The date of this Offering Circular is 28 October, 2004

Pursuant to article 2, paragraph 3 of Italian law No. 130 of 30 April, 1999

FL Finance S.r.l.

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

€193,259,000 Asset-Backed Floating Rate Notes due 2009

Issue Price: 100 per cent.

The €193,259,000 Asset-Backed Floating Rate Notes due 2009 (the "**Notes**") will be issued by FL Finance S.r.l., a limited liability company incorporated under the laws of the Republic of Italy (the "**Issuer**") on 29 October, 2004 (the "**Issue Date**").

This document is issued pursuant to article 2, paragraph 3 of Italian law No. 130 of 30 April, 1999 (*disposizioni sulla cartolarizzazione dei crediti*), as amended from time to time (the "**Securitisation Law**") and constitutes a *prospetto informativo* for the Notes in accordance with the Securitisation Law.

The principal source of funds available to the Issuer for the payment of interest and the repayment of principal on the Notes will be collections made in respect of a portfolio of monetary claims (the "**Claims**" or the "**Portfolio**") arising from: (i) delegations of payment (the "**Delegations of Payment**") issued by various *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* (collectively, the "**Health Authorities**") to the Region of Lazio (the "**Region**") pursuant to article 1268 of the Italian civil code; (ii) settlement agreements (the "**Settlement Agreements**") entered into between the Health Authorities, Farmafactoring S.p.A. ("**Farmafactoring**" or the "**Originator**") and the Region; and (iii) the sale and supply of pharmaceutical products and services by various pharmaceutical companies to the Health Authorities (the "**Contracts**"). The Issuer purchased the Claims from Farmafactoring pursuant to a transfer agreement (the "**Transfer Agreement**") dated 22 July, 2004 and amended on 28 October, 2004, and 20 notarial transfer deeds dated 22 July, 2004 (the "**Transfer Deeds**") between the Issuer and Farmafactoring. The composition of the Portfolio is described under "*The Portfolio*" below.

Interest on the Notes is payable by reference to successive interest periods (each an "**Interest Period**"). Interest on the Notes will accrue on a daily basis and will be payable in arrear in euro on 22 December, 2004 and thereafter semi-annually in arrear on 22 June and 22 December of each year (subject to adjustment for non-business days as set out in Condition 6 (*Interest*)) (each such date, an "**Interest Payment Date**"). The rate of interest applicable to the Notes for each Interest Period shall be the rate offered in the euro-zone inter-bank market ("**EURIBOR**") for six-month deposits in euro (save that for the first Interest Period the rate will be obtained upon linear interpolation of EURIBOR for one- and two-month deposits in euro) (as determined in accordance with Condition 6 (*Interest*)) plus a margin of 0.235 per cent. per annum.

Application has been made to the Luxembourg Stock Exchange to list the Notes.

The Notes will be rated "A+" by Fitch Ratings Ltd. ("**Fitch**") and "A1" by Moody's Investors Service Inc. ("**Moody's**" and, together with Fitch, the "**Rating Agencies**", which expression shall include any successors). **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 any or all of the Rating Agencies.**

Payments under the Notes may be subject to withholding for or on account of tax, or to a substitute tax, in accordance with Italian legislative decree No. 239 of 1 April, 1996, as subsequently amended. Upon the occurrence of any withholding for or on account of tax, whether or not in the form of a substitute tax, from any payments under the Notes, neither the Issuer nor any other person shall have any obligation to pay any additional amount to any holder of the Notes.

The Notes will be limited recourse obligations solely of the Issuer. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, the Representative of the Noteholders, the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Account Bank, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Computation Agent, the Financing Party, the Swap Counterparty, the Swap Guarantor (as defined below in "*Summary Information – The Principal Parties*"), the Joint Lead Managers (each, as defined below), Farmafactoring (in any capacity) or the quotaholders of the Issuer. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

The Notes will be held in bearer and dematerialised form on behalf of the beneficial owners, until redemption and cancellation thereof, by Monte Titoli S.p.A. ("**Monte Titoli**") for the account of the relevant Monte Titoli Account Holders. The expression "**Monte Titoli Account Holders**" means any authorised financial intermediary institution entitled to hold accounts on behalf of their customers with Monte Titoli and includes any depository banks appointed by Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**"). The Notes will be deposited by the Issuer with Monte Titoli on the Issue Date and will at all times be in book entry form and title to the Notes will be evidenced by book entry in accordance with the provisions of article 28 of Italian legislative decree No. 213 of 24 June, 1998 and with resolution No. 11768 of 23 December, 1998 of the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**"), as subsequently amended. No physical document of title will be issued in respect of the Notes.

The Notes will mature on the Interest Payment Date which falls in June 2009 (the "**Final Maturity Date**"). Before the Final Maturity Date, the Notes will be subject to mandatory and/or optional redemption in whole or in part in certain circumstances (as set out in Condition 7 (*Redemption, purchase and cancellation*)).

If the Notes cannot be redeemed in full on the Final Maturity Date, as a result of the Issuer having insufficient funds available to it in accordance with the terms and conditions of the Notes (the "**Conditions**" and each a "**Condition**") for application in or towards such redemption, including the proceeds of any sale of Claims or any enforcement of the Note Security, any amount unpaid shall remain outstanding and the Conditions shall continue to apply in full in respect of the Notes until the earlier of (i) the date on which the Notes are redeemed in full and (ii) the last Business Day in June 2014 (the "**Cancellation Date**"), at which date any amounts remaining outstanding in respect of principal or interest on the Notes shall be reduced to zero and deemed to be released by the holder of the relevant Notes and the Notes shall be cancelled. The Issuer has no assets other than those described in this Offering Circular.

For a discussion of certain risks and other factors that should be considered in connection with an investment in the Notes, see the section below entitled "*Special Considerations*" beginning on page 20.

Joint Bookrunners

Merrill Lynch International — **Dexia Capital Markets**

Joint Lead Managers

Merrill Lynch International — **Dexia Capital Markets**

None of the Issuer, the Representative of the Noteholders, Merrill Lynch International and Dexia Crediop S.p.A. (the "**Joint Lead Managers**" and, any one of them, a "**Joint Lead Manager**"), or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below), other than the Originator, has undertaken or will undertake any investigation, searches or other actions to verify the details of the Claims transferred by the Originator to the Issuer or any Claim in respect thereof nor have the Issuer, the Representative of the Noteholders, the Joint Lead Managers or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below), other than the Originator, undertaken any investigation, searches or other actions to establish the creditworthiness of any debtor in respect of the Claims.

The Issuer accepts responsibility for the information contained in this Offering Circular other than that information for which the Originator accepts responsibility. 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 Offering Circular (other than that information for which the Originator accepts responsibility) is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly. This Offering Circular may only be used for the purposes for which it has been published.

The Originator has provided the information included in this document in the sections headed "*The Originator and Servicer*", "*The Portfolio*", "*The Servicing Agreement*", "*The Expected Maturity and Average Life of the Notes*" and any other information contained in this document relating to itself, the Claims and the Portfolio (each as defined below) and accepts responsibility for the information contained in those sections. To the best of the knowledge and belief of the Originator (which has taken all reasonable care to ensure that such is the case), such information is true and does not omit anything likely to affect the import of such information.

The sections headed "*The Region of Lazio*", "*The Economy of the Region of Lazio*", "*Financial Information of the Region of Lazio*" and "*Debt of the Region of Lazio*" are reported herein in their entirety as they appear in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region dated 6 July, 2004 and all information provided therein, unless otherwise specifically indicated therein, is as of such date. Such information has not been independently verified by the Issuer, the Joint Lead Managers or any other party to the Transaction Documents or to any of the Interim Documents and none of the Issuer, the Joint Lead Managers or any other party to the Transaction Documents or to any of the Interim Documents (as defined below) accepts any responsibility for the accurate reporting thereof or otherwise. The Issuer accepts full responsibility for correctly copying, extracting and reproducing this information.

Merrill Lynch Capital Markets Bank Limited has provided the information under the section headed "*The Swap Guarantor and Swap Counterparty*" below and accepts responsibility for the information contained in that section and, to the best of the knowledge and belief of Merrill Lynch Capital Markets Bank Limited (having taken all reasonable care and made all due enquires to ensure that such is the case), such information is true as of the date of this Offering Circular and does not omit anything likely to affect the import of such information. Save as aforesaid, Merrill Lynch Capital Markets Bank Limited has not, however, been involved in the preparation of, and does not accept responsibility for, this Offering Circular or any part hereof.

The Bank of New York, London Branch has provided the information under the section headed "*The Account Bank*" below and accepts responsibility for the information contained in that section, and to the best of the knowledge and belief of The Bank of New York, London Branch (having taken all reasonable care and made all due enquiries to ensure that such is the case), such information is true as of the date of this Offering Circular and does not omit anything likely to affect the import of such information. Save as aforesaid, The Bank of New York, London Branch has not however been involved in the preparation of, and does not accept responsibility for, this Offering Circular or any part hereof.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Representative of the Noteholders (as defined below), the Computation Agent (as defined below), the Italian Paying Agent (as defined below), the Luxembourg Paying Agent (as defined below), the Luxembourg Listing Agent (as defined below), the Financing Party (as defined below), the Account Bank (as defined below), the Agent Bank (as defined below), the Issuer, the Corporate Services Provider (as defined below), the Stichtingen Corporate Services Provider (as defined below), the quotaholders of the Issuer, the Joint Lead Managers or Farmafactoring (in any capacity). Neither the delivery of this document nor any sale or allotment made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Originator since the date hereof. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Joint Lead Managers and the Representative of the Noteholders have not 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 Joint Lead Managers, the Representative of the Noteholders or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or Farmafactoring in connection with the Notes or their distribution.

The Notes constitute direct, limited recourse obligations of the Issuer. Each Note will be secured, in each case, over certain of the assets of the Issuer pursuant to and as more fully described in the section entitled "*The other Transaction Documents*", below. Furthermore, by operation of Italian law, the Issuer's right, title and interest in and to the Portfolio and the Claims will be segregated from all other assets of the Issuer and amounts deriving therefrom will only be available, both prior to and following a winding-up of the Issuer, to satisfy the obligations of the Issuer to the holders of the Notes, to pay any costs, fees, expenses and other amounts required to be paid to the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Representative of the Noteholders, the Computation Agent, the Italian Paying Agent, the Agent Bank, the Account Bank, the Servicer, the Financing Party, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Joint Lead Managers, the quotaholders of the Issuer and the Originator and to any third-party creditor in respect of any costs, fees, expenses or liabilities incurred by the Issuer to such third-party creditor in relation to the securitisation of the Portfolio and the Claims contemplated by this document (the "**Securitisation**"). Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes. Amounts derived from the Portfolio will not be available to any other creditors of the Issuer and will be applied by the Issuer in accordance with the applicable order of priority for the application of Issuer Available Funds (as defined below).

The distribution of this Offering Circular and the offer, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about, and to observe, any such restrictions. Neither this Offering Circular nor any part of it constitutes an offer, and may not be used for the purpose of an offer to sell any of the Notes, or solicitation of an offer to buy any of the Notes, by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, Farmafactoring (in any capacity) or the Joint Lead Managers that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the Claims, Portfolio and financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), are in bearer form and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further

description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*", below.

The Notes may not be offered or sold directly or indirectly, and neither this Offering Circular nor any other offering circular nor any prospectus, form of application, advertisement, other offering material or other information relating to the Issuer or the Notes may be issued, distributed or published in any country or jurisdiction (including the Republic of Italy, the United Kingdom, The Netherlands and the United States), except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations. No action has or will be taken which could allow an offering (*sollecitazione all'investimento*) of the Notes to the public in the Republic of Italy. For a further description of certain restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*", below.

Each initial and each subsequent purchaser of a Note will be deemed, by its acceptance of such Note, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer thereof as described in this Offering Circular and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See "*Subscription and Sale*", below.

IN CONNECTION WITH THE ISSUE AND DISTRIBUTION OF THE NOTES, MERRILL LYNCH INTERNATIONAL OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON MERRILL LYNCH INTERNATIONAL OR ANY AGENT OF ITS TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

All references in this document to "**€**", "**euro**" and "**cents**" 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 (signed in Rome on 25 March, 1957), as amended.

CONTENTS

SUMMARY INFORMATION

The following information is a summary of the principal features of the issue of the Notes and certain other related transactions. This summary does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information presented elsewhere in this document.

Certain terms used, but not defined, in the summary may be found in other sections of this document. An index of defined terms is contained at the end of this document, commencing on page 157.

1. The Parties

Issuer	FL Finance S.r.l. (the "**Issuer**") is a limited liability company (*società a responsabilità limitata*) incorporated in the Republic of Italy under article 3 of law No. 130 of 30 April, 1999 (*disposizioni sulla cartolarizzazione dei crediti*), as amended from time to time (the "**Securitisation Law**"). The Issuer is registered with the companies register of Brescia under No. 02507350987, with the general register (*elenco generale*) held by *Ufficio Italiano dei Cambi* pursuant to article 106 of Italian legislative decree No. 385 of 1 September, 1993 (the "**Banking Act**") under No. 35593 and with the special register (*elenco speciale*) held by the Bank of Italy pursuant to article 107 of the Banking Act under No. 32929.2. The registered office of the Issuer is at via Romanino, 1, Brescia, Italy and its tax identification number (*codice fiscale*) is 02507350987. 50 per cent. of the issued equity capital of the Issuer is held by Stichting Farma 1 and 50 per cent. is held by Stichting Farma 2.
Stichting Farma 1	Stichting Farma 1 is a Dutch foundation (*stichting*) established under the laws of The Netherlands, with its statutory seat at Olympic Plaza, Frederik Roeskestraat 123, 1076 EE Amsterdam, The Netherlands ("**Stichting Farma 1**").
Stichting Farma 2	Stichting Farma 2 is a Dutch foundation (*stichting*) established under the laws of The Netherlands, with its statutory seat at Olympic Plaza, Frederik Roeskestraat 123, 1076 EE Amsterdam, The Netherlands ("**Stichting Farma 2**" and, together with Stichting Farma 1, the "**Stichtingen**").
Originator	Farmafactoring S.p.A. ("**Farmafactoring**") is a joint stock company (*società per azioni*) incorporated and organised under the laws of the Republic of Italy, with registered office at via Domenichino, 5, Milan, Italy, registered with the companies register of Milan under No. 07960110158, enrolled under No. 28106 with the general register (*elenco generale*) held by *Ufficio Italiano dei Cambi* pursuant to article 106 of the Banking Act and under No. 19120 of the special register (*elenco speciale*) held by the Bank of Italy pursuant to article 107 of the Banking Act. Farmafactoring sold the Claims to the Issuer pursuant to the terms of: (i) a transfer agreement (the "**Transfer Agreement**") dated 22 July, 2004 (the "**Initial Execution Date**") and amended on 28 October, 2004 (the "**Signing Date**"); and (ii) 20 notarial transfer deeds dated the Initial Execution Date (the "**Transfer Deeds**") between the Issuer and Farmafactoring.
Representative of the Noteholders	The Bank of New York, London Branch, at its offices at One Canada Square, London E14 5AL, United Kingdom, will act as the representative of the Noteholders (in such capacity, the "**Representative of the Noteholders**") pursuant to the Intercreditor Agreement dated the Signing Date. For a description of the Intercreditor Agreement, see "*The other Transaction Documents*" below.

Corporate Services Provider	Structured Finance Management Italia S.r.l., a limited liability company (*società a responsablità limitata*) incorporated and organised under the laws of the Republic of Italy, with registered office at via Romanino, 1, Brescia, Italy, registered with the companies register of Brescia under No. 02508180987, VAT No. 02508180987, is the corporate services provider to the Issuer (the "**Corporate Services Provider**"). Pursuant to the terms of a corporate services agreement dated the Signing Date between the Corporate Services Provider, the Representative of the Noteholders and the Issuer (the "**Corporate Services Agreement**"), the Corporate Services Provider has agreed to provide certain administrative and secretarial services to the Issuer.
Stichtingen Corporate Services Provider	Structured Finance Management (Netherlands) B.V., a company incorporated and organised under the laws of The Netherlands, with its registered office at 1076 EE Amsterdam, Frederik Roeskestraat 123, The Netherlands, and with trade register No. 34173691, is the corporate services provider to the Stichtingen (the "**Stichtingen Corporate Services Provider**"). Pursuant to the terms of a stichtingen corporate services agreement dated the Signing Date (the "**Stichtingen Corporate Services Agreement**"), the Stichtingen Corporate Services Provider has agreed to provide certain management, administrative and secretarial services to the Stichtingen.
Servicer	Farmafactoring will act as servicer of the Portfolio (in such capacity, the "**Servicer**") pursuant to a servicing agreement between Farmafactoring as Servicer and the Issuer dated the Initial Execution Date (the "**Servicing Agreement**") and amended on the Signing Date. For a description of the Servicing Agreement, see "*The Servicing Agreement*" below.
Account Bank	The Bank of New York, London Branch, at its offices at One Canada Square, London E14 5AL, United Kingdom, or any other person for the time being acting as such, is the account bank to the Issuer (in such capacity, the "**Account Bank**") pursuant to the terms of an account bank agreement dated the Initial Execution Date and amended on the Signing Date between the Issuer, the Account Bank and the Representative of the Noteholders (the "**Account Bank Agreement**"). The Account Bank has opened and will maintain certain bank accounts in the name of the Issuer and will operate such accounts in the name and on behalf of the Issuer. See "*The Issuer's Bank Accounts*". For a description of the Account Bank Agreement, see "*The Account Bank Agreement*", below.
Computation Agent	The Bank of New York, London Branch, at its offices at One Canada Square, London E14 5AL, United Kingdom, or any other person for the time being acting as such, is the computation agent to the Issuer (in such capacity, the "**Computation Agent**") pursuant to the terms of an agency and account agreement dated the Signing Date between the Paying Agents, the Agent Bank, the Luxembourg Listing Agent (each, as defined below), the Issuer, the Account Bank, the Computation Agent and the Representative of the Noteholders (the "**Agency and Account Agreement**"). The Computation Agent will provide the Issuer with certain calculation services. For a description of the Agency and Account Agreement, see "*The Agency and Account Agreement*" below.
Italian Paying Agent	BNP Paribas Securities Services, a company incorporated under the laws of France, with registered office at 3, Rue D'Antin, 75002 Paris, France, acting through its Milan branch at its offices at via Ansperto, 5, Milan, Italy, or any other person for the time being acting as such, will be the Italian paying agent

	(the "**Italian Paying Agent**") pursuant to the terms of the Agency and Account Agreement. For a description of the Agency and Account Agreement, see "*The Agency and Account Agreement*", below.
Luxembourg Paying Agent	The Bank of New York (Luxembourg) S.A., whose registered office is at Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg, or any other person for the time being acting as such, will be the Luxembourg paying agent (in such capacity, the "**Luxembourg Paying Agent**" and, together with the Italian Paying Agent, the "**Paying Agents**") in respect of the Notes pursuant to the terms of the Agency and Account Agreement. The Luxembourg Paying Agent will act as paying agent for the Notes. See "*The Agency and Account Agreement*", below.
Luxembourg Listing Agent	The Bank of New York Europe Limited, whose registered office is at One Canada Square, London E14 5AL, United Kingdom, or any other person for the time being acting as such, will be the Luxembourg listing agent (in such capacity, the "**Luxembourg Listing Agent**") in respect of the Notes pursuant to the terms of the Agency and Account Agreement. The Luxembourg Listing Agent will act as listing agent for the Notes. See "*The Agency and Account Agreement*", below.
Agent Bank	The Bank of New York, London Branch, at its office at One Canada Square, E14 5AL London, United Kingdom, or any other person for the time being acting as such, will be the agent bank (in such capacity, the "**Agent Bank**") pursuant to the terms of the Agency and Account Agreement. The Agent Bank will act as reference bank for, *inter alia*, the determination of EURIBOR. See "*The Agency and Account Agreement*" below.
Bridge Loan Lender	Merrill Lynch Capital Markets Bank Limited, a bank incorporated under the laws of the Republic of Ireland, whose registered office is at Treasury Building, Lower Grand Canal Street, Dublin 2, Republic of Ireland, acting through its Milan Branch with offices at via dei Giardini, 4, 20121, Milan, Italy, enrolled in the register held by the Bank of Italy pursuant to article 13 of the Banking Act under No. 5326, is the lender (the "**Bridge Loan Lender**") pursuant to the terms of the facility agreement dated the Initial Execution Date between the Issuer and the Bridge Loan Lender (the "**Facility Agreement**"). Under the Facility Agreement the Bridge Loan Lender granted to the Issuer a bridge loan in an amount equal to €191,969,624.71 (the "**Bridge Loan**") which will be repaid by the Issuer on 29 October, 2004 (the "**Issue Date**") through the proceeds deriving from the issuance of the Notes.
Swap Counterparty	Merrill Lynch Capital Markets Bank Limited, a company incorporated under the laws of Ireland, with its registered office at Treasury Building, Lower Grand Canal Street, Dublin, Ireland, or any other person for the time being acting as such, is the swap counterparty pursuant to the terms of a swap agreement dated the Signing Date (in such capacity, the "**Swap Counterparty**").
Swap Guarantor	Merrill Lynch & Co. Inc., a company incorporated under the laws of Delaware, with its registered office at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A. is the swap guarantor (in such capacity, the "**Swap Guarantor**") under the terms of the swap guarantee (the "**Swap Guarantee**") dated the Signing Date and which unconditionally guarantees to the Issuer the obligations of the Swap Counterparty under the Swap Agreement.

2. Summary of the Notes

Issue of the Notes	On the Issue Date, the Issuer will issue €193,259,000 Asset-Backed Floating Rate Notes due 2009 (the "**Notes**"). The Notes will constitute direct, secured and limited recourse obligations of the Issuer. The Notes will be governed by Italian law. It is not anticipated that the Issuer will make any profits from this transaction.
Form and denomination of the Notes	The denomination of the Notes will be €1,000. The Notes will be held in bearer and dematerialised form on behalf of the beneficial owners thereof until redemption or cancellation thereof by Monte Titoli for the account of the relevant Monte Titoli Account Holder. Monte Titoli will act as depository for Clearstream, Luxembourg and Euroclear. Title to the Notes will be evidenced by book entry in accordance with the provisions of article 28 of Italian legislative decree No. 213 of 24 June, 1998 and CONSOB resolution No. 11768 of 23 December, 1998, as subsequently amended. No physical document of title will be issued in respect of the Notes.
Limited recourse nature and the Issuer's obligations under the Notes	The obligations of the Issuer to each of the holders of the Notes will be limited recourse obligations of the Issuer. The Noteholders will have a claim against the Issuer only to the extent of the actual amount received or recovered from time to time by or on behalf of the Issuer or the Representative of the Noteholders in respect of the Claims, the Note Security and the other Transaction Documents (but excluding the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided), in each case subject to and as provided in the Intercreditor Agreement, the terms and conditions of the Notes (the "**Conditions**" and each a "**Condition**") and the other Transaction Documents.
Costs	Certain costs of the transaction (with the exception of certain initial costs of setting up the transaction which will be paid by the Issuer on or around the Issue Date), including the amounts payable to the various agents of the Issuer appointed in connection with the issue of the Notes, will be funded from the Issuer Available Funds and will therefore be included in the Priority of Payments.
Interest on the Notes	The Notes will bear interest on their Principal Amount Outstanding from and including the Issue Date at a rate equal to EURIBOR for six-month deposits in euro (save that for the first Interest Period the rate will be obtained upon linear interpolation of EURIBOR for one- and two-month deposits in euro) (as determined by the Agent Bank in accordance with Condition 6 (*Interest*)) plus a margin of 0.235 per cent. per annum. Subject to the Priority of Payments, interest on the Notes will be payable in arrear on 22 December, 2004 and thereafter semi-annually in arrear on 22 June and 22 December of each year (provided that, if any such date is not a Business Day, then interest on the Notes will be payable on the next succeeding Business Day) in accordance with the Conditions (each such date, an "**Interest Payment Date**"). "**Business Day**" means a day on which banks are open for business in Milan, Rome, Luxembourg and London and which is a TARGET Settlement Day. "**Principal Amount Outstanding**" means, at any point in time in relation to a Note, the principal amount of that Note upon issue less the aggregate amount

	of all Principal Payments in respect of that Note which have become due and payable (and which have been actually paid) on or prior to that date.
Final Maturity Date	Save as described below and unless previously redeemed in full, the Issuer will redeem the Notes on the Interest Payment Date falling in June 2009 (the "**Final Maturity Date**") at their respective Principal Amount Outstanding. See "*Summary Information – Redemption of the Notes*", below. If the Notes cannot be redeemed in full on the Final Maturity Date, as a result of the Issuer having insufficient funds available to it in accordance with the Conditions for application in or towards such redemption, including the proceeds of any sale of the Claims or any enforcement of Note Security, the Issuer will have no other funds available to it to be paid to the holders of the relevant Notes. The Issuer has no assets other than those described in this Offering Circular.
Withholding tax on the Notes	A Noteholder who is resident for tax purposes in a country which does not allow for a satisfactory exchange of information will receive amounts of interest payable on the Notes net of Italian withholding tax applied through a substitute tax (any such withholding or deduction for or on account of Italian tax under Decree 239 a "**Decree 239 Withholding**"). Upon the occurrence of any withholding for or on account of tax, whether or not through a substitute tax, from any payments of amounts due under the Notes, neither the Issuer, the Representative of the Noteholders, the Paying Agents, the Luxembourg Listing Agent nor any other person shall have any obligation to pay any additional amount to any Noteholders. See "*Taxation in the Republic of Italy*", below.
Ratings	It is a condition precedent to the issue of the Notes that on the Issue Date the Notes will be rated "A+" by Fitch Ratings Limited ("**Fitch**") and "A1" by Moody's Investors Service Inc. ("**Moody's**" and, together with Fitch, the "**Rating Agencies**"). **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 any or all of the Rating Agencies.**
Security for the Notes	By operation of Italian law, the Issuer's rights, title and interest in and to the Claims will be segregated from all other assets of the Issuer and amounts deriving therefrom will only be available, both prior to and following a winding-up of the Issuer, to satisfy the obligations of the Issuer to the holders of the Notes (the "**Noteholders**"), each of the Other Issuer Creditors and any third-party creditor to whom the Issuer has incurred taxes, costs, fees, expenses or liabilities in relation to the Securitisation (together, the "**Issuer Creditors**"). On or about the Issue Date, the Issuer will execute: (a) a deed of pledge under Italian law (the "**Italian Deed of Pledge**"), whereby the monetary claims and rights and all the amounts (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Issuer is entitled to from time to time pursuant to the Transfer Agreement, the Transfer Deeds, the Put Option Agreement, the Warranty and Indemnity Agreement, the Servicing Agreement, the Intercreditor Agreement, the Corporate Services Agreement, the Agency and Account Agreement, the Letter

	of Undertaking and the Shareholders' Agreement will be pledged in favour of the Representative of the Noteholders, the Account Bank, the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Swap Counterparty, the Servicer, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Noteholders and Farmafactoring (in respect of any monetary obligation due to it by the Issuer under the Letter of Undertaking, the Transfer Agreement, the Transfer Deeds, the Servicing Agreement and the Warranty and Indemnity Agreement) (the "**Issuer Secured Creditors**"); (b) an English law deed of charge and assignment (the "**English Deed of Charge and Assignment**" and the security created thereunder, together with the security created under the Italian Deed of Pledge, the "**Note Security**") pursuant to which the Issuer will grant in favour of the Representative of the Noteholders for itself and as trustee for the benefit of the Noteholders and the other Issuer Secured Creditors, *inter alia*: (i) an English law assignment by way of first fixed security of all of the Issuer's rights under the Swap Agreement, the Deed of Release and Termination, the Account Bank Agreement, the Stichtingen Corporate Services Agreement and all future contracts, agreements, deeds and documents governed by English law (other than the Subscription Agreement) to which the Issuer may become a party in relation to the Notes, the Claims and the Portfolio; (ii) a first fixed charge over each English Account, the Eligible Investments (to the extent they are capable of being subject to a security interest governed and perfected under English law), any amount or Eligible Investment which stands to the credit of an English Account and the debts represented thereby; and (iii) a first floating charge over all of the Issuer's property, assets and undertakings which are not effectively assigned or charged under such provisions.
The Intercreditor Agreement	On the Signing Date, the Issuer, the Representative of the Noteholders (on its own behalf and on behalf of the Noteholders), the Italian Paying Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Agent Bank, the Swap Counterparty, the Computation Agent, the Originator, the Financing Party, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Account Bank and the Servicer (with the exception of the Issuer and the Noteholders, the "**Other Issuer Creditors**") and the Joint Lead Managers (which are a party to the Intercreditor Agreement exclusively for the purpose of appointing the Representative of the Noteholders) have entered into an intercreditor agreement (the "**Intercreditor Agreement**") pursuant to which the Other Issuer Creditors have agreed to the limited recourse nature of the obligations of the Issuer and to the Priority of Payments described below. The Intercreditor Agreement is governed by Italian law.
The Mandate Agreement	Pursuant to the terms of a mandate agreement dated the Signing Date between the Issuer and the Representative of the Noteholders (the "**Mandate Agreement**"), the Representative of the Noteholders is empowered to take such action in the name of the Issuer, *inter alia*, following the delivery of an Issuer Acceleration Notice, as the Representative of the Noteholders may deem necessary to protect the interests of the Noteholders and the Other Issuer Creditors. The Mandate Agreement is governed by Italian law.
Purchase of the Notes	The Issuer may not purchase any Notes at any time.

