

PROSPECTUS DATED 19 MARCH, 2013



TELECOM ITALIA S.p.A.

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

€750,000,000 Capital Securities due 2073

Issue price: 99.499 per cent.

The €750,000,000 Capital Securities due 2073 (the **Securities**) will be issued by Telecom Italia S.p.A. (the **Issuer** or **Telecom Italia**) on 20 March, 2013 (the **Issue Date**).

The Securities will bear interest on their principal amount (a) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 7.750 per cent. per annum and (b) from (and including) the First Reset Date to (but excluding) the Maturity Date, at, in respect of each Reset Period, the relevant EUR 5 year Swap Rate plus (A) in respect of the Reset Period commencing on the First Reset Date, 6.949 per cent. per annum, (B) in respect of the Reset Periods commencing on 20 March, 2023, 20 March, 2028 and 20 March, 2033, 7.199 per cent. per annum. and (C) in respect of any other Reset Period, 7.949 per cent. per annum. Interest on the Securities will be payable annually in arrear on 20 March in each year (each an **Interest Payment Date**).

Payments of interest on the Securities may be deferred at the option of the Issuer in certain circumstances, as set out in Condition 4 of "Terms and Conditions of the Securities".

Unless previously redeemed by the Issuer as provided below, the Securities will be redeemed on 20 March, 2073 at their principal amount, together with interest accrued to, but excluding, such date and any Arrears of Interest (as defined in "Terms and Conditions of the Securities"). The Issuer may redeem all, but not some only, of the Securities on any Reset Date, at their principal amount together with any interest accrued to, but excluding, the relevant date of redemption and any Arrears of Interest. The Issuer may also redeem all, but not some only, of the Securities at the applicable Early Redemption Price at any time upon the occurrence of a Withholding Tax Event, a Tax Deductibility Event or a Rating Methodology Event (each as defined in "Terms and Conditions of the Securities"). In the event that at least 80 per cent. of the aggregate principal amount of the Securities issued on the Issue Date has been purchased by the Issuer or a Subsidiary (as defined in "Terms and Conditions of the Securities") and cancelled, the Issuer may elect to redeem all, but not some only, of the outstanding Securities at the applicable Early Redemption Price. See "Terms and Conditions of the Securities – Redemption and Purchase").

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July, 2005 (the **Luxembourg Act**) on prospectuses for securities to approve this document as a prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Luxembourg Act. Application has also been made to the Luxembourg Stock Exchange for the listing of the Securities on the Official List of the Luxembourg Stock Exchange and admission to trading on the Luxembourg Stock Exchange's regulated market. This Prospectus (together with any documents incorporated by reference herein) is available on the Luxembourg Stock Exchange website (www.bourse.lu).

Subject to and as set out in "Terms and Conditions of the Securities – Taxation", the Issuer shall not be liable to pay any Additional Amounts to holders of the Securities in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of 1 April, 1996 (as the same may be amended or supplemented from time to time) where the Securities are held by a Securityholder resident for tax purposes in a country which does not allow for a satisfactory exchange of information with Italy and otherwise in the circumstances described in "Terms and Conditions of the Securities – Taxation".

The Securities are expected to be rated "Ba2" by Moody's Investors Service España, S.A. (**Moody's**), "BB+, CreditWatch negative" by Standard & Poor's Credit Market Services France S.A.S. (**S&P**) and "BB+" by Fitch Ratings Limited (**Fitch**). Each of Moody's, S&P and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of

<http://www.oblible.com>

Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Securities will initially be represented by a temporary global security (the **Temporary Global Security**), without interest coupons, which will be deposited on or about the Issue Date with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the **Permanent Global Security** and, together with the Temporary Global Security, the **Global Securities**), without interest coupons, on or after 30 April, 2013 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Security will be exchangeable for definitive Securities only in certain limited circumstances - see "*Summary of Provisions relating to the Securities while represented by the Global Securities*".

An investment in the Securities involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 7.

Structuring Advisers to the Issuer and Global Co-ordinators

BARCLAYS

J.P. MORGAN

Joint Bookrunners

BANCA IMI

BARCLAYS

BNP PARIBAS

J.P. MORGAN

MEDIOBANCA

Other Joint Bookrunners

CITIGROUP

CRÉDIT AGRICOLE CIB

GOLDMAN SACHS INTERNATIONAL

**SOCIÉTÉ GÉNÉRALE CORPORATE &
INVESTMENT BANKING**

The date of this Prospectus is 19 March, 2013

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended (the **Prospectus Directive**) and for the purposes of the Luxembourg Act.

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

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

Save for the Issuer, no other party has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers (as defined in "*Subscription and Sale*") or the Trustee (as defined in "*Terms and Conditions of the Securities*") or Barclays Bank PLC and J.P. Morgan Securities plc as structuring advisers to the Issuer (the **Structuring Advisers**) as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Securities. None of the Managers, the Structuring Advisers or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Securities or their distribution.

To the fullest extent permitted by law, none of the Managers, the Structuring Advisers, the Trustee, the Principal Paying Agent or the Agent Bank accepts any responsibility for the contents of this Prospectus or for any other statements made or purported to be made by any Manager or any Structuring Adviser or on their behalf or by the Trustee or on its behalf in connection with the Issuer or the issue and offering of any Securities. Each of the Managers, the Structuring Advisers, the Trustee, the Principal Paying Agent and the Agent Bank accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Issuer or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any Manager, any Structuring Adviser or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any Manager, any Structuring Adviser or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Securities constitutes an offer or invitation by or on behalf of the Issuer, any Manager, any Structuring Adviser or the Trustee to any person to subscribe for or to purchase any Securities.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Managers, the Structuring Advisers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Securities or to advise any investor in the Securities of any information coming to their attention.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions,

the Securities may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Securities and on distribution of this document, see "*Subscription and Sale*" below.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Securities may be restricted by law in certain jurisdictions. None of the Issuer, the Managers, the Structuring Advisers or the Trustee represents that this Prospectus may be lawfully distributed, or that the Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers, the Structuring Advisers or the Trustee which would permit a public offering of the Securities or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States, the United Kingdom and the Republic of Italy.

IN CONNECTION WITH THE ISSUE OF THE SECURITIES, J.P. MORGAN SECURITIES PLC AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

References to the **Telecom Italia Group** or the **Group** (other than for the purposes of the "*Terms and Conditions of the Securities*" where **Group** shall mean the Issuer and its Subsidiaries from time to time) refer to the Issuer and its consolidated subsidiaries as they exist at the date of this Prospectus.

FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Prospectus, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things: our future financial condition and performance, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this prospectus.

Any forward-looking statements are only made as at the date of this Prospectus and, except as required by law or the rules and regulations of any stock exchange on which the Securities are listed, we undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Securities. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Securities are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Securities may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Securities

RISKS RELATED TO TELECOM ITALIA GROUP

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

On 8 February, 2013, Telecom Italia presented its updated 2013–2015 Plan, which states the following strategic priorities for the Telecom Italia Group over the next three years:

- continued deleveraging to reduce the Telecom Italia Group's net financial debt, coupled with sustainable shareholder remuneration; and
- extension and acceleration of Telecom Italia's policy of cost reductions, in order to contribute to the financing of technological development in fixed-line telephony and mobile telephony in Italy and mobile telephony in Brazil.

Telecom Italia's ability to implement and achieve these strategic objectives may be influenced by certain factors, including factors outside of its control, such as:

- regulatory decisions and changes in the regulatory environment in Italy or in the other countries in which it operates;
- increasing number of competitors in its principal markets which could cause Telecom Italia to lose further market share;
- increasing and stronger market competition in its principal markets with a consequent decline in the prices of services;
- increasing competition from global and local OTT (Over The Top) players (operators offering content and services on the internet without owning a proprietary telecommunications network infrastructure);
- Telecom Italia's ability to strengthen its competitive position in Italy and in international markets, particularly in Brazil and Argentina;
- Telecom Italia's ability to develop and introduce new technologies which are attractive in its principal markets, to manage innovation, to supply value added services and to increase the use of its fixed and mobile networks;

- the success of “disruptive” new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- Telecom Italia’s ability to manage costs;
- the continuing effects of the global economic crisis in the principal markets in which Telecom Italia operates including the effects on its customers and their ability to purchase or continue to purchase Telecom Italia’s services;
- Telecom Italia’s ability to refinance existing indebtedness when due in the capital and bank markets which remain volatile and subject to disruption;
- Telecom Italia’s ability to attract and retain highly qualified employees;
- the effect of exchange rate fluctuations on Telecom Italia’s operating revenues, margins and financial management;
- any difficulties which Telecom Italia may encounter in its supply and procurement processes, including as a result of the insolvency or financial weaknesses of its suppliers;
- should Telecom Italia make any acquisitions, any difficulties it may encounter in integrating acquired companies or businesses; and
- the costs which may be incurred due to unexpected events, in particular where Telecom Italia’s insurance is not sufficient to cover such costs.

As a result of these uncertainties there can be no assurance that the objectives identified by management can effectively be attained in the manner and within the time-frames described. Furthermore, if Telecom Italia is unable to attain its strategic priorities, its goodwill may be impaired which could result in significant write-offs.

The global economic crisis adversely affected Telecom Italia’s business in recent years and the continuing European economic uncertainty is expected to continue in 2013. The likely reduction of private and business consumption may have a negative impact on Telecom Italia’s operating results and financial condition.

The financial contagion which spread to Italy from the Euro-zone debt crisis has led to a new downturn in the Italian economy, after the slight recovery in 2010 and 2011 that followed the strong gross domestic product (**GDP**) decrease associated with the global economic crisis which began in late 2008. From the end of 2011, the Italian economy has faced fiscal tightening (a mix of spending cuts and tax increases), aimed at reinforcing the multi-year budget deficit reduction plan and balancing of the structural deficit by 2013; this process is expected to continue under the “Fiscal Compact” rules¹. This fiscal policy should guarantee structural adjustments and sustainability in the long term, but it has contributed to the weakness in domestic demand experienced by the Italian market during 2012, which is expected to continue for the coming years.

The telecommunications industry is considered to be less affected by negative economic trends than other industries, because telecommunications services are seen as high productivity tools in the business segment, and they are also becoming an increasingly important element in household expenditure patterns. However, recessionary conditions have weighed, and may continue to weigh heavily, on the development prospects of Telecom Italia’s domestic market. In particular, the economic weakness may lead to lower

¹ The Fiscal Compact is an intergovernmental treaty introduced as a new and stricter version of the previous Stability and Growth Pact. The treaty entered into force on 1 January 2013 for those Member States of the European Union which had completed ratification prior to this date. Under the Fiscal Compact, ratifying Member States are required to have enacted laws requiring their national budgets to be in balance or in surplus within the treaty’s definition within one year after the Fiscal Compact enters into force for them. The laws must also provide for a self-correcting mechanism to prevent their breach. The treaty defines a balanced budget as a general budget deficit less than 3.0 per cent. of the GDP, and a structural deficit of less than 1.0 per cent. of GDP if the debt level is below 60 per cent. -or else it shall be below 0.5 per cent. of GDP.

telecommunications spending above all in the business segment and, in this context, the competitive environment might entail a further downward pressure on telecommunications service prices leading to a negative impact on Telecom Italia's domestic revenues.

The continuing global economic weakness could further adversely affect Telecom Italia's businesses in its principal markets (Italy, Brazil and Argentina) and therefore may have a negative impact on its operating results and financial condition.

If Telecom Italia fails to successfully implement its plans to improve efficiency and optimise expenditures, its results of operations and financial condition could be adversely affected.

Telecom Italia's leverage is such that any deterioration in cash flow can change the expectations of the Telecom Italia Group's ability to repay its debt and the inability to reduce its debt could have a material adverse effect on Telecom Italia's business. Continuing volatility in the international credit markets may limit Telecom Italia's ability to refinance its financial debt.

Telecom Italia's gross financial debt was 40,918 million euros at 30 September, 2012 compared with 41,951 million euros at 31 December, 2011. Its net financial debt was 29,971 million euros at 30 September, 2012 compared with 30,819 million euros at 31 December, 2011.

Due to the competitive environment and current economic conditions, there could be deterioration in Telecom Italia's income statement and statement of financial position measures used by investors and rating agencies in determining its credit quality. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody's, S&P and Fitch, which base their ratings on Telecom Italia's ability to repay its debt.

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

Factors which are beyond Telecom Italia's control such as deterioration in performance by the telecommunications sector, unfavourable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions also as a result of the continuing effects of the economic and financial crisis, could have a significant effect on Telecom Italia's ability to reduce its debt, or the ability of the Telecom Italia Group to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of the Telecom Italia Group's strategy, the failure to reduce debt could be viewed negatively and adversely affect the credit ratings of Telecom Italia.

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

Telecom Italia is continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties and is the subject of a number of investigations by judicial authorities. The ultimate outcome of such proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telecom Italia's results of operations and financial condition.

Telecom Italia is subject to numerous risks relating to legal, competition and regulatory proceedings in which it is currently a party or which could develop in the future. It is also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, competition and regulatory proceedings and investigations in which Telecom Italia is, or may become, involved (or settlements thereof) may have a material adverse effect on its results of operations

and/or financial condition. Furthermore, Telecom Italia's involvement in such proceedings and investigations may adversely affect its reputation.

The Italian Collective Action for Damages for the Protection of Consumers Law (the **Collective Action Law**) was passed in December 2007 and, after undergoing substantial modifications by the Italian Parliament, entered into force on 1 January, 2010. The Collective Action Law allows collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action Law. Therefore there is a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers, although no such actions have yet been brought against Telecom Italia.

Operational risks could adversely affect Telecom Italia's reputation and its profitability.

Telecom Italia faces numerous operational risks inherent in its business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly or systems failures. These events can result in direct or indirect losses and adverse legal and regulatory proceedings, and harm its reputation and operational effectiveness.

Telecom Italia has risk management practices designed to detect, manage and monitor at top level the evolution of these operational risks, and for this purpose it has recently established a group risk management committee.

However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that Telecom Italia faces and such failures could have a material adverse effect on its results of operations and could harm its reputation.

Risks associated with Telecom Italia's ownership chain.

Telco S.p.A. (**Telco**)—a company in which interests are held by the Generali group (**Generali**) (30.58 per cent.), Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**) (11.62 per cent.), Mediobanca S.p.A. (**Mediobanca**) (11.62 per cent.), and Telefónica S.A. (**Telefónica**) (46.18 per cent.)—is Telecom Italia's largest shareholder, holding an interest of approximately 22.40 per cent. of the voting rights.

On 29 February, 2012, Telefónica, Intesa Sanpaolo, Mediobanca, and Generali entered into a renewal agreement (the **2012 Shareholders Agreement**) in which they agreed to enter into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original shareholders' agreement dated as of 28 April, 2007, as subsequently amended and supplemented.

The 2012 Shareholders Agreement defines, *inter alia*, the criteria for drawing up the list of candidates for the appointment of the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco's share capital, will be entitled to designate two candidates; and
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the list, of which three candidates would be appointed unanimously and the others on a proportional basis.

Although Telco does not own a controlling interest in Telecom Italia's voting shares, Telco may still exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors. In the shareholders' meeting held on 12 April, 2011, 12 out of 15 Board members were elected from a list proposed by Telco, while the remaining three Directors were elected from a list proposed by a group of asset management companies and international institutional investors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia's other ordinary shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco.

