A) .....</b>	<b><u>2,703,399.55</u></b>

#### B. Debts

Long term debts (>12 months)	
Debtenture loans (note 9) .....	3,167,062,549.49
Debts to credit establishment (note 10) .....	24,782,264.46
Short term debts (< 12 months)	
Debts to credit establishment .....	15.83
Debts to parent Company .....	166,596.17
Other debts (note 11) .....	1,210,160.50
<b>Total B) .....</b>	<b><u>3,193,221,586.45</u></b>

<b>C. Equalization account (note 12) .....</b>	<b><u>38,690,578.79</u></b>
	<b><u>3,234,615,564.79</u></b>

Notes 1-20 are an integral part of these accounts

# **PROFIT AND LOSS ACCOUNTS AT DECEMBER 31, 2003—(EUR)**

## **CHARGES**

Adjustments of value on initial expenses .....	21,142.92
Other operating charges (note 13) .....	121,134.05
Interests and assimilated charges	
—on debenture loans (note 14) .....	28,834,618.92
—on credit establishment .....	92,023.34
—on Parent Company .....	166,596.17
—on hedging contracts .....	10,133,481.11
—other financial charges (note 15) .....	132,701.43
	<u><b>39,359,420.97</b></u>
Other taxes (note 16) .....	1,207,098.44
<b>Profits for the financial year</b> .....	<u><b>42,247.29</b></u>
	<u><u><b>40,751,043.67</b></u></u>

## **REVENUES**

Interest and assimilated revenues	
—on credit establishment .....	—
—on associated Companies .....	60,888.59
—on Parent Company .....	12,070,984.43
—on hedging contracts (note 17) .....	28,465,074.34
—on other financial revenues .....	142,910.33
	<u><b>40,739,857.69</b></u>
Extraordinary items .....	11,185.98
	<u><u><b>40,751,043.67</b></u></u>

Notes 1-20 are an integral part of these accounts

# **COMPARISON BETWEEN BALANCE SHEETS OF 12/31/03 AND 12/31/2002**

	<u>12/312003</u> in EUR	<u>12/31/2002</u> in EUR	<u>Differences</u> in EUR
<b>ASSETS</b>			
<b>A. Fixed assets</b>			
Initial expenses (note 4) .....	71,530	92,673	(21,143)
<b>Total A</b> .....	<u><b>71,530</b></u>	<u><b>92,673</b></u>	<u><b>(21,143)</b></u>
<b>B. Floating assets</b>			
Receivables			
—Sums receivable from parent Company (note 5) .....	3,167,062,549	—	3,167,062,549
—Sums receivable from associated Companies .....	1,402,787	3,210,357	(1,807,570)
<b>Total B</b> .....	<u><b>3,168,465,337</b></u>	<u><b>3,210,357</b></u>	<u><b>3,165,254,980</b></u>
<b>C. Equalization account</b> (note 6) .....	<u><b>66,078,698</b></u>	<u><b>—</b></u>	<u><b>66,078,698</b></u>
	<u><b>3,234,615,565</b></u>	<u><b>3,303,030</b></u>	<u><b>3,231,312,535</b></u>
<b>LIABILITIES</b>			
<b>A. Net worth</b>			
Share capital (note 7) .....	2,336,000	2,336,000	—
Reserves			
—Other reserves (note 8) .....	592,830	592,830	—
Results carried forward .....	(267,677)	—	(267,677)
Profits for the financial year .....	<u><b>42,247</b></u>	<u><b>(267,677)</b></u>	<u><b>309,924</b></u>
<b>Total A</b> .....	<u><b>2,703,399</b></u>	<u><b>2,661,153</b></u>	<u><b>42,247</b></u>
<b>B. Debts</b>			
Long term debts (>12 months)			
Debenture loans (note 9) .....	3,167,062,549	—	3,167,062,549
Debts to credit establishment (note 10) .....	24,782,264	—	24,782,264
Short term debts (< 12 months)			
Debts to credit establishment .....	16	—	16
Financial debts on associated Companies .....	—	626,284	(626,284)
Debts to parent Company .....	166,596	—	166,596
Other debts (note 11) .....	1,210,161	15,593	1,194,568
<b>Total B</b> .....	<u><b>3,193,221,586</b></u>	<u><b>641,877</b></u>	<u><b>734,896</b></u>
<b>C. Equalization account</b> (note 12) .....	<u><b>38,690,579</b></u>	<u><b>—</b></u>	<u><b>38,690,579</b></u>
	<u><b>3,234,615,565</b></u>	<u><b>3,303,030</b></u>	<u><b>3,231,312,535</b></u>