Listing of the Notes	Application has been made for the listing of the Notes on the Luxembourg Stock Exchange.
Selling restrictions	There are restrictions on the sale of the Notes and on the distribution of information in respect thereof. See "*Subscription and Sale*", below.

3. The Portfolio, administration of the Portfolio and calculations in respect thereof

Transfer of the Claims	Pursuant to the Transfer Agreement and the Transfer Deeds the Issuer purchased without recourse (*pro soluto*) from Farmafactoring a portfolio of monetary claims (the "**Claims**" or the "**Portfolio**") arising from: (i) delegations of payment (the "**Delegations of Payment**") issued by various *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* (collectively, the "**Health Authorities**") to the Region of Lazio (the "**Region**") pursuant to article 1268 of the Italian civil code; (ii) settlement agreements (the "**Settlement Agreements**") entered into between the Health Authorities, Farmafactoring and the Region; and (iii) the sale and supply of pharmaceutical products and services by certain pharmaceutical companies to the Health Authorities (the "**Contracts**") in accordance with the Securitisation Law and articles 69 and 70 of Italian royal decree No. 2440 of 18 November, 1923 ("**Decree 2440**"). Such acquisition was financed through the Bridge Loan granted by the Bridge Loan Lender to the Issuer. For a description of the Transfer Agreement, the Transfer Deeds and of the Portfolio see "*The Portfolio*", "*The Transfer Agreement and the Transfer Deeds*" and "*The Servicing Agreement*" below.
Warranties in relation to the Portfolio	On the Initial Execution Date, the Issuer and Farmafactoring entered into a warranty and indemnity agreement (the "**Warranty and Indemnity Agreement**"), pursuant to which Farmafactoring has given certain representations and warranties in favour of the Issuer in relation to, *inter alia*, the Portfolio and the Claims. See "*The Warranty and Indemnity Agreement and the Put Option Agreement*", below. On the Initial Execution Date, the Issuer and Farmafactoring entered into a put option agreement (the "**Put Option Agreement**"), pursuant to which the Issuer may, in specific limited circumstances relating to a breach of representations in relation to the Portfolio, require Farmafactoring to repurchase certain Claims. See "*The Warranty and Indemnity Agreement and the Put Option Agreement*", below.
Servicing and collection procedures	Pursuant to a servicing agreement dated the Initial Execution Date (the "**Servicing Agreement**") and amended on the Signing Date between the Issuer and Farmafactoring (in such capacity, the "**Servicer**"), the Servicer is responsible for the management of the Portfolio, the Claims and the collection of any sums under the Delegations of Payment, the Settlement Agreements and the Contracts. Any monies paid by the Region under the Delegations of Payment will be credited directly into the Collection Account. Pursuant to the Servicing Agreement, Farmafactoring will ensure that the amounts due by the Region under the Delegations of Payment, and/or by the Health Authorities pursuant to the Settlement Agreements and/or the Contracts, are timely credited on the Collection Account. The monies collectively received under or in respect of the Portfolio and the Claims (the "**Collections**") will be calculated by reference to successive Collection Periods.

	"**Collection Period**" means each period commencing on (but excluding) a Collection Date and ending on (and including) the next succeeding Collection Date, and in the case of the first Collection Period, commencing on the Initial Execution Date and ending on the fifth Business Day immediately preceding the Interest Payment Date falling in December 2004 (both included). "**Collection Date**" means the fifth Business Day immediately preceding each Interest Payment Date. On the fourth Business Day preceding each Interest Payment Date (the "**Reporting Date**"), the Servicer will prepare and deliver to the Issuer, the Representative of the Noteholders, the Computation Agent and the Rating Agencies a report, *inter alia*, (a) detailing the activity performed by the Servicer during the immediately preceding Collection Period and (b) detailing payments made by the Region under the Delegations of Payments during the immediately preceding Collection Period (the "**Servicer's Report**"). The first Reporting Date will fall in December 2004.
Servicing Fee	In return for the services provided by the Servicer in relation to the ongoing administration and management of the Portfolio (including the activity of recovery in respect of the Claims) and as reimbursement of expenses, on each Interest Payment Date and in accordance with the Priority of Payments, the Issuer will pay the Servicer an annual fee, payable semi-annually in arrears in equal instalments, equal to €2,000 (VAT excluded where applicable) (the "**Servicing Fee**"). See "*The Servicing Agreement*", below.
Calculations and reports	Pursuant to the Agency and Account Agreement, the Computation Agent has agreed to provide the Issuer and other parties with certain calculation, notification and reporting services in relation to the Portfolio and the Notes. By no later than the third Business Day preceding each Interest Payment Date (each such date, a "**Calculation Date**"), the Computation Agent will calculate, *inter alia*, the Issuer Available Funds and the payments to be made under the applicable Priority of Payments and will prepare a report (the "**Payments Report**") setting forth, *inter alia*, each of the above amounts. On each Calculation Date, the Computation Agent will deliver the Payments Report to, *inter alia*, the Italian Paying Agent, the Swap Counterparty, the Servicer, the Rating Agencies and the Account Bank. In addition, the Computation Agent will agree to prepare and deliver (by no later than 5 (five) calendar days following each Interest Payment Date or, if such day is not a Business Day, on the immediately preceding Business Day) to the Issuer, the Representative of the Noteholders, Farmafactoring, the Joint Lead Managers, the Rating Agencies and the Luxembourg Stock Exchange, a report substantially in the form set out in the Agency and Account Agreement (the "**Investor Report**") containing details of, *inter alia*, the Portfolio, amounts received by the Issuer from any source during the preceding Collection Period (including any payments received by the Swap Counterparty), amounts paid by the Issuer during such Collection Period and amounts paid by the Issuer on the immediately preceding Interest Payment Date. The Investor Report will be available free of charge at the Specified Office of the Luxembourg Paying Agent. The first Investor Report will be available in December 2004. In carrying out such duties, the Computation Agent will be entitled to rely on certain information provided to it by the Servicer, the Account Bank, the Agent Bank and the Issuer.

In return for the services so provided, the Computation Agent will receive a fee as agreed on the Signing Date between the Issuer and the Computation Agent, payable semi-annually in arrear by the Issuer on each Interest Payment Date in accordance with the Priority of Payments.

4. The Accounts

The Accounts

Pursuant to the terms of the Account Bank Agreement, the Issuer has opened with the Account Bank the following bank accounts:

(a) a dual account which is (i) a euro-denominated cash account into which all amounts paid by the Region under the Delegations of Payment and by the Health Authorities under the Settlement Agreement or under the Contracts will be credited and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be deposited, and the cash balance of which will be transferred to the Payments Account on the fourth Business Day prior to each Interest Payment Date (the "**Collection Account**");

(b) a euro-denominated cash account into which, *inter alia*, (i) the Account Bank will be required to transfer four Business Days prior to each Interest Payment Date the balance standing to the credit of the Collection Account; (ii) the Account Bank will be required to transfer on the fourth Business Day prior to each Interest Payment Date part or all of the cash balance standing to the credit of the Expense Account and the Expenses Reserve Account as set out in the Account Bank Agreement and (iii) the Swap Counterparty is required to make any payment due to the Issuer under the Swap Agreement (the "**Payments Account**"). Immediately before each Interest Payment Date, an amount equal to the amount payable in respect of interest and principal under the Notes on the immediately following Interest Payment Date will be transferred from the Payments Account to the Italian Paying Agent Account. The remaining credit balance of the Payments Account will be used on each Interest Payment Date to make payments to the Other Issuer Creditors in accordance with the applicable Priority of Payments;

(c) a dual account which is (i) a euro-denominated cash account into which the Issuer will deposit €332,111.14 on or immediately before the Issue Date and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be credited (the "**Expense Account**"). A certain portion of the balance standing to the credit of the Expense Account will be transferred to the Payments Account on the fourth Business Day prior to each Interest Payment Date and on any other day as directed by the Computation Agent;

(d) a dual account which is (i) a euro-denominated cash account into which the Issuer will deposit €262,350.86 on or around the Issue Date from the Payments Account out of the first payment from the Swap Counterparty to the Issuer under the Swap Agreement and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be credited (the "**Expenses Reserve Account**"). Amounts standing to the

credit of the Expenses Reserve Account will be used by the Issuer to pay unforeseen, contingent or extraordinary costs and expenses to the extent that the amounts standing to the credit of the Expense Account are insufficient to pay such costs, and such amounts will be transferred to the Payments Account on the fourth Business Day prior to the relevant Interest Payment Date and any other day as the Computation Agent may direct, and a portion of the Expenses Reserve Account will be transferred to the Payments Account on the fourth Business Day prior to certain Interest Payment Dates so that the Issuer can make payments to the Swap Counterparty; and

(e) a euro-denominated deposit account into which the Issuer's equity capital of €10,000 shall remain deposited for as long as any Notes are outstanding (the "**Equity Capital Account**").

Pursuant to the terms of the Swap Agreement on the date when the credit support annex is entered into between the Swap Counterparty, the Issuer and the Representative of the Noteholders (the "**Credit Support Annex**"), the Issuer will open a collateral account with the Account Bank into which the collateral posted is credited (the "**Collateral Account**" and, together with the Collection Account, the Payments Account, the Expense Account and the Expenses Reserve Account, the "**English Accounts**").

Pursuant to the terms of the Agency and Account Agreement, the Issuer has opened with the Italian Paying Agent a euro-denominated current account into which the Account Bank will be required to transfer one Business Day prior to each Interest Payment Date such amounts as are indicated in the relevant Payments Report as payable to the Noteholders (the "**Italian Paying Agent Account**" and, together with the English Accounts, the "**Accounts**").

Provisions relating to the Accounts

Pursuant to the Account Bank Agreement, the Account Bank has agreed, *inter alia*:

(a) to provide the Issuer with certain services in connection with account handling and reporting requirements in relation to the monies from time to time standing to the credit of the English Accounts;

(b) to invest on behalf of the Issuer funds standing to the credit of the Collection Account, the Expense Account and the Expenses Reserve Account in Eligible Investments, subject to receipt of written instructions from the Issuer; and

(c) to prepare and deliver on each Reporting Date to, *inter alios*, the Computation Agent and the Issuer statements of account relative to the English Accounts (the "**Statements of English Accounts**").

If the Account Bank ceases to be an Eligible Institution it will promptly notify the Issuer and the Representative of the Noteholders thereof and the Issuer will within 30 days (i) terminate the appointment of the Account Bank and close the English Accounts opened with it and, simultaneously, (ii) open replacement English Accounts with a replacement account bank which is an Eligible Institution and which will agree to act as Account Bank.

If the Italian Paying Agent ceases to be an Eligible Institution it will promptly notify the Issuer and the Representative of the Noteholders thereof and the Issuer will within 30 days (i) terminate the appointment of the Italian Paying Agent and close the Italian Paying Agent Account opened with it and,

simultaneously, (ii) open replacement Italian Paying Agent Account with a replacement Italian paying agent which is an Eligible Institution and which will agree to act as Italian Paying Agent.

"**Eligible Institution**" means (i) any depository institution organised under the laws of any state which is a member of the European Union or of the United States of America, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "F1" by Fitch and "P-1" by Moody's and the long-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "A1" by Moody's; and (ii) BNP Paribas Securities Services for so long as (A) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of BNP Paribas S.A. are rated at least "F1" by Fitch and "P-1" by Moody's; (B) BNP Paribas S.A. holds a 100 per cent. interest in BNP Paribas Securities Services; and (C) the words "BNP Paribas" are contained in its legal name.

5. Priority of Payments

Issuer Available Funds

On each Calculation Date, the Computation Agent will calculate the Issuer Available Funds to be used on the immediately following Interest Payment Date to make payments under the Pre-Enforcement Priority of Payments.

"**Issuer Available Funds**" means, on each Calculation Date and in respect of the immediately following Interest Payment Date, an amount equal to the aggregate of:

(a) the amount standing to the credit of the Payments Account on such Calculation Date consisting of, *inter alia*:

(i) amounts transferred from the Collection Account consisting of, *inter alia* (A) sums collected or recovered by, or on behalf of, the Issuer in respect of the Claims during the preceding Collection Period, (B) any amount received by the Issuer under any of the Transaction Documents during the preceding Collection Period, (C) all amounts of interest paid on the English Accounts (other than the Equity Capital Account) during the preceding Collection Period, (D) an amount equal to the Collections invested in Eligible Investments (if any) during the immediately preceding six-month period from the Collection Account, following liquidation thereof on the preceding Liquidation Date, (E) the Revenue Eligible Investments Amount relating to the preceding Liquidation Date;

(ii) up to the Calculation Date preceding (but excluding) the Interest Payment Date on which the Notes will be redeemed in full, a portion of the amount standing to the credit of the Expense Account as set out in the Account Bank Agreement;

(iii) up to the Calculation Date preceding (but excluding) the Interest Payment Date on which the Notes will be redeemed in full, a portion of the amount standing to the credit of the Expenses Reserve Account as set out in the Account Bank Agreement;

(iv) any amount paid to the Issuer by the Swap Counterparty in accordance with the terms of the Swap Agreement on the

fourth Business Day before the immediately following Interest Payment Date; and

(b) on the Calculation Date immediately preceding the Interest Payment Date on which the Notes will be redeemed in full, the amount standing to the credit of the Expense Account and of the Expenses Reserve Account at such date,

but excluding (i) prior to the date on which the Swap Transaction is terminated early, the amount (if any) standing to the credit of the Collateral Account pursuant to the Credit Support Annex and (ii) following the date on which the Swap Transaction is terminated, the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided.

Pre-Enforcement Priority of Payments

Prior to the service of an Issuer Acceleration Notice, the Issuer Available Funds as calculated on each Calculation Date will be applied by the Issuer on the Interest Payment Date immediately following such Calculation Date in making payments or provisions in the following order of priority (the "**Pre-Enforcement Priority of Payments**") but, in each case, only if and to the extent that payments or provisions of a higher priority have been made in full:

(i) *first*, in or towards satisfaction of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders or any appointee thereof;

(ii) *second*, in or towards satisfaction, *pro rata* and *pari passu*, of any and all outstanding taxes due and payable by the Issuer (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking);

(iii) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

(a) any and all outstanding fees, costs, liabilities and any other expenses to be paid in order to preserve the corporate existence of the Issuer, to maintain it in good standing, to comply with applicable legislation and to fulfil obligations to third parties (not being Other Issuer Creditors) incurred in the course of the Issuer's business (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking); and

(b) any and all outstanding fees, costs, expenses and taxes required to be paid in connection with the listing or deposit of the Notes, or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs);

(iv) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Paying

Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Servicer and the Account Bank, each under the Transaction Documents to which it is a party;

(v) *fifth*, in or towards satisfaction of all amounts due and payable to the Swap Counterparty under the terms of the Swap Agreement other than any termination payment due to the Swap Counterparty following the occurrence of a Swap Trigger but including, in any event the amount of any termination payment due and payable to the Swap Counterparty in relation to the Swap Transaction to the extent of any premium received (net of any costs incurred by the Issuer to find a replacement swap counterparty), if any, by the Issuer from a replacement swap counterparty in consideration for entering into a swap transaction with the Issuer on the same terms as the Swap Transaction;

(vi) *sixth*, in or towards payment, *pro rata* and *pari passu*, of all amounts of interest due and payable on the Notes;

(vii) *seventh*, on the Decree 239 Interest Payment Date and on each Interest Payment Date thereafter, in or towards repayment, *pro rata* and *pari passu*, of principal on the Notes in an amount equal to the applicable Scheduled Repayment Amount;

(viii) *eighth*, in or towards satisfaction of any termination payment due and payable to the Swap Counterparty under the terms of the Swap Agreement following the occurrence of a Swap Trigger other than payments referred to under item (v);

(ix) *ninth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable to the Originator, in respect of the Originator's Claims (if any) under the terms of the Transfer Agreement;

(x) *tenth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of all amounts due and payable to the Originator:

(a) in connection with a limited recourse loan under the Letter of Undertaking; and

(b) under the terms of the Warranty and Indemnity Agreement; and

(xi) *eleventh*, to credit the remainder (if any) to the Collection Account.

Post-Enforcement Priority of Payments

At any time following delivery of an Issuer Acceleration Notice, or, in the event that the Issuer opts for the early redemption of the Notes under Condition 7(c) (*Optional redemption for taxation, legal or regulatory reasons*), all amounts received or recovered by or on behalf of the Issuer or the Representative of the Noteholders in respect of the Claims, the Note Security and/or any of the other Transaction Documents (but excluding the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided) will be applied by or on behalf of the Representative of the Noteholders in the following order (the "**Post-Enforcement Priority of Payments**") but, in each

case, only if and to the extent that payments of a higher priority have been made in full:

(i) *first*, in or towards satisfaction of any and all outstanding taxes to be paid in order to preserve the corporate existence of the Issuer to maintain it in good standing and to comply with applicable legislation (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking);

(ii) *second*, in or towards satisfaction of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders or any appointee thereof;

(iii) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

(a) any and all outstanding fees, costs, liabilities and any other expenses to be paid in order to preserve the corporate existence of the Issuer, to maintain it in good standing, to comply with applicable legislation and to fulfil obligations to third parties (not being Other Issuer Creditors) incurred in the course of the Issuer's business in relation to this Securitisation (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking); and

(b) any and all outstanding fees, costs, expenses and taxes required to be paid in connection with the listing, deposit or ratings of the Notes, or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent the Issuer is not already subject to any insolvency or insolvency-like proceeding);

(iv) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of any and all outstanding fees, costs and expenses of and all other amounts due and payable to the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Servicer, the Corporate Services Provider, the Stichtingen Corporate Services Provider and the Account Bank each, under the Transaction Document(s) to which it is a party;

(v) *fifth*, in or towards satisfaction of all amounts due and payable to the Swap Counterparty under the terms of the Swap Agreement other than any termination payment due to the Swap Counterparty following the occurrence of a Swap Trigger but including, in any event the amount of any termination payment due and payable to the Swap Counterparty in relation to the Swap Transaction to the extent of any premium received (net of any costs incurred by the Issuer to find a replacement swap counterparty), if any, by the Issuer from a replacement swap counterparty in consideration for entering into a swap transaction with the Issuer on the same terms as the Swap Transaction;

(vi) *sixth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable in respect of interest (including any interest accrued but unpaid) on the Notes at such date;

(vii) *seventh*, in or towards repayment, *pro rata* and *pari passu*, of the Principal Amount Outstanding of the Notes, until repayment in full of the Notes;

(viii) *eighth*, in or towards satisfaction of any termination payment due and payable to the Swap Counterparty under the terms of the Swap Agreement following the occurrence of a Swap Trigger other than payments referred to under item (v); and

(ix) *ninth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of all amounts due and payable to Farmafactoring:

(a) in connection with a limited recourse loan under the Letter of Undertaking;

(b) under the terms of the Warranty and Indemnity Agreement; and

(c) in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable to the Originator, in respect of the Originator's Claims (if any) under the terms of the Transfer Agreement,

provided however that if the amount of the monies at any time available to the Issuer or the Representative of the Noteholders for the payments above shall be less than 10 per cent. of the Principal Amount Outstanding of all the Notes, the Representative of the Noteholders may at its discretion invest such monies in some or one of the investments authorised pursuant to the Intercreditor Agreement. The Representative of the Noteholders at its discretion may vary such investments and may accumulate such investments and the resulting income until the earlier of: (i) the day on which the accumulations, together with any other funds for the time being under the control of the Representative of the Noteholders and available for such purpose, amount to at least 10 per cent. of the Principal Amount Outstanding of all the Notes and (ii) the Business Day immediately following the service of an Issuer Acceleration Notice that would have been an Interest Payment Date. Such accumulations and funds shall then be applied to make the payments above.

The Issuer is entitled, pursuant to the Intercreditor Agreement, to dispose of the Claims in order to finance the redemption of the Notes following the delivery of an Issuer Acceleration Notice.

In the event that the Issuer redeems any Notes in whole or in part prior to the date which is 18 months after the Issue Date, the Issuer will be required to pay a tax in Italy equal to 20 per cent. of all interest accrued on such principal amount repaid early up to the relevant repayment date. This requirement will apply whether or not the redemption takes place following an Event of Default under the Notes or pursuant to any requirement of the Issuer to redeem Notes following the service of an Issuer Acceleration Notice in connection with any such Event of Default. Consequently, following an Event of Default, the Issuer may, with the consent of the Representative of the Noteholders, and shall, if so instructed by the Representative of the Noteholders, delay the redemption

of the Notes until the end of such 18-month period. See "*Taxation in the Republic of Italy*".

"**Scheduled Repayment Amount**" means, with respect to each Interest Payment Date (starting from the Decree 239 Interest Payment Date), the amount indicated under the heading "Scheduled Repayment Amount" in the table below against the corresponding Interest Payment Date:

Interest Payment Date falling in:	**Scheduled Repayment Amount:**
June 2006	€76,643,000
December 2006	€19,436,000
June 2007	€19,436,000
December 2007	€19,436,000
June 2008	€19,436,000
December 2008	€19,436,000
June 2009	€19,436,000

6. Redemption of the Notes

Mandatory redemption of the Notes

Prior to the service of an Issuer Acceleration Notice, if, at the close of business on the Calculation Date falling immediately prior to the Decree 239 Interest Payment Date and on each Calculation Date thereafter, there are sufficient Issuer Available Funds, the Issuer will apply such Issuer Available Funds on the immediately following Interest Payment Date in or towards the mandatory redemption of the Notes (in whole or in part) in accordance with the Pre-Enforcement Priority of Payments.

Optional redemption in whole for taxation, legal or regulatory reasons

Prior to the service of an Issuer Acceleration Notice, the Issuer may at its option redeem all the Notes (in whole but not in part) at their Principal Amount Outstanding (plus any accrued but unpaid interest) in accordance with the payment order set out in the Post-Enforcement Priority of Payments and subject to the Issuer having sufficient funds to redeem all the Notes and to make all payments ranking in priority thereto, on any Interest Payment Date if:

(a) by reason of a change in law or the interpretation or administration thereof since the Issue Date, the assets of the Issuer in respect of this Securitisation (including the Claims and the other Issuer's Rights) become subject to taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein or any applicable taxing authority having jurisdiction; or

(b) either the Issuer or any paying agent appointed in respect of the Notes or any custodian of the Notes is required (by reason of a change in law or the interpretation or administration thereof since the Issue Date) to deduct or withhold any amount (other than in respect of a Decree 239 Withholding) in respect of the Notes, from any payment of principal or interest on such Interest Payment Date for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein or any other applicable taxing authority having jurisdiction and provided that such deduction or withholding may not be avoided by appointing a replacement paying agent or custodian in

respect of the Notes before the Interest Payment Date following the change in law or the interpretation or administration thereof; or

(c) it is or will become unlawful for the Issuer (by reason of a change in law or the interpretation or administration thereof since the Issue Date) to perform or comply with any of its obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party,

subject to the Issuer:

(i) giving not more than 60 nor less than 30 days' written notice (which notice shall be irrevocable) to the Representative of the Noteholders and the Noteholders, pursuant to Condition 17 (*Notices*), of its intention to redeem all (but not some only) of the Notes on the next Interest Payment Date at their Principal Amount Outstanding together with interest accrued to but excluding the date of redemption; and

(ii) providing to the Representative of the Noteholders:

(a) a legal opinion (in form and substance satisfactory to the Representative of the Noteholders) from a firm of lawyers of international reputation (approved in writing by the Representative of the Noteholders) opining on the relevant change in law or the interpretation or administration thereof;

(b) a certificate from the chairman of the board of directors or the sole director of the Issuer (as applicable) to the effect that the obligation to make such deduction or withholding or the suffering by the Issuer of such deduction or withholding cannot be avoided or, as the case may be, the events under item (c) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer using reasonable endeavours; and

(c) a certificate from the chairman of the board of directors or the sole director of the Issuer (as applicable) to the effect that it will have the funds on such Interest Payment Date to discharge its obligations under: (a) the Notes and any obligations ranking in priority thereto; and (b) any additional taxes payable by the Issuer by reason of such early redemption of the Notes.