In addition, Telefónica is the largest shareholder of Telco. Presently, Telefónica and its associated companies (the **Telefónica Group**) and the Telecom Italia Group are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the 2012 Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group will be managed autonomously and independently. The 2012 Shareholders Agreement provides, among other things, that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at Board of Directors' meetings which discuss matters relating to companies of the Telecom Italia Group in countries where the Telefónica Group and the Telecom Italia Group compete. Specific additional matters have been agreed with respect to the Telecom Italia Group's operations in Brazil and Argentina. The presence of Telefónica in Telco could, however, result in legal or regulatory proceedings or affect regulatory decisions in countries where the Telecom Italia Group may wish to operate if the Telefónica Group is also an operator or competitor in such jurisdictions.

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

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

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's bylaws pursuant to compulsory legal provisions.

On 26 March, 2009, the European Court of Justice (the **ECJ**) declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the ECJ's ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury's special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on 20 May, 2010, the Italian Government amended the criteria under which it may exercise such special powers. In any event, the ruling by the ECJ does not have any immediate or direct impact on Telecom Italia's bylaws.

On 14 May, 2012 Law no. 56/2012 (which converted into Law the 15 March 2012 Legislative Decree No. 21 on the same subject) was published, containing "Regulations relating to the special powers on share ownership in the sectors of defence and national security, and regarding activities of strategic importance in the energy, transport and communication sectors". The regulations provide that, at the moment the implementing decrees come into force regarding "*the networks and systems, goods and relationships of strategic importance for the communications [...] sector*", the statutory clauses on special powers will cease to have effect to be replaced by these regulations. In brief, the new regulations will provide:

- a power granted to the Italian Government to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified as above in the Prime Ministerial decree referred to above. The right to purchase will in any case be permitted solely on condition of reciprocity with the purchaser's home jurisdiction;
- a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of said strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company's bylaws purpose, company dissolution or amendment in bylaws provisions relating limitations on voting rights.

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to Telecom Italia (whether by merger or otherwise) more difficult to achieve, if at

all, or discourage certain bidders from making an offer relating to a change of control that could otherwise be beneficial to shareholders.

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

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

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

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

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

Many of these tasks are not entirely under the control of Telecom Italia and may be affected by applicable regulation. If Telecom Italia fails to execute them successfully, its services and products may be less attractive to new customers and it may lose existing customers to competitors, which could have a material adverse effect on Telecom Italia's business, financial condition and results of operations.

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

The value of Telecom Italia's operations and investments may be adversely affected by political and economic developments in Italy or other countries. Continuing global economic weakness and the long term impact of the needed austerity measures could reduce purchases of Telecom Italia's products and services and adversely affect its results of operations, cash flows and financial condition.

Telecom Italia's business is dependent to a large degree on general economic conditions in Italy and in its other principal markets, Brazil and Argentina, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect Telecom Italia's business and results of operations. The weak economic conditions of the last several years have had an adverse impact on Telecom Italia's business, particularly in Italy.

Although the telecommunications industry is believed to be less affected by negative economic trends than other industries (since telecommunications services are seen as high productivity tools in the business segment, and they are also becoming an increasingly important element in household expenditure patterns), the economic recession that the Italian market has been experiencing in recent years has had an adverse impact on Telecom Italia's business. The overall economic crisis and the tightening fiscal policy aimed to reach European Union targets have contributed to a deep slowdown of domestic demand in Italy. This economic weakness led to more cautious telecommunications spending, above all in the business segment that cut operating expenditure and postponed capital expenditure; in this context, competitive pressure entailed a further downward trend in telecommunications service prices, leading to a negative impact on Telecom Italia's domestic revenues; this trend is expected to continue in the years to come.

Continuing uncertainty about global economic conditions poses a significant risk as consumers and businesses postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for Telecom Italia's products and services. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or the timing of purchases of Telecom Italia's products and services. A loss of customers or a reduction in purchases by its current customers could have a material adverse effect on its financial condition, results of operations and cash flow and may negatively affect its ability to meet its targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

Telecom Italia may also be adversely affected by political developments in the countries where it has made significant investments. Certain of these countries have political and legal systems that are unpredictable.

Political or economic upheaval or changes in laws or in their application in these countries may harm the operations of the companies in which Telecom Italia has invested and impair the value of these investments.

In particular, in recent years the Argentine government has taken several actions to re-nationalize concessions and public services contracts that were privatized in the 1990's, such as Aguas Argentinas S.A., Aerolíneas Argentina S.A. and recently YPF S.A.. In April 2012, Decree 530/12 from the National Executive Branch resulted in an intervention in YPF S.A., Argentina's largest company and the principal oil and gas producer. In addition, a bill was presented to the Argentine Congress declaring the public interest in the exploitation, production, transport and commercialisation of oil and gas and declaring the expropriation of 51 per cent. of the share capital of YPF S.A.. Finally, such bill was approved by the Argentine congress in May 2012. There is no certainty about the consequences the expropriation of YPF S.A. will have on Argentina's economy, on the confidence of local and international investors, on the business environment in Argentina or what response it will cause from other countries or international entities. Telecom Italia cannot provide any assurance that similar actions of the Argentine government will not be extended to other companies and/or other sectors in the future.

In the past, the Argentine government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Although significant restrictions or limitations have been eliminated over the years, certain restrictions imposed by Banco Central de la Republica Argentina (**BCRA**) on the access to foreign exchange markets and transfer of funds continues to apply. In addition, during the months of October and November 2011, new measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the Argentine Income Tax Department (**AFIP**) for any purchase of foreign currency. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors, dividend payments to foreign shareholders or require its prior authorization for such purposes, which would limit our ability to comply in a timely manner with payments related to the Sofora group's liabilities to foreign creditors or non-resident shareholders.

In addition, in October 2011, Decree No. 1,722 eliminated an exception for oil and mining companies, and thus requires these companies to settle all their export receipts in the foreign exchange market. Moreover, the National Insurance Bureau, in October 2011 issued Resolution No. 36,162 imposing the obligation for insurance companies to have all investments and liquid assets allocated in Argentina. We cannot ensure that similar measures will not be taken for other companies and/or other sectors in the future.

Starting in January 2012, the AFIP must be notified in advance and must approve all import operations of goods and services. This new procedure could negatively affect the provision of imported products and services and Telecom Italia's Argentinean supply chain.

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

Telecom Italia's fixed and mobile telecommunications operations, as well as its broadband services and television broadcasting businesses, are subject to regulatory requirements in Italy and its international operations are subject to regulation in their host countries.

In Italy, Telecom Italia is also subject to universal service obligations, which require it to provide fixed line public voice telecommunications services in non-profitable areas. Telecom Italia is the only operator in Italy under this obligation.

As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market (the **Framework Directive**). The review of the Framework Directive was approved at the end of 2009 and has been implemented in Italy pursuant to two Legislative Decrees dated 28 May 2012, respectively n. 69/2012 and 70/2012.

Included within the regulatory framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (**AGCom**) to identify operators with "significant market power" (**SMP**) based on market analyses in relevant separate retail and wholesale markets, identified in an EC recommendation, in which it is considered necessary to intervene to protect free competition. The Framework Directive established criteria and procedures for identifying remedies applicable to operators with SMP in various markets.

To date, the AGCom regulatory approach has been focused on wholesale obligations while relaxing retail regulations.

The third round of market analysis on wholesale and retail access markets has been launched and, as a result, the new network cap for wholesale access services over copper in the period 2013-2015 will be set shortly. In the meantime AGCom, following the request by the EU Commission to grant consistency amongst local-loop unbundling (**LLU**), wholesale line rental (**WLR**) and bitstream fixed line (**Bitstream**) wholesale services prices, launched two public consultations on the 2013 pricing of WLR services and of Bitstream services, anticipating, *de facto*, the results of the above market analyses. In respect of the WLR termination market, on 8 February, 2012, the European Commission suspended the plans of AGCom regarding termination rates for the years 2013 and 2014, opening a Phase II investigation pursuant to Article 7a of the Framework Directive, stating that the proposed tariffs are significantly higher than any other Member State where appropriate price setting methodologies are applied. Finally, the market analysis on short message service (**SMS**) termination rates is still in progress although AGCom has proposed not to regulate the market; the draft decision is being reviewed by the EU Commission.

The regulatory framework for Next Generation Access Network (**NGAN**) is not yet completely defined. Three areas of regulatory activity to complete NGAN regulation are still pending, having begun in February 2012, which are aimed at introducing: (i) a cost model for the pricing of passive and active wholesale services and the identification of the competitive areas for the geographic price differentiation of bitstream services; (ii) the prospective enforcement of symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segments; (iii) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of vectoring technology on "Fiber to the Cabinet -Very High- Speed Digital Subscriber Line" accesses. As NGAN will require significant investments, the regulatory approach regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on the Telecom Italia Group's cash flows and financial condition.

On 19 January, 2011, with respect to Telecom Italia's annual contribution to AGCom, AGCom commenced an audit of Telecom Italia's compliance with the requirements relating to the payments for 2006, 2007, 2008, 2009 and 2010. The AGCom audit on the annual contribution to the Italian National Regulatory Authority is part of a general audit of all companies in the industry. AGCom released its findings on 1 March, 2011, holding that Telecom Italia did not pay a portion of its contribution in the 2006-2010 period. Telecom Italia was therefore requested by AGCom to pay an amount equal to 26.6 million euro. Telecom Italia appealed

against this decision to the Lazio Regional Administrative Court which suspended the obligation to make payment. Section II of the Lazio Regional Administrative Court suspended the proceedings and referred to the ECJ a preliminary question regarding the assessment of AGCom's national financing system and its consistency with the principles of the relevant EU sector directives.

On 4 April 2012, the Italian Parliament approved a government proposal which obliges Telecom Italia to separately offer its ancillary services (activation and maintenance) for LLU lines. The law gave AGCom 120 days to identify how to grant the unbundled offer of these ancillary services and to allow other operators to directly manage these ancillary services through third parties instead of Telecom Italia. AGCom decided not to open a formal procedure for the implementation of the law and, in July 2012, the EU Commission formally opened infringement proceedings against Italy, in relation to the possible breach of article 8 of the Framework Directive. AGCom mentioned the law in the preamble to the decision regarding the launch of its market analysis on wholesale and retail access markets.

In general, Telecom Italia is unable to predict clearly the impact of any proposed or potential changes in the regulatory environment in which it operates both in Italy and internationally. As evidenced by the regulatory developments described above, regulations in the telecommunications industry are constantly changing to adapt to new competition and technology. Changes in laws, regulation or government policy could adversely affect Telecom Italia's business and competitiveness. In particular, Telecom Italia's ability to compete effectively in its existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which it is subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of authorizations, to Telecom Italia or to third parties, could adversely affect Telecom Italia's future operations in Italy and in other countries where it operates.

There is also a general risk related to the possible imposition of fines by the competent authorities for violations of regulations to which Telecom Italia is subject.

Investors are requested to review the other factors contained in pages 23-27 of the Base Prospectus, which are incorporated by reference herein.

Factors which are material for the purpose of assessing the market risks associated with the Securities

The Securities may not be a suitable investment for all investors

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Issuer's payment obligations in respect of the Securities are subordinated

The Securities will be subordinated obligations of the Issuer and the Securities will rank *pari passu* with each other in a winding-up of the Issuer. Upon the occurrence of any winding-up proceedings of the Issuer, payments on the Securities will be subordinated in right of payment to the prior payment in full of all other liabilities of the Issuer, except for payments in respect of any Parity Securities or Junior Securities. The obligations of the Issuer under the Securities are intended to be senior only to its obligations to the holders of (i) any class of the Issuer's share capital and (ii) any other securities issued by the Issuer or any securities issued by a Subsidiary which have the benefit of a guarantee or similar instrument from the Issuer, which securities of the Issuer, or guarantee or similar instrument granted by the Issuer, rank or are expressed to rank *pari passu* with any class of the Issuer's share capital and junior to the Securities.

Securityholders are advised that unsubordinated liabilities of the Issuer may also arise out of events that are not reflected in the statement of financial position of the Issuer, including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Issuer which, in a winding-up of the Issuer, will need to be paid in full before the obligations under the Securities may be satisfied.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

The Securities are long-dated securities

The Securities will mature on 20 March, 2073. The Issuer is under no obligation to redeem or repurchase the Securities prior to such date, although it may elect to do so in certain circumstances. Securityholders have no right to call for the redemption of the Securities and the Securities will only become due and payable in certain circumstances relating to payment default and a liquidation of the Issuer (see Condition 9 of "*Terms and Conditions of the Securities*"). Securityholders should therefore be aware that they may be required to bear the financial risks associated with an investment in long-term securities.

Deferral of interest payments

The Issuer may elect to defer payment of interest in respect of the Securities accrued to that date by giving a Deferral Notice to Securityholders. If the Issuer makes such an election, the Issuer shall have no obligation to make such payment and any such non-payment of interest will not constitute a default by the Issuer for any purpose. Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest. Arrears of Interest will be payable as outlined in Condition 4 of "*Terms and Conditions of the Securities*". No interest will accrue on any outstanding Arrears of Interest.

Any deferral of interest payments will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest deferral provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the financial condition of the Issuer.

Early Redemption Risk

The Issuer may redeem all the Securities (but not some only) on any Reset Date at their principal amount together with accrued interest to, but excluding, the relevant Early Redemption Date and any Arrears of Interest.

The Issuer may also redeem all of the Securities (but not some only) at the applicable Early Redemption Price at any time following the occurrence of a Withholding Tax Event, a Tax Deductibility Event or a Rating Methodology Event, as outlined in Conditions 6.3, 6.4 and 6.5 of "*Terms and Conditions of the Securities*". In addition, in the event that at least 80 per cent. of the aggregate amount of the Securities issued on the Issue Date has been purchased by the Issuer or a Subsidiary and cancelled, the Issuer may redeem all of the outstanding Securities (but not some only) at the applicable Early Redemption Price. The applicable Early Redemption Price may be less than the then current market value of the Securities.

During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

Any decline in the credit ratings of the Issuer may affect the market value of the Securities

The Securities are expected to be assigned a rating by Moody's, by S&P and by Fitch. Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. As such each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. The ratings granted by Moody's, S&P and Fitch or any other rating assigned to the Securities may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the assigning rating agency at any time.

In addition, Moody's, S&P, Fitch or any other rating agency may change its methodologies for rating securities with features similar to the Securities in the future. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Securities, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Securities.

No limitation on issuing senior or pari passu securities

There is no restriction on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Securities.

Resettable fixed rate securities have a market risk

A holder of fixed rate securities is particularly exposed to the risk that the price of such securities falls as a result of changes in the market rate. While the nominal remuneration rate of the Securities is fixed until the First Reset Date (with a reset of the initial fixed rate on every Reset Date as set out in the Conditions of the Securities), the current interest rate on the capital market (the **market interest rate**) typically changes on a daily basis. As the market interest rate changes, the price of the Securities also changes, but in the opposite direction. If the market interest rate increases, the price of the Securities would typically fall. If the market interest rate falls, the price of the Securities would typically increase. Securityholders should be aware that

movements in these market interest rates can adversely affect the price of the Securities and can lead to losses for the Securityholders if they sell the Securities.