Notes 1-20 are an integral part of these accounts

# COMPARISON BETWEEN PROFIT AND LOSS ACCOUNTS OF 12/31/03 AND 12/31/2002

	12/31/2003 in EUR	12/31/2002 in EUR	Differences in EUR
<b>EXPENSES</b>			
Staff expenses . . . . .	—	108,576	(108,576)
value Adjustments on initial expenses . . . . .	21,143	7,065	14,078
Other operating charges (note 13) . . . . .	121,134	19,787	101,347
Interest and assimilated charges			
—on debenture loans (note 14) . . . . .	28,834,619	—	28,834,619
—on credit establishment . . . . .	92,023	—	92,023
—on associated Companies . . . . .		83,203	(83,203)
—on Parent Company . . . . .	166,596	—	166,596
—on hedging contract . . . . .	10,133,481		
—other financial charges (note 15) . . . . .	132,701	68,865	63,836
	<u>39,359,421</u>	<u>152,068</u>	<u>39,207,353</u>
Other taxes (note 16) . . . . .	1,207,098	62	1,207,036
<b>Profits for the financial year . . . . .</b>	<u>42,247</u>	<u>—</u>	<u>42,247</u>
	<u>40,751,044</u>	<u>287,558</u>	<u>40,463,485</u>
<b>CHARGES</b>			
Interest and assimilated revenues			
—on credit establishment . . . . .	—	651	(651)
—on associated Companies . . . . .	60,889	2,355	58,534
—on Parent Company . . . . .	12,070,984	—	12,070,984
—on other financial revenues . . . . .	28,607,984	16,875	28,591,109
	<u>40,739,857</u>	<u>19,881</u>	<u>40,719,976</u>
Extraordinary items . . . . .	11,186	—	11,186
<b>Financial year loss . . . . .</b>	<u>—</u>	<u>267,677</u>	<u>(267,677)</u>
	<u>40,751,044</u>	<u>287,558</u>	<u>40,463,486</u>

Notes 1-20 are an integral part of these accounts

## FINANCIAL STATEMENTS EXPLANATORY NOTES

### **Note 1—Incorporation of the Company**

The Company was incorporated on 27 September 2000 for an unlimited term. It elected its headquarters at 12-14 boulevard Grande Duchesse Charlotte L—1330 Luxemburg and is registered with the Trade and Companies Registry of Luxemburg under the number B77.970.

### **Note 2—Activity of the Company**

The aim of the Company is to finance as widely as possible the Companies and enterprises that belong to the Group Telecom Italia.

To this end, it may obtain all funds by issuing bonds, short term notes and all other instruments and by raising any loans in any form from Banks and Institutional Investors or in any other way, the preceding list being purely enunciative and not exhaustive.

It can also acquire participation all any Luxemburg and foreign Companies and administer, manage and enhance their portfolio.

It may carry out all operations generally ordinary, commercial, financial, movable and immovable, direct or indirectly linked to its aim.

More generally, the Company may carry out all operations deemed useful for the achievement and the development of its Company aim.

The Company's accounting period begins on January 1 and ends on December 31.

### **Note 3—Accounting Principles and Methods**

The annual accounts of the Company TELECOM ITALIA CAPITAL SA for the financial year 2003 have been made in accordance with the accounting principles generally accepted in Luxemburg.