The Issuer is entitled, pursuant to the Intercreditor Agreement, to dispose of the Claims in order to finance the redemption of the Notes in the circumstances described above.

7. Credit Structure

Eligible Investments

Pursuant to the Account Bank Agreement, at the instruction of the Issuer, the Account Bank will on or around the Issue Date invest amounts standing to the credit of the Expense Account and the Expenses Reserve Account in Eligible Investments and will invest amounts standing to the credit of the Collection Account upon the direction of the Issuer (subject to liquidation on or before the immediately following Liquidation Date).

"**Eligible Investments**" means:

(a) euro-denominated money market funds which have (i) a long-term rating of "Aaa" and a short-term rating of "MR1+" from Moody's and (ii) a long-term rating of "AAA" or a short-term rating of "V1+" from

Fitch, and permit daily or weekly liquidation of investments, or have a maturity date falling before the next Liquidation Date, provided they are disposable without penalty; or

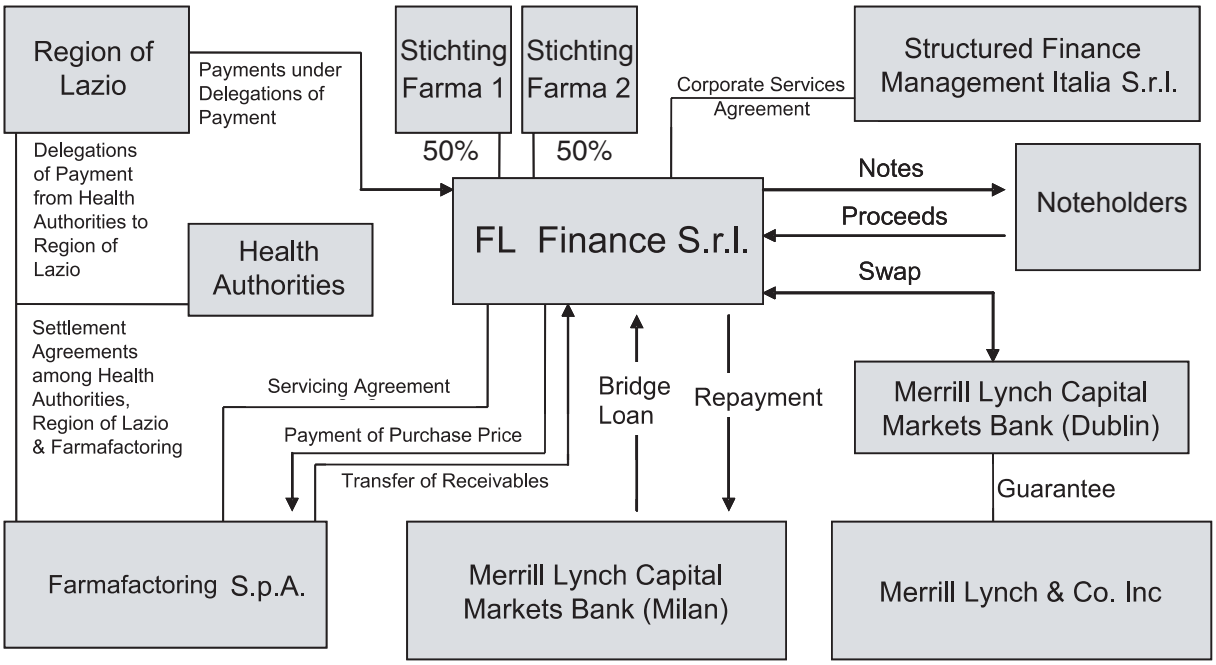
(b) euro-denominated senior (unsubordinated) debt securities or other debt instruments providing a repayment in full of principal at maturity provided that, in all cases, (i) such investments have a maturity date falling on or before the next following Liquidation Date and (ii) the debt securities or other debt instruments are issued by, or fully and unconditionally guaranteed on an unsubordinated basis by, an institution whose unsecured and unsubordinated debt obligations are rated at least "F1" by Fitch in respect of short-term debt and "A1" and "P-1" by Moody's in respect of, respectively, long-term and short-term debt.

Letter of Undertaking

Pursuant to a letter of undertaking dated the Signing Date between the Issuer, Farmafactoring in its capacity as financing party (in such capacity, the "**Financing Party**") and the Representative of the Noteholders (the "**Letter of Undertaking**"), the Financing Party has undertaken to provide the Issuer with all necessary monies (in any form of financing agreed between the Issuer and Farmafactoring, for example by way of a limited recourse loan, the repayment of which is effected in compliance with item (x)(a) of the Pre-Enforcement Priority of Payments or, as the case may be, item (ix)(a) of the Post-Enforcement Priority of Payments) in order for the Issuer to pay any losses, costs, expenses or liabilities in respect of certain exceptional liabilities described under "*The other Transaction Documents – The Letter of Undertaking*", below.

Prospective Noteholders' attention is drawn to the fact that the Letter of Undertaking does not and will not constitute a guarantee by Farmafactoring of any obligation of the Region, the Health Authorities or the Issuer. The Letter of Undertaking is governed by Italian law.

The table below shows the structure of the transaction:



SPECIAL CONSIDERATIONS

The following is a summary of certain aspects of the issue of the Notes of which prospective Noteholders should be aware. This summary is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out elsewhere in this Offering Circular and the Transaction Documents and reach their own views prior to making any investment decision.

Source of payments to Noteholders

The Notes will be limited recourse obligations solely of the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, the Representative of the Noteholders, the Agent Bank, the Account Bank, the Paying Agents, the Luxembourg Listing Agent, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Computation Agent, the Swap Counterparty, the Swap Guarantor, Farmafactoring (in any capacity), the Joint Lead Managers, the quotaholders of the Issuer or any other person. None of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make any payment of any amount due on the Notes.

The Issuer's principal assets are the Claims. The Issuer will not, as at the Issue Date, have any significant assets other than the Claims and its rights under the Transaction Documents to which it is a party.

The ability of the Issuer to meet its obligations in respect of the Notes will be dependent on, *inter alia*, the timely payment of amounts due under the Delegations of Payment by the Region, the receipt by the Issuer of Collections and recoveries from the Portfolio and any other amounts payable to the Issuer pursuant to the terms of the Transaction Documents to which it is a party, any amounts received by it from any Eligible Investments made by it or on its behalf, as well as on the receipt of any payments required to be made by the Swap Counterparty or the Swap Guarantor under, respectively, the Swap Agreement or the Swap Guarantee.

Consequently, there is no assurance that, over the life of the Notes or at the redemption date of any Notes (whether on maturity or upon redemption by acceleration of maturity upon the occurrence of an Event of Default or otherwise), there will be sufficient funds to enable the Issuer to pay interest when due on the Notes and/or to repay the outstanding principal on the Notes in full.

Upon enforcement of the Note Security, the Representative of the Noteholders will have recourse only to the Claims and to the Note Security. Other than as provided in the Warranty and Indemnity Agreement, the Transfer Agreement, the Servicing Agreement and the Letter of Undertaking, the Issuer and the Representative of the Noteholders will have no recourse to the Originator or any other entity including, but not limited to, in circumstances where the proceeds received by the Issuer from the enforcement of any particular Claim are insufficient to repay in full the Claim in respect of such Claim.

If, upon default by the Region or any other debtor under the Claims and after the exercise by the Servicer of all the remedies in respect of such Claims set out in the Servicing Agreement, the Issuer does not receive the full amount due from the Region or any other debtor under the Claims, then Noteholders may receive by way of principal repayment an amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

No independent investigation in relation to the Portfolio

None of the Issuer, the Joint Lead Managers or any other party to the Transaction Documents or the Interim Documents (other than Farmafactoring) has undertaken or will undertake any investigation, searches or other actions to verify the details of the Claims and the Portfolio, nor has any of such persons undertaken, nor will any of them undertake, any investigations, searches or other actions to establish the creditworthiness of the Region or any other debtor under the Claims.

The Issuer will rely instead on the representations and warranties given by the Originator in the Warranty and Indemnity Agreement and in the Transfer Agreement. The only remedies of the Issuer in respect of the occurrence of a breach of a representation and warranty which materially and adversely affects the value of a Claim will be the requirement that the Originator indemnifies the Issuer for the damage deriving therefrom or repurchases the relevant Claim. See "*The Warranty and Indemnity Agreement and the Put Option*

Agreement", below. There can be no assurance that the Originator will have the financial resources to honour such obligations.

The parties to the Warranty and Indemnity Agreement have expressly agreed, pursuant to clause 18 thereof, that claims for a breach of representation or warranty given by the Originator may be pursued against the Originator until one year and thirty days after the day on which the Notes have been paid in full. However, there is a possibility that legal actions initiated for breach of some representations or warranties be nonetheless subject to a one-year statute of limitation period if article 1495 of the Italian civil code (which regulates ordinary sales contracts *(contratti di compravendita)*) was held to apply to the Warranty and Indemnity Agreement.

Liquidity and credit risk

The Issuer is subject to the risk of delay arising between the receipt of payments due from the Region under the Delegations of Payment and the scheduled Interest Payment Dates in respect of the Notes. The Issuer is also subject to the risk of default in payment by the Region and the failure by the Servicer to recover sufficient funds in respect of the Claims in order to enable the Issuer to discharge all amounts payable under the Notes.

Interest rate risk

The Issuer expects to meet its obligations under the Notes primarily from the amounts due by the Region under the Delegations of Payment. Such payments have no correlation to EURIBOR. The Issuer has a liability to pay interest under the Notes at a rate equal to six-month EURIBOR plus a spread on each Note.

To protect the Issuer from a situation where EURIBOR at the respective fixing dates differs to such an extent that the Collections are no longer sufficient to cover the Issuer's obligations under the Notes, the Issuer has entered into a Swap Transaction with the Swap Counterparty pursuant to the Swap Agreement. However, should the Swap Agreement be terminated for any reason, no assurance can be given that similar protection could be obtained.

Should the Swap Counterparty and the Swap Guarantor fail to provide the Issuer with all amounts owing to the Issuer (if any) on any payment date under the Swap Agreement, or should the Swap Agreement be otherwise terminated, then the Issuer may have insufficient funds to make payments of principal and interest on the Notes. See "*Credit Structure – The Swap Agreement*", below.

Noteholders' directions and resolutions in respect of early redemption of the Notes

In a number of circumstances, the Notes may become subject to early redemption. Early redemption of the Notes as a result of some circumstances may be dependent upon receipt by the Representative of the Noteholders of a direction from, or a resolution passed by, a certain majority of Noteholders. If the economic interest of a Noteholder represents a relatively small proportion of the majority and its individual vote is contrary to the majority vote, its direction or vote may be disenfranchised and, if a determination is made by certain of the Noteholders to redeem the Notes, such minority Noteholders may face early redemption of the Notes held by them.

Limited enforcement rights

The protection and exercise of the Noteholders' rights against the Issuer under the Notes and the enforcement of the Note Security is one of the duties of the Representative of the Noteholders. The Conditions limit the ability of individual Noteholders to commence proceedings against the Issuer by conferring on the Meeting of the Noteholders the power to determine in accordance with the Rules of the Organisation of Noteholders on the ability of any Noteholder to start any such individual actions. Accordingly, individual Noteholders may not, without breaching the Conditions, be able to commence proceedings or take other individual remedies against the Issuer unless the Meeting of the Noteholders has approved such action in accordance with the provisions of the Rules of the Organisation of Noteholders.

Suitability

Structured securities, such as the Notes, are sophisticated instruments, which can involve a significant degree of risk. Prospective investors in Notes should ensure that they understand the nature of the Notes and the extent of their exposure to the relevant risk. Such prospective investors should also ensure that they have sufficient knowledge, experience and access to professional advice to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Notes and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition.

Liability under the Notes

The Notes will be limited recourse obligations solely of the Issuer and will not be the responsibility of, or be guaranteed by, any other entity. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Representative of the Noteholders, the Computation Agent, the Italian Paying Agent, the Account Bank, the Agent Bank, the Servicer, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Originator, the Financing Party, the Joint Lead Managers or the quotaholders of the Issuer or any other person. None of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make any payment of any amount due on the Notes.

Relationship between Noteholders and the Other Issuer Creditors

Under Condition 10 *(Events of Default)*, the Representative of the Noteholders is not obliged to serve to the Issuer an Issuer Acceleration Notice declaring the Notes to be due and payable, unless it is directed to do so either:

(a) in writing by the holders of at least 75 per cent. of the Principal Amount Outstanding of the Notes; or

(b) by an Extraordinary Resolution of the holders of the Notes,

and in addition, in each case, provided that it is indemnified and/or secured to its satisfaction against all liabilities and all costs and expenses (provided that supporting documents are delivered) which it may incur in so doing. In addition, following an Event of Default pursuant to Condition 10(a)(ii) (*Breach of other obligations*), the Representative of the Noteholders must certify to the Issuer that the occurrence of such event is in its opinion materially prejudicial to the interests of the Noteholders.

Claims of creditors of the Issuer

Without prejudice to the right of the Representative of the Noteholders to enforce the Note Security, the Conditions contain provisions stating, and each of the Other Issuer Creditors have undertaken pursuant to the Intercreditor Agreement, that no Noteholder or Other Issuer Creditor will petition or begin proceedings for a declaration of insolvency against the Issuer until one year and one day after the earlier of (a) the Cancellation Date and (b) the day on which the Notes have been paid in full. There can be no assurance that each and every Noteholder and Other Issuer Creditor will honour its contractual obligation not to petition or begin proceedings for a declaration of insolvency against the Issuer also before one year has elapsed from full repayment of the Notes. In addition, under Italian law, any other creditor of the Issuer would be able to begin insolvency or winding-up proceedings against the Issuer in respect of any unpaid debt. Such creditors could arise, for example, by virtue of unexpected expenses owed to third parties including those additional creditors that the Issuer will have as a result of any Further Securitisation (as defined below). In order to address this risk, the Priority of Payments contains provision for the payment of amounts to third parties. Similarly, monies to the credit of the Expense Account and of the Expenses Reserve Account may be used for the purpose of paying the ongoing fees, costs, expenses, liabilities and taxes of the Issuer to third parties not being Other Issuer Creditors.

The Issuer is unlikely to have a large number of creditors unrelated to this Securitisation or any other securitisation transaction because the corporate object of the Issuer as contained in its by-laws (*statuto*) is limited and the Issuer has provided certain covenants in the Intercreditor Agreement which contain

restrictions on the activities which the Issuer may carry out with the result that the Issuer may only carry out limited transactions.

No creditors other than the Representative of the Noteholders on behalf of the Noteholders, the Other Issuer Creditors and any third-party creditors having the right to claim for amounts due in connection with this Securitisation would have the right to claim in respect of the Claims, even in a bankruptcy of the Issuer.

Notwithstanding the above, there can be no assurance that, if any bankruptcy proceedings were to be commenced against the Issuer, the Issuer would be able to meet all of its obligations under the Notes.

Limited liquidity

Although application has been made for the Notes to be listed on the Luxembourg Stock Exchange, there is currently no market for the Notes. While the Joint Lead Managers may make a market in the Notes, they are under no obligation to do so. The Notes have not been registered under the Securities Act and will be subject to significant restrictions on resale in the United States. There can be no assurance that a secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the holders of the Notes with liquidity of investments or that it will continue for the life of such Notes. Consequently, any purchaser of Notes must be prepared to hold such Notes until the final redemption or cancellation.

Further Securitisations

The Issuer may, by way of a separate transaction, purchase and securitise further portfolios of monetary claims in addition to the Claims (each, a "**Further Securitisation**"). Before entering into any Further Securitisation, the Issuer is required, *inter alia*, to obtain the written consent of the Representative of the Noteholders and to obtain confirmation from the Rating Agencies that the then current ratings of the Notes will not be adversely affected by such Further Securitisation.

Under the terms of article 3 of the Securitisation Law, the assets relating to each securitisation transaction carried out by a company are stated to be segregated from all other assets of the company and from those related to each other securitisation transaction, and, therefore, on a winding-up of such a company, such assets will only be available to holders of the notes issued to finance the acquisition of the relevant receivables and to certain creditors claiming payment of debts incurred by the company in connection with the securitisation. Accordingly, the right, title and interest of the Issuer in and to the Claims should be segregated from all other assets of the Issuer (including, for the avoidance of doubt, any other portfolio purchased by the Issuer pursuant to any Further Securitisation) and amounts deriving therefrom should be available on a winding-up of the Issuer only to satisfy the obligations of the Issuer to the Noteholders and the payment of any amounts due and payable to the other Issuer Creditors.

Servicing of the Portfolio

The Portfolio and the Claims thereunder will be serviced by Farmafactoring as Servicer pursuant to the Servicing Agreement. Consequently, the net cash flows from the Portfolio and the Claims thereunder may be affected by decisions made, actions taken and collection procedures adopted by the Servicer pursuant to the provisions of the Servicing Agreement.

Farmafactoring has been appointed by the Issuer to be responsible for the collection of the Claims transferred by it (as Originator) to the Issuer and for cash and payment services *(soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e pagamento).* In accordance with the Securitisation Law, Farmafactoring is therefore responsible for ensuring that the collection of the Claims serviced by it, and the relative cash and payment services, comply with Italian law and this Offering Circular.

Administration and reliance on third parties

The ability of the Issuer to make payments in respect of the Notes will depend, *inter alia*, upon the due performance by the parties to the Transaction Documents of their respective obligations under the Transaction Documents to which they are each a party. In particular, without limitation to the foregoing, the timely payment of amounts due on the Notes will depend on the ability of the Servicer to service the

Portfolio. In each case the performance by the Issuer of its obligations under the Transaction Documents is also dependent on the solvency of, *inter alia*, the Servicer.

In the event of the termination of the appointment of the Servicer under the Servicing Agreement, it would be necessary for the Issuer to appoint a substitute servicer (acceptable to the Representative of the Noteholders). Such substitute servicer would be required to assume responsibility for the provisions of the services required to be performed under the Servicing Agreement. The ability of a substitute servicer to perform fully the required services would depend, *inter alia*, on the information, software and records available at the time of the relevant appointment. There can be no assurance that a substitute servicer will be found nor that any substitute servicer will be willing to accept such appointment nor that a substitute servicer will be able to assume and/or perform the duties of the Servicer pursuant to the Servicing Agreement. In such circumstances, the Issuer could attempt to sell all, or part of, the Claims, but there is no assurance that the amount received on such a sale would be sufficient to repay in full all amounts due to the Noteholders. The Representative of the Noteholders has no obligation to assume the role or responsibilities of the Servicer or to appoint a substitute servicer.

Proposed Changes to the Risk-Weighted Asset Framework

On 11 May, 2004, the Basel Committee on Banking Supervision announced that it had achieved consensus on the remaining issues regarding the proposals for a new international capital adequacy framework which places enhanced emphasis on market discipline and risk sensitivity.

The text of the new Basel II framework was published at the end of June 2004. The Committee has indicated that the standardised and foundation approaches will be implemented from the end of 2006, but advised that one further year of impact analysis will be needed for the advanced approaches under the framework and these, therefore, are expected to be implemented from the end of 2007. The European Commission has yet to endorse the framework.

In parallel with the development of the Basel II framework, the European Commission has issued proposals for reform of the existing EU Capital Adequacy Directive which is based on the 1988 Capital Accord and applies to banks and investment firms in the European Union. While the European Commission has indicated that its proposals are intended to implement the new Basel II proposals, it has noted that there will be appropriate modifications where it considers necessary. At present, the European Commission's proposals are under consultation and are not in final form; however, the proposals are expected to be finalised in 2004, allowing for implementation at the end of 2006.

If implemented, the new Basel II framework and the proposals for the reform of the EU Capital Adequacy Directive could affect the risk-weighting of the Notes in respect of certain investors if those investors are regulated in a manner which will be affected by the new framework or the proposals. Consequently, Noteholders should consult their own advisors as to the effect on Noteholders of the application of the new Basel II framework and the proposals. The Issuer cannot predict the precise effects of potential changes which might result from the implementation of the new Basel II framework or the proposals.

Securitisation Law

As at the date of this Offering Circular, no interpretation of the application of the Securitisation Law has been issued by any Italian governmental or regulatory authority, except for (i) regulations issued by the Bank of Italy concerning, *inter alia*, the accounting treatment of securitisation transactions for special purpose companies incorporated under the Securitisation Law, such as the Issuer, and the duties of the companies which carry out collection and recovery activities in the context of a securitisation transaction, (ii) the decree of the Italian Ministry of Treasury dated 4 April, 2001 and (iii) the Bank of Italy's regulation dated 16 December, 2002 on the terms for the registration of the financial intermediaries in the register held by the Bank of Italy pursuant to article 107 of the Banking Act. Consequently, it is possible that such authorities may issue further regulations relating to the Securitisation Law or the interpretation thereof, the impact of which cannot be predicted by the Issuer as at the date of this Offering Circular.

Projections, forecasts and estimates

Forward-looking statements, including estimates, any other projections, forecasts and estimates in this Offering Circular, are necessarily speculative and subjective in nature and some or all of the assumptions underlying the projections may not materialise or may vary significantly from actual results.

Such statements are subject to risks and uncertainties that could cause the actual results to differ materially from those expressed or implied by such forward-looking statements. Prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Offering Circular and are based on assumptions that may prove to be inaccurate. No-one undertakes any obligation to update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Offering Circular.

No Acceleration of the Region's Payment Obligations

If the Notes become repayable earlier than the Final Maturity Date following the service of an Issuer Acceleration Notice, the payment obligations of the Region under the Delegations of Payment will not be accelerated and the Noteholders may have to wait until the respective payment dates of the Delegations of Payment in order to receive payment of interest and principal under the Notes. If the Region defaults on the payments due under the Delegations of Payment, the remaining portion of payments outstanding under the Delegations of Payment will not be subject to acceleration but will remain payable in accordance with the original payment schedule. In such circumstances, the Issuer will have a claim against the Region for unpaid amounts which are due and payable under the Delegations of Payment but will not be able to take action in respect of the Region's obligations under the Delegations of Payment which have not yet matured. Due to the characteristics of the Claims and the legal regime applicable to them (e.g. Decree 2440), the Issuer (or any person acting on its behalf) may not succeed in selling all or part of the Claims.

Claw-back of the transfer of the Claims

Pursuant to Article 4(4) of the Securitisation Law, the transfer of the Claims under the Transfer Agreement and the Transfer Deeds is subject to claw-back upon bankruptcy of the Originator under article 67 of royal decree No. 267 of 16 March, 1942, but only in the event that the transaction is closed within three months of the adjudication of bankruptcy of the Originator or, in cases where paragraph 1 of article 67 applies, within six months of the adjudication of bankruptcy.

Claims of the Issuer against the Region under the Delegations of Payment

In principle, the monetary claims of the Issuer against the Region under the Delegations of Payment rank *pari passu* with all other senior unsecured financial obligations of the Region. However, certain assets of the Region may be allocated in priority to the payment of certain of the Region's payment obligations (other than those owed by the Region to the Issuer under the Delegations of Payment). In particular, the Region may, from time to time, issue irrevocable payment mandates to the regional treasurer bank instructing it to make payments on behalf of the Region (the "**Payment Mandates**"). By virtue of a Payment Mandate, the Regional Treasurer Bank is required to segregate from certain revenues of the Region funds in an amount sufficient to meet the Region's obligation to pay those amounts which are the subject matter of the relevant Payment Mandate when they become due. Payment arrangements of this nature have been put in place and may be put in place with respect to (i) bank loans granted to the Region, (ii) bonds issued by the Region and (iii) the obligations of the Region towards issuers with respect to notes issued in the context of any structured finance transaction intended to cover deficit in the healthcare sector (as provided for by article 5 of regional law No. 3 of 6 February, 2003). Although such payment arrangement does not confer a preference upon enforcement of the relevant Region's payment obligation, under each Payment Mandate the Region instructs the Regional Treasurer Bank to pay any amount being the subject matter of the relevant Payment Mandate in priority to any other payment obligation of the Region which does not benefit from a Payment Mandate (including any payment obligation of the Region towards the Issuer under the Delegations of Payment). Although the matter has not yet been tested in courts and therefore is not free from doubt, in the event that an enforcement procedure is commenced by the Issuer following failure of the Region to pay the amounts due under the Delegations of Payment, the Issuer should not be subordinated to other unsecured creditors of

the Region which benefit from the Payment Mandate. Pursuant to article 11 of law No. 8 of 18 January, 1993 as converted into law No. 68 of 19 March, 1993, the funds segregated by the Regional Treasurer Bank for payments of amounts due under loans and certain other categories of payment obligation (the "**Protected Obligations**"), which may not include the Region's obligations towards the Issuer under the Delegations of Payment) may not be attached or seized by third-party creditors of the Region provided that (i) for each quarterly period the Region determines in advance the amounts due and payable in relation to the Protected Obligations, and (ii) as from the date of such determination the Region does not issue to the Regional Treasurer Bank any Payment Mandate otherwise than in compliance with the chronological order of the relevant invoices. If the Region fails to pay amounts due and payable under the Delegations of Payment, the Issuer will have the right to demand that a judicial injunction ordering such payment be issued by an Italian court against the Region and to enforce such injunction against the Region. In accordance with article 14 of law decree No. 669 of 31 December, 1996, converted into law No. 30 of 28 February, 1997, as amended and supplemented (the "**Decree 669**"), enforcement procedures *(esecuzione forzata)* against the Region can only be commenced after a period of 120 days has elapsed from the date on which the enforceable instrument *(titolo esecutivo)* and a payment request in respect thereof *(atto di precetto)* have been notified to the Region.