Interest rate reset may result in a decline of yield

A holder of securities with a fixed interest rate that will be reset during the term of the securities (as will be the case for the Securities on each Reset Date if not previously redeemed) is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

Risks related to the Securities generally

Set out below is a brief description of certain risks relating to the Securities generally:

Modification, waivers and substitution

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

The Terms and Conditions of the Securities also provide that the Trustee may, without the consent of Securityholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Securities, or (ii) the substitution of another company as principal debtor under the Securities in place of the Issuer, in the circumstances described in Condition 12 of "*Terms and Conditions of the Securities*".

EU Savings Directive

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

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The Terms and Conditions of the Securities are based on English law, other than the provisions regarding subordination as set out in Condition 3 of "*Terms and Conditions of the Securities*", which are based on Italian law, in each case in effect as at the date of this Prospectus. In addition, Condition 12 and the provisions of the Trust Deed concerning the meeting of Securityholders and the appointment of the *rappresentante comune* in respect of the Securities are subject to compliance with Italian law. No assurance can be given as to the impact of any possible judicial decision or change to English or Italian law or administrative practice after the date of this Prospectus.

There are limited remedies available to Securityholders

Securityholders have limited rights to enforce payment or the performance of the Issuer's obligations in respect of the Securities. The Securities will only become due and payable (i) if a default is made by the Issuer in the payment of any interest which is due and payable in respect of the Securities, which default continues for a period of 30 days or more, or (ii) if certain limited insolvency or liquidation events occur. If the Issuer fails to make payment of any principal when due, the rights of Securityholders are limited to requiring the Trustee to initiate proceedings to compel the performance of such obligation, as further described in Condition 9 of "*Terms and Conditions of the Securities*".

In addition, in the event of a winding-up, insolvency, dissolution or liquidation of the Issuer, the claims of Securityholders will be subordinated as further described in Condition 3 of "*Terms and Conditions of the Securities*". Accordingly, the claims of holders of all obligations to which the Securities are subordinated will first have to be satisfied in any winding-up or analogous proceedings before the Securityholders may expect to obtain any recovery in respect of the Securities and prior thereto Securityholders will have only limited ability to influence the conduct of such winding-up or analogous proceedings.

Italian insolvency laws applicable to the Issuer

Under Italian law, the Issuer could become subject to any of the following insolvency proceedings:

- (a) bankruptcy (*fallimento*), which is governed by the provisions of Royal Decree no. 267 of 16 March, 1942 (the **Bankruptcy Law**), as amended;
- (b) a composition with creditors (*concordato preventivo*), which is also governed by the provisions of the Bankruptcy Law, as recently amended by Law no. 134 of 7 August, 2012 (**Law 134**);
- (c) a procedure governed by Article 182 bis of the Bankruptcy Law, as recently amended by Law 134;
- (d) an extraordinary administration for large insolvent companies (*amministrazione straordinaria delle grandi imprese insolventi*), which is governed by Legislative Decree no. 270 of 8 July, 1999, as amended (**Decree 270**) and by certain provisions of the Bankruptcy Law; and
- (e) an extraordinary administration for the industrial restructuring of large insolvent companies (*amministrazione straordinaria per la ristrutturazione industriale delle grandi imprese insolventi*), which is governed by Decree 270 as modified by Legislative Decree no. 347 of 23 December, 2003, as amended (**Decree 347**), as well as certain provisions of the Bankruptcy Law. For businesses performing essential public services, such as the Issuer, this type of proceedings would also be subject to Law Decree 134 of 28 August, 2008 (**Decree 134**).

The proceedings indicated in paragraphs (a), (b), (c) and (d) would be initiated by petition to the competent court. The proceedings indicated in paragraph (e) would be initiated by petition of the debtor company to the Italian Minister of Productive Activities (the **Minister**) or, in the case of an extraordinary administration to which Decree 134 would apply, may be commenced directly by decree of the Italian Prime Minister or the Minister.

Below is a summary of certain relevant features of each type of proceedings:

- (a) **Bankruptcy (*fallimento*)**: Pursuant to the Bankruptcy Law, a debtor can be declared bankrupt (*fallito*) (either by its own initiative or upon the initiative of any of its creditors or of the public prosecutor) if it is insolvent (i.e. it is unable to regularly pay its debts as they fall due). As a consequence of the declaration of bankruptcy the debtor loses control over all its assets and over the management of its business which is taken over by a court-appointed receiver (*curatore fallimentare*). Once the bankruptcy proceeding is commenced, no enforcement and interim proceedings can be taken or continued against the debtor over the assets included in the bankruptcy estate. Moreover, all action taken and proceedings already initiated by creditors are automatically stayed. Each creditor must lodge his claims with the court in charge; the judge delegated by the court (*giudice delegato*) will decide which claims are approved. Each creditor may appeal (*opposizione*) the decision of the judge in front of the court. The sale of the borrower's assets is conducted in compliance with a liquidation programme proposed by the receiver and approved by

the creditors' committee. The Bankruptcy Law provides for the formation of a creditors' committee composed of three or five members, which consults with the receiver. These proceedings are ultimately aimed at the rateable distribution of the assets of the debtor company among creditors which have submitted a claim admitted by the delegated judge. The Securityholders would not have a right as a class to appoint a representative to a creditors' committee.

(b) **Composition with creditors** (*concordato preventivo*): A debtor that is insolvent or in "financial distress" (i.e. facing financial distress which does not yet amount to insolvency) may file for a composition with creditors (*concordato preventivo*) by submitting a plan for the composition with its creditors which may provide, *inter alia*, for:

- the restructuring of debts and the satisfaction of creditors in any manner even through assignments of debts, novations (*accollo*) or extraordinary transactions, including the issue of shares, quotas, bonds (also convertible into shares) or other financial instruments and securities;
- the appointment of a third-party manager (including the creditors);
- the division of the creditors into different classes; and/or
- different treatments for creditors belonging to different classes.

The court determines whether the proposal for the composition is admissible, in which case the court, *inter alia*, delegates a judge to follow the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditors meeting.

In accordance with article 177 of the Bankruptcy Law, the composition with creditors (*concordato preventivo*) is considered approved by the creditors if it is approved, at the creditors meeting or within a specified term thereafter, by the majority of the creditors entitled to vote (and, in case of different classes of creditors, by the majority of the creditors within each class). The court may also approve the composition with creditors (*concordato preventivo*) in case of challenge by a dissenting creditor pertaining to one or more dissenting classes or, in case of a sole class, by dissenting creditors representing at least 20 per cent. of the credits admitted to the vote, if the court deems that the concordato preventivo would satisfy the interests of the dissenting creditors for an amount not less than that which would have been achieved under other practicable solutions.

The provisions of Article 161, 6th paragraph of the Bankruptcy Law, as amended by Law 134 now allow a debtor to file a petition for admission to *concordato preventivo* even before a composition plan has been filed with the court, with the debtor benefiting from the stay against enforcement over the debtor's assets and being granted a maximum of up to 120 days (such term may be postponed for further 60 days in the presence of justified reasons) in order to produce a composition plan for court approval or, as an alternative, reaching a court approved private restructuring as addressed by Article 182bis of the Bankruptcy Law.

The procedure of the composition with creditors (*concordato preventivo*) will end with a decree which is to be issued by the competent court. If the court or the creditors reject the offer, to the extent the relevant conditions are met, the entrepreneur is declared bankrupt by the court.

(c) **Article 182bis**

Article 182bis of the Bankruptcy Law deals with a private agreement between the debtor and creditors representing at least 60 per cent. of claims owed, but subject to court approval. Since external creditors remain extraneous to the restructuring plan, a report is required to be provided by an independent expert as to feasibility, particularly with relevance to the ability of the debtor to continue to satisfy non-participating creditors. Changes introduced by Law 134 allow the debtor a term of 120 days to make payment of amounts owed to non-participating creditors. Article 182bis also specifies that from the date of publication of the court approved plan, creditors are prohibited from initiating or pursuing interim and/or executory actions against the debtor or his assets for a period of 60 days. Moreover, as in the case of *concordato preventivo*, the debtor is now able to petition the court for a stay on rights of enforcement even prior to the final restructuring agreement

being filed, provided that an affidavit is filed by the debtor attesting that negotiations are ongoing with creditors representing at least 60 per cent. of claims owed and a declaration by an independent expert attests to the feasibility of such plan.

- (d) **Extraordinary administration:** Decree 270 introduced a specific extraordinary administration proceeding, otherwise known as the "Prodi-bis", applicable to insolvencies of major companies (the **Extraordinary Administration**).

The aim of the Prodi-bis procedure is to ensure continuation of the business operated by the debtor by either enabling the same to regain the ability to meet its obligations in the ordinary course of business by the end of the procedure or by transferring the business (on a going concern basis) to third parties.

To qualify for the Prodi-bis procedure, the company must have:

- employed at least 200 employees in the year before the procedure was commenced;
- debts equal to at least two-thirds of the value of its assets as shown in its financial statements and two-thirds of income from sales and the provision of services during the last financial year.

Insolvent companies, belonging to the group of a company that qualifies for the Prodi-bis, may be submitted to the Prodi-bis, if certain conditions are met, also if they do not qualify per-se for the Prodi-bis.

The Prodi-bis procedure is divided into two main phases:

- following a petition, the court will determine whether the company meets the criteria for admission and, in particular whether the company is insolvent. If the company is insolvent, the court will issue a decision to that effect and appoint one or three judicial receiver(s) (*commissario giudiziale*) to evaluate whether the business has serious prospects of recovery (either through a sale of assets or a reorganisation of its business) and to report back to the court within 30 days. Following receipt of the report of the judicial receiver and an opinion from the Italian Productive Activities Minister (the **Ministry**), the court has a further 30 days to decide whether to admit the company to the Extraordinary Administration procedure or place it into bankruptcy;
- once the Extraordinary Administration procedure has been approved, the extraordinary commissioner(s) appointed by the Ministry shall prepare a plan, to be approved by the Ministry, for either: (i) a full asset liquidation by means of the sale of the company businesses as going concerns within one year (unless extended by the Ministry); or (ii) a reorganisation of the business leading to the economic and financial recovery of the company or group within two years (unless extended by the Ministry).

The proceedings are administered by the extraordinary commissioner(s) who act under the supervision of the Ministry. While unsecured creditors may appoint one or two members to the supervisory committee for the proceedings, the majority of the supervisory committee, and also the chair, will be appointed by the Ministry.

Once the Extraordinary Administration procedure has been approved, the principal effects are as follows:

- the company continues to trade and debts incurred during the Extraordinary Administration for the continuation of the business of the company are treated as priority claims which rank ahead of the claims of creditors whose rights accrued prior to the commencement of the Extraordinary Administration procedure and may be paid as they fall due;
- the Extraordinary Commissioner(s) is/are entitled to terminate pending contracts to which the company is a party.

Furthermore in the context of the Prodi-bis a debt restructuring plan is approved exclusively by the Ministry but is not subject to any vote by creditors.

Decree 347 introduced a specific extraordinary set of rules for companies meeting certain size requirements. Decree 347 is complementary to the Prodi-bis and except as otherwise provided in Decree 347, the provisions of the Prodi-bis shall apply. Decree 347 only applies to insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure was commenced and at least Euro 300 million of debt.

Under Decree 347, the decision whether to open the procedure is taken by the Ministry that, upon request of the debtor (who at the same time must file with the relevant court an application for the declaration of its insolvency), assesses whether the relevant requirements are met and if such requirements are met appoints the extraordinary commissioner(s). The extraordinary commissioner(s) immediately becomes responsible for the management of the company. The court decides on the insolvency of the company.

Within 180 days of his appointment (or 270 days if so agreed by the Ministry) the extraordinary commissioner(s) must submit a plan for the rescue of the business by way of an asset liquidation or restructuring to the Ministry for approval and at the same time must file with the competent court a report on the state of the business.

A restructuring plan proposed in the context of proceedings subject to Decree 347 may include a composition plan (*concordato preventivo*), with the possibility to divide creditors into classes, with different treatment applicable to creditors belonging to different classes and with proposals for a write-off of any obligations owed by the debtor and/or a conversion of debt securities (such as the Securities) into shares of the debtor company or any of its group companies. Decree 347 provides that a composition plan is approved by creditors according to the same majority voting rules as those which apply in the context of proceedings for composition with creditors (*concordato preventivo*), as described above. If the restructuring plan is not approved by the Ministry, the extraordinary commissioner(s) may propose a plan for the disposal of the assets. If the asset disposal program is not approved, the company is to be placed into liquidation.

Where Decree 134 applies to an extraordinary administration, its purpose is broadly to widen the powers of sale. For this purpose, the insolvency administrator is granted powers to identify and compose lines of business or partial lines of business, even if not pre-existing, which may be made subject to sale.

As a result of the above, Securityholders should be aware that they will generally have limited ability to influence the outcome of any insolvency proceedings which may apply to the Issuer under Italian law, especially in light of the current capital structure of the Issuer.

Risks related to the market generally

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

The secondary market generally

The Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Securities generally will have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Securities.

Exchange rate risks and exchange controls

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

value of the principal payable on the Securities and (3) the Investor's Currency-equivalent market value of the Securities.

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

Legal investment considerations may restrict certain investments

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

OVERVIEW

This Overview section must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "Terms and Conditions of the Securities" shall have the same meanings in this section.

Issuer:	Telecom Italia S.p.A.
Description of Securities:	€750,000,000 Capital Securities due 2073 (the Securities)
Trustee:	Deutsche Trustee Company Limited
Structuring Advisers to the Issuer and Global Co-ordinators:	Barclays Bank PLC and J.P. Morgan Securities plc
Managers:	Banca IMI S.p.A. Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Goldman Sachs International J.P. Morgan Securities plc Mediobanca – Banca di Credito Finanziario S.p.A. Société Générale
Maturity Date:	20 March, 2073
Status of the Securities and Subordination:	<p>The Securities and the Coupons will constitute direct, unsecured and subordinated obligations of the Issuer.</p> <p>In the event of the winding-up, insolvency, dissolution or liquidation of the Issuer, the payment obligations of the Issuer in respect of the Securities and the Coupons will rank (i) senior only to the Issuer's payment obligations in respect of Junior Securities, (ii) <i>pari passu</i> among themselves and <i>pari passu</i> with the Issuer's payment obligations in respect of any Parity Securities and (iii) junior to all other payment obligations of the Issuer, present and future, whether subordinated or unsubordinated, in each case, except as otherwise provided by mandatory provisions of law.</p>
Interest:	<p>The Securities bear interest on their principal amount:</p> <ul style="list-style-type: none">(a) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 7.750 per cent. per annum; and(b) from (and including) the First Reset Date to (but excluding) the Maturity Date, at, in

respect of each Reset Period, the relevant EUR 5 year Swap Rate plus:

- (A) in respect of the Reset Period commencing on the First Reset Date, 6.949 per cent. per annum;
- (B) in respect of the Reset Periods commencing on 20 March, 2023, 20 March, 2028 and 20 March, 2033, 7.199 per cent. per annum; and
- (C) in respect of any other Reset Period, 7.949 per cent. per annum.

Interest Payment Dates:

Subject as described under "*Optional Interest Deferral and Arrears of Interest*" below, interest in respect of the Securities will be payable annually in arrear on 20 March in each year (each an **Interest Payment Date**).