The Company accounting and the annual accounts of the Company are held and expressed in euros (EUR).

The Company uses the multi currency accounting method which consists in entering assets and liabilities in their original currencies and converting them into euros at the end of each month. The net exchange differences arising from these conversions are charged to the profit and loss account under the item 'other charges/financial revenues'.

The revenues and charges for the operations carried out in currencies other than EUR are entered in their respective currency and converted at the rate of exchange which is applicable at the date of the transaction.

The exchange differences arising from balance sheet accounts operations' coverage swaps contracts are neutralized by the use of equalization accounts.

#### ***Interest rate swaps***

The commitments pertaining to currency and interest rates swaps are posted in the off balance sheet items at the nominal value of the contracts.

#### ***Debenture loans***

The debenture loans are posted at their reimbursement value; the difference between the reimbursement value and the issue value is posted under "issue bonus" in the asset equalization account and amortized over the term of the loan. The issuing expenses relative to the debenture loans are also posted in the asset equalization account and amortized over the term of the loan.

## FINANCIAL STATEMENTS EXPLANATORY NOTES—(Continued)

### Note 4—Initial Expenses

The initial expenses are linearly amortized at the rate of 20% per year.

At the December 31, 2003, the initial expenses were broken down as follows:

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Value of acquisition at the beginning of the accounting period . . . .	105,714	33,314
Acquisition in the course of the accounting period . . . . .	0	72,400
Value of acquisition at the end of the accounting period . . . . .	105,714	105,714
Adjustments of value at the beginning of the accounting period . . . .	13,041	5,976
Adjustments of value in the course of the accounting period . . . . .	21,143	7,065
Adjustments of value at the end of the accounting period . . . . .	<u>34,184</u>	<u>13,041</u>
Net accounting value at the end of the accounting period . . . . .	<u>71,530</u>	<u>92,673</u>

### Note 5—Sums Receivable from Parent Company

With the amount received from the issuing of the debenture loans, the Company has entered a deposit contract with the parent Company for the same amount (three monthly term) at the net rate US\$Libor + 0.756.

### Note 6—Equalization Accounts (Assets)

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Issue premium and expense on debenture loan . . . . .	24,422,945	—
Accrued interests on sums receivable from parent Company . . .	12,070,984	—
Accrued interests on coverage contracts . . . . .	28,465,074	—
Accrued interests on sums receivable from Group Company . . .	777	—
Other expenses linked to the issue of the debenture loan . . . . .	<u>1,118,918</u>	<u>—</u>
	<u>66,078,698</u>	<u>—</u>

### Note 7—Shareholders' Equity

The company was incorporated with a share capital of US\$30,000 (thirty thousand) constituted of 3,000 (three thousand) shares with a nominal value of US\$10 (ten) each, fully paid in.

During the Extraordinary general Meeting of March 5, 2001, the share capital was increased to US\$ 1,000,000 (one million) by issuing 97,000 (ninety seven thousand) shares with a nominal value of US\$10 (ten) each, fully paid in.

The Extraordinary General Meeting of December 20, 2002, held before a notary, resolved to increase the capital from US\$1,000,000 to US\$8,000,000 by increasing the nominal value of the shares from US\$10 to US\$80. It then resolved to reduce the capital by US\$5,600,000 by absorbing reported losses.

Then it decided to convert the share capital into euros at the rate of change of 1 euro equal to US\$1.0273.

As at December 31, 2002, the share capital amounted to EUR 2,336,000, divided into 100,000 shares with a nominal value of EUR 23.36 per share.