Reallocation of resources and obligations as between the Italian State and the Regions

The ability of the Region to make payments under the Delegations of Payment may be affected by certain changes to the criteria for the allocation of public sector expenses between the Italian State and the regions. In particular, as a result of legislative decree No. 56 of 18 February, 2000, starting in 2001 each region is responsible for covering its healthcare deficit and the State will no longer transfer funds to the regions to cover such deficits. Moreover, pursuant to the constitutional law No. 3 of 18 October, 2001 (the "**Federalism Law**"), the regions may not incur new indebtedness in order to cover the healthcare deficit. In particular, article 119 of the Italian Constitution (the "**Constitution**"), as amended by the Federalism Law, provides that the regions may not incur new borrowing for any purpose other than financing expenses qualifying as investments (see section entitled "*The Healthcare System of the Region of Lazio*"). Consequently, all payments under the Delegations of Payment will have to be funded by the Region rather than by incurring new borrowing. In the event that the Region were to experience a shortfall in funds or otherwise be unable to finance its payment obligations under the Delegations of Payment, under current law there would be no possibility of funding such obligations by incurring new borrowing and, consequently, the risk of default under such obligations cannot be excluded.

Credit Rating of the Notes

Through the Delegations of Payment, the credit ratings of the Notes are linked to, *inter alia*, the credit rating of the debt obligations of the Region, which may change from time to time. As a result, the credit ratings of the Notes may change from time to time in accordance with any such changes in the credit ratings of the debt obligations of the Region. As at the date of this Offering Circular, the long-term unsecured and unsubordinated debt obligations of the Region are rated A+ (which rating has a negative outlook) by Fitch and A1 (which rating has a stable outlook) by Moody's.

Presentation of financial information of the Region

The sections headed "*The Region of Lazio*", "*The Economy of the Region of Lazio*", "*Financial Information of the Region of Lazio*" and "*Debt of the Region of Lazio*" are reported herein in their entirety as they appear in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region dated 6 July, 2004 and all information provided therein, unless otherwise specifically indicated therein, is as of such date. The financial information relating to the Region included in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region and reproduced herein has not been audited or reviewed by independent auditors and could result inaccurate as of the date of this Offering Circular. Furthermore, such financial information has not been adjusted to take into account events occurred after 6 July, 2004 (including any indebtedness incurred by the Region after 6 July, 2004) and, as a result, it may be inaccurate or incomplete as of the date of this Offering Circular. There is no independent review or audit of the Region's finances. In addition, the financial information of the Region contained in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region and

reproduced herein was prepared in accordance with accounting principles generally applicable to local government entities in Italy, which differ in certain material respects from, for example, generally accepted accounting principles in the United States (as to the supervision of the operations of the Region, see also the section headed "*The Region of Lazio – Relationship between the Central and Local Governments*").

Effect of macro-economic conditions on the Region, its budget estimates and healthcare spending

The Region is subject to macro-economic events, including changes in national, regional or local economic and employment conditions and demographic trends which could adversely affect the Region's level of tax receipts and other revenues as well as its expenditures. A decrease in economic activity in the Region and/or the Republic of Italy could have a material adverse impact on the Region's financial condition and its ability to make payment under the Delegations of Payment. The Region's budget is based on a series of projections and estimates regarding the general economic activity in the Region and the Region's revenues. Reliance on such projections or estimates involves certain risks and uncertainties, for example with regard to growth in the Region's economy, the level of tax collection and other revenue generation and the ability of the Region to control expenditure in line with the budget. There can be no assurances that the Region's actual revenues will not be less than budgeted revenues or that the Region's actual expenditure will not be greater than budgeted expenditure. Healthcare expenditure constitutes one of the most significant categories of expenditure of the Region. Such expenditure is linked to demographic and macro-economic factors that are not within the control of the Region and that may vary significantly from year to year. Therefore, there can be no assurance that the Region's actual healthcare expenditure will not be greater than budgeted healthcare expenditure, which could give rise to potential cash shortages for the Region that may affect its ability to fulfil its obligations under the Delegations of Payment.

The Delegations of Payment

Pursuant to article 1268 *et subs.* of the Italian civil code a debtor (*delegante*) (the "**Delegor**") may delegate payment of its debt obligation to a third party (*delegato*) (the "**Delegee**") who may undertake the debt obligation directly to the creditor (*delegatario*) (the "**Creditor**") on behalf of the Delegor and in full discharge of its debt obligation to the Creditor. Pursuant to article 1270 of the Italian civil code, the Delegor may revoke the payment delegation at any time prior to the Delegee undertaking the obligation towards the Creditor or having made a payment to the Creditor. Pursuant to article 1271 of the Italian civil code, the Delegee is entitled to raise against the Creditor any objections relating to their legal relationship. Unless otherwise provided for in the delegation, the Delegee is not entitled to raise against the Creditor any of the objections that it would have been entitled to raise against the Delegor, even if the Creditor is aware of such objections or the arrangements between those parties, unless the relationship between the Delegor and the Creditor is null. Likewise, the Delegee cannot raise objections relating to the relationship between the Delegor and the Creditor, unless the delegation makes express reference to the same. The Delegations of Payment entered into between the Region, the Health Authorities and Farmafactoring are delegations of payment (*delegazioni di debito*) constituting direct and autonomous monetary obligations of the Region towards Farmafactoring and any third-party assignee of the claims arising from the Delegations of Payment. Pursuant to the Delegations of Payment each of the Health Authorities has irrevocably and unconditionally delegated to the Region, and the Region has irrevocably and unconditionally undertaken towards each of the Health Authorities, to pay to Farmafactoring, or to any assignee of the claims arising therefrom, the amounts indicated therein on the due dates thereof and the Region has waived its right to raise any objections relating to (i) any relationship between itself and the Health Authorities (*rapporto di provvista*), (ii) any relationship between the Health Authorities and Farmafactoring or any assignee of the claims (*rapporto di valuta*) and (iii) any relationship between itself and Farmafactoring or any assignee of the claims. In consideration of the contents of the Delegations of Payment, the Region would not be entitled to raise any objections in relation to the *rapporto di provvista* or the *rapporto di valuta*, unless both the *rapporto di valuta* and the *rapporto di provvista* are void, invalid or ineffective (so-called *nullità della doppia causa*), as stated in the report of the Minister of Justice (*Relazione del Ministro Guardasigilli*) on article 1271 of the Italian civil code and as affirmed by certain court precedents. In this respect it is worth noting that: (i) with regard to the *rapporto di valuta*, the Health Authorities have carried out and completed the certification procedure in the form of a *ricognizione di debito* on the claims owned by Farmafactoring towards the Health Authorities pursuant to the sale and supply contracts of pharmaceutical products and services originally entered into between the Health

Authorities and various pharmaceutical companies; and (ii) with regard to the *rapporto di provvista*, the obligation of the Region to fund the Health Authorities for the provision of health services arises from mandatory provisions of law, including, in particular, the legislative decree No. 502 of 30 December, 1992 and the regional law of the Region No. 18 of 16 June, 1994 (and this obligation of the Region is re-affirmed in the resolution of the Regional Board of Lazio (*Giunta Regionale del Lazio*) No. 2034 of 21 December, 2001).

Article 119 of the Constitution

Article 119(6) of the Constitution, as modified by constitutional law No. 3/2001, provides that "municipalities, provinces, metropolitan cities and regions can borrow money only to finance investment expenditure". Article 30(15) of law No. 289/2002 (the Italian State budget law for the year 2003) has further established that any deed and contract made by such entities in contravention of article 119(6) is null and void. Article 3(16) of law No. 350/2003 (the Italian State budget law for the year 2004) contains a list of the transactions which constitute indebtedness for the purposes of article 119(6) of the Constitution. In the context of the Securitisation, the Region, with respect to the Delegations of Payment, substitutes its original creditor (the Health Authorities, to which the Region is required to distribute the necessary funds to finance the provision of health services, on the basis of the rules relating to the national and regional healthcare system) with a new creditor (Farmafactoring and, under the Transfer Agreement and the Transfer Deeds, the Issuer in its capacity as assignee of the Claims). The acceptance of the Delegations of Payment by the Region does not create any new indebtedness of the Region since it does not imply an additional economic burden on the Region's balance sheet. In this regard, it must be noted that the Delibera 1329 of the Region (as defined below) specified that the payments of the Region (i.e. those under the Delegations of Payment) will be made out of current resources allocated for the financing of the regional healthcare system.

Tax treatment of the Issuer

Taxable income of the Issuer is determined, without any special rights, in accordance with Italian presidential decree No. 917 of 22 December, 1986 (I.R.E.S.). Pursuant to the regulations issued by the Bank of Italy on 22 March, 2000 (*schemi di bilancio delle società per la cartolarizzazione dei crediti*), the assets, liabilities, costs and revenues of the Issuer in relation to the Securitisation will be treated as off-balance sheet assets, liabilities, costs and revenues. Based on the general rules applicable to the calculation of the net taxable income of a company, pursuant to which such taxable income should be calculated on the basis of accounting earnings (i.e. on-balance sheet earnings), subject to such adjustments as are specifically provided for by applicable income tax rules and regulations and according to the guidelines of the Italian tax authorities (Circular No. 8/E of 6 February, 2003), no taxable income should accrue to the Issuer until the satisfaction of the obligations of the Issuer to the holders of the Notes, to the Other Issuer Creditors and to any third-party creditor to whom the Issuer has incurred costs, liabilities, fees and expenses in relation to the Securitisation of the Claims. However, according to a recent ruling of the Italian tax authorities, in the absence of any specific beneficial tax regime applying to the Issuer, any proceeds attributable and pertaining to the Issuer shall be included in its taxable income for Italian corporate income tax purposes. Future rulings, guidelines, regulations or letters relating to the Securitisation Law issued by the Italian Ministry of Economy and Finance or other competent authorities might alter or affect the tax position of the Issuer as described above.

The interest accrued on any account opened by the Issuer in the Republic of Italy, with any bank resident in Italy for tax purposes, will be subject to withholding tax on account of Italian corporate income tax which, as at the date of this Offering Circular, is levied at the rate of 27 per cent. However, pursuant to resolution No. 222 of 5 December, 2003 issued by the Ministry of Economy and Finance, the Issuer would be able to effectively utilise this withholding tax against its Italian corporate income tax liability only at the end of the securitisation transaction.

Pursuant to the Bank of Italy regulations, the accounting information relating to the Securitisation of the Claims will be contained in the Issuer's *Nota Integrativa* which, together with the balance sheet and the profit and loss statements, form part of the financial statements of Italian limited liability companies (*società a responsabilità limitata*).

Withholding tax under the Notes

Any non resident beneficial owner of an interest payment relating to the Notes (a) who is resident, for tax purposes, in a country which does not allow for a satisfactory exchange of information or (b) who has failed to comply with the requirements and procedures set forth in Italian legislative decree No. 239 of 1 April, 1996, as subsequently amended ("**Decree 239**"), in order to benefit from an exemption, will receive amounts of interest payable on the Notes net of Italian withholding tax, applied through a substitute tax (*imposta sostitutiva*). At the date of this Offering Circular, such withholding tax is levied at the rate of 12.5 per cent. or such lower rate as may be applicable under the relevant double taxation treaty.

In the event that withholding taxes are imposed in respect of payments to Noteholders of amounts due pursuant to the Notes, whether or not through a substitute tax, the Issuer will not be obliged to gross up any such payments or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of withholding taxes.

In the event that any Notes are redeemed in whole or in part (including following the service of an Issuer Acceleration Notice) prior to the date which is 18 months after the Issue Date, the Issuer will be obliged to pay a tax in Italy at a rate of 20 per cent. on interest accrued on such principal amount repaid early up to the relevant repayment date. See "*Taxation in the Republic of Italy*", below.

EU Savings Directive

On 3 June, 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be 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, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding tax 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). The proposals are anticipated to take effect from 1 July, 2005.

Change of law

The structure of the transaction and, *inter alia*, the issue of the Notes and the rating assigned to the Notes are based on Italian law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to any possible change to Italian law, tax or administrative practice after the Issue Date.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for holders of the Notes but the inability of the Issuer to pay interest or repay principal on any such Notes may occur for other reasons and the Issuer does not represent that the above statements of the risks of holding the Notes are exhaustive. While the various structural elements described in this Offering Circular are intended to lessen some of these risks for holders of the Notes, there can be no assurance that these measures will be sufficient or effective to ensure payment to the holders of the Notes of interest or principal on such Notes on a timely basis or at all.

CREDIT STRUCTURE

Rating of the Notes

Upon issue it is expected that the Notes will be rated "A+" by Fitch and "A1" by Moody's.

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 any or all of the Rating Agencies.

Cash flow through the Accounts

Collections in respect of the Delegations of Payment, the Settlement Agreements and/or the Contracts, will be paid by the Region, and/or by the Health Authorities, under the Settlement Agreement and/or under the Contracts, to the Issuer directly into the Collection Account.

Pursuant to the Servicing Agreement, the Servicer shall prepare and deliver the Servicer's Report, detailing, *inter alia* the Collections received into Issuer's Collection Account on the fourth Business Day prior to the Interest Payment Date.

Pursuant to the Account Bank Agreement, all amounts standing to the credit of the Collection Account along with a specified amount standing to the credit of the Expense Account shall be transferred to the Payments Account on the fourth Business Day prior to each Interest Payment Date, and if there are insufficient funds standing to the credit of the Expense Account in order to make such scheduled transfer, such additional funds shall be transferred from the Expenses Reserve Account. Pursuant to the Account Bank Agreement, in respect of certain Interest Payment Dates, the Account Bank will, on the fourth Business Day prior to the relevant Interest Payment Date, transfer to the Payments Account a specified amount (if any) from the Expenses Reserve Account relating to amounts due to the Swap Counterparty under the Swap Agreement, as applicable. Three Business Days prior to each Interest Payment Date, the Computation Agent shall calculate, *inter alia*, the Issuer Available Funds and the payments to be made under the applicable Priority of Payments.

Pursuant to the Agency and Account Agreement, on the Calculation Date, the Computation Agent shall determine the amount of any fees, costs and expenses of the Issuer to be paid on the immediately following Interest Payment Date or at any time prior to the next Interest Payment Date, and to the extent additional funds are required to meet the Issuer's fees, costs and expenses, the Computation Agent shall direct the Account Bank to transfer additional funds standing to the credit of the Expense Account to the Payments Account in order to pay such fees, costs or expenses, or, after the Expense Account has been exhausted, shall direct the Account Bank to transfer such additional funds standing to the credit of the Expenses Reserve Account to the Payments Account in order to pay such fees, costs and expenses.

One Business Day prior to each Interest Payment Date, the Computation Agent shall direct the Account Bank to transfer to the Italian Paying Agent Account an amount in respect of the payment of interest and repayment of principal on the Notes, in accordance with the applicable Priority of Payments.

Pursuant to the Account Bank Agreement, the Account Bank has been directed by the Issuer to automatically invest, on behalf of the Issuer, amounts standing to the credit of the Expense Account and the Expenses Reserve Account (and, under certain circumstances including, *inter alia*, early payment from the Region, amounts standing to the credit of the Collection Account) in Eligible Investments specified in the Account Bank Agreement or as otherwise directed by the Issuer pursuant to an investment instruction signed by an authorised representative of the Issuer. Under the Account Bank Agreement the Issuer has given to the Account Bank a standing approval to liquidate a scheduled *pro rata* amount of Eligible Investments purchased with funds standing to the credit of the Expense Account on each Liquidation Date in order to meet the Issuer's ordinary expenses from and on the immediately following Interest Payment Date and up to (but excluding) the next Interest Payment Date. Further, to the extent any contingent or unforeseen expenses materialise which cannot first be satisfied with monies or assets standing to the credit of the Expense Account, the Issuer will instruct the Account Bank to liquidate such amount of Eligible Investments

purchased with funds standing to the credit of the Expenses Reserve Account as determined and notified (in writing) by the Computation Agent to meet such expenses.

See "*Summary Information – Priority of Payments*", "*Summary Information – Optional redemption*" and "*Terms and Conditions of the Notes*".

Note Security

The Notes will be secured by the Note Security. See "*Summary Information – Summary of the Notes, Security for the Notes*".

The Swap Agreement

On the Signing Date, the Issuer will enter into a swap transaction with the Swap Counterparty (the "**Swap Transaction**") in order, amongst other things, to hedge against the variance between the fixed payments received by the Issuer in relation to the Portfolio and the interest rate exposure of the Issuer in relation to its floating rate interest obligations under the Notes. Under the Swap Transaction, the Issuer will pay to the Swap Counterparty fixed principal payments in accordance with a fixed payment schedule. In consideration of such payments, the Swap Counterparty will pay certain amounts to the Issuer, part of which are fixed principal amounts and part of which are calculated by reference to the application of a floating rate of interest to a notional amount. A portion of such payments will be used by the Issuer on the Issue Date to fund the Expenses Reserve Account. The payments made by the Swap Counterparty to the Issuer will also be used to pay, amongst other things, the floating rate interest payable by the Issuer to the Noteholders on the Notes.

Where a net payment is due to be made by the Swap Counterparty, the Swap Counterparty will pay the Issuer four Business Days before the relevant Interest Payment Date. Where, on the other hand, a net payment is due to be made by the Issuer, the Issuer will pay the Swap Counterparty on the relevant Interest Payment Date in accordance with the applicable Priority of Payments.

The Swap Transaction will supersede the existing pre-hedging arrangement entered into between the Issuer and the Swap Counterparty on the Initial Execution Date. The Swap Transaction is documented under a 1992 ISDA Master Agreement (Multicurrency-Cross Border), as published by the International Swaps and Derivatives Association, Inc. and as supplemented by a Schedule and a confirmation (the "**Swap Agreement**"). The Swap Agreement is entered into between the Issuer, the Swap Counterparty and the Representative of the Noteholders and is governed by English law.

The obligations of the Swap Counterparty under the Swap Agreement are unconditionally guaranteed by the Swap Guarantor according to the terms of the Swap Guarantee.

The Swap Transaction is scheduled to terminate on the Interest Payment Date falling in June 2009.

In the event of withholding tax being imposed on payments required to be made under the Swap Agreement, which are: (a) due to be made by the Issuer to the Swap Counterparty, the Issuer will not be obliged to gross up such payments; or (b) due to be made by the Swap Counterparty to the Issuer, the Swap Counterparty will be obliged to gross up such payments. The Swap Counterparty will be entitled, under certain circumstances, to terminate the Swap Transaction if (i) it is obliged to gross up payments following any withholding or deduction for or on account of any taxes or (ii) it receives a payment in respect of which an amount is required to be deducted or withheld for or on account of taxes (a "**Tax Event Termination**").

In addition to a Tax Event Termination, the Swap Agreement will contain the following other termination events and events of default which will entitle a party (or both) to terminate the Swap Transaction before its scheduled termination date:

(a) (i) if there is a failure by the Issuer or the Swap Counterparty to pay any amounts due under the Swap Agreement, (ii) if there is a breach of the Swap Agreement by the Swap Counterparty which continues for 30 days after notice being given to it of such breach, (iii) failure by the Swap Guarantor to comply with the terms of the Swap Guarantee or the early termination or repudiation of the Swap Guarantee, (iv) a material misrepresentation by the Swap Counterparty or the Swap Guarantor, (v) a default by the

Swap Counterparty or the Swap Guarantor under certain OTC derivative contracts with the Issuer, (vi) upon the occurrence of the insolvency of the Swap Counterparty, the Swap Guarantor or the Issuer, (vii) if there is a merger of the Swap Counterparty or the Swap Guarantor without an assumption of their obligations under the Swap Agreement or the Swap Guarantee, as applicable, or (viii) if a change in law results in the obligations of the Swap Counterparty, the Swap Guarantor or the Issuer becoming illegal, or (ix) if there is a merger involving the Swap Counterparty or the Issuer as a result of which the Issuer must (i) gross up payments or (ii) receive payments net which the Swap Counterparty is not obliged to gross up;

(b) if an Event of Default has occurred under the Notes and the Representative of the Noteholders has served an Issuer Acceleration Notice;

(c) if the Issuer exercises its option to redeem the Notes in accordance with Condition 7(c) (*Optional redemption for taxation, legal or regulatory reasons*); and

(d) if there occurs a Ratings Downgrade Termination (as defined below).

If at any time the ratings of (i) the short-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "F1" by Fitch or "P-1" by Moody's or (ii) the long-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "A+" by Fitch or "A1" by Moody's, the Swap Counterparty will be required, within the time period specified in the Swap Agreement:

(a) to transfer all of its rights and obligations with respect to the Swap Agreement to an appropriately rated entity; or

(b) to arrange for an appropriately rated entity to become co-obligor in respect of the obligations of the Swap Counterparty under the Swap Agreement; or

(c) to deliver collateral under the Credit Support Annex; or

(d) to take such other action as may be agreed with the relevant Rating Agency.

In the event that (i) the short-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "F2" by Fitch or "P-2" by Moody's or (ii) the long-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "BBB+" by Fitch or "A3" by Moody's, the Swap Counterparty will be required, within the time period specified in the Swap Agreement:

(a) to transfer all of its rights and obligations with respect to the Swap Agreement to an appropriately rated entity; or

(b) to arrange for an appropriately rated entity to become co-obligor in respect of the obligations of the Swap Counterparty under the Swap Agreement; or

(c) to take such other action as may be agreed with the relevant Rating Agency.

In the interim period, the Swap Counterparty may also have to post collateral under the Credit Support Annex.

If the Swap Counterparty does not take any of the measures described above as appropriate, then the Swap Transaction may be terminated by the Issuer (a "**Ratings Downgrade Termination**").

Any collateral posted by the Swap Counterparty following a ratings downgrade as described above will be placed by the Issuer in a collateral account and dealt with in accordance with the Swap Agreement.

In the event that the Swap Agreement is terminated prior to the enforcement of the security or the final redemption of the Notes, the Issuer shall use its best efforts to enter into a replacement swap on terms acceptable to the Rating Agencies and the Representative of the Noteholders and with a replacement swap counterparty whom the Rating Agencies have confirmed will not cause the then current ratings of the Notes to be downgraded, withdrawn or qualified.

If the Swap Transaction is terminated early for any reason, the Swap Counterparty or the Issuer may be required to pay an amount to the other party as a result of the termination. The Issuer will make any termination payment in accordance with the applicable Priority of Payments. Accordingly:

(a) any termination payment due to the Swap Counterparty (other than any termination payment due following the occurrence of a Swap Trigger (with the exception of any part of such payment that is paid out of any premium received by the Issuer from a replacement swap counterparty)) will be made in accordance with item (v) of the Pre-Enforcement Priority of Payments, or, as applicable, item (v) of the Post-Enforcement Priority of Payments; and

(b) any termination payment due to the Swap Counterparty following the occurrence of a Swap Trigger (other than any part of such payment that has already been paid out of any premium received by the Issuer from a replacement swap counterparty) will be made in accordance with item (viii) of the Pre-Enforcement Priority of Payments, or, as applicable, item (viii) of the Post-Enforcement Priority of Payments.

"**Swap Trigger**" means the occurrence of an early termination of the Swap Transaction due to:

(a) a Ratings Downgrade Termination; or

(b) the occurrence of an Event of Default (as defined in the Swap Agreement (which, for the avoidance of doubt, is not the same as an Event of Default under the Notes)) where the Defaulting Party (as defined in the Swap Agreement) is the Swap Counterparty.

Any such termination payment may be substantial and may therefore significantly affect the amount available to the Issuer to pay Noteholders. Any termination payment will be based on the market value of the terminated swap based on market quotations of the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the full payment obligations of the parties (or based upon loss in the event that no market quotation can be obtained).

THE PORTFOLIO

Claims comprising the Portfolio have been selected on the basis of certain criteria, which are summarised under "*The Transfer Agreement and the Transfer Deeds*" below and which were published on 28 July, 2004 in No. 175 Parte II of the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) and registered with the competent companies' register as required by the Securitisation Law.

Introduction

The Healthcare System of the Region of Lazio

The *Aziende Unità Sanitarie Locali* (the "**ASLs**") and the *Aziende Ospedaliere* (the "**AOs**") were established pursuant to legislative decree No. 502 of 30 December, 1992, as subsequently amended ("**Decree 502**"). The ASLs result from the transformation into *aziende* with a public legal personality and commercial autonomy of the *unità sanitarie locali* (entities which were previously providing healthcare services) and the AOs result from the transformation of some other preexisting hospitals and other entities as referred to in article 4 of Decree 502. Neither the ASLs nor the AOs have a corporate capital but have an endowment fund (*fondo di dotazione*) established by the relevant region. The activities and functions performed by the ASLs and the AOs must be carried out in an efficient and cost-saving way, in compliance with the applicable budgetary constraints and with the provisions of national and regional legislation as well as according to the *atti aziendali* (i.e. special programmatic resolutions) adopted by the general manager (*direttore generale*) of each ASL and AO.

The ASLs and the AOs are obliged, *inter alia*, to prepare an annual and multi-annual financial budget as well as an annual financial statement, to maintain accounting records to enable a comparative analysis of their expenses, income and results of operations, to allocate their own resources and to determine means of covering their deficit. Each of the ASLs and the AOs approves its financial statements within four months following the end of each financial year. The annual and multi-annual financial budget together with the annual financial statement of the ASLs and the AOs are subject to control by the relevant region. Pursuant to regional law No. 18 of 16 June, 1994, as subsequently amended ("**Regional Law No. 18**"), the Region has implemented the re-organisation of its healthcare service, including the establishment of the ASLs and AOs, in compliance with the provisions of Decree 502. Articles 5 and 6 of Regional Law No. 18 established, within the Region's territory, the following ASLs and AOs: *Azienda Unità Sanitaria Locale Roma A, Azienda Unità Sanitaria Locale Roma B, Azienda Unità Sanitaria Locale Roma C, Azienda Unità Sanitaria Locale Roma D, Azienda Unità Sanitaria Locale Roma E, Azienda Unità Sanitaria Locale Roma F, Azienda Unità Sanitaria Locale Roma G, Azienda Sanitaria Locale Roma H, Azienda Unità Sanitaria Locale Frosinone, Azienda Unità Sanitaria Locale Latina, Azienda Unità Sanitaria Locale Rieti, Azienda Unità Sanitaria Locale Viterbo, Azienda Ospedaliera San Camillo – Forlanini – Spallanzani, Azienda Ospedaliera San Filippo Neri* and *Azienda Ospedaliera San Giovanni – Addolorata*. Furthermore, article 6 of Regional Law No. 18 states that new AOs may be established through a Regional Board Resolution (*Delibera della Giunta Regionale*).