Optional Interest Deferral and Arrears of Interest:

The Issuer may, at its sole discretion, elect to defer all, or any part, of the payment of interest accrued on the Securities in respect of any Interest Period (a **Deferred Interest Payment**) by giving notice (a **Deferral Notice**) of such election to the Securityholders in accordance with Condition 11 of "*Terms and Conditions of the Securities*", and to the Trustee and the Principal Paying Agent at least five, but not more than 30, Business Days prior to the relevant Interest Payment Date. If the Issuer makes such an election, the Issuer shall have no obligation to make such payment and any such non-payment of interest shall not constitute a default of the Issuer or any other breach of obligations under the Securities.

Any Deferred Interest Payment will be deferred and shall constitute **Arrears of Interest**. Any Arrears of Interest will remain outstanding until paid in full by the Issuer, but Arrears of Interest shall not itself bear interest.

Optional Settlement of Arrears of Interest:

The Issuer may pay any outstanding Arrears of Interest (in whole or in part) in respect of the Securities at any time upon giving not less than ten and not more than 15 Business Days' notice to the Securityholders in accordance with Condition 11 of "*Terms and Conditions of the Securities*" (which notice shall be irrevocable and will oblige the Issuer to pay the relevant Arrears of Interest on the payment date specified in such notice).

Mandatory Settlement of Arrears of Interest:

All (but not some only) of any outstanding Arrears of Interest from time to time in respect of all Securities for the time being outstanding shall become due and payable in full and shall be paid by the Issuer on the first occurring Mandatory

Settlement Date.

Mandatory Settlement Date means the earliest of:

- i. the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- ii. following any Deferred Interest Payment, the next scheduled Interest Payment Date on which the Issuer does not elect to defer all of the interest accrued in respect of the relevant Interest Period; and
- iii. the date on which the Securities are redeemed (in whole) or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

A Compulsory Arrears of Interest Settlement Event shall occur if:

- (a) a dividend (either interim or final), or any other distribution or payment was validly resolved on, declared, paid or made in respect of any Junior Securities, except where (x) such dividend, other distribution or payment was required to be resolved on, declared, paid or made in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such dividend, distribution or other payment; or
- (b) a dividend (either interim or final), or any other distribution or payment was validly resolved on, declared, paid or made in respect of any Parity Securities, except where such dividend, distribution or payment was required to be declared, paid or made under the terms of such Parity Securities; or
- (c) the Issuer has repurchased or otherwise acquired Junior Securities, except where (x) such repurchase or acquisition was undertaken in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such Junior Securities to make such repurchase or acquisition; or
- (d) the Issuer, or any Subsidiary has repurchased or otherwise acquired any Parity Securities, except where such repurchase or acquisition is effected as a public cash tender offer or public exchange offer at a purchase price per security which is below its par value.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.

Early Redemption:

The Issuer may redeem all, but not some only, of the Securities on any Reset Date at their principal amount (together with any accrued interest to (but excluding) the Early Redemption Date and any Arrears of Interest).

The Issuer may also redeem all, but not some only, of the Securities at the applicable Early Redemption Price at any time upon the occurrence of a Withholding Tax Event, a Tax Deductibility Event or a Rating Methodology Event.

In the event that at least 80 per cent. of the initial aggregate principal amount of the Securities issued on the Issue Date has been purchased by the Issuer or a Subsidiary and cancelled (a **Substantial Repurchase Event**), the Issuer may redeem all of the outstanding Securities (but not some only) at the applicable Early Redemption Price.

The Early Redemption Price will be determined as follows:

- (i) in the case of a Withholding Tax Event or a Substantial Repurchase Event, 100 per cent. of the principal amount of the Securities; or
- (ii) in the case of a Tax Deductibility Event or a Rating Methodology Event, either:
 - (a) 101 per cent. of the principal amount of the Securities if the Early Redemption Date is prior to the First Reset Date; or
 - (b) 100 per cent. of the principal amount of the Securities if the Early Redemption Date is on or after the First Reset Date,

in each case together with any accrued interest and any Arrears of Interest up to, but excluding, the relevant Early Redemption Date.

For further details, see Condition 6 of "*Terms and Conditions of the Securities*".

Purchases:

The Issuer or any Subsidiary may at any time purchase Securities at any price in the open market or otherwise. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

Withholding Tax and Additional Amounts:

The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Securityholder in respect of the Securities, after withholding or deduction for any taxes imposed by tax authorities in any Tax Jurisdiction upon payments made by the Issuer in respect of the Securities, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions, as described in Condition 7 of "*Terms and Conditions of the Securities*".

Events of Default:

If either:

- (i) default is made by the Issuer in the payment of any interest which is due and payable in respect of the Securities for a period of 30 days or more; or
- (ii) a judgment is made for the voluntary or judicial liquidation, dissolution or liquidation of the Issuer or restructuring of the Issuer's liabilities pursuant to any Insolvency Proceedings or under any applicable bankruptcy or insolvency law or if the Issuer is liquidated for any other reason,

the Issuer will, without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and in such case, (A) the Securities shall immediately become due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest and (B) the Trustee at its sole discretion may (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including the institution of Insolvency Proceedings against the Issuer or the filing of a proof of claim and participation in any Insolvency Proceedings or proceedings for the liquidation, dissolution or winding-up of the Issuer.

If default is made by the Issuer in the payment of any principal which has become due and repayable in accordance with the terms of the Securities and the default continues for a period of 10 days or more, the

Trustee at its sole discretion may (subject to its being indemnified and/or secured and/or prefunded to its satisfaction), institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including the institution of Insolvency Proceedings against the Issuer or the filing of a proof of claim and participation in any Insolvency Proceedings or proceedings for the liquidation, dissolution or winding-up of the Issuer.

Meetings of Securityholders:

The "*Terms and Conditions of the Securities*" and the Trust Deed contain provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders, including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority.

Modification and Waiver:

The Trustee may, without the consent of Securityholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Securities, in the circumstances and subject to the conditions described in Condition 12 of "*Terms and Conditions of the Securities*".

Substitution:

Subject to Condition 12 of "*Terms and Conditions of the Securities*", any company to which the Issuer may transfer all or substantially all of its assets and business may be substituted for the Issuer as principal debtor in respect of the Securities, Coupons and Trust Deed.

Listing, admission to trading and approval:

Application has been made to the CSSF to approve this document as a prospectus and to the Luxembourg Stock Exchange for the listing of the Securities on the Official List of the Luxembourg Stock Exchange and admission to trading on the Luxembourg Stock Exchange's regulated market.

Governing Law:

The Securities, the Coupons and the Trust Deed and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law, save for the provisions contained in Conditions 3.1 and 3.2 of "*Terms and Conditions of the Securities*" in respect of subordination which will be governed by Italian law. Condition 12 of "*Terms and Conditions of the Securities*" and the provisions of the Trust Deed concerning the meeting of Securityholders and the appointment of the *rappresentante comune* are subject to compliance with Italian law.

Form and denomination:

The Securities will be issued in bearer form in the denomination of €100,000.

Credit Rating:

The Securities are expected to be rated "Ba2" by Moody's, "BB+", CreditWatch negative" by S&P and "BB+" by Fitch. Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. As such each of Moody's, S&P and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

Selling Restrictions:

There are restrictions on the offer and sale of the Securities and the distribution of offering material, including in the United States of America, the United Kingdom and the Republic of Italy.

Use of Proceeds:

The proceeds of the issue of the Securities will be applied by the Issuer for its general corporate purposes.

Intention regarding redemption and repurchase of the Securities:

The following paragraph shall not form part of the "*Terms and Conditions of the Securities*" .

The Issuer intends (without thereby assuming a legal obligation) at any time that it will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Issuer, or any Subsidiary of the Issuer, during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or such Subsidiary to third party purchasers (other than group entities of the Issuer) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- i) the rating assigned by S&P to the Issuer is at least "BBB" (or such similar nomenclature then used by S&P) and the Issuer is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or*
- ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12*

consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or

- iii) the Securities are redeemed pursuant to a Tax Deductibility Event or a Withholding Tax Event; or*
- iv) the Securities are not assigned an "equity credit" (or such similar nomenclature then used by S&P) at the time of such redemption or repurchase, or*
- v) such redemption or repurchase occurs on or after the Reset Date falling on 20 March, 2038.*

Terms used but not defined in the preceding text shall have the meanings set out in the "*Terms and Conditions of the Securities*".

DOCUMENTS INCORPORATED BY REFERENCE

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

- the audited consolidated annual financial statements for each of the financial years ended 31 December, 2011 and 31 December, 2010 of the Telecom Italia Group (the **2011 Telecom Italia Group Annual Report** and the **2010 Telecom Italia Group Annual Report**, respectively) to the extent specified in the table below;
- the unaudited condensed consolidated half-year financial statements as at and for the six months ended 30 June, 2012 of the Telecom Italia Group (the **2012 Telecom Italia Group Half-year Financial Report**) to the extent specified in the table below;
- the unaudited interim consolidated financial statements as at and for the nine months ended 30 September, 2012 of the Telecom Italia Group (the **2012 Telecom Italia Nine Months Financial Report**) to the extent specified in the table below;
- the EMTN Programme Prospectus of Telecom Italia and Telecom Italia Finance S.A. dated 26 June, 2012 (the **Base Prospectus**) to the extent specified in the table below;
- the First Supplement to the Base Prospectus dated 12 September, 2012;
- the Second Supplement to the Base Prospectus dated 10 December, 2012;
- the press release dated 8 February, 2013 in the English language entitled "Telecom Italia Board of Directors illustrates and approves the update to the 2013-2015 three-year plan";
- the press release dated 18 February, 2013 in the English language entitled "Telecom Italia Board of Directors approves exclusive negotiations with Cairo for sale of LA7"; and
- the press release dated 7 March, 2013 in the English language entitled "Telecom Italia Board of Directors examines and approves group annual report on operations at 31 December 2012",

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

The Issuer will provide, without charge and upon request, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Prospectus. In addition, such documents will be available free of charge at the principal office in London of Deutsche Bank AG, London Branch and will be available on the website of the Luxembourg Stock Exchange: www.bourse.lu.

The information incorporated by reference that is not included in the following cross-reference lists is considered as additional information and is not required by the relevant schedules of Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive.

Document	Information incorporated	Location
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December, 2011	Financial information concerning Telecom Italia Group's assets and liabilities, financial position and profits and losses:	
	Consolidated Statements of Financial Position	pp. 149-150
	Separate Consolidated Income Statements	p. 151
	Consolidated Statements of Comprehensive Income	p. 152
	Consolidated Statements of Changes in Equity	p. 153
	Consolidated Statements of Cash Flows	pp. 154-155
	Notes to the Consolidated Financial Statements	pp. 156-296
	Certification of the Consolidated Financial Statements at 31 December, 2011 pursuant to art. 81-ter of CONSOB Regulation No. 11971 of 14 May, 1999, with Amendments and Additions	p. 297
Independent Auditors' Report	pp. 298-299	
Telecom Italia's Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December, 2010	Financial information concerning Telecom Italia Group's assets and liabilities, financial position and profits and losses:	
	Consolidated Statements of Financial Position	pp. 161-162
	Separate Consolidated Income Statements	p. 163
	Consolidated Statements of Comprehensive Income	p. 164
	Consolidated Statements of Changes in Equity	p. 165
	Consolidated Statements of Cash Flows	pp. 166-167
	Notes to the Consolidated Financial Statements	pp. 168-310
	Certification of the Consolidated Financial Statements pursuant to art. 81-ter of CONSOB Regulation No. 11971 dated 14 May, 1999, with Amendments and Additions	p. 311
Independent Auditors' Report	pp. 312-313	

The Issuer's Unaudited Half-year Condensed Consolidated Financial Statements as at and for the six months ended 30 June, 2012	Financial information concerning the Telecom Italia Group's asset and liabilities, financial position and profits and losses:	
	Consolidated Statements of Financial Position	pp. 84-85
	Separate Consolidated Income Statements	p. 86
	Consolidated Statements of Comprehensive Income	p. 87
	Consolidated Statements of Changes in Equity	p. 88-89
	Consolidated Statements of Cash Flows	pp. 90-91
	Notes to the Half-year Condensed Consolidated Financial Statements	pp. 92-170
	Certification of the Half-year Condensed Consolidated Financial Statements at 30 June, 2012 Pursuant to art. 81-ter of CONSOB Regulation No. 11971 dated 14 May, 1999, with Amendments and Additions	p. 171
	Auditors' Report on the Review of the Condensed Consolidated Interim Financial Statements	pp. 172-173

The Issuer's Unaudited Interim Consolidated Financial Statements as at and for the nine months ended 30 September, 2012	Financial information concerning the Telecom Italia Group's asset and liabilities, financial position and profits and losses:	
	Separate Consolidated Income Statements	p. 42
	Consolidated Statements of Comprehensive Income	p. 43
	Consolidated Statements of Financial Position	pp. 44-45
	Consolidated Statements of Cash Flows	pp. 46-47
	Changes in Equity from 1 January to 30 September, 2011 and from 1 January to 30 September, 2012	pp.48
	Events subsequent to 30 September, 2012	p.52
	Principal Changes in the Regulatory Framework	pp.58-64
	Disputes and pending legal actions	pp.65-70

The EMTN Programme Prospectus of Telecom Italia and Telecom Italia Finance S.A. dated 26 June, 2012	Statutory Auditors	pp. 161-163
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	Risk Factors	pp. 23-27
	Information about the Issuer	pp. 104-149
	Business Overview	pp.108-149
	Organisational Structure	pp.104-106
	Administrative, Management and Supervisory Bodies	pp.158-163
	Major Shareholders	pp.104-106
	Material Contracts:	
	The Telecom Italia Shareholders' Agreement	pp. 105-106
	Forward Start Facility	p.107
The First Supplement to the Base Prospectus dated 12 September, 2012	Information about the Issuer:	
	Telecom Italia 2012 Half-year Financial Report	p.2
	Recent Developments	p.3
The Second Supplement to the Base Prospectus dated 10 December, 2012	Information about the Issuer:	
	Telecom Italia Interim Report	p.2
	Recent Developments	p.2
The press release dated 8 February, 2013 entitled "Telecom Italia Board of Directors illustrates and approves the update to the 2013-2015 three-year plan"	Telecom Italia Group 2013-2015 Plan	pp.1-2
The press release dated 18 February, 2013 entitled "Telecom Italia Board of Directors approves exclusive negotiations with Cairo for sale of LA7"	Telecom Italia Board of Directors approves exclusive negotiations with Cairo for sale of LA7	p.1
The press release dated 7 March, 2013 in the English language entitled "Telecom Italia board of directors examines and approves group annual report on operations at 31 December 2012"	Telecom Italia Group Results	pp.3-7
	Telecom Italia S.p.A. Results	p. 8
	Events subsequent to 31 December 2012	pp. 8-9
	Shareholders' Meeting Called	pp. 9-10
	Attachments to the Press Release:	
	Separate Consolidated Income Statements, Consolidated Statements of	pp. 3-10

Comprehensive Income, Consolidated Statements of Financial Position, Consolidated Statements of Cash Flows, Net Financial Debt and Net Operating Free Cash Flow of the Telecom Italia Group	
Telecom Italia Group – Information by Operating Segments	pp. 11-13
Telecom Italia Group – Reconciliation to comparable EBITDA and EBIT	pp. 13-14
Telecom Italia Group – Debt Structure, Bond Issues and Expiring Bonds	pp. 15-18
Telecom Italia Group – Effects of Non-Recurring Events and Transactions on each item of the Separate Consolidated Income Statements	p. 19
Separate Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Cash Flows and Net Financial Debt of Telecom Italia S.P.A.	pp. 20-25
Telecom Italia S.P.A. – Effects of Non-Recurring Events and Transactions on each Item of the Separate Income Statements	p. 26
Effects on Key Financial and Operating Data arising from the Early Adoption of the Revised IAS 19 (Employee Benefits)	p. 27

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the Terms and Conditions of the Securities which (subject to modification) will be endorsed on each Security in definitive form (if issued).