## FINANCIAL STATEMENTS EXPLANATORY NOTES—(Continued)

	Number of shares 12/31/2002	Number of shares 12/31/2001
TELECOM ITALIA S.p.A . . . . .	99,999	99,999
TELECOM ITALIA FINANCE S.A. . . . .	1	1
	<u>100,000</u>	<u>100,000</u>

### Note 8—Other Reserves

The unavailable reserve of EUR 592,829.57 was made up as follows:

- EUR 51,273.64 corresponding to the difference between the amount of losses posted for reconciliation and the amount of capital reduction achieved by the Meeting of December 20, 2002.
- EUR 221.16 deriving from the reduction in capital to convert it from US dollars into Euros.
- EUR 541,334.77 corresponding to the difference between the loss entered on 12/31/2002 and the loss reconciled by the Meeting of December 20, 2002.

This unavailable reserve will only be usable to compensate further future losses.

### Note 9—Debenture Loans

As at October 29, 2003, the Company has issued debenture loans for a global amount of US\$4,000,000,000 classed as follows:

	12/31/2003 in EUR	12/31/2002 in EUR
US\$1,000,000,000 Debenture loan		
11/15/2008 4% fixed rate . . . . .	791,765,637	—
US\$2,000,000,000 Debenture loan		
11/15/2013 5.25% fixed rate . . . . .	1,583,531,275	—
US\$1,000,000,000 Debenture loan		
11/15/2033 6.375% fixed rate . . . . .	791,765,637	—
	<u>3,167,062,549 [sic]</u>	<u>—</u>

### Note 10—Debts Owed to Credit Establishments

The issue of debenture loans has incurred expenses for a total amount of US\$31,300,000 (*upfront fees*). In order to finance the payment of these fees (*upfront fees*), the Company has entered into banking loan contracts for a term equal to the term of the debenture loans. The contracts provide for the reimbursement in three monthly payments.

	12/31/2003 in EUR	12/31/2002 in EUR
Upfront fees US\$3,970,000 11/15/2008 . . . . .	3,143,309	—
Upfront fees US\$14,160,000 11/15/2013 . . . . .	11,211,401	—
Upfront fees US\$13,170,000 11/15/2033 . . . . .	10,427,553	—
	<u>24,782,264</u>	<u>—</u>



## FINANCIAL STATEMENTS EXPLANATORY NOTES—(Continued)

### Note 11—Other Debts

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Debts towards third parties .....	3,062	—
Withholding at source on investment income .....	1,207,098	—
	<u>1,210,160</u>	<u>—</u>

### Note 12—Equalization Accounts (Liabilities)

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Accrued interest on debenture loans .....	28,465,074	—
Accrued interest on coverage contracts .....	10,133,481	—
Accrued interest on credit establishments .....	92,023	—
	<u>38,690,578</u>	<u>—</u>

### Note 13—Other Operating Charges

As at December 31, 2002, other operating charges are as follows:

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Consulting and legal costs .....	13,880	6,680
Rent .....	6,000	5,094
Other current administrative expenses .....	140	6,054
Audit costs .....	6,349	1,959
Agency Rating Fees .....	94,765	—
	<u>121,134</u>	<u>19,787</u>

### Note 14—Interests on Debenture Loans

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Interest on debenture loans .....	28,465,074	—
Amortization of issue premium and related expenses .....	369,545	—
	<u>28,834,619</u>	<u>—</u>

### Note 15—Interests on Other Financial Expenses

	<u>12/31/2003</u> <u>in EUR</u>	<u>12/31/2002</u> <u>in EUR</u>
Exchange losses .....	132,701	28,019
Banking expenses .....	—	40,846
	<u>132,701</u>	<u>68,865</u>

## FINANCIAL STATEMENTS EXPLANATORY NOTES—(Continued)

### Note 16—Other Taxes

This item is concerned with the provision for the withholding at source on interest to receive from Telecom Italia S.p.A. on deposits made with them.

### Note 17—Coverage Contracts

Telecom Italia Capital has entered into IRS (Interest rate swap) contracts for the coverage of rate related risks linked to the issue of the debenture loans on coupons of loans issued: the contracts, of the same term as the loans, provide for the payment to the Banks of the variable rate (US\$Libor + mean spread of 0.7110) against the payment by the Banks of the fixed rate.