Pursuant to Decree 502 and Regional Law No. 18, the corporate structure of the ASLs and the AOs includes a general manager (*direttore generale*) and a board of auditors (*collegio dei revisori*). The general manager (*direttore generale*) is responsible for adopting the *atti aziendali* and for the management of the ASLs/AOs. In the performance of his duties the general manager (*direttore generale*) is assisted by an administrative director (*direttore amministrativo*) and a healthcare director (*direttore sanitario*) both appointed by him, who are directly responsible for the functions they have been delegated and have decision-making responsibilities together with the general manager (*direttore generale*). The general manager (*direttore generale*) is also in charge of decisions relating to the entering into of loans and borrowings within the limits set forth in the applicable regional and State legislation. Regional Law No. 18 provides that the board of auditors (*collegio dei revisori*) of each ASL and AO is composed of three members; one appointed by the Regional Board (*Giunta Regionale*), one by the Ministry of the Economy and Finance and the third by the local conference of municipalities for healthcare matters. The board of auditors (*collegio dei revisori*) supervises the conformity of the ASLs and AOs accounts with applicable standards and it is entitled to make comments on the resolutions of the general manager (*direttore generale*) as well as conduct on-site examinations of any ASLs or AOs corporate documents. Pursuant to article 23 of the Regional Law No. 18, any movable and

immovable asset formerly belonging to the provinces or municipalities and directed to the *unità sanitarie locali* or other entities prior to their transformation into ASL or AO, as the case may be, were transferred to the newly established entities. See the section headed "*Financial Information of the Region of Lazio – Healthcare Deficits*".

Delibera 1329

On 5 December, 2003, pursuant to Regional Board Resolution (*Delibera della Giunta Regionale*) No. 1329 (as implemented by the Regional Board Resolution No. 66 of 6 February 2004) ("**Delibera 1329**"), the Regional Board (*Giunta Regionale*) of the Region approved a plan for the restructuring of the healthcare deficit and the indebtedness of the Health Authorities towards their suppliers. Delibera 1329 aimed to achieve the restructuring of the healthcare deficit of the Region and obtain a reduction of the exposure of the Health Authorities to debt. In particular, pursuant to Delibera 1329, the Region was authorised to enter into framework agreements (*accordi quadro*) with the Health Authorities and the associations representing the suppliers of the Health Authorities setting out the procedural steps for: (i) the execution of the Settlement Agreements among such suppliers, the Health Authorities and the Region; and (ii) the repayment by the Region of the debt of the Health Authorities due pursuant to the Settlement Agreements.

The Framework Agreement (*accordo quadro*)

Pursuant to Delibera 1329, on 14 April, 2004 (as amended by a communication between the Region, the Health Authorities and Farmafactoring dated 14 to 15 June, 2004), the Region, the Health Authorities and Farmafactoring entered into a framework agreement (*accordo quadro*) (the "**Framework Agreement**"). Pursuant to the Accordo Quadro, the Region, the Health Authorities and Farmafactoring agreed, *inter alia*: (a) on the certification procedure, to be carried out by the Health Authorities and the Region, of the amounts due by the Health Authorities to various pharmaceutical companies, listed in the table below, for the sale and supply of pharmaceutical products and services; (b) on the procedure to be followed for the entering into of the Settlement Agreements between the Region, the Health Authorities and Farmafactoring once such certification process had been completed; (c) on the financial terms of the Settlement Agreements; and (d) that the effectiveness of the Settlement Agreements was subject to the condition subsequent that each Health Authority issued a Delegations of Payment to the Region pursuant to article 1268 *et subs.* of the Italian civil code.

Pursuant to Regional Board Resolution (*Delibera della Giunta Regionale*) No. 526 of 18 June, 2004 the Region ratified the execution of the Accordo Quadro.

Abbott S.p.A.
Agfa Gevaert S.p.A.
Alfa Wassermann S.p.A.
Alifax S.p.A.
Altana Pharma S.p.A.
Amersham Health S.r.l.
Aventis Pasteur MSD S.p.A.
Biofutura Pharma S.p.A.
Biomedica Foscama S.p.A.
Bracco S.p.A.
Bristol Myers Squibb S.r.l.
Carlo Erba Reagenti S.p.A.
Centerpulse Italy S.r.l.
Cofathec Servizi S.p.A.
Depuy Acromed Italia S.r.l.
Depuy Italia S.r.l.
Endo Plus S.r.l.
Ethicon S.p.A.
Eurospital S.p.A.
F.I.R.M.A.
Fidia Farmaceutici S.p.A.
Fondazione Don Carlo Gnocchi
Galenica Senese S.r.l.
General Medical Merate S.p.A.
Guerbert S.p.A.
IBM Italia S.p.A.
IMTIX Sangstat S.a.s.
Ind. Serono
Ist. Biochimico Italiano S.p.A.
Ist. Lusofarmaco d'Italia S.p.A.
Ist. Sieroterapico Berna S.r.l.
Laboratori Guidotti S.p.A.
Link Italia S.p.A.
Lundbeck Italia S.p.A.
Malesci S.p.A.
Medex Italia S.r.l.
Medical System S.p.A.
Menarini Ind. Sud
Menarini S.r.l.
Milupa S.p.A.
Molnlycke Health Care S.r.l.
Molteni
Olympus Italia S.r.l.
Orthofix S.r.l.

The Settlement Agreements

Pursuant to Delibera 1329 and the Accordo Quadro, on 18 June, 2004, Farmafactoring, the Region and each of the Health Authorities entered into nineteen settlement agreements (equal to the number of Health Authorities), which do not have the effect of novation, in relation to the claims which (i) derive from the sale and supply of pharmaceutical products and services provided to the Health Authorities and (ii) are certified by the relevant Health Authority in accordance with the certification procedure regulated in the Accordo Quadro and in the Settlement Agreements themselves.

Under the Settlement Agreements: (i) it is confirmed that the Health Authorities completed, by 10 June, 2004, the certification procedure in respect of the claims relating to the sale and supply of pharmaceutical products and services provided by the pharmaceutical companies listed in the table above for which Farmafactoring made the request for certification within the terms provided therein and in the Accordo Quadro; (ii) each of the Health Authorities is obliged to pay to Farmafactoring an amount equal to the relevant certified amount increased by a forfeit amount; (iii) the payment of all the due amounts as certified under the Settlement Agreements will be made across 5 years, in 10 equal semi-annual instalments; and (iv) Farmafactoring agreed to abandon any judicial proceedings that have been commenced for the recovery of the sums due by the Health Authorities in respect of such claims. As resulting from the certification procedure, the overall amount of the certified claims is equal to Euro 194,360,255.86.

Pursuant to resolution No. C1303 of 29 July, 2004 the Officer in charge of the Economy and Labour Department ratified the Settlement Agreements.

The Delegations of Payment

On 19 July, 2004, each of the Health Authorities issued irrevocable and unconditional delegations of payment (*delegazione di pagamento*) pursuant to article 1268 *et subs*. of the Italian civil code, accepted by the Region whereby the latter has irrevocably and unconditionally undertaken to pay, in 10 equal semi-annual instalments, the sums due by each of the Health Authorities to Farmafactoring or any assignee of such claims pursuant to the Settlement Agreements.

Under each Delegation of Payment, the Region has waived the right to raise any objections towards Farmafactoring and any other assignee of the claims arising from such Delegation of Payment, including without limitation any objections relating to any legal relationship between the Region and the relevant Health Authority, the legal relationship between Farmafactoring and the relevant Health Authority and the legal relationship between the Region and Farmafactoring. Pursuant to article 69 of Decree 2440, the Delegations of Payment have been executed by separate private deeds authenticated by a Notary Public.

The Region, by resolution (*determinazione*) No. C1303 of 29 July, 2004 of the Officer in charge of the Economy and Labour Department (*Direttore del Dipartimento Economico e Occupazionale*) has ratified the Settlement Agreements and the Delegations of Payments and approved a multi-annual expense commitment (*impegno di spesa pluriennale*) for the payment in favour of Farmafactoring of the amounts due to it under the Delegations of Payment in an aggregate net amount equal to Euro 214,172,847.96 in 10 equal semi-annual instalments for each year starting from 15 December, 2004 up to and including 15 June, 2009.

Furthermore, on 29 September, 2004 the Officer in charge of the Economy and Labour Department (*Direttore del Dipartmento Economico e Occupazionale*) by its resolution (*determinazione*) No. C1625 confirmed, *inter alia*, the Region's consent, for the purpose of article 70 of Royal Decree 2440, to the assignment and transfer to the Issuer of the claims deriving from the Delegations of Payment.

The Health Authorities

The Health Authorities which entered into the Settlement Agreements with Farmafactoring and the Region are:

(i) Azienda Unità Sanitaria Locale Roma A;

(ii) Azienda Unità Sanitaria Locale Roma B;

(iii) Azienda Unità Sanitaria Locale Roma C;

(iv) Azienda Unità Sanitaria Locale Roma D;

(v) Azienda Unità Sanitaria Locale Roma E;

(vi) Azienda Unità Sanitaria Locale Roma F;

(vii) Azienda Unità Sanitaria Locale Roma G;

(viii) Azienda Unità Sanitaria Locale Roma H;

(ix) Azienda Unità Sanitaria Locale Rieti;

(x) Azienda Unità Sanitaria Locale Viterbo;

(xi) Azienda Unità Sanitaria Locale Frosinone;

(xii) Azienda Unità Sanitaria Locale Latina;

(xiii) Azienda Ospedaliera S. Giovanni-Addolorata;

(xiv) Azienda Ospedaliera S. Camillo-Forlanini;

(xv) Azienda Ospedaliera S. Filippo Neri;

(xvi) Azienda Ospedaliera S. Andrea;

(xvii) Azienda Ospedaliera Università Policlinico Tor Vergata;

(xviii) Azienda Policlinico “Umberto I”;

(xix) I.F.O. Istituti Fisioterapici Ospitalieri.

THE REGION OF LAZIO

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General

The Region of Lazio is located in the central portion of the Republic of Italy ("**Italy**") approximately half way down the Italian peninsula. The Region of Lazio occupies an area of approximately 17,208 square kilometres (approximately 6,644 square miles) and is divided into five provinces (Frosinone, Latina, Rieti, Rome and Viterbo). With a population of approximately 5.15 million as of 31 December 2002, representing approximately 9 per cent. of the Italian population, the Region of Lazio is the third most populated region in Italy, following the Regions of Lombardia and Campania.

Rome, the capital of Italy, is also the capital of the Region of Lazio and the largest city in Italy. As of 31 December 2002, the city of Rome had a population of approximately 2.8 million people, or approximately 3.2 per cent. of the Italian population according to the 2000 population census.

The principal office of the Region of Lazio is located at Via Rosa Raimondi Garibaldi 7, Rome, Italy.

Relationship between the Central and Local Governments

The Republic of Italy has been a democratic republic since 2 June 1946. Its government is organised territorially and administratively on national, regional and local levels. Legislative, executive and judicial powers are exercised at the national level by Italy's parliament, central government and judicial authorities (hereinafter together the "**Central Government**"). Legislative and executive powers are exercised in certain matters at the local level by regions (*regioni*, of which there are 20), provinces (*province*, of which there are 103) and municipalities (*comuni*, of which there are 8,100). In addition, in the future fourteen metropolitan cities (*città metropolitane*) will be established which, once functional, will exercise certain administrative and executive powers.

Of Italy's 20 regions, 15 have an ordinary degree of regional autonomy and are referred to as ordinary regions, while five regions (Friuli-Venezia Giulia, Sicily, Sardinia, Trentino Alto Adige and Valle d'Aosta) are regulated by special statutes, which provide these regions with greater autonomy and wider legislative powers, classifying them as special regions. The Region of Lazio is an ordinary region and was established in 1970.

The Italian Constitution, as amended by the Federalism Law of 18 October 2001 (the "**Constitution**"), reserves to the Central Government exclusive powers to act in the following areas: foreign policy and international relations (including with the EU), asylum rights and status of non-EU citizens; immigration; relations with religious communities; defence, armed forces and security; currency, financial markets, competition, monetary policy, tax and accounting systems of the Central Government, protection of savings, and equalisation of financial resources among the various regions; regulation of Central Government bodies and Central Government and EU elections; legal and administrative structure of the Central Government and of national public entities; public order and safety (with the exception of local police); citizenship, civil status and related registry offices; jurisdictional and procedural laws, civil and criminal legal systems and administrative justice; establishment of minimum levels of civil and social services to be guaranteed throughout the nation; general rules on education; national pension funds; regulation of provincial,

metropolitan and municipal bodies, functions and election laws; customs and protection of national borders (including infectious disease control); determination of weights, measures and time and co-ordination of official data of the Central Government with official data of regional, provincial, metropolitan and municipal governments; protection of intellectual property; and protection of the environment, ecosystems and the arts.

The Constitution grants ordinary regions and the Central Government concurrent legislative powers on the following matters: international relations of the regions (including with the EU); foreign trade of the regions; safety of the workplace and labour protection; education (except for autonomy granted to schools and professional education and training); professions; promotion and regulation of scientific and technological research; healthcare; nutrition; sports; disaster relief; zoning and planning; non-military ports and airports; major transportation and navigation networks; communication; transportation and distribution of energy on a national level; pension funds (other than those where contributions are mandated by law); co-ordination of public finance, public accounting and taxation systems; improvement, promotion and organisation of environmental, artistic and cultural projects; and savings banks, rural banks and banks operating at a regional level.

The Constitution grants ordinary regions exclusive legislative powers on all those matters which are not expressly reserved to the exclusive or concurrent competence of the Central Government. Prior to the enactment of the Federalism Law, the regions enjoyed only those powers specifically granted to them. The law increased significantly the powers of ordinary regions. The regions must exercise their powers respecting the basic principles established by the Central Government, the EU and the international obligations of the Central Government.

The Central Government enjoys regulatory powers in relation to all matters expressly reserved to it, and the Region enjoys regulatory powers in relation to all other matters (except for the regulatory powers of the provinces and municipalities relating to the functions reserved to them or otherwise delegated to them by the Central Government from among its powers). Administrative powers are reserved to the municipalities, unless (in cases where greater uniformity is required) such powers are specifically attributed to provinces, regions or to the Central Government.

The Federalism Law also provides the regions with a role in international affairs. The new law provides for the participation of regions in the decision making processes of the EU (relating to matters within the competence of the regions) and for the implementation by the regions of international agreements and EU acts, within the framework of procedures established by the Central Government. In addition, the Federalism Law provides for greater participation by the regions in Central Government processes. The new law envisages the enactment of regulations which will establish that regions, provinces, metropolitan cities and municipalities may participate in a parliamentary commission that covers regional matters. If such a commission expresses a negative or a conditional opinion on a law that is being considered by the Central Government Parliament, regarding a matter falling within the concurrent legislative powers of the regions or regarding financial or tax federalism, such bill of law must be passed by absolute majority of both branches of Parliament, rather than simply by a qualified majority.

In addition, the Federalism Law provides that both the regions and the Central Government can contest a law enacted by the other which is considered to exceed its powers by bringing a claim directly before the Constitutional Court of the Central Government.

The Constitution grants the regions a high degree of autonomy and considers them financially independent. The Federalism Law underscores and confirms as part of the Constitution the following principles: (i) that the regions are entitled to establish and collect their own taxes and other revenues and have autonomy in the expenditure of their resources (respecting constitutional norms and standards established by the Central Government to coordinate Italy's public debt and tax system), (ii) that the taxes and other revenues collected by the regions be sufficient to finance all of the regions' functions and activities, (iii) that the regions are entitled to receive Central Government taxes collected within their territory rather than Central Government transfers based on other criteria (with the exception of minimal transfers intended as social equalisers between regions), (iv) that the redistribution of resources from richer areas to poorer areas should be made through an equalisation fund, and (v) that the regions may incur indebtedness only to finance investment expenses and that such indebtedness may not be guaranteed by the Central Government.

Pursuant to Law No. 20 of 14 January 1994 as amended, the Court of Accounts (*Corte dei Conti*), an administrative and local finance court, exercises supervisory powers on the operations of the regions and, in particular, on the achievement of the principle targets established by the Federalism Law. The Corte dei Conti also monitors the accounting procedures of the regions (*giurisdizione contabile*), including compliance of employees of the Region with such accounting procedures.

Pursuant to Legislative Decree No. 286 of 30 July 1999, regions were required to establish supervisory bodies for internal control purposes, such as (a) control on administrative and accounting procedures and compliance (*controllo di regolarità amministrativa e contabile*); (b) control on management activity (*controllo della dirigenza*); (c) strategic control, which consists in an evaluation of consistency between predetermined targets and results (*valutazione e controllo strategico*); and (d) control on operations (*controllo di gestione*).

The Region of Lazio has implemented such internal control procedures.

Prior to the enactment of the Federalism Law, and in keeping with the Central Government's tendency to grant greater autonomy to the regions, the Central Government enacted the so-called Legge Bassanini (Law No. 59 of 15 March 1997, as amended).

Pursuant to the *Legge Bassanini*, certain legislative and administrative powers previously exercised by the Central Government are devolved to regions in a three-step process:

(i) enactment by the Central Government of legislative decrees assigning new powers to the regions;

(ii) implementation of the legislative decrees through the enactment of regional laws which also have the purpose of transferring certain powers to the provinces and municipalities; and

(iii) transfer and assignment by the Central Government to the regions of the operating and financial resources to support and fund the new functions through decrees of the Prime Minister.

Several legislative decrees were enacted which devolve to the regions certain administrative powers contemplated by the *Legge Bassanini* including those relating to agricultural, labour, transport, trade, crafts, industry, energy, mines, geothermal and water resources, fairs and markets, tourism, chambers of commerce, environment, city planning, public works, roads, healthcare, social services, public education, sports, shows, local and regional police. In particular, Legislative Decree No. 112 of 31 March 1998 transferred to the regions several functions, of which the most important concern financial resources, productive activities, transports, environment, healthcare. Certain decrees of the Prime Minister have been enacted to transfer funds and personnel to the regions in support of the new functions. The Region has received the funds contemplated by Legge Bassanini since the year 2000.

Currently, a reform is being reviewed by the Parliament which may have further effects on the transfer of powers, in particular regarding the areas of education, local police and healthcare.

Regional Administration

Local Government. The Region of Lazio, like all ordinary Italian regions, is managed by a Regional Council (Consiglio Regionale), a Regional Board (Giunta Regionale) and a Regional President (Presidente della Regione) who is also chairman of the Regional Board. Regional Councils typically have legislative and regulatory functions and are composed of between 30 and 80 Regional Councillors (Consiglieri Regionali), depending on the population of the region that they represent. Lazio's Regional Council is composed of 60 Regional Councillors. The electoral system provides that 80 per cent. of the Regional Councillors be elected from provincial lists in exact proportion to the votes received by the political parties to which the candidates belong. The remaining 20 per cent. of the Regional Councillors are elected by constituents on a majority basis. Elections are held every five years.

The Regional Council has responsibility for the Region of Lazio's policy and regulation. In particular, the Regional Council is responsible, *inter alia*, for approving the regional by-laws and regional laws (for the matters of competence of the Region of Lazio), for the Region's accounts and budgets, for the Region's

investment programmes, for determining the level of certain local taxes within a range provided by the Central Government, and for determining the maximum level of bond issues and other debt financing.

The following table shows the political party affiliations of the Regional Councillors elected in Lazio's most recent election on 16 April 2000. The term of the present Regional Council is due to expire in the year 2005.

Representation of Political Parties in the Regional Council (2003)

Political Party	Seats	Per cent.
Majority		
National Alliance (*Alleanza Nazionale*)	11	18.3%
For Lazio (*Per il Lazio*)	4	6.7%
Go Italy (*Forza Italia*)	16	24.9%
Christian Democratic Centre (*Centro Cristiano Democratico*)	6	10%
CDU (*Cristiani Democratici Uniti*)	1	1.7%
European Democracy (*Democrazia Europea*)	2	3.3%
Total Majority	39	65.0%
Opposition		
Democratic Party of the Left (*Partito Democratico della Sinistra*)	10	16.6%
Communist Refoundation (*Partito Rifondazione Comunista*)	3	5.0%
Italian Popular Party (*Partito Popolare Italiano*)	1	1.7%
Democrats (*Democratici*)	1	1.7%
Greens (*Verdi*)	1	1.7%
UDEUR (*Unione Democratica per l'Europa*)	1	1.7%
Sdi-Pri (*Socialisti Democratici e Partito Repubblicano*)	1	1.7%
Italian Communists (*Comunisti Italiani*)	1	1.7%
Margherita	1	1.7%
Mixed Party (*Partito Misto*)	1	1.7%
Total Opposition	21	35%
Total	60	100.0%

The Regional President is directly elected by popular vote. The current Regional President is Francesco Storace, who is supported by a centre-right coalition. The Regional Council appoints the members of the Regional Board. The Regional Board is the managerial body of the Region of Lazio. The Regional Board consists of 14 members (12 *assessori*, the Regional President and the Regional Vice-President) and is responsible for preparing the pre-closing budget and the actual financial reports, as well as for determining the provisional and pluri-annual budgets. See "*Financial Information of the Region of Lazio*". Members of the Regional Board currently oversee the following areas: regional economy; healthcare; personnel and administration; agriculture; ecology; social services; labour; culture, sport and tourism; regional development; housing and urban development; schools and education; public transportation; and European Union, Central Government, provincial and municipal relations. See "*Financial Information of the Region of Lazio*".

Employees of the Region

As of 31 December 2003, Lazio employed 3,463 staff. The number of regional employees has decreased steadily since 1994, which has allowed the Region to maintain the increase in the cost of employees over the past nine years substantially in line with the inflation rate. The following table shows the actual number of employees of the Region since 1998:

Employees of the Region

	Year ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**
Staff (number)	4,415	3,988	3,815	3,817	3,523	3,463
Cost (millions of euro)	161.1	164	176	177	199	200

As a result of the implementation of the *Legge Bassanini* (which will transfer to the Region significant functions previously performed by the Central Government) a number of personnel previously employed by the Central Government were transferred to the employ of the Region. In February 2001 approximately 320 employees were transferred from the Central Government to the Region. This transfer was partially offset by the effect of the Region's incentive programme for early retirement as well as, to a lesser extent, the transfer of employees to provinces and municipalities. It is not currently expected that any further employees will be transferred. Due to applicable accounting procedures, the costs of employees of the Region is slightly time-delayed with respect to the changes to the numbers of staff.

Major Activities

Regions are empowered to address general economic and social issues and are responsible for co-ordinating local administration through the provinces and municipalities and providing resources to finance provincial and municipal investment programmes. The Region's primary role is to allocate regional funds and funds transferred from the Central Government to specific sectors and among the provinces and municipalities. See "*Financial Information of the Region of Lazio*". These functions have been expanded due to the implementation of the Legge Bassanini. See "*Relationship between the Central and Local Governments*".

Healthcare. The primary sector in which the Region is involved is healthcare. The Region established *Aziende Unità Sanitarie Locali* ("ASLs") and *Aziende Ospedaliere* ("AOs") pursuant to Legislative Decree No. 502 of 30 December 1992, as amended ("Decree No. 502"), to oversee the administration of the Region's public and private hospitals and health service providers. These entities succeeded the *unità sanitarie locali* and other entities referred to in Decree No. 502 and became autonomous *aziende* with public legal status and commercial autonomy. The capital of an ASL/AO consists of a fund (*fondo di dotazione*) funded by the Region. The Region is responsible for setting guidelines for health services and planning and implementing certain healthcare related programmes and initiatives, such as emergency transportation services, within the framework set forth by the Central Government.

ASLs and AOs must operate efficiently and in compliance with the applicable budgetary constraints. ASLs and AOs are obliged to, *inter alia*, prepare annual and multi-year forecast financial statements and historical financial statements, which are subject to control by the Region, as well as an annual budget. In addition, ASLs and AOs are required to maintain accounting records to enable a comparative analysis of their expenses, income and results of operations; and allocate their own resources and determine means to cover their deficit.

ASL/AO's bodies include the general manager and a board of auditors, both of which are composed of three members, which are appointed by the Regional Board, the Ministry of the Economy and Finance and the local conference of municipalities for the healthcare matters established pursuant to Regional Law No. 18, respectively.

The Central Government requires that funds transferred to the Region be utilised in three general healthcare categories (prevention, hospitals and healthcare services). As in other regions, in recent years the Region of Lazio has expended amounts on healthcare greater than its expected healthcare expenditures (see "*Financial Information of the Region of Lazio – Healthcare Deficits*"). Attempts to control healthcare costs commenced in 1995, following the introduction of different reforms which required healthcare pricing and reimbursement to follow prescribed prices for specific services. As a result of the reforms, the Region was given the responsibility for the planning of the healthcare budget, which is now calculated based on pre-established prices for health services. This represents a change from prior budget planning by the Central Government which was typically based on a region's historic expenditures. In addition, the Region of Lazio

re-organised its regional healthcare service and established several local ASLs within the Region of Lazio's territory.

Transportation. In the area of transportation, the Region distributes funds from the Central Government to the provinces and municipalities for general transportation needs within their respective territories, such as traffic control and road maintenance, and for specific capital programmes established by the Central Government which must be implemented by the municipalities. Transfers from the Central Government to the regions for transportation are based on the territory of the Region and the number of its inhabitants. The Region's role in transportation is limited to the strategic planning of regional railways and roads. Transport activities are conducted by three public agencies that are funded by the Region. One of these agencies is owned by the city of Rome and conducts urban bus transportation. Another agency is owned by both the city of Rome and the provinces and conducts subways and rail transportation. The third agency in which the Region has a majority stake, conducts regional bus transportation. Similarly, the Region co-ordinates the administration of other areas of concern through various entities.