Text set out within the Terms and Conditions of the Securities in italics is provided for information only and does not form part of the Terms and Conditions of the Securities.

The €750,000,000 Capital Securities due 2073 (the **Securities**, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 14 and forming a single series with the Securities) of Telecom Italia S.p.A. (the **Issuer**) are constituted by a Trust Deed dated 20 March, 2013 (the **Trust Deed**) made between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Securities (the **Securityholders**) and the holders of the interest coupons appertaining to the Securities (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 20 March, 2013 (the **Agency Agreement**) made between the Issuer, the initial Paying Agents, the Agent Bank (which shall be responsible for making certain determinations, as described in these Terms and Conditions) and the Trustee are available for inspection during normal business hours by the Securityholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Securities at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified office of each of the Paying Agents. The Securityholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Securities are in bearer form, serially numbered, in the denomination of €100,000, with Coupons and one Talon attached on issue

1.2 Title

Title to the Securities and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Security or Coupon as the absolute owner for all purposes (whether or not the Security or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Security or Coupon or any notice of previous loss or theft of the Security or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. DEFINITIONS AND INTERPRETATION

As used in these Conditions:

Additional Amounts has the meaning given to it in Condition 7.1.

Arrears of Interest has the meaning given to it in Condition 4.2(a).

Business Day means a day which is both a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and a TARGET2 Settlement Day.

A **Compulsory Arrears of Interest Settlement Event** shall have occurred if:

- (A) a dividend (either interim or final), or any other distribution or payment was validly resolved on, declared, paid or made in respect of any Junior Securities, except where (x) such dividend, other distribution or payment was required to be resolved on, declared, paid or made in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such dividend, distribution or other payment; or
- (B) a dividend (either interim or final), or any other distribution or payment was validly resolved on, declared, paid or made in respect of any Parity Securities, except where such dividend, distribution or payment was required to be declared, paid or made under the terms of such Parity Securities; or
- (C) the Issuer has repurchased or otherwise acquired Junior Securities, except where (x) such repurchase or acquisition was undertaken in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such Junior Securities to make such repurchase or acquisition; or
- (D) the Issuer, or any Subsidiary has repurchased or otherwise acquired any Parity Securities, except where such repurchase or acquisition is effected as a public cash tender offer or public exchange offer at a purchase price per security which is below its par value.

Decree No. 239 means Italian Legislative Decree No. 239 of 1 April 1996, as amended.

Deferral Notice has the meaning given to it in Condition 4.2(a).

Deferred Interest Payment has the meaning given to it in Condition 4.2(a).

Early Redemption Date means the date of redemption of the Securities pursuant to Conditions 6.3 to 6.6.

Early Redemption Price will be the amount determined by the Agent Bank on the Redemption Calculation Date as follows:

- (A) in the case of a Withholding Tax Event or a Substantial Repurchase Event, 100 per cent. of the principal amount of the Securities then outstanding; or
- (B) in the case of a Tax Deductibility Event or a Rating Methodology Event, either:
 - (i) 101 per cent. of the principal amount of the Securities then outstanding if the Early Redemption Date is prior to the First Reset Date; or
 - (ii) 100 per cent. of the principal amount of the Securities then outstanding if the Early Redemption Date is on or after the First Reset Date,

and in each case together with any accrued interest and any Arrears of Interest up to, but excluding, the relevant Early Redemption Date.

equity credit shall include such other nomenclature as any Rating Agency may use from time to time to describe the degree to which an instrument exhibits the characteristics of an ordinary share.

EUR 5 year Swap Rate Quotation means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-

for-floating euro interest rate swap which (i) has a term of 5 years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis).

EUR Reset Reference Bank Rate means the percentage rate determined by the Agent Bank on the basis of the EUR 5 year Swap Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 11:00 a.m. (Brussels time) on the relevant Reset Interest Determination Date.

EUR Reset Reference Banks means five major banks in the Euro-zone interbank market.

EUR Reset Screen Page means the Reuters screen "ISDAFIX2" as at 11:00 a.m. (Brussels time).

Event of Default has the meaning given to it in Condition 9.1.

First Reset Date means 20 March, 2018.

Group means the Issuer and its Subsidiaries from time to time.

Interest Payment Date means 20 March in each year.

Interest Period means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date, ending on the Maturity Date.

Insolvency Proceedings means any insolvency proceedings or proceedings equivalent or analogous thereto under the laws of any applicable jurisdiction, including, but not limited to, bankruptcy (*fallimento*), composition with creditors (*concordato preventivo*), forced administrative liquidation (*liquidazione coatta amministrativa*), extraordinary administration (*amministrazione straordinaria*) and extraordinary administration of large companies in insolvency (*amministrazione straordinaria delle grandi imprese in stato di insolvenza*), the undertaking of any court approved restructuring with creditors or the making of any application (or filing of documents with a court) for the appointment of an administrator or other receiver (*curatore*), manager administrator (*commissario straordinario o liquidatore*) or other similar official, under manager or administrator (*commissario straordinario o liquidatore*) or other similar official, under any applicable law.

Issue Date means 20 March, 2013.

Junior Securities means:

- (A) the ordinary shares (*azioni ordinarie*) of the Issuer;
- (B) any other class of the Issuer's share capital (including savings shares (*azioni di risparmio*) and preferred shares (*azioni privilegiate*)); and
- (C)
 - (i) any securities of the Issuer (including *strumenti finanziari* issued under Article 2346 of the Italian Civil Code); and
 - (ii) any securities issued by a Subsidiary which have the benefit of a guarantee or similar instrument from the Issuer,

which securities (in the case of (C)(i)) or guarantee or similar instrument (in the case of (C)(ii)) rank or are expressed to rank *pari passu* with the claims described under (A) and (B) above and/or junior to the Securities (but excluding in the case of (C)(ii) above, any such securities issued to the Issuer or any other member of the Group by the relevant Subsidiary.)

Mandatory Settlement Date means the earliest of:

- (A) the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (B) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer all of the interest accrued in respect of the relevant Interest Period; and
- (C) the date on which the Securities are redeemed (in whole) or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

Maturity Date means 20 March, 2073.

Parity Securities means:

- (A) any securities or other instruments issued by the Issuer which rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Securities; and
- (B) any securities or other instruments issued by a Subsidiary which have the benefit of a guarantee or similar instrument from the Issuer, which guarantee or similar instrument ranks or is expressed to rank *pari passu* with the Issuer's obligations under the Securities (but excluding any such securities or other instruments issued to the Issuer or any other member of the Group by the relevant Subsidiary).

Prevailing Interest Rate means the rate of interest payable on the Securities applicable from time to time pursuant to Condition 4.

Rating Agency means any of Moody's Investors Service Limited, S&P, Fitch Ratings Ltd and any other rating agency substituted for either of them by the Issuer with the prior written approval of the Trustee and, in each case, any of their respective successors to the rating business thereof.

Rating Agency Confirmation means a written confirmation from a Rating Agency which has assigned ratings to the Issuer on a basis sponsored by the Issuer which is either received by the Issuer directly from the relevant Rating Agency or indirectly via publication by such Rating Agency.

A **Rating Methodology Event** shall be deemed to have occurred if the Issuer has received a Rating Agency Confirmation stating that, due to an amendment, clarification or change in the "equity credit" criteria of such Rating Agency, which amendment, clarification or change has occurred after the Issue Date, that the Securities are eligible for a level of equity credit that is lower than the level or equivalent level of equity credit assigned to the Securities by such Rating Agency on the Issue Date.

Redemption Calculation Date means the fourth Business Day prior to the relevant Early Redemption Date.

Relevant Date means the date on which any payment pursuant to Condition 6 first becomes due but, if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 11.

Reset Date means the First Reset Date and each date falling on the fifth anniversary thereafter.

Reset Interest Determination Date means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period.

Reset Period means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

S&P means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc.;

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

A **Substantial Repurchase Event** shall be deemed to have occurred if, prior to the giving of the relevant notice of redemption, at least 80 per cent. of the aggregate principal amount of the Securities issued on the Issue Date has been purchased by or on behalf of the Issuer or a Subsidiary and has been cancelled.

TARGET2 Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

A **Tax Deductibility Event** shall be deemed to have occurred if, as a result of a Tax Law Change, payments of interest by the Issuer in respect of the Securities are no longer, or within 90 calendar days of the date of any opinion provided pursuant to Condition 6.4(b)(ii) will no longer be, deductible in whole or in part for Italian corporate income tax purposes, and the Issuer cannot avoid the foregoing by taking reasonable measures available to it. For the avoidance of doubt, a Tax Deductibility Event shall not occur if payments of interest by the Issuer in respect of the Securities are not deductible in whole or in part for Italian corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 96 of Italian Presidential Decree No. 917 of 22 December 1986, as amended as at (and on the basis of the general tax deductibility limits calculated in the manner applicable as at) 19 March, 2013.

Tax Jurisdiction means the Republic of Italy and/or such other taxing jurisdiction to which the Issuer becomes subject or any political subdivision or any authority thereof or therein having power to tax.

Tax Law Change means (i) any amendment to, clarification of, or change in, the laws or treaties (or any regulations thereunder) of a Tax Jurisdiction affecting taxation, (ii) any governmental action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such governmental action that differs from the previously generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, which amendment, clarification, change or governmental action is effective, on or after 19 March, 2013.

Taxes means any present or future taxes or duties, assessments or governmental charges of whatever nature.

A **Withholding Tax Event** shall be deemed to have occurred if, following the Issue Date:

- (A) as a result of a Tax Law Change, the Issuer has or will become obliged to pay Additional Amounts in respect of the Securities and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (B) a person into which the Issuer is merged or to whom it has conveyed, transferred or leased all or substantially all of its assets and who has been substituted in place of the Issuer as principal debtor under the Securities is required to pay Additional Amounts in respect of the Securities and such obligation cannot be avoided by such person taking reasonable measures available to it, unless the sole purpose of such a merger, conveyance, transfer or lease would be to permit the Issuer to redeem the Securities.

3. STATUS AND SUBORDINATION

3.1 Status

The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank and will at all times rank *pari passu* without any preference among themselves and with Parity Securities. The obligations of the Issuer in respect of the Securities and the Coupons are subordinated as described in Condition 3.2.

3.2 Subordination

The obligations of the Issuer to make payment in respect of principal and interest on the Securities and the Coupons, including its obligations in respect of any Arrears of Interest, will, in the event of the winding-up, insolvency, dissolution or liquidation of the Issuer, rank:

- (a) senior only to the Issuer's payment obligations in respect of any Junior Securities;
- (b) *pari passu* among themselves and with the Issuer's payment obligations in respect of any Parity Securities; and
- (c) junior to all other payment obligations of the Issuer, present and future, whether subordinated or unsubordinated,

in each case except as otherwise required by mandatory provisions of applicable law.

3.3 No Set-off

To the extent and in the manner permitted by applicable law, no Securityholder or Couponholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities or the Coupons and each Securityholder and Couponholder will, by virtue of his holding of any Security or Coupon, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention. The Issuer may not set off any claims it may have against the Securityholders against any of its obligations under the Securities.

4. INTEREST AND INTEREST DEFERRAL

4.1 Interest

(a) *Interest Rates and Interest Payment Dates*

Unless previously redeemed or repurchased and cancelled in accordance with these Conditions and subject to the further provisions of this Condition 4, the Securities will bear interest on their principal amount as follows:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 7.750 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 20 March, 2014; and
- (ii) from (and including) the First Reset Date to (but excluding) the Maturity Date, at, in respect of each Reset Period, the relevant EUR 5 year Swap Rate plus:
 - (A) in respect of the Reset Periods commencing on the First Reset Date, 6.949 per cent. per annum;
 - (B) in respect of the Reset Periods commencing on 20 March, 2023, 20 March, 2028 and 20 March, 2033, 7.199 per cent. per annum; and

(C) in respect of any other Reset Period, 7.949 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 20 March, 2019.

(b) ***Determination of EUR 5 year Swap Rate***

- (i) For the purposes of these Conditions, the relevant **EUR 5 year Swap Rate**, in respect of a Reset Period, shall be the mid-swap rate as displayed on the EUR Reset Screen Page on the relevant Reset Interest Determination Date.
- (ii) If the relevant EUR 5 year Swap Rate does not appear on the EUR Reset Screen Page on the relevant Reset Interest Determination Date, the Agent Bank shall request each of the EUR Reset Reference Banks to provide it with its EUR 5 year Swap Rate Quotation and will determine the EUR 5 year Swap Rate as the EUR Reset Reference Bank Rate on the relevant Reset Interest Determination Date. If at least three quotations are provided by the EUR Reset Reference Banks, the EUR 5 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

(c) ***Calculation of Interest***

The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the principal amount of such Security and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is to be calculated for a period of less than one year, it shall be calculated on the basis of the actual number of days in the relevant period divided by the actual number of days in the period from (and including) the Issue Date or the most recent Interest Payment Date (as the case may be) to (but excluding) the next (or first) scheduled Interest Payment Date.

4.2 **Interest Deferral**

Subject to the provisions of the following paragraphs, on each Interest Payment Date, the Issuer shall pay interest on the Securities accrued to (but excluding) that date in respect of the Interest Period ending immediately prior to such Interest Payment Date.

(a) ***Optional Interest Deferral***

The Issuer may, at its sole discretion, elect to defer all, or any part, of the payment of interest accrued on the Securities in respect of any Interest Period (a **Deferred Interest Payment**) by giving notice (a **Deferral Notice**) of such election to the Securityholders in accordance with Condition 11 and to the Trustee and the Principal Paying Agent at least 5, but not more than 30, Business Days prior to the relevant Interest Payment Date. If the Issuer makes such an election, the Issuer shall have no obligation to make such payment and any such non-payment of interest shall not constitute a default of the Issuer or any other breach of obligations under the Securities or for any other purpose.

Any Deferred Interest Payment will be deferred and shall constitute **Arrears of Interest**. Any Arrears of Interest will remain outstanding until paid in full by the Issuer, but Arrears of Interest shall not itself bear interest.

(b) ***Optional Settlement of Arrears of Interest***

The Issuer may pay any outstanding Arrears of Interest (in whole or in part) at any time upon giving not less than 10 and not more than 15 Business Days' notice to the Securityholders in accordance with Condition 11 (which notice shall be irrevocable and will oblige the Issuer to pay the relevant Arrears of Interest on the payment date specified in such notice) and to the Trustee and the Principal

Paying Agent at least 5, but not more than 30, Business Days prior to the relevant due date for payment.

(c) ***Mandatory Settlement of Arrears of Interest***

All (but not some only) of any outstanding Arrears of Interest from time to time in respect of all Securities for the time being outstanding shall become due and payable in full and shall be paid by the Issuer on the first occurring Mandatory Settlement Date.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Securityholders in accordance with Condition 11 and to the Trustee and the Principal Paying Agent at least five, but not more than 30, Business Days prior to the relevant due date for payment.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.