### Note 18—Warranties

The Company enjoys personal guarantees from Telecom Italia S.p.A. equal to US\$4.000.000.000 (counter value of EUR 3,167,062,549.49) corresponding to the total of the debenture loans posted in the balance sheet.

### Note 19—Situation Regarding Taxation

The Company is subject to the common taxation laws applicable to all corporate enterprises in Luxemburg.

### Note 20—Consolidation

On the basis of the criteria fixed by the Luxembourgian Law, the Company is exempt from the obligation of making consolidated accounts.

Those accounts are included in the consolidated accounts of Telecom Italia S.p.A. which are available at the Headquarters of Telecom Italia S.p.A. situated in Piazza degli Affari 2, Milan, Italy.

#### *Share capital (following the Extraordinary General Meeting of December 20, 2002)*

“The share capital of the company is set at two million three hundred and thirty six thousand Euros (EUR 2,336,000) divided into one hundred thousand (100,000) shares with a nominal value of twenty three Euros thirty six cents (EUR 23.36) per share.”

#### *Board of Directors*

1. Mr. Francesco Tanzi, Company Director, residing in Milan (Italy), Chairman.
2. Mr. Adriano Trapletti, Company Director, residing in Luxemburg, Deputy Director.
3. Mrs. Stefania Saini, executive, residing in Luxemburg, Financial Director.
4. Mr. Alex Bolis, Company Director, residing in Milan, Director.
5. Mr. Jacques Loesch, Esq., residing in Luxemburg, Director.

#### *Auditors:*

Mr. Nicolas Brimayer, residing in Luxemburg.

## FINANCIAL STATEMENTS EXPLANATORY NOTES—(Continued)

### *Extract of the minutes of the Ordinary General Meeting of May 5, 2004:*

The Meeting, having heard the reading of the Board of Directors Report, of the Auditor Report and of the Company auditor's Report, approves the Balance sheet and the Profit and loss Accounts for the fiscal year closed on 31 December 2003 such as they were presented to him by the Board of Directors; And approves the proposal to carry over the profit of EUR 42,247.29 made in the fiscal year closed on December 31, 2003 to the next financial year.

The Meeting notes with regret the resignation of Mr. Riccardo Varetto and nominates Mr. Nicolas Brimayer as new Auditor for the financial year 2004.

For the Company  
**TELECOM ITALIA CAPITAL**  
The Deputy Director  
/s/ ADRIANO TRAPLETTI  
Adriano Trapletti

**Issuer**

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

**Guarantor**

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

**Trustee**

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

**Agents**

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

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

**Legal Advisors***To the Issuer and the Guarantor*

As to U.S. Law:  
Morgan, Lewis & Bockius LLP  
101 Park Avenue  
New York, New York 10178  
U.S.A.

As to Italian Law:  
Gianni, Origoni, Grippo &  
Partners  
Via delle Quattro Fontane 20  
00184 Rome  
Italy

As to Italian Tax Law:  
Maisto e Associati  
Associazione Professionale  
Piazza F. Meda 5  
20121 Milan  
Italy

As to Luxembourg Law:  
Linklaters Loesch  
4 Rue Carlo Hemmer  
B.P. 1107 Luxembourg  
L-1011 Luxembourg

*To the Initial Purchasers*

As to U.S. Law:  
Sullivan & Cromwell LLP  
1 New Fetter Lane  
London EC4A 1AN  
England

As to Italian Law and Italian Tax Law:  
Chiomenti Studio Legale  
via XXIV Maggio, 43  
00187 Rome  
Italy

*To the Trustee*

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

**Auditors of**

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

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



## Telecom Italia Capital

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

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

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

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

---

LISTING MEMORANDUM

September 28, 2004

---

*Joint Book-running Managers*

GOLDMAN, SACHS & CO.

JPMORGAN

LEHMAN BROTHERS

MERRILL LYNCH & CO.

MORGAN STANLEY

---

---