Other Activities. The Region of Lazio currently has an interest in certain local companies that are primarily involved with local development. One of the most significant of such local companies is *Agenzia Regionale per gli Investimenti e lo Sviluppo del Lazio – Sviluppo Lazio S.p.A.* (the "**Agency**"). The Agency's objective is to promote industrial and other development in the Region, to provide financial assistance to small-and medium-sized companies located in the Region and to invest in transactions involving public entities of the Region. Among other things, the Agency's main functions include the obtaining and managing of EU funds for various public entities and the involvement in various project finance initiatives, such as energy co-generation plants. The Agency has a fund (*fondo di rotazione*) financed by the Region. The fund for the three-year period 2001-2003 was approximately €47.2 million.

The Region is also charged with collecting certain local taxes. See "*Financial Information of the Region of Lazio – Financial Federalism*".

Significant Assets

The Region has both transferable and non-transferable assets. Its assets consist of houses, buildings, apartments, land, forests and miscellaneous other assets. As of 31 December 2003 the Region had €117.8 million in transferable assets and €51.3 million in non-transferable assets.

THE ECONOMY OF THE REGION OF LAZIO

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The following description of the economy of the Region is based on data of ISTAT (*Istituto Nazionale di Statistica*), except as otherwise indicated.

In 2002, Lazio generated €101,000 million (€128,121 in current prices), or approximately 10.2 per cent. of Italy's Gross Domestic Product ("**GDP**"). In 2001, Lazio generated €123,460 million, or approximately 10.1 per cent. of Italy's GDP. In 2002, the Region of Lazio was the second largest region in GDP after Lombardy. The Region's GDP per capita in 2002 was approximately €24,902 and in 2001, the Region's GDP per capita was approximately €24,127, which compares to approximately €21,953 and €21,416, respectively, for Italy as a whole in 2002 and 2001. The following table shows GDP per capita in the Region and in Italy as a whole from 1998 to 2003:

GDP Per Capita[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001[1]**	**2002[2]**	**2003**
	(€ millions)					
Lazio	20,358	20,968	21,055	24,124	24,902	24,979
Italy	18,625	19,218	18,715	21,416	21,953	21,988

(1) Measured in current prices. From 2001 on, data taken from 2001 published, March 2004.

(2) Source: Isae 2003, ISTAT 2003 and Eurostat 2003.

Per capita GDP in the Region of Lazio ranked ninth out of the 20 regions in Italy in 2002 at €24,902, exceeding the national average of €21,953. The Region of Lazio's economy grew faster than the national economy over the fifteen-year period from 1980 to 1995, as measured by the average annual GDP growth rate (2.2 per cent. versus 1.9 per cent.), mainly due to public investments. Public expenditure during the same period as measured by the growth rate in gross investments, was 4.4 per cent. for the Region, versus the national average of 0.7 per cent. Between 1995 and 2001, the GDP growth slowed as a result of the general economic slow-down in Europe with the average annual growth rates of the Region slightly lower than those of Italy (1.6 per cent. versus 1.8 per cent. respectively). Between 1995 and 2001, gross investments for the Region show a slight growth with an annual rate of 2.3 per cent. versus the national rate of 4.0 per cent.

The table set forth below provides a breakdown of GDP of the Region for the periods indicated:

GDP of the Region[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003[1]**
GDP	106,856	111,880	116,184	123,460	128,121	128,889
Net Imports	(5,580)	(2,626)	2,111	(5,209)	–	–
Total Available for Consumption	101,276	109,254	114,072	118,250	–	–

GDP of the Region[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003[1]**
Household Consumption	62,135	66,921	70,441	73,245	76,034	–
Consumption by Public Entities And Private Social Institutions	20,026	20,890	22,094	23,482	–	–
Final Internal Consumption[2]	82,162	87,811	92,535	96,726	–	–
Gross Fixed Investment[3]	18,231	20,655	21,160	21,392	22,839	–
Changes in Inventory	883	788	376.3	130.9	–	–
Total	101,276	109,254	114,072(4)	118,250	–	–

(1) Measured in current prices. Estimates 2003 elaborated by Isae.

(2) Includes final consumption by non-residents.

(3) Source: Chamber of Commerce 2003 and Eurostat 2003.

The table below provides growth rates in GDP and gross investments for Lazio and Italy as a whole for the following periods:

	Lazio	**Italy**
Average Annual Real GDP Growth[1]		
1980-1995	2.2%	1.9%
1995-2001	1.6%	1.8%
Average Annual Gross Investments Real Growth[2]		
1980-1995	4.4%	0.7%
1996-1999	4.6%	3.7%

(1) Source: ISTAT.

(2) More recent information not available.

Relationship between the Region and the European Union

As a region of a Member State of the European Union ("**EU**"), the Region is entitled to apply for support from the EU. Financial support from the EU is provided on the basis that such funds are matched by funding from the relevant central government. The Region of Lazio includes both Objective 2 and Objective 3 areas. Objective 2 provides development assistance for specific industrial areas determined by the EU to be in decline, based on certain eligibility criteria. The goal of Objective 2 is to strengthen the competitiveness of small- and medium-sized enterprises in the targeted geographical areas. Funding under Objective 2 is provided by the European Regional Development Fund ("**ERDF**") and includes contributions from the Central Government, public regional agencies and private sources. On 27 July 2000 the European Union Commission decided which Italian areas are included in Objective 2 providing, for the years 2000-2006, €332 million to be funded by the EU (a further €37 million have been granted to phasing out areas). Total committed funding to the Region of Lazio from public sources under Objective 2 is equal to €846 million (of which approximately 44 per cent. is provided by the EU and 40 per cent. is provided by the Central Government) and is expected to be paid each year between 2002 and 2008 to the Region of Lazio in varying amounts up to €154 million per year. Private source funding under Objective 2 is estimated to provide an additional aggregate amount of €72.6 million through 2008.

As an Objective 3 region for the years 2000-2006, the Region benefits from the funds provided under Objective 3, which support the modernisation of the employment markets of regions within the guidelines set forth by national plans for employment in compliance with the European employment policy. Funding under Objective 3 is provided by the European Social Fund ("**ESF**") and includes contributions from the Central Government, public regional agencies and private sources. Total committed funds to be received by the Region from public sources under Objective 3 are equal to €877 million of which approximately 45 per cent. is provided by the EU and 44 per cent. is provided by the Central Government and are expected to be paid each year between 2001 and 2008 to the Region in varying amounts up to €131 million per year. Private source funding under Objective 3 is estimated to provide an additional aggregate total amount of €7 million

through 2008. The Region has established a representative office in Brussels to promote directly the interests of the Region within the various institutions of the EU.

The Region has been allocated funds for the six-year period 2000-2006 under the Rural Development Plan (the "**RDP**"). The RDP is designed to develop rural areas in the Region. The funds will be used to help maintain and diversify agricultural activities, create jobs and protect the environment. The EU fund which contributes to the RDP is the European Agricultural Guidance and Guaranteed Fund. Total committed funding to the Region from public sources under the RDP is equal to €586 million (of which approximately 44 per cent. is provided by the EU and 46 per cent. is provided by the Central Government) and is expected to be paid through 2008 to the Region in varying amounts up to €107 million per year. Private source funding under the RDP is estimated to provide an additional aggregate total amount of €257 million through 2008.

Funds have also been allocated for the six-year period 2000-2006 under the Leader Plus programme ("**Leader Plus**"). Leader Plus is designed to promote the development of rural areas in the Region through the provision of integrated services related to the agricultural industry (such as, for example, agro-business services). The funds will be used to promote strategic development projects and technical assistance programmes and to foster cooperation among rural areas in the Region. Funding for Leader Plus is provided by the European Agricultural Guidance and Guaranteed Fund. Total committed funding to the Region from public sources under Leader Plus through 2006 is equal to €29 million (of which approximately 47 per cent. is provided by the EU and 33 per cent. is provided by the Central Government) and is expected to be paid each year between 2002 and 2008 to the Region in varying amounts up to €5 million per year. Private source funding under the RDP is estimated to provide an additional €22 million through 2008.

Funds committed by the EU are allocated to specific projects and amounts to be paid each year are contingent upon the Region having spent the prior year's allocation on such projects in the manner determined by the EU. If within a determined grace period after 2006, all funds allocated to the Region have not been spent on the relevant projects in accordance with EU specifications, the unpaid allocations will be forfeited and any prepaid funds must be returned to the EU. Funds allocated to the Region by the EU for the six-year period 1994-1999 pursuant to EU programmes Objective 2 and Objective 5b (the latter provided for financial assistance to rural areas and terminated in 1999) totalled €261 million. Approximately 90 per cent. (or €235 million) of such funds were spent on the related projects within the established deadline of 31 December 2001. The balance of €26 million is required to be returned to the EU.

The following table shows the historical trend and the contribution of each sector to value added at factor cost ("**GAV**") for Lazio:

GAV[(1)]

	Year Ended 31 December				
	1998	**1999**	**2000**	**2001**	**2002**
			(€ millions)		
Agriculture	1,636	1,673	1,732	1,707	1,724
Manufacturing	12,929	13,722	14,204	16,171	16,541
Construction	4,731	5,091	4,207	4,355	4,385
Services	82,015	84,678	89,298	94,225	97,974
GAV Including Imputed Banking Services	101,312	105,165	109,441	116,460	120,625
Imputed Banking Services	5,451	5,439	6,068	5,766	5,830
GAV Excluding Imputed Banking Services	95,862	99,725	103,373	110,694	114,795
Net Indirect Taxes	10,995	12,154	12,811	17,050	–
GDP	106,856	111,880	116,184	123,460	128,121

(1) Measured in current prices.
Source: ISTAT for 1998-2002 data.

In 2002 the service, industry and agriculture sectors contributed 81.0 per cent., 17.6 per cent. and 1.4 per cent., respectively, to GAV of the Region of Lazio as compared to the contribution of these sectors of 11.9 per cent., 6.5 per cent. and 5.6 per cent., respectively, to GAV of Italy as a whole.

Service Sector

The service sector accounts for the largest contribution to Lazio's GAV. Since Rome maintains many of the administrative functions of the Central Government, the service sector has traditionally contributed a greater percentage to GAV of the Region than to GAV of Italy as a whole. In 2002, Lazio represented 11.9 per cent. of Italy's service sector as a whole.

The following table shows the contribution of each sector in 2000, 2001 and 2002:

GAV by Service Sector[(1)]

	2000	Percentage	2001	Percentage	2002	Percentage
			(€ millions)			
Commerce, hotels and transport	27,935	31.3%	30,012	31.8%	30,447	31.1%
Commerce	1,269	14.2%	13,307	14.1%	–	–
Hotels and restaurants	3,399	3.8%	3,538	3.8%	–	–
Transport and communications	11,856	13.3%	13,167	14.0	–	–
Banking services, consultancy and other business	33,979	38.0%	34,865	37.0%	36,941	37.7%
Financial brokerage	9,469	10.6%	8,968	9.5%	–	–
Real estate, rental, research, consultancy and other business	2,451	27.4%	25,899	27.5%	–	–
Non marketable services	27,383	30.7%	29,348	31.1%	30,587	31.2%
Public administration and defence	10,078	11.3%	10,447	11.1%	–	–
Instruction	5,515	6.2%	5,582	5.9%	–	–
Healthcare and social services	5,098	5.7%	5,492	5.8%	–	–
Other services	6,693	7.5%	6,060	6.4%	–	–
Total Service Sector	89,298	100.0%	94,225	100.0%	97,974	100.0%

(1) Measured in current prices.
Source: ISTAT.

In 2001, the service sector's primary components were non-marketable services (31.8 per cent), commerce (14.1 per cent.), hotels and restaurants (3.8 per cent.), transportation and communication (14.0 per cent), banking (9.5 per cent.) and other financial services (27.5 per cent).

Financial Services. In 2002, there were 169 different banks present in Lazio, with over 2,345 branches. The majority of these branches are those of the largest Italian banks, followed by savings banks, then medium- and small-sized banks. In 2003 total short-term deposits in Lazio amounted to approximately €86 million, or approximately 13.1 per cent. of all national deposits.

Insurance. Lazio is the third most important region in Italy in terms of insurance contracts and insurance premiums paid. In 2000, premiums of €6,220 were paid on life and property insurance contracts, which represented over 9.5 per cent. of the total insurance premiums paid in Italy.

Tourism. Rome, Italy's capital city and its most important administrative centre, attracts a large number of business travellers and tourists. The Region accounted for 11.3 per cent. of all arrivals in Italy in 2001. There were more than 9 million arrivals staying an average of 3.1 days in 2001. Tourists to the Region in 2001 came both from other parts of Italy (44.2 per cent.) and around the world (55.1 per cent.). There were 25 million night stays in Lazio in 2002, or 7.2 per cent. of all night stays in Italy. Of these night stays, 42 per cent. were by Italians. In 2001, there were 1,786 hotels, with a total of 263,184 beds in Lazio as compared to 33,428 and 1,888,510 respectively, in Italy as a whole. Camping and other accommodation in 2001 accounted for an additional 99,439 beds in Lazio, and 2,117,386 beds in Italy overall. In 2001, 90 of Italy's museums were located in the Region. These museums had approximately 9.5 million visitors during 2001.

The millennium jubilee in the year 2000 represented an opportunity for further tourism development within Lazio, due primarily to Rome, which has been a pilgrimage destination for religious communities. Between 12 and 15 million tourists visited the Region in 2000.

Transportation. In 2001, there were approximately 9,969 kilometres of roads in the Region of which 474 kilometres were highways. As of 2001, there were approximately 3.9 million motor vehicles in circulation in the Region.

Fiumicino airport, located in Rome, is one of two intercontinental airports located in Italy. The other, Malpensa, is located in Milan, in the region of Lombardy. In 2001, Fiumicino was the busiest airport in Italy with 28 per cent. of all Italian passenger traffic and 21 per cent. of total Italian cargo traffic. In 2001, approximately 25.5 million passengers travelled on flights arriving or departing from Fiumicino. In addition, approximately 2.3 million tons of merchandise and mail were transported through the airport. Another airport, also located in Rome, is Ciampino which is used mainly for charter flights within Europe.

The Region has an extensive rail network which, in 1999, covered approximately 1,154 kilometres of track, representing approximately 7.2 per cent. of the national rail network.

The port of Civitavecchia (the "**Port**") is the only major port located in the Region. The Port is in a strategic position to provide links with the major Italian islands of Sicily and Sardinia. In 1999, the Region had a flow of approximately 2.2 million passengers and approximately 7,719 million tons of cargo through its ports in coasting and international navigation. Several other local ports provide connections with smaller islands in the Tirrenian Sea, as well as facilities for private boats.

Industrial Sector

Manufacturing and construction in Lazio represented 6.3 per cent. and 7.6 per cent, respectively, of Italy's manufacturing and construction in 2002. The table set forth below provides the percentage contribution of various manufacturing categories to the manufacturing GAV of the Region for 2000-2002:

GAV by Manufacturing Category[(1)]

	2000		2001		2002
	(€ millions)	%	(€ millions)	%	
Mining	175	1.2%	161	1.0%	–
Food and Drinks	1,282	9.0%	1,282	7.9%	–
Textiles	564	4.0%	604	3.7%	–
Leather	20	0.1%	16	0.1%	–
Paper	1,663	11.7%	1,657	10.2%	–
Chemical/Pharmaceutical Goods	2,451	17.3%	2,756	17.0%	–
Non-Metal Mineral Products	877	6.2%	959	5.9%	–
Metal Products	733	5.2%	736	4.5%	–
Means of Transport	2,994	21.1%	3,214	19.9%	–
Wood/Rubber/Others	1,017	7.2%	1,052	6.5%	–
Energy	2,428	17.1%	3,735	23.1%	–
Total GAV Manufacturing	14,204	100.0%	16,172	100.0%	16,541

(1) Measured in current prices.

The manufacturing sector in Lazio is well diversified as shown on the table above. In 2001, Lazio produced means of transport (19.9 per cent. of manufacturing GAV) and energy (23.1 per cent. of manufacturing GAV) and had a significant presence in chemical and pharmaceutical production (17.0 per cent. of manufacturing GAV), including plants for many of the multinational pharmaceutical companies.

Agricultural Sector

The Region occupies an area of approximately 1,128,164 hectares (approximately 17,208 square kilometres), or 5.7 per cent. of Italy. Land used for agriculture in 2001 was 814,925 hectares, or 72.2 per cent. of the total surface area of the Region.

In 2002, agriculture, forestry and fishing contributed 1.4 per cent. of regional GAV and represented 5.6 per cent. of total agriculture value added for Italy as a whole.

Agriculture in the Region can be broken down into three categories: herbaceous, arboreal and zootechnic. Herbaceous growing accounted for 40.1 per cent. of gross marketable production in the agricultural sector in 2000 and included potatoes and vegetables (63.4 per cent), cereals (18.3 per cent.), flowers and plants (13.6 per cent.), industrial plants (4.9 per cent.) and other (1.2 per cent.). Arboreal growing accounted for 23.7 per cent. of gross marketable production in 2000 and included citrus fruit and fruits (35.9 per cent.), vines (33.2 per cent.), olives (26.4 per cent.) and others (4.5 per cent.). Zootechnic production accounted for the remaining 33.3 per cent. of gross marketable production in 2000 and included meat (including poultry) (58.2 per cent.), milk (36.8 per cent.) and eggs and others (4.9 per cent.).

In 2000, fishing production in the Region as a percentage of fishing production in Italy represented 2.5 per cent. of sea and lagoon fishing, 0.8 per cent. of shellfish and 12.5 per cent. of farmed and lake fish.

Inflation

The table below shows annual increases in the consumer price index ("**CPI**") in Rome and Italy for the periods indicated:

Change in Consumer Price Index[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001[1]**	**2002**	**2003**
Rome	1.7%	1.9%	2.4%	3.0%	2.6%	2.7%
Italy	1.8%	1.6%	2.6%	2.7%	2.6%	2.5%

(1) December vs. December. For workers and labourers.

Employment

As of 2003, approximately, 2.057 million people, or 40.0 per cent. of the population of the Region, were employed. The unemployment rate of the Region, centred between Southern Italy, which has relatively high unemployment, and Northern Italy, which has relatively low unemployment, is close to the national average. In 2003, approximately 196,000 people, or 8.7 per cent. of the labour force of the Region, were unemployed, as compared to the Italian national average of 8.7 per cent. for the same period. The table set forth below provides information as to employment in the Region for the periods indicated:

Employment in the Region[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**
	(thousands, except for percentages)					
Total population	5,255	5,264	5,215	5,241	5,271	5,271
Labour Force	2,089	2,133	2,154	2,166	2,215	2,253
Participation Rate	39.7%	40.5%	41.3%	40.9%	41.3%	42.7%
Number Employed	1,864	1,884	1,916	1,952	2,024	2,057
Number Unemployed	258	249	237	215	190	196
Unemployment Rate	12.4%	11.7%	11.0%	10.2%	8.6%	8.7%

(1) Represents an average of the results from quarterly labour force surveys performed by ISTAT on a sample of households.

During 2002, the unemployment rate in the Region of Lazio fell to 8.6 per cent., declining below the national average. During 2003, the unemployment rate in the Region of Lazio has been constant at 8.7 per cent.

Of those employed in the Region in 2002, approximately 76.7 per cent. were employed in the service sector. Another 19.9 per cent. were involved in industry and the remaining 3.3 per cent. were in agriculture. To accommodate the population of Rome, there is a high level of employment in the service sector. In 2003, approximately 77.6 per cent. were employed in service sector, 19.8 per cent. in industry and 2.6 per cent. in agriculture.

The following table provides a breakdown of average employment by sector for both the Region and Italy as a whole for the periods indicated:

Employment by Sector[1]

	Region						Italy					
	2001		2002		2003		2001		2002		2003	
	(thousands except for percentages)											
Services	1.49	76.3%	1.55	76.7%	1.6	77.6%	13.7	63.1%	13.8	63.2%	13.960	63.3%
Industry	386	19.8%	404	19.9%	407	19.8%	6.871	31.6%	6.932	31.8%	7.019	31.8%
Agriculture	76	3.9%	67	3.3%	53	2.6%	1.144	5.3%	1.095	5.0%	1.075	4.9%
Total	1.95	100.0%	2.02	100.0%	2.06	100.0%	21.71	100.0%	21.83	100.0%	22.054	100.0%

(1) ISTAT.

In Lazio in 2002, a total of approximately 3,118,000 hours of work were lost as a result of 111 different strikes involving approximately 427,284 workers.

The Region of Lazio is the leading region in Italy in terms of resources and human capital. In 2001, university graduates in the Region of Lazio comprised 8.7 per cent. of the population over 15 years compared to 6.6 per cent. in Italy. In 2003, those working on research and development in the Region of Lazio comprised 1.2 per cent. of the workforce compared to 0.4 per cent. in Italy. Research and development spending in the Region of Lazio comprised 19.3 per cent. of Italy's total in 2001. There are several public and private universities throughout the Region, most of which are located in Rome. During the 2000-2001 academic year, approximately 215,000 university students, or 12.1 per cent. of all Italian university students, attended universities located in the Region. In addition, several public and private research institutions, both national and foreign, are located in the Region. These contribute to the Region's status as a key centre for research in Italy. In 2001, the Region also had 15 of Italy's 45 major libraries, and produced over 1,048 publications representing about 8.6 per cent. of Italy's total publications.

Exports and Imports

Lazio imported goods valued at €22,199 million and €21,797 million in 2002 and 2003, respectively. Lazio exported goods valued at €11,714 million and €10,383 million in 2002 and 2003, respectively, representing 4.4 per cent. and 4.0 per cent., respectively, of Italian exports for such years. Exports as a percentage of GDP were 9.1. in 1999.

Foreign Direct Investment

A significant amount of foreign direct investment in Italy is directed at Lazio due to its central location, economic opportunities and business infrastructure. This investment includes industries such as pharmaceuticals (Abbott, Bristol-Meyers Squibb, Merck & Co., Pfizer Italiana), tyres (Goodyear Dunlop Tires Italia), consumer products (Colgate Palmolive, Johnson and Johnson and Procter & Gamble Italia), automobiles and automobile rentals (Avis Autonoleggio, Europcar, Ford Italiana, Hertz Italiana, Honda Italia Industriale, Mercedes Benz Italia, Mazda, Jaguar and Renault Italia), credit card providers (American Express Company and Diners Club), food and tobacco (Philip Morris, Danone, Unilever, Nestlé and Coca Cola), telephony (Sony Ericsson, H3G, France Télécom and Vodafone) and information technology (Cisco Systems, Fujitsu, IBM, SAP and Microsoft). Foreign direct investment in Lazio comes primarily from the United States, the United Kingdom and France.

FINANCIAL INFORMATION OF THE REGION OF LAZIO

This section is reported herein in its entirety as it appears in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region dated 6 July, 2004 and all information provided therein, unless otherwise specifically indicated therein, is as of such date. Such information has not been independently verified by the Joint Lead Managers, the Issuer, the Originator or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) and none of the Issuer, the Joint Lead Managers, the Originator, or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) has any responsibility for the truth, faithfulness, accuracy, completeness and updating thereof or otherwise. None of the Issuer, the Joint Lead Managers, the Originator or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) has performed or will perform any due diligence exercise in connection with the Region.

Summary

The general administration of the Region's finances is the responsibility of the Regional Board and the Regional Council. Legislative Decree No. 76 of 28 March 2000 ("**Lgs. D. No. 76**") and Regional Law No. 25 of 20 November 2001 ("**Regional Law No. 25**") require the Italian regions to produce four kinds of financial reports. These reports are: (i) the provisional budget (*bilancio di previsione*), (ii) the pluri-annual budget (*bilancio pluriennale*) and the regional economic and finance programme document (*documento di programmazione economico finanziaria regionale*); (iii) the pre-closing budget (*bilancio di assestamento*) and (iv) the actual financial report (*bilancio consuntivo or rendiconto generale*). Lgs. D. No. 76 has enabled the regions to adopt a financial law (*legge finanziaria*), similar to that of the Central Government.

As a governmental entity, the Region does not prepare its financial reports in accordance with generally accepted accounting principles, but in accordance with accounting standards established by Regional Law No. 25. The Region's accounts are maintained on an accrual basis and according to the calendar year. The Region does not prepare interim financial reports.

The Provisional Budget (Bilancio di Previsione). The provisional budget is the Region's best estimate of revenues and expenditures for the upcoming year. Regions are required to prepare their provisional budgets prior to the beginning of the year for which such budget relates. However, because regional budgets include revenues from Central Government transfers which are included in the Central Government's budget, many regions, including Lazio, often postpone completing their provisional budget until after the Central Government budget is published in order to be able to include actual rather than estimated figures for such transfers. Regions may do this by passing a temporary budget based on the prior year's financial report, allowing them to extend the deadline for submitting the provisional budget to the Central Government until the end of March. During this interim period, regions are authorised to spend one-twelfth per month of the total allocated amounts based on the latest approved provisional budget, which is that of the prior year. The Region's provisional budget is initially developed by the regional financial services department, then sent to the Regional Board and the Regional Council for approval. Once approved by the Regional Council, the provisional budget is published in the Regional Law Bulletin and enacted into law.

The Pluri-Annual Budget (Bilancio Pluriennale). The pluri-annual budget is the Region's forecast of revenues and expenditures for the following three years. Unlike the provisional budget, the pluri-annual budget cannot be considered operative and expenditures thereunder cannot be treated as already authorised. The pluri-annual budget is prepared on the basis of two alternative sets of assumptions described in the Regional Economic and Finance Programme Document: the first assumes existing policy and legislation (economic and social) remain unaltered and the second assumes proposed legislative and policy reforms (economic and social) currently under consideration are adopted. The Regional Economic and Finance Programme Document is prepared by the regional financial services department and is presented to the Regional Board and the Regional Council together with the draft pluri-annual budget.

The Pre-Closing Budget (Bilancio di Assestamento). The pre-closing budget represents an adjustment of the provisional budget. This adjustment results from the recording of actual revenues and expenditures

during the year plus a final accounting as to amounts committed but not actually expended during the prior fiscal year (*residui*). The pre-closing budget is prepared, depending on the workload of the Regional Board and the Regional Council, between July and September of each year following the year which the pre-closing budget refers to, to enable the preparation of the provisional budget for the up-coming year. A more updated pre-closing budget is submitted to the Regional Board and the Regional Council in November or December of each year following the year which the pre-closing budget refers to.