(d) ***Notification of Mandatory Settlement Date***

Upon the occurrence of a Mandatory Settlement Date, the Issuer shall promptly deliver to the Trustee a certificate signed by a duly authorised representative of the Issuer confirming the occurrence thereof.

4.3 Accrual of Interest

The Securities will cease to bear interest from (and including) the calendar day on which they are due for redemption. If the Issuer fails to redeem the Securities upon due presentation and surrender thereof when due, interest will continue to accrue as provided in the Trust Deed.

5. PAYMENTS AND EXCHANGES OF TALONS

Provisions for payments in respect of Global Securities are set out under "Summary of Provisions Relating to the Securities while represented by the Global Securities" below.

5.1 Payments in respect of Securities

Payments of principal and interest in respect of each Security will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Security, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

5.3 Missing Unmatured Coupons

Upon the date on which any Security becomes due and repayable, all unmatured Coupons appertaining to the Security (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

5.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

5.5 Payment only on a Presentation Date

A holder shall be entitled to present a Security or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date for payment of any amount in respect of any Security or Coupon.

Presentation Date means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date for payment of any amount in respect of any Security or Coupon;
- (b) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the place of the specified office of the Paying Agent at which the Security or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

5.6 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

5.7 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Securities are listed on any stock exchange or admitted to trading by any relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 11.

6. REDEMPTION AND PURCHASE

6.1 Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Securities on the Maturity Date at their principal amount together with any interest accrued to (but excluding) the Maturity Date and any outstanding Arrears of Interest.

6.2 Optional Redemption

The Issuer may redeem all of the Securities (but not some only) on any Reset Date, in each case at their principal amount together with any accrued interest up to (but excluding) the applicable Early Redemption Date and Arrears of Interest, on giving not less than 30 and not more than 60 calendar days' notice to the Securityholders in accordance with Condition 11.

6.3 Early Redemption following a Withholding Tax Event

- (a) If a Withholding Tax Event occurs, the Issuer may redeem all of the Securities (but not some only), at any time at the applicable Early Redemption Price and upon giving not less than 30 and not more than 60 calendar days' notice to the Securityholders in accordance with Condition 11, provided that no such notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Securities then due.
- (b) Prior to giving a notice to the Securityholders pursuant to this Condition 6.3, the Issuer will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee:
 - (i) a certificate signed by a duly authorised representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem the Securities in accordance with this Condition 6.3 have been satisfied; and
 - (ii) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay Additional Amounts as a result of (in the case of paragraph (A) of the definition of Withholding Tax Event) a Tax Law Change or (in the case of paragraph (B) of the definition of Withholding Tax Event) the relevant merger, conveyance, transfer or lease,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders and the Couponholders.

6.4 Early Redemption following a Tax Deductibility Event

- (a) If a Tax Deductibility Event occurs, the Issuer may redeem all of the Securities (but not some only), at any time at the applicable Early Redemption Price and upon giving not less than 30 and not more than 60 calendar days' notice of redemption to the Securityholders in accordance with Condition 11.
- (b) Prior to giving a notice to the Securityholders pursuant to this Condition 6.4, the Issuer will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee:
 - (i) a certificate signed by a duly authorised representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem the Securities in accordance with this Condition 6.4 have been satisfied; and

- (ii) an opinion of an independent legal or tax advisers of recognised standing to the effect that payments of interest by the Issuer in respect of the Securities are no longer, or within 90 calendar days of the date of that opinion will no longer be, deductible in whole or in part for Italian corporate income tax purposes as a result of a Tax Law Change,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders and the Couponholders.

6.5 Early Redemption following a Rating Methodology Event

- (a) If a Rating Methodology Event occurs, the Issuer may redeem all of the Securities (but not some only), at any time at the applicable Early Redemption Price and upon giving not less than 30 and not more than 60 calendar days' notice of redemption to the Securityholders in accordance with Condition 11.
- (b) Prior to giving a notice to the Securityholders pursuant to this Condition 6.5, the Issuer will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee:
 - (i) a certificate signed by a duly authorised representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem the Securities in accordance with this Condition 6.5 have been satisfied; and
 - (ii) a copy of the Rating Agency Confirmation relating to the applicable Rating Methodology Event unless the delivery of such Rating Agency Confirmation would constitute a breach of the terms on which such confirmation is delivered to the Issuer,

and the Trustee shall be entitled to accept the above certificate and, if applicable, copy of the Rating Agency Confirmation as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders and the Couponholders.

6.6 Purchases and Substantial Repurchase Event

The Issuer or any Subsidiary may at any time purchase Securities (provided that all unmatured Coupons appertaining to the Securities are purchased with the Securities) in any manner and at any price. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

If a Substantial Repurchase Event occurs, the Issuer may redeem all of the outstanding Securities (but not some only) at any time at the applicable Early Redemption Price, subject to the Issuer having given the Securityholders not less than 30 and not more than 60 calendar days' notice to the Securityholders in accordance with Condition 11.

6.7 Cancellations

All Securities which are redeemed will forthwith be cancelled, together with all unmatured Coupons attached to the Securities or surrendered with the Securities at the time of redemption. All Securities so cancelled and any Securities purchased and cancelled pursuant to Condition 6.6 above shall be forwarded to the Principal Paying Agent and accordingly may not be held, reissued or resold.

6.8 Notices Final

A notice of redemption given pursuant to any of Conditions 6.2, 6.3, 6.4, 6.5 or 6.6 shall be irrevocable and upon the expiry of any such notice, the Issuer shall be bound to redeem the Securities in accordance with the terms of the relevant Condition.

The Issuer intends (without thereby assuming a legal obligation), at any time that it will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds, received by the Issuer or any Subsidiary of the Issuer during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or such Subsidiary to third party purchasers (other than group entities of the Issuer), of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Issuer is at least "BBB" (or such similar nomenclature then used by S&P) and the Issuer is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or*
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or*
- (iii) the Securities are redeemed pursuant to a Tax Deductibility Event or a Withholding Tax Event; or*
- (iv) the Securities are not assigned an "equity credit" (or such similar nomenclature then used by S&P) at the time of such redemption or repurchase, or*
- (v) such redemption or repurchase occurs on or after the Reset Date falling on 20 March, 2038.*

7. TAXATION

7.1 Payment without Withholding

All payments of principal and interest in respect of the Securities and Coupons by the Issuer will be made without withholding or deduction for or on account of any Taxes imposed or levied by or on behalf of any Tax Jurisdiction, unless such withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay such additional amounts (the **Additional Amounts**) as may be necessary in order that the net amounts received by the Securityholders and Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Securities or, as the case may be, Coupons in the absence of such withholding or deduction; except that no additional amounts shall be payable:

- (a) in respect of any Security or Coupon presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Security or Coupon by reason of his having some connection with any Tax Jurisdiction other than the mere holding of such Security or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000; or
- (c) in respect of any Security or Coupon presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) in respect of any Security or Coupon presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to an Additional

Amount on presenting the same for payment on such thirtieth day assuming that day to have been a Presentation Date (as defined in Condition 5); or

- (e) in respect of payments made by the Issuer with respect to any Security or Coupon for or on account of *imposta sostitutiva* pursuant to Decree No. 239 as amended and/or supplemented as at 19 March, 2013.

For the avoidance of doubt, any withholding or deduction for or on account of *imposta sostitutiva* imposed following any amendment or supplement to or replacement of Decree No. 239 after 19 March, 2013 shall not be an exception to the payment by the Issuer of the relevant Additional Amounts payable with respect to such Security or Coupon, to the extent that the amount of such withholding or deduction exceeds the amount of *imposta sostitutiva* payable by the Issuer with respect to such Security or Coupon pursuant to Decree No. 239 as at 19 March, 2013.

Furthermore, no Additional Amounts shall be payable by the Issuer with respect to any Security or Coupon for or on account of *imposta sostitutiva* if the holder becomes subject to *imposta sostitutiva* after 19 March, 2013 by reason of an amendment or supplement to or replacement of the list of countries which provide for a satisfactory exchange of information with Italy, according to Article 6 of Decree No. 239, as amended and/or supplemented as at 19 March, 2013; or

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

7.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Securities shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

8. PRESCRIPTION

The Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and 5 years (in the case of interest) from the Relevant Date in respect of the Securities or, as the case may be, the Coupons, subject to the provisions of Condition 5. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 5.

9. EVENTS OF DEFAULT AND ENFORCEMENT

9.1 Events of Default

If any of the following events (each an **Event of Default**) occurs, then the Issuer shall, without notice from the Trustee, be deemed to be in default under the Trust Deed, the Securities and the Coupons and in such case, (i) the Securities shall immediately become due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) the date on which the Securities become so due and payable and any outstanding Arrears of Interest and (ii) the Trustee at its sole discretion may (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including the institution of Insolvency Proceedings against the Issuer or the filing of a proof of claim and participation in any Insolvency Proceedings or proceedings for the liquidation, dissolution or winding-up of the Issuer:

- (a) default is made by the Issuer in the payment of any interest which is due and payable in respect of the Securities and the default continues for a period of 30 days or more; or
- (b) a judgment is given for the voluntary or judicial winding up, dissolution or liquidation of the Issuer or restructuring of the Issuer's liabilities pursuant to any Insolvency Proceedings or under any applicable bankruptcy or insolvency law or if the Issuer is liquidated for any other reason.

9.2 Enforcement in respect of non-payment of principal

If default is made by the Issuer in the payment of any principal which has become due and payable in respect of the Securities in accordance with these Conditions and the default continues for a period of 10 days or more, the Trustee at its sole discretion may (subject to its being indemnified and/or secured and/or prefunded to its satisfaction), institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including the institution of Insolvency Proceedings against the Issuer or the filing of a proof of claim and participation in any Insolvency Proceedings or proceedings for the liquidation, dissolution or winding-up of the Issuer.

9.3 Enforcement by the Trustee

- (a) Subject as provided in sub-paragraph (b) below, the Trustee may at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Securities and the Coupons, but in no event shall the Issuer, by virtue of the initiation of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.
- (b) The Trustee shall not be bound to take any action referred to in Conditions 9.1, 9.2 or 9.3(a) above or any other action or steps under or pursuant to the Trust Deed, the Securities or the Coupons unless (a) it has been so directed by an Extraordinary Resolution of the Securityholders or so requested in writing by the holders of at least one-quarter in principal amount of the Securities then outstanding and (b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

9.4 Enforcement by the Securityholders

No Securityholder or Couponholder shall be entitled to proceed directly against the Issuer or to institute any Insolvency Proceedings against the Issuer or to file a proof of claim and participate in any Insolvency Proceedings or institute proceedings for the liquidation, dissolution or winding-up of the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing, in which case the Securityholder or Couponholder shall have only such rights against the Issuer as those which the Trustee would have been entitled to exercise pursuant to this Condition 9.

9.5 Limitation on remedies

No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee, the Securityholders and the Couponholders, whether for the recovery of amounts due in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities, the Coupons and the Trust Deed.

10. REPLACEMENT OF SECURITIES AND COUPONS

Should any Security or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued.

11. NOTICES

All notices regarding the Securities will be deemed to be validly given (a) if published in a leading English language daily newspaper of general circulation in London (it is expected that such publication will be made in the *Financial Times* in London) and (b) if and for so long as the Securities are admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, if published on the website of the Luxembourg Stock Exchange: *www.bourse.lu* or in another manner of publication in accordance with the Luxembourg laws and regulations implementing Directive 2004/109/EC and, if so required, in accordance with the rules of such exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Securities are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notices given to the Securityholders in accordance with this paragraph.

12. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORISATION, DETERMINATION AND SUBSTITUTION OF THE ISSUER

12.1 Meetings of Securityholders

The Trust Deed contains provisions consistent with the laws, legislation, rules and regulations of the Republic of Italy (including without limitation Legislative Decree No. 58 of 24 February 1998, as amended) for convening meetings of the Securityholders to consider any matter affecting their interests, including any modifications of the Conditions or of any provisions of the Trust Deed. According to the laws, legislation, rules and regulations of the Republic of Italy: (a) if Italian law and the Issuer's by-laws provide for multiple calls, such meetings will be validly held if (i) in the case of a first meeting, there are one or more persons present being or representing Securityholders holding not less than one-half in nominal amount of the Securities for the time being outstanding; (ii) in case of an adjourned meeting, there are one or more persons present being or representing Securityholders holding more than one-third in nominal amount of the Securities for the time being outstanding; and (iii) in the case of any further adjourned meeting, one or more persons present being or representing Securityholders holding more than one-fifth in nominal amount of the Securities for the time being outstanding, provided that the Issuer's by-laws may in each case (to the extent permitted under the applicable laws and regulations of the Republic of Italy) provide for a higher quorum; and (b) if Italian law and the Issuer's by-laws provide for a single call, the quorum under (iii) above shall apply, provided that a higher majority may be required by the Issuer's by-laws. The majority to pass a resolution at any meeting (including, where applicable, an adjourned meeting) will be not less than two-thirds of the aggregate principal amount of the outstanding Securities represented at the meeting; provided however that (A) certain proposals, as set out in Article 2415 of the Italian Civil Code (including any proposal to change any date fixed for payment of principal or interest in respect of the Securities, to change the subordination provisions set out in Condition 3, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment, to change the currency of payments under the Securities or to change the quorum requirements relating to meetings or the majority required to pass a resolution or any proposal relating to any of the matters set out in the Article 2415, paragraph 3 of the Italian Civil Code), may only be sanctioned by a resolution passed at a meeting of the Securityholders by the higher of (i) one or more persons holding or representing not less than one half of the aggregate principal amount of the outstanding Securities, and (ii) one or more persons holding or representing not less than two thirds of the Securities represented at the meeting, provided that a different majority (higher or lower depending on the circumstances and the amount of Securities represented at the meeting) may be required pursuant to Article 2369 paragraph 7 of the Italian Civil Code and (B) the Issuer's by-laws may in each case (to the extent permitted under applicable Italian law) provide for higher majorities. Resolutions passed at any meeting of the Securityholders shall be binding on all Securityholders, whether or not they are present at the meeting, and on all Couponholders. In accordance with the Italian Civil Code, a *rappresentante*

comune, being a joint representative of Securityholders, may be appointed in accordance with Article 2417 of the Italian Civil Code in order to represent the Securityholders' interest hereunder and to give execution to the resolutions of the meeting of the Securityholders.

12.2 Substitution of the Issuer

- (a) The Trustee may, without the consent of the Securityholders or the Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition 12.2) as the principal debtor under the Securities, Coupons and the Trust Deed of another company, being any entity that will succeed to, or to which the Issuer (or any previous substitute under this Condition 12.2) will transfer, all or substantially all of its assets and business (or any previous substitute under this Condition 12.2) by operation of law, contract or otherwise, subject to (i) the Trustee being satisfied that such substitution does not result in the substituted issuer having an entitlement, as at the date on which such substitution becomes effective, to redeem the Securities pursuant to Conditions 6.3, 6.4 or 6.5, (ii) the Trustee being satisfied that the interests of the Securityholders will not otherwise be materially prejudiced by the substitution; and (iii) certain other conditions set out in the Trust Deed being satisfied.
- (b) The Issuer has covenanted in the Trust Deed that, for so long as the Securities remain outstanding, it will not consolidate or merge with another company or firm or sell or lease all or substantially all of its assets to another company unless (i) if the Issuer merges out of existence or sells or leases all or substantially all of its assets, the other company assumes all the then-existing obligations of the Issuer (including, without limitation, all obligations under the Securities and the Trust Deed), either by law or contractual arrangements and (ii) certain other conditions set out in the Trust Deed are complied with.
- (c) As long as the Securities are admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or listed on the official list of the Luxembourg Stock Exchange, in the case of such a substitution, the Issuer will give notice of any substitution pursuant to Condition 12.2(a) above to the Luxembourg Stock Exchange and, as soon as reasonably practicable but in any event not later than 30 calendar days after the execution of such documents required by, and the compliance with such other requirements of, the Trust Deed in connection with the substitution, notice of such substitution will be given to the Securityholders by the Issuer in a form previously approved by the Trustee in accordance with Condition 11, in which event the substitution shall be conclusive and binding on the Securityholders and the Couponholders.

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

The Trustee may agree, without the consent of the Securityholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Securities or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Securityholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct an error which is manifest or, in the opinion of the Trustee, proven. Any such modification, waiver, authorisation or determination shall be binding on the Securityholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification shall be notified to the Securityholders in accordance with Condition 11 as soon as practicable thereafter.

12.4 Trustee to have Regard to Interests of Securityholders as a Class

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

shall not have regard to the consequences of any such exercise for individual Securityholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Securityholder, or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Securityholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

13. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

13.1 Indemnification of the Trustee

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

13.2 Trustee Contracting with the Issuer

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

14. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders or Couponholders to create and issue further securities or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding securities or bonds of any series (including the Securities) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further securities or bonds which are to form a single series with the outstanding securities or bonds of any series (including the Securities) constituted by the Trust Deed or any supplemental deed shall, and any other further securities or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Securityholders and the holders of securities or bonds of other series in certain circumstances where the Trustee so decides.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing Law

The Trust Deed, the Securities and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Securities and the Coupons are governed by, and shall be construed in accordance with, English law, except for Conditions 3.1 and 3.2, which shall each be governed by Italian law. Condition 12.1 and the provisions of the Trust Deed concerning the meeting of Securityholders and the appointment of the *rappresentante comune* in respect of the Securities are subject to compliance with Italian law.

15.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee, the Securityholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Securities or the Coupons (including any disputes relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Securities or the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Securityholders and the Couponholders may take any Proceedings against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

15.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Telemedia International Limited at its registered office at Watchmaker Court, 33 St. John's Lane, London EC1M 4DB, as its agent for service of process and undertakes that, in the event of Telemedia International Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law.

16. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any of these Conditions or any other term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE REPRESENTED BY THE GLOBAL SECURITIES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Securities and in the Global Securities which will apply to, and in some cases modify the Terms and Conditions of the Securities while the Securities are represented by the Global Securities.

1. Exchange

The Permanent Global Security will be exchangeable in whole but not in part (free of charge to the holder) for definitive Securities only:

- (a) upon the happening of any of the events defined in the Trust Deed as "Events of Default"; or
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available.

Thereupon the holder of the Permanent Global Security (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer of its intention to exchange the Permanent Global Security for definitive Securities on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Security may surrender the Permanent Global Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Security the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security and one Talon), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Security, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Securities.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 30 April, 2013, no payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused.

Payments of principal and interest in respect of Securities represented by a Global Security will (subject as provided below) be made in the manner specified in Condition 5 in relation to definitive Securities or otherwise against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, against surrender of such Global Security to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Securityholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Security by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Securities. Payments of interest on the Temporary Global Security (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

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

3. Notices

For so long as all of the Securities are represented by one or both of the Global Securities and such Global Security(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Securityholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 11, provided that, so long as the Securities are listed on the Luxembourg Stock Exchange, notice will also be given by publication on the website of the Luxembourg Stock Exchange at *www.bourse.lu* or in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the Securityholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Securities held by a Securityholder are represented by a Global Security, notices to be given by such Securityholder may be given by such Securityholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4. Accountholders

For so long as all of the Securities are represented by one or both of the Global Securities and such Global Security(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Securities (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Securities for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Securityholders) other than with respect to the payment of principal and interest on such principal amount of such Securities, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Security in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Security.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Securities represented by a Global Security will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 2), in each case subject to the provisions of Condition 8.

6. Cancellation

Cancellation of any Security represented by a Global Security and required by the Conditions of the Securities to be cancelled following its redemption or purchase will be effected by endorsement by

or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Security on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

References in the Global Securities and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Securities will be applied by the Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUER

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia (at the time named Olivetti) was incorporated as a joint stock company under the laws of Italy on 29 October, 1908, and its duration is until 31 December, 2100. Telecom Italia is registered with the Company Register in Milan under registration number 00488410010.

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

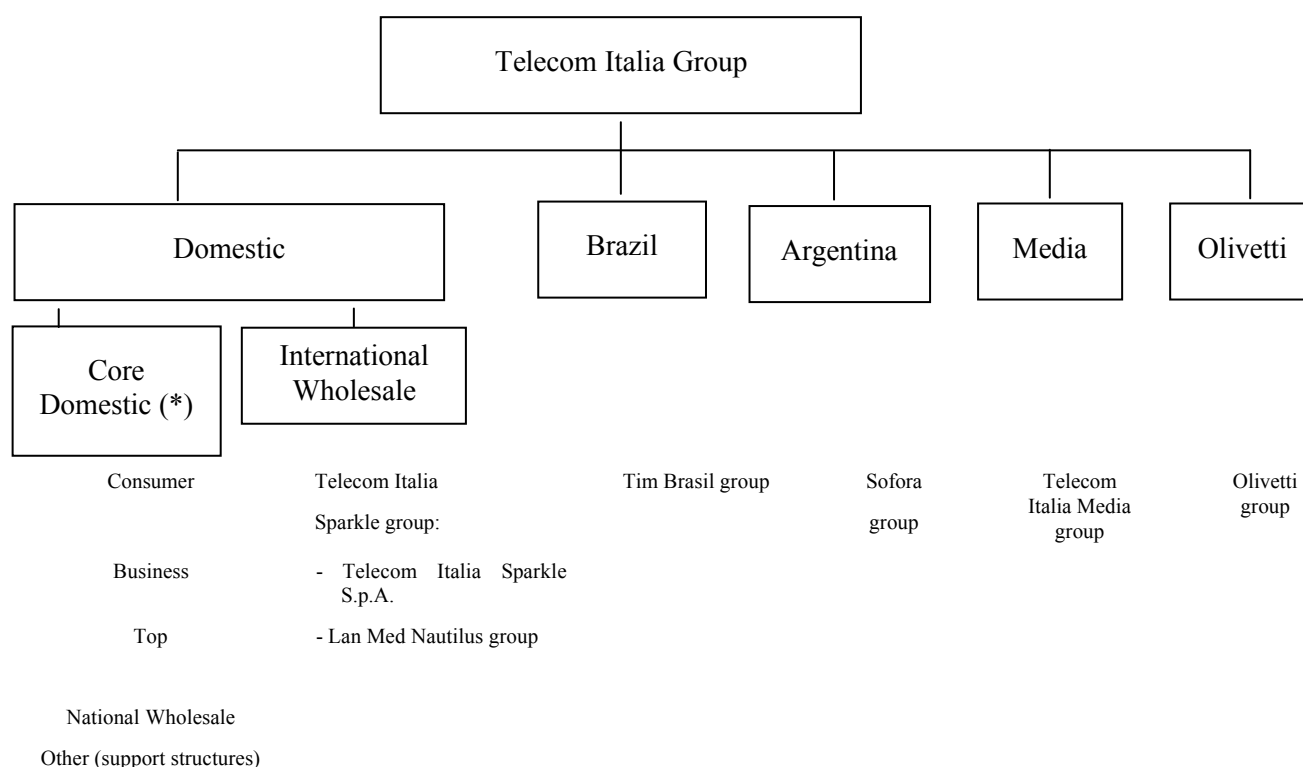
Telecom Italia complies with applicable Italian corporate governance rules. For additional details on corporate governance of the Telecom Italia Group, reference should be made to the corporate website: www.telecomitalia.com, where, in the “Corporate” channel (under “Governance” – “Governance system”), the annual report on corporate governance is available.

Telecom Italia's business objects can be found in article 3 of its Bylaws.

Overview of the Telecom Italia Group’s Major Business Areas

Telecom Italia is the parent company of the Telecom Italia Group.

Telecom Italia Group’s Business Units as of 30 September, 2012 were as follows.



(*) Main subsidiaries: Telecom Italia S.p.A.; Telenergia S.p.A.; Telecontact Center S.p.A., P.Ath.Net S.p.A., HR Services S.r.l. and Shared Service Center S.r.l. (now Telecom Italia Information Technology S.r.l.).

Overview

On 25 October, 2007, Assicurazioni Generali S.p.A. (**Generali**), Sintonia S.A. (**Sintonia**), Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**), Mediobanca S.p.A. (**Mediobanca**) and Telefónica S.A. (**Telefónica**), through the wholly owned vehicle Telco S.p.A. (**Telco**), completed the purchase of the entire share capital of Olimpia

S.p.A., which held approximately 18 per cent. of the share capital, from Pirelli & C. S.p.A. and Sintonia S.p.A.

5.6 per cent. of the ordinary share capital of Telecom Italia was contributed on the same date by Mediobanca and companies of the Generali group to Telco. The total investment held by Telco was therefore equal to 23.595 per cent. of Telecom Italia's ordinary share capital.

Telco was held by Generali (28.1 per cent.), Intesa Sanpaolo (10.6 per cent.), Mediobanca (10.6 per cent.), Sintonia (8.4 per cent.) and Telefónica (42.3 per cent.).

On 20 March, 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia's ordinary share capital to 24.5 per cent.

On 22 December, 2009 Telco and Sintonia executed a purchase and sale agreement pursuant to which Sintonia acquired from Telco shares representing approximately 2.06 per cent. of Telecom Italia's share capital and Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia's Telco shares and Sintonia left the shareholder group which controls Telco.

On 29 February, 2012, Telefónica, Intesa Sanpaolo, Mediobanca and Generali entered into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original Shareholders' Agreement dated as of April 28, 2007 as it had been subsequently amended and supplemented (the **2012 Shareholders Agreement**).

Currently Telco interests are held by Generali (30.58 per cent.), Intesa Sanpaolo (11.62 per cent.), Mediobanca (11.62 per cent.) and Telefónica (46.18 per cent.).

Telecom Italia Shareholder Agreement

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

On 29 February, 2012 the shareholders of Telco terminated the previous shareholders' agreement (the previous version of an agreement initially made on 28 April, 2007, and then amended on 25 October, 2007, 19 November, 2007, 28 October, 2009, 11 January, 2010 and 10 December, 2010), and entered into the 2012 Shareholders' Agreement, on the same terms and conditions as the pre-existing one, with a duration until 28 February, 2015.

The 2012 Shareholders' Agreement defines, among other things, the criteria for the composition of the list of candidates for appointment to the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco's share capital, will be entitled to designate two candidates;
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the list, of whom three candidates unanimously and the others on a proportional basis.

The 2012 Shareholders' Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings that examine proposals and resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions regarding Brazil and Argentina take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (**Anatel**) and by the Brazilian Antitrust Commission (**CADE**) and (ii) of the "*Compromiso*" signed before the Comisión Nacional de Defensa de

Competencia of Argentina (CNDC) on 6 October, 2010 by the contracting parties, by Telco and—as intervening parties in order to execute the obligations assumed—by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Mviles SA.

Consistently with the provisions of the agreement, board members Alierta and Linares undertook at the time of their appointment not to participate in the discussion and voting of the Board of Directors (as well as of the Executive Committee) of Telecom Italia when matters are proposed or discussed that relate to the activities of Telecom Italia and its subsidiaries in the telecommunications markets of Brazil and Argentina, as well as, in general, in all cases where there could be possible prejudice to the Telecom Italia Group.

As indicated above, the 2012 Shareholders' Agreement has a duration until 28 February, 2015. Each party:

- may request the de-merger of Telco by sending a communication to the other parties between 1 August, and 28 August, 2014, with an obligation to give effect to the de-merger within the subsequent six months;
- may withdraw from the agreement and request the de-merger of Telco by sending a communication to the other parties in the period between 1 September, and 28 September, 2013, with an obligation to give effect to the de-merger within the subsequent six months.

In addition, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

Please see pages 107-149 of the Base Prospectus, which are incorporated by reference herein, as subsequently amended and/or updated pursuant to the further documents incorporated by reference subsequent to the date thereof (see “*Documents Incorporated by Reference*”), for further information about the Issuer.

RECENT DEVELOPMENTS

On 21 December, 2012, Telecom Italia issued Euro €1,000,000,000 4.000 per cent. Notes due 21 January, 2020 (**Notes**) under its EMTN Programme. The Notes were purchased by institutional investors.

On 11 February, 2013, Moody's downgraded to Baa3 (negative outlook) from Baa2 the senior unsecured and issuer ratings of Telecom Italia.

On 11 February, 2013, Fitch affirmed at BBB (negative outlook) the long-term issuer default rating of Telecom Italia.

On 14 February, 2013, S&P placed the BBB long-term and A-2 short-term corporate credit ratings of Telecom Italia on CreditWatch with negative implications.

TAXATION

The following summary contains a description of certain Italian, EU and Luxembourg tax consequences in respect of the purchase, ownership and disposal of Securities.

EU Savings Directive

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

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Italian Taxation

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Prospectus (as they are currently applied by the relevant tax authorities) and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Securities are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Securities.

Tax Treatment of the Securities

Legislative Decree No. 239 of 1 April, 1996, as subsequently amended (**Decree 239**), provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from securities falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian resident companies with shares listed on an EU regulated market or a regulated market of the European Economic Area. The Italian tax authorities have clarified (Revenue Agency Circular No. 4/E of 18 January 2006) that bonds may have a maturity which is not scheduled at a specific date, but it is linked to the maturity of the issuing company or to the liquidation thereof, if the company has been set-up with an undetermined maturity pursuant to Article 2328 (2), No. 13 of the Italian Civil Code.

Italian Resident Securityholders

Where an Italian resident Securityholder is (i) an individual not engaged in an entrepreneurial activity to which the Securities are connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation (in each case, unless the Securityholder has opted for the application of the "*risparmio gestito*" regime – see "*Capital Gains Tax*" below), interest, premium and other income relating to the Securities, accrued during the relevant holding period, are subject to a tax withheld at source, referred to as "*imposta sostitutiva*", levied at the rate of 20 per cent. If the Securityholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Securities are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Securityholder is a company or similar commercial entity or a permanent establishment in Italy of a foreign company to which the Securities are effectively connected and the Securities are deposited with an authorised intermediary, interest, premium and other income from the

Securities will not be subject to *imposta sostitutiva*, but must be included in the relevant Securityholder's annual income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the status of the Securityholder, also to regional tax on productive activities).