The Actual Financial Report (Bilancio Consuntivo or Rendiconto Generale). The actual financial report contains financial reports substantially the same as those in the pre-closing budget, but includes detailed notes and statistics not provided in the pre-closing budget. The actual financial report for the Region's last fiscal year is submitted to the Regional Board and Regional Council for approval at the same time as the provisional budget for the upcoming year and it must be approved before the approval of the provisional budget.

The Financial Law. The financial law (*legge finanziaria*) establishes the Region of Lazio's financial legislation and policy for the upcoming year. Specifically, the financial law prescribes (a) the maximum amount of indebtedness that can be assumed during each year; (b) any variations in the rates of taxes and duties from which the Region of Lazio derives revenues; (c) any refinancing of expenditures approved by previous regional laws; (d) any reduction in expenditures authorised by previous Regional legislation; and (e) the amounts of expenditures required to be made pursuant to other Regional legislation during each year covered by the pluri-annual budget. The financial law cannot create new taxes or duties nor can it authorize new or increased expenditures, except to the extent covered by new or increased revenues or offset by reductions in existing authorised expenditures. The financial law is presented by the Regional Board to the Regional Council together with the draft pluri-annual budget and the provisional budget. Once approved by the Regional Council, the financial law is published in the regional law bulletin and enacted into law.

Regional Treasurer (Tesoriere Regionale) and Central Government Provincial Treasurer (Tesoreria Provinciale dello Stato). Regions in Italy are required to make all payments and collect all revenues through one or more agent banks acting as their treasurer (each a "**Treasury Bank**"). The Treasury Banks for Lazio are composed by a pool of banks comprised of Banca Nazionale del Lavoro, Banca di Roma and Banca Monte dei Paschi di Siena with Banca di Roma acting as agent bank for the pool (the "**Regional Treasurer Bank**"). The Treasury Banks manage all outflows linked to the activity of the Region as well as most of the inflows, except for Central Government transfers which go directly into a deposit account of the Region at the Bank of Italy.

Payment Mandate (Mandato di Pagamento). Regional debt obligations may be supported by means of a payment mandate (*mandato di pagamento*) granted by the Region in favour of the debtholder. This mandate may be irrevocable (*mandato irrevocabile*). By an irrevocable mandate, the Region may unconditionally and irrevocably instruct the Regional Treasurer Bank to segregate and pay from time to time monies in an amount sufficient to meet the Region's debt obligations to pay interest and principal when due.

A payment mandate does not constitute a security interest in favour of the payee or any of its assignees. Accordingly, creditors who receive the benefit of a payment mandate would be considered common unsecured creditors for the benefit of whom certain funds have been allocated in order to support the repayment obligations of the Region.

In order to meet its payment obligations under its outstanding indebtedness, including its indebtedness in connection with the issuance of Notes, the Region is required by law to make the appropriate entries under the expenditure items of its financial reports to allocate certain income of the Region (including revenues from automobile taxes (capitolo 00103 of the Region's financial reports or any successor provision)) necessary to meet such payment obligations creating an irrevocable obligation to pay such sums to the payees.

The Region has generally included an irrevocable payment mandate to the Treasury Bank to pay all debt service when due, with recourse to the proceeds from automobile taxes and, if such proceeds are not sufficient, to all available income of the Region.

The Region's repayment obligations with respect to the Notes will be supported by a payment mandate in favour of the paying agents for the benefit of the Holders. Under the terms of the payment mandate, the Regional Treasurer will be irrevocably and unconditionally instructed by the Region and will be required to make the payments due under the Notes, with recourse to the proceeds from automobile taxes and, if such proceeds are not sufficient, to all available income of the Region.

Revenues of the Region. The mix of the Region of Lazio's current revenues has changed significantly since 1997. The Region's current revenues had traditionally consisted primarily of transfers from the Central Government. Today the majority of current revenues are raised through the collection of local taxes, although many of these taxes continue to be collected by the Central Government. See "*Financial Federalism*".

The Central Government requires that significant amounts of the Region's revenues (current and capital) be dedicated to specified expenditures ("**Restricted Amounts**"). The amount of the Region of Lazio's Expected Healthcare Expenditure (as defined below) is a Restricted Amount. See "*Financial Information of the Region of Lazio – Healthcare Deficits*". Such Restricted Amounts represented approximately 80 per cent. of the Region of Lazio's revenues (current and capital) in 2002.

Financial Federalism

In recent years, greater financial autonomy has been transferred to the regions and other local authorities from the Central Government. Until 1998, transfers of funds by the Central Government represented an average of between 80 per cent. and 90 per cent. of the current revenues of the regions and the regions played a minor role in the collection of taxes. In 2003, transfers from the Central Government represented approximately 14 per cent. of the Region of Lazio's current revenues. Financial federalism has been accompanied by similar steps towards increased political federalism. See "*Current Revenues*" below.

The increased financial autonomy of the regions has been enabled by a series of laws of the Central Government. In 1999 a law outlined the changes to be implemented to the then existing transfer system: (i) the cancellation of Central Government transfers save for certain specific exceptions; (ii) the authorisation to the regions to receive an increased amount of certain taxes collected by the Central Government and transferred to the regions (such as the percentage of income tax on individuals and the percentage of gasoline tax currently received by the regions) and to receive a percentage of taxes collected by the Central Government at the national level (such as a percentage of value added tax) and (iii) establishment of a national compensation fund (*fondo perequativo nazionale*) ("**National Compensation Fund**") to be financed through payments of those regions with positive VAT balances of a certain proportion of such excess amount. The National Compensation Fund distributes funds to regions in Italy for the financing of healthcare expenditures. Pursuant to Lgs. D. No. 56 of 18 February 2000 the largest portion of the Central Government transfers to ordinary regions terminated in 2001.

The granting of powers to tax and to receive a portion of Central Government taxes has been gradual. The principal tax revenues of the Region of Lazio are IRAP, Addizionale IRPEF, (each as defined below), the automobile tax and a portion of the gasoline tax.

Regional Tax on Productive Activities (Imposta Regionale sulle Attivité Produttive or "IRAP"). Since 1998, the regions have been entitled to impose a new regional tax on productive activities ("**IRAP**"), which today represents the largest portion of the Region of Lazio's tax revenues. IRAP is based on the net production value of enterprises and professionals in a region and replaced several taxes previously levied on such entities (e.g., *Imposta Locale sui Redditi*, a tax on corporate income, *Imposta Comunale per l'Esercizio di Imprese e di Arti e Professioni*, a municipal tax on business operations, a registration fee to obtain a value added tax number, etc.). The regions have the power to determine the tax rate of IRAP, within a range established by the Central Government, which is currently 3.25 per cent. to 5.25 per cent. The Region of Lazio's current average rate of IRAP is 4.25 per cent. IRAP is currently collected by the Central Government and transfers are made to the regions based on the prior years' transfers, with any shortfall being covered by the Central Government. Transfers by the Central Government are not necessarily made in the same year that the Central Government collects the IRAP.

Additional Income Tax on Individuals (Addizionale Imposta sul Reddito delle Persone Fisiche or "IRPEF"). Since 1998, regions have been entitled to impose an additional amount on the Central Government's income tax on individuals ("**IRPEF**"). This additional amount is known as *Addizionale IRPEF* and regions have the power to determine the tax rate of Addizionale IRPEF within a range established by the Central Government, which is currently 0.9 per cent. to 1.4 per cent. However, the option of the regions to increase the rate of IRPEF above 0.9 per cent. has been suspended until the end of 2004. The Region's current rate of *Addizionale IRPEF* is 0.9 per cent. *Addizionale IRPEF* is currently collected by the Central Government and transferred to the Region.

Value Added Tax ("IVA"). In 2001, the regions became entitled to a portion of the value added tax ("VAT"). The amount of VAT to which a Region is entitled in any given year can change based upon the calculation of its annual healthcare expenditure requirements. For 2001, the regions were entitled to a portion of VAT equal to 38.55 per cent. of overall VAT revenues. For 2002, the rate was 37.39 per cent., and for 2003, the rate was 38.69 per cent. The Central Government collects VAT and transfers to the Region the portion to which it is entitled. See "*Healthcare Deficits*".

Automobile Tax. The regions have been entitled to collect an automobile tax since 1993. The tax rate is €2.58 per kilowatt of a vehicle. This amount can be increased or decreased by €0.00516 per year. The Region directly collects the automobile tax.

Gasoline Tax. Since 1996, the regions have been entitled to a portion of the Central Government's tax revenue on gasoline sold in their territory, known as *Compartecipazione Regionale all'Accisa sulle Benzine*. Currently the portion of the tax per litre of gasoline granted to regions is €0.129. The Central Government collects the gasoline tax and transfers to the Region of Lazio the portion to which it is entitled. Additionally, the regions are entitled to levy a further tax on each litre of gasoline of €0.0258; however the Region does not currently levy such a tax.

Other Taxes. The Region also collects certain other minor taxes directly, including the waste disposal tax, the methane tax and a tax on each university student enrolled in the Region of Lazio. While the recently enacted Federalism Law nominally grants the regions the right to raise further taxes, these rights must be detailed in yet to be enacted Central Government laws.

Transfers of funds to regional authorities are dependent on the finances of the Central Government. The Central Government has in the past delayed the timing of certain transfers of tax revenues.

While the Region of Lazio is not aware of any plan to change the current transfer system other than as discussed above, there can be no assurance that transfers from the Central Government will continue in the manner of, or in the amounts allocated in, the past. The Italian Parliament is continuing to examine proposals on political and financial federalism which may grant the regions greater power to independently establish taxes and tax rates. While these proposals may grant greater political and financial autonomy to the regions, there can be no assurance that any such proposals will be passed or, if passed, will not adversely affect the political, economic or financial condition of the Region of Lazio.

The regions have the power to raise certain regional taxes within limits established by the Central Government and may do so to cover healthcare deficits. The regions are required to cover healthcare deficits in order to qualify for Central Government transfers of amounts to cover Expected Healthcare Expenditure (as defined below). For 2002 only, the regions were entitled to raise the *Addizionale IRPEF* and the automobile tax to beyond the limits established by the Central Government specifically to cover healthcare deficits.

Healthcare Deficits

The amount that Italian regions are expected to spend on healthcare ("**Expected Healthcare Expenditure**") is determined in four-year programs by the Central Government in consultation with the regions. Each Italian region is required to spend an amount annually on healthcare at least equal to its Expected Healthcare Expenditure. On 31 January 2003, the regions agreed with the Central Government on the allocation of the 2003 Expected Healthcare Expenditure. The Region of Lazio was given €6.8 billion, an increase of 5.6 per cent. as compared to the 2002 level of €6.4 billion.

In order to fund Expected Healthcare Expenditure, the Central Government transfers to the regions each year an amount equal to the sum of an estimate of the following taxes expected to be collected in that year in the region's territory: (i) the regional tax on productive activities (IRAP), (ii) a portion of the income tax on individuals (*Addizionale IRPEF*), (iii) a portion of the gasoline tax and (iv) a portion of value added tax (VAT) based upon the regions' gross domestic product and the amount of VAT collected during the prior three years. See "*Financial Federalism*". If the sum of the taxes collected in the relevant region is different from a region's Expected Healthcare Expenditure, an amount substantially equal to the difference is paid to, or received by, the region (as the case may be) from the National Compensation Fund. For 2001, the Region of Lazio paid €842 million to the National Compensation Fund. For 2002, the Region of Lazio paid €829.23 million to the National Compensation Fund. If the Central Government's estimate of IRAP, *Addizionale IRPEF*, gasoline tax and VAT expected to be collected in any given year is less than the amount of those taxes actually collected for that year, the difference is transferred to the Region from the Central Government's guaranty fund ("**Guaranty Fund**") (*fondo di garanzia*); if such estimate is greater than the amount actually collected for that year, the difference is retained by the Region. See "*Financial Information of the Region of Lazio – Current Revenues – Local Taxes and Other Revenues and Transfers from or on behalf of the Central Government*".

The annual Expected Healthcare Expenditure is paid in monthly installments of one twelfth of the annual Expected Healthcare Expenditure paid by the Central Government, which is reduced by a certain sum retained by the Central Government. The amount so retained (*integrazione*) will be paid out to the region following the completion of the financial year and review by the Central Government of the region's compliance with legal obligations, stability pacts and healthcare deficit coverage requirements.

With respect to the Region's 2001 Expected Healthcare Expenditure, the Central Government completed its review of the Region's healthcare deficit coverage and expenditures incurred in 2001 on 20 January 2003. The Central Government reached the conclusion that the Region had complied with all requirements and therefore released the retained amount of the 2001 Expected Healthcare Expenditure to the Region. The Central Government's review of the healthcare deficit coverage and expenditures of the Region in 2002 took place in January 2002 and following a favourable assessment, the Central Government released the retained amount of the Region's 2002 Expected Healthcare Expenditure. The healthcare deficit coverage and expenditures of the Region in the year 2003 are expected to be reviewed by the Central Government in January 2005.

Like other regions, in recent years the Region of Lazio has expended greater amounts on healthcare than its Expected Healthcare Expenditure due primarily to salary increases for healthcare personnel under national collective bargaining agreements, increases in the prices of pharmaceutical products and increases in VAT rates. Prior to 1991, the Central Government entirely covered the Region of Lazio's healthcare deficits. As a result of the Federalism Law, since 2001, regions are responsible for the entire amount of any future healthcare deficits and the Central Government no longer transfers funds to the regions to cover such deficits.

The table set forth below indicates the aggregate healthcare deficit incurred by the Region of Lazio for the periods indicated and the portion thereof covered (and to be covered) respectively by the Central Government and the Region of Lazio.

	1995-1999	2000	2001	2002	aggregate healthcare deficit
			(€ millions)		
Healthcare Deficits	3,643	1,014	875	550[2]	5,832
Portion to be paid by the State[1]	2,248	136	n/a	n/a	2,384
Portion to be paid by the Region	1,395	878(3)	875	550	3,698

(1) Subject to certain conditions described below and pursuant to the relevant legislation prior to enactment of the Federalism Law.

(2) Estimated figure.

(3) €516 million of which has been covered by the issuance of debt obligations.

Coverage of 1995 -1999 and 2000 Deficits. With respect to the aggregate healthcare deficit up to 1999, an agreement between the Region of Lazio and the Central Government was reached pursuant to which the Region of Lazio was responsible for €1,395 million and the balance of the deficit was to be borne by the Central Government. With respect to the healthcare deficits of €1,014 million incurred in 2000, the Central

Government agreed to cover an amount equal to €136 million. The Region has covered in full the aggregate healthcare deficit incurred up to and including 2000.

Coverage of 2001 Deficits. With respect to the healthcare deficits incurred in 2001, the Central Government acknowledged an insufficiency of the funding for the period 2001-2004 and, approved the transfer of additional funds in the amount of approximately €332 million to the Region. The Central Government's agreement to grant additional funds for 2001 was conditional upon the Region covering the remaining €543 million of the healthcare deficit for that year and having implemented a number of directives of the Central Government aimed at monitoring and containing healthcare expenses while guaranteeing certain minimum levels of healthcare services. The healthcare deficit incurred in 2001 has been covered in full.

Coverage of 2002 Deficits. With respect to the healthcare deficits incurred in 2002, the Central Government acknowledged an insufficiency of the funding for the period 2001-2004 and, therefore approved additional funds for the Region in the amount of approximately €800 million for 2002. The Region of Lazio carried out a securitisation transaction involving the sale of certain of the Region of Lazio's transferable real estate assets to meet the healthcare deficits incurred in 2002. In addition, the Region was granted a loan by Cassa Depositi e Prestiti for €600 million to cover healthcare deficits. The healthcare deficit incurred in 2002 has been covered in full.

Coverage of 2003 Deficits. The amount of the healthcare deficit of 2003 is not available yet. The Region of Lazio is currently expecting a reduced healthcare deficit for 2003 compared to the prior year.

Since its enactment on 18 October 2001, the Federalism Law provides that regions are permitted to incur indebtedness only to finance capital expenditures. Consequently, regions are not permitted to incur indebtedness to finance healthcare or other deficits.

Previously, Central Government Law No. 405 of 16 November 2001 enacted after the Federalism Law ("**Law No. 405**") as well as Central Government Law No. 39 of 26 February 1999 and Central Government Law No. 34 of 31 January 1996 enacted prior thereto (referred to collectively as the "**Healthcare Finance Laws**") authorised the regions to incur indebtedness to finance healthcare deficits incurred in certain years through 2000 (i.e. prior to the enactment of the Federalism Law). The Healthcare Finance Laws authorised the regions to borrow from financial institutions, and in some cases to issue bonds or notes, in order to finance healthcare deficits incurred up to 2000.

Revenues and Expenditures

The following table sets forth for the periods indicated the current revenues and expenditures and the capital revenues and expenditures of the Region:

Revenues and Expenditures

	1998	1999	2000	2001	2002	2003
Current Revenues						
Local Taxes						
IRAP and *Addizionale IRPEF*	3,393	3,237	3,727	3,536	3,535	4,157
VAT	–	–	–	2,311	2,982	3,133
Gasoline Tax	298	317	293	222	399	336
Automobile Tax	401	401	463	498	500	514
Other	107	111	99	121(3)	98	94
Total Local Taxes	4,198	4,067	4,583	6,688	7,515	8,234
Other Revenues	50	21	43	72	409	402
Transfers from or on behalf of the Central Government and EU	1,953	2,867	2,506	2,576	2,188	1,458
Borrowing on behalf of the Central Government for current purposes	315	181	333	41	0	0
Total Current Revenues	6,516	7,135	7,465	9,377	10,112	10,094

	1998	1999	2000	2001	2002	2003
Current Expenditures	6,318	6,362	7,857	9,285	9,574	10,993
Current Balance	197	774	(392)	92	538	(899)
Capital Revenues	359	379	458	1,128	778	978
Capital Expenditures	1,149	1,302	1,299	1,386	1,310	2,236
Capital Balance	(789)	(923)	(841)	(258)	(532)	(1,258)
Budget Balance Before Financing	(592)	(149)	(1,233)	(166)	6	(2,157)
Net Borrowing	271	202	77	313	(96)	348
Total Budget Balance	(321)	53	(1,156)	147	(90)	(1,809)

The Region has accumulated approximately €630 million in cash as of 31 December 2003 from amounts not previously expended, a portion of which may be used to service debt and a portion of which must be used only for specified purposes. See "*Financial Information of the Region of Lazio – Financial Result; Cash and Accruals*"

Current Revenues

In past years current transfers from the Central Government have represented the majority of regional revenues. Since 1998, regional tax revenues have been increasing, and in 2002 and 2003, local taxes represented 74 per cent. and 82 per cent., respectively, of the Region of Lazio's current revenues. In addition to the tax revenues and current transfers, the Region also receives revenues from non-tax income.

Local Taxes and Other Revenues

	Year Ended 31 December					
	1998	1999	2000	2001	2002	2003[1]
	(€ millions)					
Local Taxes						
IRAP and *Addizionale IRPEF*	3,393	3,237	3,727	3,540	3,535	4,157
VAT	–	–	–	2,311	2,982	3,133
Automobile Tax	401	401	463	498	500	514
Gasoline Tax	298	317	293	222	399	336
Licensing Fees	21	14	14	13	11	6
Tax on Methane	49	57	54	60	44	49
University Tax[2]	3	2	2	–		–
Other	35	39	29	48(2)	44	39
Total Local Taxes	4,198	4,067	4,583	6,688	7,515	8,234
Other Revenues	50	21	43	72	409	402
Total	4,248	4,088	4,626	6,760	7,924	8,636

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

(2) Starting from 2001 University tax is collected directly by the relevant universities within the Region's territory.

Local Taxes consist of taxes, fees and charges collected locally by the Region or by the Central Government on behalf of the Region. The specific taxes and fees that regions are allowed to levy include natural gas tax; automobile tax; university tax; regional licensing fees (e.g., a pharmacy license or hunting permit); and tax for dumping litter. Commencing in 1998 the Region of Lazio imposed a new regional tax on productive activities (IRAP) and received a percentage of the income tax on individuals (*Addizionale IRPEF*), both of which are collected by the Central Government.

The Central Government transfers to the regions each year an amount equal to the sum of an estimate of IRAP, Addizonale IRPEF, gasoline tax and a portion of VAT based on the regions' gross domestic product and VAT collected during prior years to finance the regions' Expected Healthcare Expenditure. The Central Government has established a Guaranty Fund from which it transfers an amount to the regions equal to the

shortfall between the expected amount of tax collections, on the one hand, and the amounts actually collected, on the other hand. See "*Financial Federalism*". Beginning in 2001, the Region began to receive Central Government transfers equal to a portion of VAT collected in the Region of Lazio. See "*Financial Information of the Region of Lazio – Healthcare Deficits*". In addition, the Central Government collects a gasoline tax, a portion of which it remits to the Region.

Other revenues include revenues from public services and payments from public entities.

Transfers from or on behalf of the Central Government[1]

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003[1]**
			(€ millions)			
Healthcare[2]	2,011	2,744	2,250	2,129	1,571	1,180
European Union Transfers[2]	236	9	24	47	167	106
Transfers from Central Government for European Union programs (*Cofinanziamento statale di programmi comunitari*)	–	–	–	–	154	103
Transport[2]	134	142	140	387	363	375
Agriculture[2]	13	35	15	5	2	6
Energy and Ecology[2]	13	33	–	74	68	120
Public Housing[2]	2	111	278	682	28	33
Local Economy and *Mezzogiorno*[2]	101	65	53	160	78	207
Others[2]	3	12	83	162	355	306
Total	2,254	3,171	2,924	3,656	2,786	2,436

(1) Includes current and capital transfers.

(2) Includes transfers to cover debt service payments which are the responsibility of the Central Government. Also, includes the proceeds of borrowings from the *Cassa Depositi e Prestiti*, debt service which is paid directly by the Central Government.

(3) Substantially all revenues from IRAP, IRPEF, *Addizionale IRPEF* and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

Transfers from or on behalf of the Central Government take the form of ordinary transfers and proceeds of borrowings from the *Cassa Depositi e Prestiti*, which debt service is paid directly by the Central Government. An amount equal to transfers from the Central Government must be used by the Region in a given fiscal year only for the expenditures for which they are specifically transferred (*fondi vincolati*) and are Restricted Amounts. Commencing in 1998, transfers from the Central Government for healthcare were reduced; however, this reduction was intended to be offset by the collection of IRAP and *Addizionale IRPEF*. The Central Government also transfers funds received on behalf of the Region from the EU. See "*The Economy of the Region of Lazio*". In addition, the Central Government transfers funds specifically to be expended in the areas of transportation, agriculture, energy, ecology and public housing. See "*Financial Federalism*".

In 1999 there was a sharp increase in transfers from the Central Government due to a special transfer made to cover previous years' healthcare deficits.

Central Government healthcare deficit repayment and transport deficit repayment represent Central Government's transfers and proceeds of loans which the Central Government is obligated to pay and which were issued to cover deficits which relate primarily to healthcare and transportation funding deficits.

Current Expenditures

Current expenditures include personnel, goods and services, current transfers to local entities, interest expense and other expenses. The following table sets forth for the periods indicated a breakdown of the current expenditures of the Region:

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
			(€ millions)			
Personnel Expenses	161	164	181	177	199	200
Goods and Services	123	128	145	165	245	239
Current Transfers	5,852	5,902	7,307	8,721	8,967	10,412
Interest Expense	134	130	139	139	134	135
Other Expenses	48	38	86	83	30	17
Total Current Expenditures	6,318	6,362	7,857	9,285	9,575	11,003

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

Personnel expenses include salaries, social security expenses and expenses in connection with early retirement. Over the last ten years the Region of Lazio has been able to reduce its number of administrative staff (from 5,281 at 31 December 1993 to 3,463 at 31 December 2003).

Goods and services include amounts spent on goods and services provided by independent contractors such as solid waste collection and street cleaning. Public tenders and more transparent bidding procedures have allowed the Region to realise significant savings in goods and services over the last few years, although the amount of goods and services bought by the Region has been increasing.

Current Transfers are grants to provinces and municipalities and to ASL, AO or regional healthcare facilities and hospitals. In 2002 and 2003, approximately 85.7 per cent. and 82 per cent., respectively, of current expenditures were related to healthcare. The increase in current transfers in 2003 is due to the payment by the Central Government of its obligations with respect to the coverage of healthcare deficits following the completion of the compliance of the Region with its healthcare deficit coverage and other requirements for the past years.

The table set forth below provides a breakdown of the uses of current transfers to local entities:

Current Transfers

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
			(€ millions)			
Social Expenses[2]	5,096	5,283	6,149	7,556	7,688	9,291
Transport	630	451	925	840	880	804
Economic	59	93	138	103	200	183
Teaching and Culture	64	62	49	71	131	110
Public Housing	3	4	36	34	47	4
Administration	1	8	8	8	10	10
Others					11	10
Total	5,852	5,902	7,307	8,612	8,967	10,412

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

(2) Represents primarily healthcare.

Social expenses have been increasing sharply since 1996 primarily as a result of the healthcare deficit which resulted from salary increases for healthcare personnel under national collective bargaining agreements, increases in the prices of and VAT applicable to pharmaceutical products. See "*Financial Information of the Region of Lazio – Healthcare Deficits*".

Interest expense is the interest paid on the Region's long-term and short-term debt. See "*Debt of the Region of Lazio*".

Other expenses are administrative expenses of the Region, recoveries and miscellaneous expenses, including the payment of pension benefits. An increase in the payment of pension benefits in 1996 accounted for the majority of the increase in other expenses in that year.

Capital Revenues and Capital Expenditures

Capital Revenues consist of transfers from the Central Government and other revenues. Transfers from the Central Government include funds transferred on behalf of the European Union for various regional funding programmes and funds from other public entities. Other revenues include asset sales, capital transfers and credit collections. Asset sales consist of the sale of certain transferable assets owned by the Region. See "*The Region of Lazio – Significant Assets*".