Under the current regime provided by Law Decree No. 351 of 25 September, 2001 converted into law with amendments by Law No. 410 of 23 November, 2001, as clarified by the Italian Revenues Agency through Circular No. 47/E of 8 August, 2003 and based on Circular of the Revenue Agency No. 11/E of 28 March 2011 (**Circular 11/E**), payments of interest, premiums or other proceeds in respect of the Securities deposited with an authorised intermediary and made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February, 1998 or pursuant to Article 14-*bis* of Law No. 86 of 25 January, 1994, are subject neither to *imposta sostitutiva* nor to any other income tax.

Where an Italian resident Securityholder is an open-ended or a closed-ended investment fund or a SICAV (an investment company with variable capital) established in Italy and either (i) the fund or SICAV or (ii) their manager, is subject to the supervision of a regulatory authority (the **Fund**) and the relevant Securities are deposited with an authorised intermediary, based on Circular 11/E, interest, premium and other income accrued during the holding period on the Securities will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund. The Fund will not be subject to taxation on such results but a withholding tax of 20 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the **Collective Investment Fund Withholding Tax**).

Where an Italian resident Securityholder is a pension fund (subject to the regime provided for by Article 17 of the Legislative Decree No. 252 of 5 December, 2005) and the Securities are deposited with an authorised intermediary, interest, premium and other income relating to the Securities and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 11 per cent. substitute tax.

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

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

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

Non-Italian Resident Securityholders

Where the Securityholder is a non-Italian resident without permanent establishment in Italy to which the Securities are effectively connected, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident is either (i) a beneficial owner of payments of interest resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy; or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of residence.

The *imposta sostitutiva* will be applicable at the rate of 20 per cent (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Securityholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

For the purposes of exemption from *imposta sostitutiva*, countries allowing for a satisfactory exchange of information with Italy are currently identified by the "white list" provided for by Italian Ministerial Decree of 4 September 1996, as subsequently amended and supplemented. Please note that according to the Law No. 244 of 24 December, 2007 (**Budget Law 2008**) a Decree still to be issued will introduce a new "white list" replacing the current "white list" system.

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

Capital Gains Tax

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

Where an Italian resident Securityholder is (i) an individual holding the Securities not in connection with an entrepreneurial activity, (ii) a non commercial partnership, or (iii) a non commercial private or public institution, any capital gain realised by such Securityholder from the sale or redemption of the Securities would be subject to an *imposta sostitutiva*, levied at the current rate of 20 per cent. Securityholders may set off losses with gains.

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

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

As an alternative to the tax declaration regime, Italian resident individual Securityholders holding the Securities not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Securities (the "*risparmio amministrato*" regime). Such separate taxation of capital gains is allowed subject to (i) the Securities being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (ii) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Securityholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Securities (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss suffered within the same securities management, and is required to

pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Securityholder or using funds provided by the Securityholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Securities results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Securityholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident individuals holding the Securities not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Securities, to an authorised intermediary and have opted for the so-called *risparmio gestito* regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 20 per cent. substitute tax, to be paid by the managing authorised intermediary. Under this *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Securityholder is not required to declare the capital gains realised in the annual tax return.

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

Any capital gains realised by a Securityholder who is a Fund will not be subject to *imposta sostitutiva*, but will be included in the result of the relevant portfolio. Such result will not be taxed with the Fund, but subsequent distributions in favour of unitholders or shareholders may be subject to the Collective Investment Fund Withholding Tax.

Any capital gains realised by a Securityholder who is an Italian pension fund (subject to the regime provided for by Article 17 of the Legislative Decree No. 252 of 5 December, 2005) will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11 per cent substitute tax.

Capital gains realised by non-Italian-resident Securityholders, not having a permanent establishment in Italy to which the Securities are connected, from the sale or redemption of Securities traded on regulated markets are neither subject to the *imposta sostitutiva* nor to any other Italian income tax (in certain cases, subject to filing of an appropriate self-declaration not to be resident in Italy for tax purposes).

Capital gains realised by non-Italian resident Securityholders from the sale or redemption of Securities not traded on regulated markets are not subject to the *imposta sostitutiva* (in certain cases, subject to filing of an appropriate self-declaration), provided that the Securityholder: (i) is the beneficial owner of payments of interest resident in a country which allows for a satisfactory exchange of information with Italy; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) is an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of residence.

If none of the conditions above are met, capital gains realised by non-Italian resident Securityholders from the sale or redemption of Securities not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 20 per cent., if the Securities are held in Italy.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Securities are connected, that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Securities are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of Securities (in certain cases, subject to filing of appropriate documentation which may include, *inter alia*, a residency certificate released by the competent foreign tax authority).

Inheritance and Gift Taxes

The transfers of any valuable asset (including the Securities) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose (e.g. trusts) are taxed as follows:

- (i) transfers in favour of the spouse and direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding €1,000,000 (per beneficiary);
- (ii) transfers in favour of brothers or sisters are subject to an inheritance and gift tax applied at a rate of 6 per cent. on the value of the inheritance or the gift exceeding €100,000 (per beneficiary);
- (iii) transfers in favour of all other relatives to the fourth degree or relatives-in-law to the third degree, are subject to an inheritance and gift tax applied at a rate of 6 per cent. on the entire value of the inheritance or the gift; and
- (iv) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

With respect to listed securities, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued meanwhile).

Transfer Tax

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

Stamp duty

Pursuant to Article 19(1) of Decree No. 201 of 6 December, 2011 (**Decree 201**), a proportional stamp duty applies on an annual basis to any periodic reporting communications which may be sent by a financial intermediary to a Securityholder in respect of any Securities which may be deposited with such financial intermediary. The stamp duty applies at a rate of 0.15 per cent; this stamp duty is determined on the basis of the market value or – if no market value figure is available – the nominal value or redemption amount of the Securities held. The stamp duty can neither be lower than €34.20, nor (for taxpayers other than individuals) exceed €4,500.

In the absence of specific guidelines, the stamp duty may apply both to Italian resident and non-Italian resident Securityholders, to the extent that Securities are held with an Italian-based financial intermediary.

Wealth Tax on securities deposited abroad

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Securities outside the Italian territory are required to pay an additional tax at a rate of 0.15 per cent.

This tax is calculated on the market value of the Securities at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Tax Reporting

Pursuant to Law Decree No. 167 of 28th June, 1990, ratified and converted by Law No. 227 of 4th August, 1990, as amended, individuals, non-commercial partnerships and non-commercial entities which are resident

in Italy for tax purposes and, at the end of the year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the tax authorities. In case the Securities are held abroad, such reporting obligation may apply.

This obligation does not exist in cases where the overall value of the foreign investments or financial activities at the end of the year, and the overall value of the transactions carried out during the relevant year, does not exceed €10,000.

EU Savings Directive as implemented in Italy

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April, 2005 (**Decree No. 84**). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State or in a dependent or associated territory under the relevant international agreements, Italian qualified paying agents (i.e. banks, SIMs, fiduciary companies, SGRs resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) shall report details of the relevant payments and personal information on the individual beneficial owner to the Italian Tax Authorities. Such information is transmitted by the Italian Tax Authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

In certain circumstances, the same reporting requirements must be complied with also in respect of interest paid to an entity established in another EU Member State, other than legal persons (with the exception of certain Finnish and Swedish entities), whose profits are taxed under general arrangements for business taxation and, in certain circumstance, UCITS recognized in accordance with Directive 85/611/EEC.

Either payments of interest on the Securities or the realization of the accrued interest through the sale of the Securities would generally constitute "payments of interest" under Article 6 of the EU Savings Directive and, as far as Italy is concerned, Article 2 of Decree 84.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Securities should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Securities

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June, 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Securities, nor on accrued but unpaid interest in respect of the Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Securities held by non-resident holders of Securities.

Under the Laws implementing the EU Savings Directive and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it has been levied at a rate of

35 per cent. since July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

(ii) Resident holders of Securities

Under Luxembourg general tax laws currently in force and subject to the law of 23 December, 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Securities, nor on accrued but unpaid interest in respect of Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Securities held by Luxembourg resident holders of Securities.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg or to a residual entity receiving the payment on behalf of the individual resident in Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Securities coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Pursuant to the Luxembourg law of 23 December, 2005, as amended by the law of 17 July, 2008, Luxembourg resident individuals acting in the course of their private wealth may self apply a 10 per cent. withholding tax on interest received from a paying agent (defined in the same way as in the Savings Directive) established in an EU Member State other than Luxembourg, a Member State of the European Economic Area or in a State which concluded an international agreement directly related to the Savings Directive. This self-applied withholding tax is not applicable to interest received by Luxembourg resident individuals in the course of their business income.

SUBSCRIPTION AND SALE

Barclays Bank PLC and J.P. Morgan Securities plc (together the **Structuring Advisers to the Issuer and Global Co-ordinators**), Banca IMI S.p.A., BNP Paribas and Mediobanca – Banca di Credito Finanziario S.p.A. (together with the Structuring Advisers to the Issuer and Global Co-ordinators, the **Joint Bookrunners**) and Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Goldman Sachs International and Société Générale (the **Other Joint Bookrunners** and together with the Joint Bookrunners, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 19 March, 2013, jointly and severally agreed to subscribe for the Securities at the issue price of 99.499 per cent. of the principal amount of the Securities, less certain commissions. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

United Kingdom

Each Manager has represented and agreed that:

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

Republic of Italy

The offering of the Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Securities be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May, 1999, as amended from time to time (**Regulation No. 11971**); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Securities or distribution of copies of the Prospectus or any other document relating to the Securities in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1st September, 1993, as amended (the **Banking Act**);
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Securities or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee nor any of the other Managers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Managers represents that the Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The issue of the Securities was duly authorised by a resolution of the Board of Directors of the Issuer dated 18 February, 2013.

Manager responsible for financial reporting

The manager responsible for financial reporting (Piergiorgio Peluso – Head of the Group Administration, Finance and Control Function) declares, pursuant to paragraph 2 of art. 154-*bis* of the Consolidated Law on Financial Intermediation (Legislative Decree No. 58 of 24 February, 1998), that the accounting information contained in this Prospectus corresponds to the relevant documents, results, books and accounting records.

Listing, Admission to Trading and Approval

Application has been made to the CSSF to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for the Securities to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Expenses Related to Admission to Trading

The total expenses in relation to the admission to trading are estimated by the Issuer to be €12,000.

Clearing Systems

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Securities is XS0906837645 and the Common Code is 090683764.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

No Significant Change and No Material Adverse Change

Save as disclosed in the information incorporated by reference from (i) the Issuer's Unaudited Interim Consolidated Financial Statements as at and for the nine months ended 30 September, 2012 (pages 42-48, 52, 58-64 and 65-70), (ii) each of the First Supplement to the Base Prospectus dated 12 September, 2012 (pages 2 and 3), the Second Supplement to the Base Prospectus dated 10 December, 2012 (page 2), the press release dated 8 February, 2013 in the English language entitled "Telecom Italia Board of Directors illustrates and approves the update to the 2013-2015 three-year plan" and the press release dated 7 March, 2013 entitled "Telecom Italia Board of Directors examines and approves group annual report on operations at 31 December 2012" (pages 1-10), in each case as set out in the section "*Documents Incorporated by Reference*" of this Prospectus, and (iii) in the section "*Recent Developments*" of this Prospectus, there has been no significant change in the financial or trading position of the Telecom Italia Group since 30 September, 2012 and there has been no material adverse change in the financial position or prospects of the Telecom Italia Group since 31 December, 2011.

Legal and Arbitration Proceedings

Save as disclosed in the information incorporated by reference from the Issuer's Unaudited Interim Consolidated Financial Statements as at and for the nine months ended 30 September, 2012 (pages 65 to 70), as set out in the section "*Documents Incorporated by Reference*" of this Prospectus, neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer or the Telecom Italia Group.

Auditors

The consolidated financial statements of the Issuer for the financial years ended 31 December, 2011 and 31 December, 2010, prepared under IFRS, were audited, without qualification and in accordance with generally accepted auditing standards in Italy, by PricewaterhouseCoopers S.p.A. at via Monte Rosa 91, 20149 Milan, Italy, independent registered public accounting firm, as set forth in their reports thereon and included therein, and incorporated by reference herein.

The unaudited interim consolidated financial statements of the Issuer prepared under IFRS, for the six months ended 30 June, 2012, were subject to a limited review, without qualification and in accordance with generally accepted auditing standards in Italy, by PricewaterhouseCoopers S.p.A.

PricewaterhouseCoopers S.p.A. is registered under No. 43 in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance and set out at Article 161 of the Unified Text of the Rules for the Capital Markets (*Testo Unico delle Disposizioni in materia di mercati finanziari*) and under No. 119644 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of the Legislative Decree No. 88 of 27 January, 1992. PricewaterhouseCoopers S.p.A. is also a member of ASSIREVI, the Italian association of auditing firms and it is registered at the Public Company Accounting Oversight Board (**PCAOB**) in the United States.

U.S. tax

The Securities and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

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

- (1) the constitutional documents (with an English translation thereof) of the Issuer;
- (2) the 2011 Telecom Italia Group Annual Report and the 2010 Telecom Italia Group Annual Report;
- (3) the 2012 Telecom Italia Group Half-year Financial Report;
- (4) the 2012 Telecom Italia Nine Months Financial Report;
- (5) the Base Prospectus;
- (6) the First Supplement to the Base Prospectus dated 12 September, 2012;
- (7) the Second Supplement to the Base Prospectus dated 10 December, 2012;
- (8) the press release dated 8 February, 2013 in the English language entitled "Telecom Italia Board of Directors illustrates and approves the update to the 2013-2015 three-year plan";
- (9) the press release dated 18 February, 2013 in the English language entitled "Telecom Italia Board of Directors approves exclusive negotiations with Cairo for sale of LA7";
- (10) the press release dated 7 March, 2013 entitled "Telecom Italia board of directors examines and approves group annual report on operations at 31 December 2012";
- (11) this Prospectus; and
- (12) the Trust Deed and the Agency Agreement.

In addition, copies of this Prospectus and each document incorporated by reference herein are available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Managers transacting with the Issuer

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

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Securities. Any such short positions could adversely affect future trading prices of the Securities. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In addition, Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**), the parent company of Banca IMI S.p.A. which is acting as a Manager in relation to the Securities, has appointed one member of the Board of Directors and one member of the Board of Statutory Auditors of Telco, and two members of the Board of Directors of Telecom Italia. Moreover, the Intesa Sanpaolo group has made significant financing to Telecom Italia and its parent and group companies and has issued financial instruments linked to Telecom Italia's shares. Intesa Sanpaolo and its affiliates engage, and may in the future engage, in investment banking, commercial banking and other related transactions with Telecom Italia and their affiliates and may perform services for them, in each case in the ordinary course of business.

All references to **affiliates** in the above three paragraphs shall be deemed to include references to parent companies.

Trustee's Reliance on Certificates and Reports

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

Yield

The yield on the Securities from (and including) the Issue Date to (but excluding) the First Reset Date will be 7.875 per cent. per annum. The Yield is calculated at the Issue Date on the basis of the issue price. It is not an indication of future yield.

**REGISTERED AND HEAD OFFICE OF
THE ISSUER**

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

TRUSTEE

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United Kingdom

PRINCIPAL PAYING AGENT AND AGENT BANK

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United Kingdom

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To the Managers as to English and Italian law

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To the Trustee as to English law

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Italy

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25 Bank Street
Canary Wharf
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United Kingdom

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France

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Italy

LUXEMBOURG LISTING AGENT

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