The following table sets forth for the period indicated the capital revenues of the Region:

Capital Revenues

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
	(€ millions)					
Transfers from the Central Government	302	304	417	1,080	598	978
Other Revenues	33	58	40	48	0	0
Total	359	379	458	1,128	598	978

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

Capital Expenditures are made by the Region for the development and improvement of facilities for housing, transportation, the renovation of public property for general use and other civic purposes. The following table sets forth, for the periods indicated, the capital expenditures of the Region attributable to its major activities:

Capital Expenditures

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
	(€ millions)					
Capital Transfer	856	950	944	879	906	1,650
Real Estate	28	37	42	93	140	266
Other Capital Expenditures	264	315	313	414	264	341
Total Capital Expenditures	1,149	1,302	1,299	1,386	1,310	2,257

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

Financial Result; Cash and Accruals

The financial result (*avanzo di amministrazione*) is a key ratio in Italian state accounting, and is strictly monitored by the Corte dei Conti, the authority that controls local government accounts. The financial result consists of available cash at year-end plus accrual receivables net of accruals payable. Accruals are the difference between the balance due and the actual amount paid or received in the current year. They are comprised of accrued but uncollected revenues and accrued but unpaid expenditures. Accruals payable are brought forward for a maximum period of two years for both current and capital expenditures, after which they are cancelled and no longer accounted for in the Regional Budget (although creditors may still make claims with respect to cancelled payables and allocations are made by the Region to cover a portion of such payables).

The following table sets forth for the periods indicated the financial result (*avanzo di amministrazione*) of the Region the calculation of the financial result is based on the historical amounts which are subject to periodic reviews.

Financial Result

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
	(€ millions)					
Cash at year end	1,129	1,369	577	1,336	1,360	646
Accruals receivable(2)	3,747	3,316	4,127	5,206	2,761	4,048
Accruals payable	(4,289)	(3,397)	(3,936)	(4,834)	(1,326)	(2,021)
Financial Result	587	1,287	768	1,708	2,795	2,655

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

(2) Includes accrued but uncollected revenues from the Central Government (including EU funds) and other third party payees.

The Region has reported a positive financial result over the last seven years. The increase in accruals receivable over the period was due to current revenues accounted for but not received relating to Central Government transfers of increasingly greater amounts to cover the Region's Expected Healthcare Expenditure as well as the Central Government's portion of the Region's healthcare deficits. See "*Financial Information of the Region of Lazio – Healthcare Deficits*". The increase in accruals payable over the period was due primarily to expenditures accounted for but not yet spent relating to healthcare.

The following table sets forth for the periods indicated total revenues of the Region and accrued but uncollected revenues. The amounts indicated do not reflect the entire amount of accruals receivable but only the portion attributable to and collected each year.

Revenues Cash vs. Accrual

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
	(€ millions)					
Total revenues	13,998	14,215	14,566	15,472	11,361	12,124
Revenues actually collected	12,685	14,644	13,750	14,383	13,805	10,752
Receivables	1,313	429	816	1,089	(2,444)	1,372

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

The following table sets forth for the periods indicated total expenditures of the Region and accrued but unpaid expenditures:

Expenditures Cash vs. Accrual

	Year Ended 31 December					
	1998	**1999**	**2000**	**2001**	**2002**	**2003**[1]
	(€ millions)					
Total expenditures	14,319	14,162	15,722	15,325	11,451	13,964
Expenditures actually paid	12,346	14,340	14,499	13,598	13,758	11,466
Payables	1,973	(179)	1,223	1,728	2,307	2,498

(1) Substantially all revenues from IRAP, IRPEF, Addizionale IRPEF and IVA and all transfers from or on behalf of the Central Government are required to cover Expected Healthcare Expenditure.

DEBT OF THE REGION OF LAZIO

This section is reported herein in its entirety as it appears in the Offering Memorandum for the USD 2,000,000,000 Global Medium Term Note Program of the Region dated 6 July, 2004 and all information provided therein, unless otherwise specifically indicated therein, is as of such date. Such information has not been independently verified by the Joint Lead Managers, the Issuer, the Originator or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) and none of the Issuer, the Joint Lead Managers, the Originator, or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) has any responsibility for the truth, faithfulness, accuracy, completeness and updating thereof or otherwise. None of the Issuer, the Joint Lead Managers, the Originator or any other party to any of the Transaction Documents (as defined below) or to any of the Interim Documents (as defined below) has performed or will perform any due diligence exercise in connection with the Region.

As of 31 December 2003, the Region of Lazio had total aggregate indebtedness of €2,465 million. The debt of the Region consists primarily of seven loans borrowed on the domestic market from Italian banks and six bonds issued on the international markets.

The Region can incur or issue new loans or bonds when the following criteria are met: (i) the proceeds received are used for specific investments (provided the Region may incur indebtedness to cover healthcare deficits incurred in certain years) (see "*Financial Information of the Region of Lazio – Healthcare Deficits*"), (ii) the Regional Council has approved the financial report with respect to the fiscal year ended two years prior to the issue date; (iii) the borrowing is provided for in the provisional budget; (iv) the borrowing is approved by the Regional Council and the Interminsterial Committee for Credit and Savings (*Comitato interministeriale per il credito ed il risparmio*); and (iv) the future debt service will not cause the Region to exceed its permitted Debt Service Ratio, as defined below.

Pursuant to Central Government Law No. 181 of 26 April 1982, as amended, the Region is prohibited from issuing debt if the percentage of (i) aggregate annual payments of principal and interest on outstanding debt (excluding debt relating to healthcare and transportation services and other indebtedness which may be excluded from time to time by Central Government law) to (ii) annual regional tax revenues (the "**Debt Service Ratio**") exceeds 25 per cent. As of 1 January 2003 the Debt Service Ratio was 11.7 per cent. (or 13 per cent. including debt related to healthcare services). The Region did not include tax revenues derived from IRAP in the calculation of its Debt Service Ratio, as defined below.

In addition to debt which the Region directly services with regional tax revenues, the Region also services debt of the Central Government with transfers received from the Central Government designated specifically for such purposes. The Central Government was entirely responsible for debt service of loans contracted prior to 1990. The Central Government arranges directly for the repayment of its loans and the related interest payments except for those loans and the related interest payments relating to healthcare and transportation deficit loans (€725 million as at 31 December 2003), the debt of which is serviced by the Region with funds specifically transferred by the Central Government.

Central Government supported loans may come from the *Cassa Depositi e Prestiti*, a company that operates in the interest of the Central Government and lends exclusively to local authorities, public entities and the Central Government. Although the Region receives proceeds on loans from the *Cassa Depositi e Prestiti* to cover certain healthcare related expenses, the loans are direct obligations of the Central Government and the Region has no obligation to pay such loans. Consequently, such loans are not reflected in the Region's balance sheet and are not taken into account when determining the permitted Debt Service Ratio. The Region currently has no plans to make any borrowings from the *Cassa Depositi e Prestiti* for its own account.

In November 2001 the Region of Lazio established the *Osservatorio sul Debito della Regione* (the "**Osservatorio**"), a group composed of two banks (J.P. Morgan and UBM Credito Italiano) and Sviluppo Lazio S.p.A., which acts as co-ordinator. The primary objective of the *Osservatorio* is to monitor the Region's debt in light of current market conditions with a view to identifying possible means of reducing such debt, both through cost management and improvement of risk profile.

As of 31 December 2003, 45 per cent. of the Region's debt is floating rate and approximately 48 per cent. was incurred to finance specific capital expenditures. Each of these loans requires equal instalments of principal to be paid until maturity. The following table sets forth a breakdown as of 31 December 2003 of the debt of the Region outstanding for the periods indicated (excluding debt which is serviced by the Region with funds transferred by the Central Government):

Date Issued	Amount of Obligations of the Region[1]	Maturity Date	Rate	Outstanding as of 31 December 2003
25 February 1994	€162.8 million[2]	31 December 2004	Fixed (10.9% per annum); Floating[3]	€24,785,440.01 2
2 August 1996	€28 million[2]	31 December 2006	Fixed (9.9% per annum)	€11,342,760.22
23 December 1996	€103.3 million	31 December 2007	Fixed (8.65% per annum)	€40,366,944.33
13 February 1998	USD 100 million	1 February 2028	Fixed (6.53% on a semi-annual basis)[4]	€217,730,433.08
13 February 1998	USD 200 million	1 February 2018	Fixed (6.2% on a semi-annual basis)[4]	
23 June 1998[5]	€250 million	23 June 2028	Fixed (5.695% per annum)[6]	€320,275,864.00
9 December 1998	€174.9 million[2]	31 December 2018	Floating[7]	€147,207,207.78
28 December 1998	€300.7 million	31 December 2018	Floating[7]	€269,364,707.80
13 July 1999	€150 million	13 January 2018	Floating[8]	€150,000,000.00
16 February 2000	€250 million	16 February 2015	Fixed (6.355% per annum)[9]	€191,666,666.00
2 October 2001	€516.45 million	31 December 2023	Floating[10]	€503,545,476.61
29 November 2002	€120 million[11]	23 June 2028	Fixed (5.695% per annum)	-[12]
25 March 2003	€600 million	31 December 2023	Fixed (4.41% per annum)	€600,000,000.00

(1) At the time of issuance.

(2) Healthcare deficit related loans, debt service of which is not included in the calculation of Permitted Debt Service Ratio.

(3) Of which €150.8 million is fixed and €12 million is floating. The floating rate portion of the debt is indexed to a formula calculated by obtaining the average between six months RIBOR (Italian LIBOR) with an additional 75 basis points and the domestic bond market yield (*Rendistato Lordo*) and applying an additional spread of 80 basis points.

(4) The Region entered into an interest rate and currency swap transaction for the term of the loan which modifies their obligation to an interest rate of 5.83%.

(5) An additional issuance of h120 million was made on 29 November 2002 and included in the amortization schedule.

(6) The Region entered into an interest rate and currency swap transaction for the term of the loan which modifies their obligation to an interest rate of 5.035%.

(7) The floating rate is indexed to six months LIBOR with an additional 5 basis points.

(8) The floating rate is indexed to six months EURIBOR with an additional 25 basis points.

(9) The Region entered into an interest rate and currency swap transaction for the term of the loan which modifies their obligation to an interest rate of 5.10%.

(10) The floating rate is indexed to six months EURIBOR.

(11) The Region issued €300 million aggregate principal amount of which only €120 million is to be directly repaid by the Region and the remaining €180 million is to be repaid by the Central Government.

(12) See issuance of €250 million on 23 June 1998.

The following table sets forth the changes in the debt of the Region for the periods indicated:

	Year Ended 31 December					
	1998	1999	2000	2001	2002	2003
	(€ millions)					
Outstanding at Beginning of Year	714	1,225	1,325	1,509	1,945	1,985
New Borrowings	705	156	250	516	120	600
Debt Repayments	(194)	(56)	(67)	(80)	(80)	(120)
Outstanding at End of Year	1,225	1,325	1,509	1,945	1,985	2,465

The following table sets forth the aggregate annual principal amounts due on the Region's outstanding debt as at 31 December 2003:

Aggregate Annual Payments of Principal on the Region's Debt

Year	Aggregate Principal Payments	Year	Aggregate Principal Payments	Year	Aggregate Principal Payments
	(€ millions)		(€ millions)		(€ millions)
2004	139.6	2014	144.1	2024	22.1
2005	118.4	2015	148.3	2025	22.1
2006	122.2	2016	136.2	2026	22.1
2007	105.8	2017	141.3	2027	22.1
2008	108.4	2018	146.4	2028	22.1
2009	111.1	2019	93.7		
2010	129.9	2020	87.0		
2011	133.0	2021	88.2		
2012	136.5	2022	90.0		
2013	140.1	2023	91.9		

Short-Term Debt

Short-term borrowings against future tax revenues (*anticipazioni di Tesoreria*) were limited by the Central Government to €89.3 million for the year 2002. The Region did not make any short-term borrowings in either 2000, 2001, 2002 or 2003.

Debt Record

The Region has never failed since its establishment in 1970, to pay, when due, the full amount of principal of, and interest and premium on, and amortisation or sinking fund requirements with respect to, its outstanding public debt. See "*Financial Information of the Region of Lazio – Summary*".

Hedging Arrangements

Pursuant to Article 41 of Law No. 448, as implemented by Ministerial Decree No. 389 of 1 December 2003 ("Decree No. 389"), the Region may issue notes or enter into loans subject to the entering into of either a sinking fund or a swap transaction for the amortization of the relevant debt. In addition, pursuant to Decree No. 389, the Region is obliged to enter into cross-currency swap transactions in any cases of issues of notes or loans in a currency other than Euro. The swap transactions or sinking funds referred to in Law No. 448 may be entered into exclusively with intermediaries having an adequate rating as certified by primary rating agencies with an international standing.

THE ORIGINATOR AND SERVICER

Introduction

Farmafactoring S.p.A. (the "**Originator**" or the "**Servicer**") is a factoring company registered with the companies register of Milan under No. 249145, with the general register (*elenco generale*) held by *Ufficio Italiano dei Cambi*, pursuant to article 106 of Italian legislative decree No. 385 of 1 September, 1993 (the "**Banking Act**") under No. 28106 and with the special register (*elenco speciale*) held by the Bank of Italy pursuant to article 107 of the Banking Act under ABI Code 19120, and its tax identification number (*codice fiscale*) is 07960110158.

The Originator was established in 1985 by a group of pharmaceutical companies as a service company with the aim of purchasing and collecting claims due from public entities such as hospitals and health authorities; the activity of the company covers the entire territory of Italy with its head office in Milan, a branch in Rome and a network of external collectors.

The authorised equity capital of the Originator is EUR 55,000,000, entirely issued and paid-up. The shareholders of the Originator (together, the "**Shareholders**") and their equity interests are as follows:

Shareholders	
Confarma	60%
Ifitalia	19%
Banca Monte dei Paschi di Siena	11%
Capitalia	10%

The current shareholders of Confarma (as at 31 December 2003) are shown below:

Abbott	Istituto Biochimico Italiano
Alfa Wassermann	L. Molteni & C. dei F.lli Alitti A.
Menarini	Mediolanum Farmaceutici
Astra Zeneca	NEOPHARMED
Baxter	Novartis Farma
Biomedica Foscama	Pharmacia Italia
Bracco	Recordati
Bristol-Myers Squibb	Roche
Byk Gulden Italia	Schering
Eurospital	S.I.F.I.
Fidia Farmaceutici	Sanofi-Synthelabo
GlaxoSmithKline	Sigma Tau
Industria Farmaceutica Serono	Zambon Group

Principal activities

The Originator's core business consists of the management, purchase and collection of claims from Italian national health service and public administration. In particular, the company is involved in the following business areas:

- optimisation of credit collection management for the most important pharmaceutical and biomedical companies dealing with Health Authorities, public hospitals, ministries and public entities of the Italian State;
- non-recourse purchasing and discount at contractual maturity. Sale of claims are agreed through a notary private act that is recorded and notarised by an *Ufficiale Giudiziario* (court bailiff).

The Originator offers the following extra services:

- collection of mandates;
- advances on invoices;
- with recourse discount; and
- legal consultancy for credit collection

Originally incorporated with the aim to operate exclusively for Confarma and its associates, Farmafactoring recently extended its activities to all suppliers to the health care system and public administration sectors.

At the end of year 2003, the total claims volume managed by Farmafactoring was EUR 2.346 billion with a purchased claims total of EUR 1.036 billion.

The Originator's business model, internal controls and procedures and information technology platform is tailored to its individual customers due to the complexity of the payment procedures used in the public sector, the high level of fragmentation of the claims and the very nature of the services rendered to its customers. This model includes:

- implementing an external, outsourced network of professionals which periodically visit Health Authorities;
- utilising the most updated information technology programs for its treasury management in order to maximise financial cash flows; and
- developing strong institutional relationships with Ministries, Regions, Municipalities that manage health service expenses.

THE ISSUER'S BANK ACCOUNTS

Pursuant to the terms of the Account Bank Agreement, the Issuer has opened with the Account Bank the following bank accounts:

(a) a dual account which is (i) a euro-denominated cash account into which all amounts paid by the Region under the Delegations of Payment and by the Health Authorities under the Settlement Agreement or under the Contracts will be credited and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be deposited, and the cash balance of which will be transferred to the Payments Account on the fourth Business Day prior to each Interest Payment Date (the "**Collection Account**");

(b) a euro-denominated cash account into which, *inter alia*, (i) the Account Bank will be required to transfer four Business Days prior to each Interest Payment Date the balance standing to the credit of the Collection Account; (ii) the Account Bank will be required to transfer on the fourth Business Day prior to each Interest Payment Date part or all of the cash balance standing to the credit of the Expense Account and the Expenses Reserve Account as set out in the Account Bank Agreement and (iii) the Swap Counterparty is required to make any payment due to the Issuer under the Swap Agreement (the "**Payments Account**"). Immediately before each Interest Payment Date, an amount equal to the amount payable in respect of interest and principal under the Notes on the immediately following Interest Payment Date will be transferred from the Payments Account to the Italian Paying Agent Account. The remaining credit balance of the Payments Account will be used on each Interest Payment Date to make payments to the Other Issuer Creditors in accordance with the applicable Priority of Payments;

(c) a dual account which is (i) a euro-denominated cash account into which the Issuer will deposit €332,111.14 on or immediately before the Issue Date and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be credited (the "**Expense Account**"). A certain portion of the balance standing to the credit of the Expense Account will be transferred to the Payments Account on the fourth Business Day prior to each Interest Payment Date and on any other day as directed by the Computation Agent;

(d) a dual account which is (i) a euro-denominated cash account into which the Issuer will deposit €262,350.86 on or around the Issue Date from the Payments Account out of the first payment from the Swap Counterparty to the Issuer under the Swap Agreement and (ii) a securities custody account into which all Eligible Investments purchased with monies standing to the credit of this account will be credited (the "**Expenses Reserve Account**"). Amounts standing to the credit of the Expenses Reserve Account will be used by the Issuer to pay unforeseen, contingent or extraordinary costs and expenses to the extent that the amounts standing to the credit of the Expense Account are insufficient to pay such costs, and such amounts will be transferred to the Payments Account on the fourth Business Day prior to the relevant Interest Payment Date and any other day as the Computation Agent may direct, and a portion of the Expenses Reserve Account will be transferred to the Payments Account on the fourth Business Day prior to certain Interest Payment Dates so that the Issuer can make payments to the Swap Counterparty; and

(e) a euro-denominated deposit account into which the Issuer's equity capital of €10,000 shall remain deposited for as long as any Notes are outstanding (the "**Equity Capital Account**").

Pursuant to the terms of the Swap Agreement on the date when the credit support annex is entered into between the Swap Counterparty, the Issuer and the Representative of the Noteholders (the "**Credit Support Annex**"), the Issuer will open a collateral account with the Account Bank into which the collateral posted is credited (the "**Collateral Account**" and, together with the Collection Account, the Payments Account, the Expense Account and the Expenses Reserve Account, the "**English Accounts**").

Pursuant to the terms of the Agency and Account Agreement, the Issuer has opened with the Italian Paying Agent a euro-denominated current account into which the Account Bank will be required to transfer one Business Day prior to each Interest Payment Date such amounts as are indicated in the relevant Payments

Report as payable to the Noteholders (the "**Italian Paying Agent Account**" and, together with the English Accounts, the "**Accounts**").

Pursuant to the Account Bank Agreement, the Account Bank has agreed, *inter alia*:

(a) to provide the Issuer with certain services in connection with account handling and reporting requirements in relation to the monies from time to time standing to the credit of the English Accounts;

(b) to invest on behalf of the Issuer funds standing to the credit of the Collection Account, the Expense Account and the Expenses Reserve Account in Eligible Investments pursuant to a standing order from the Issuer or as otherwise directed by an investment instruction signed by an authorised representative of the Issuer; and

(c) to prepare and deliver on each Reporting Date to, *inter alia*, the Computation Agent and the Issuer statements of account relative to the English Accounts (the "**Statements of English Accounts**").

If the Account Bank ceases to be an Eligible Institution, it will promptly notify the Issuer and the Representative of the Noteholders thereof and the Issuer will within 30 days (i) terminate the appointment of the Account Bank and close the English Accounts opened with it and, simultaneously (ii) open replacement English Accounts in the Republic of Italy with a replacement account bank which is an Eligible Institution and which will agree to act as Account Bank.

The Issuer will appoint a successor Account Bank following the termination of the appointment of the Account Bank in accordance with the Account Bank Agreement and will notify the Rating Agencies of the appointment of a successor Account Bank.

If the Italian Paying Agent ceases to be an Eligible Institution it will promptly notify the Issuer and the Representative of the Noteholders thereof and the Issuer will within 30 days (i) terminate the appointment of the Italian Paying Agent and close the Italian Paying Agent Account opened with it and, simultaneously, (ii) open replacement Italian Paying Agent Account with a replacement Italian paying agent which is an Eligible Institution and which will agree to act as Italian Paying Agent.

"**Eligible Institution**" means (i) any depository institution organised under the laws of any state which is a member of the European Union or of the United States of America, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "F1" by Fitch and "P-1" by Moody's and the long-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "A1" by Moody's; and (ii) BNP Paribas Securities Services for so long as (A) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of BNP Paribas S.A. are rated at least "F1" by Fitch and "P-1" by Moody's; (B) BNP Paribas S.A. holds a 100 per cent. interest in BNP Paribas Securities Services; and (C) the words "BNP Paribas" are contained in its legal name.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the "**Conditions**").

The €193,259,000 Asset-Backed Floating Rate Notes due 2009 (the "**Notes**") will be issued by FL Finance S.r.l. (the "**Issuer**") on 29 October, 2004 (the "**Issue Date**") in order to repay a loan (the "**Bridge Loan**") granted by Merrill Lynch Capital Markets Bank Limited, Milan Branch (the "**Bridge Loan Lender**") to the Issuer for the purchase of a portfolio of monetary claims (the "**Claims**" or the "**Portfolio**") arising from: (i) delegations of payment (the "**Delegations of Payment**") issued by various *aziende sanitarie locali, aziende ospedaliere and istituti fisioterapici ospitalieri* (collectively, the "**Health Authorities**") to the Region of Lazio (the "**Region**") pursuant to article 1268 of the Italian civil code; (ii) settlement agreements (the "**Settlement Agreements**") entered into between the Health Authorities, Farmafactoring S.p.A. ("**Farmafactoring**" or the "**Originator**") and the Region; and (iii) the sale and supply of pharmaceutical products and services by various pharmaceutical companies to the Health Authorities (the "**Contracts**"). The purchase of the Claims was perfected in accordance with the Securitisation Law and articles 69 and 70 of Italian royal decree No. 2440 of 18 November, 1923 (the "**Decree 2440**").

The Notes are subject to and have the benefit of an agency and account agreement (the "**Agency and Account Agreement**") dated 28 October, 2004 (the "**Signing Date**") between the Issuer, The Bank of New York, London Branch as computation agent, agent bank and representative of the holders of the Notes (in such capacities, respectively, the "**Computation Agent**", the "**Agent Bank**" and the "**Representative of the Noteholders**", which expressions include any successor computation agent, agent bank or representative of the Noteholders appointed from time to time), BNP Paribas Securities Services, Milan Branch as Italian paying agent (in such capacity, the "**Italian Paying Agent**", which expression includes any successor Italian paying agent appointed from time to time in respect of the Notes), The Bank of New York (Luxembourg) S.A. as Luxembourg paying agent (the "**Luxembourg Paying Agent**", which expression includes any successor Luxembourg paying agent appointed from time to time in respect of the Notes and, together with the Italian Paying Agent, the "**Paying Agents**") and The Bank of New York Europe Limited as Luxembourg listing agent (the "**Luxembourg Listing Agent**", which expression includes any Luxembourg listing agent appointed from time to time in respect of the Notes).

The Noteholders are deemed to have notice of and are bound by and shall have the benefit of, *inter alia*, the terms of the rules of the organisation of the Noteholders (the "**Rules of the Organisation of Noteholders**", which constitute an integral and essential part of these Conditions). The Rules of the Organisation of Noteholders are attached hereto as a schedule. The rights and powers of the Representative of the Noteholders and the Noteholders may be exercised only in accordance with the Rules of the Organisation of Noteholders.

Certain of the statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Agency and Account Agreement, the Intercreditor Agreement (as defined below) and the other Transaction Documents (as defined below). Any reference in these Conditions to a particular Transaction Document is a reference to such Transaction Document as from time to time created and/or modified and/or supplemented in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so amended and/or modified and/or supplemented.

The holders of the Notes (the "**Noteholders**" and each a "**Noteholder**") are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Agency and Account Agreement, the Rules of the Organisation of Noteholders, the Intercreditor Agreement and the other Transaction Documents applicable to them. Copies of the Agency and Account Agreement, the Rules of the Organisation of Noteholders, the Intercreditor Agreement and the other Transaction Documents are available, on reasonable notice, for inspection during normal business hours by the Noteholders at the Specified Office (as defined below) for the time being of the Representative of the Noteholders and at the Specified Offices of each of the Paying Agents.

The Issuer has published to prospective Noteholders the *prospetto informativo* required by article 2 of law No. 130 of 30 April, 1999 (*disposizioni sulla cartolarizzazione dei crediti*), as amended from time to time

(the "**Securitisation Law**"). Copies of the *prospetto informativo* will be available, upon request, to the holder of any Note during normal business hours at the Specified Offices of the Representative of the Noteholders and at the Specified Offices of the Paying Agents.

References to "**Noteholders**" or to the "**holders**" of Notes are to the beneficial owners of the Notes.

The principal source of funds available to the Issuer for the payment of amounts due on the Notes will be collections and recoveries made in respect of the Claims. The Claims will be segregated from all other assets of the Issuer by operation of the Securitisation Law and, pursuant to the Intercreditor Agreement, amounts deriving therefrom will be available, both before and after a winding-up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders, to pay costs, fees and expenses due to the Other Issuer Creditors (as defined below) under the Transaction Documents and to pay any other creditor of the Issuer in respect of costs, liabilities, fees or expenses payable to any such other creditor in relation to the securitisation of the Claims by the Issuer through the issuance of the Notes (the "**Securitisation**").

In these Conditions:

1. Definitions

"**Account Bank**" means The Bank of New York, London Branch in its capacity as account bank, under the Account Bank Agreement, and includes any successor account bank appointed from time to time;

"**Account Bank Agreement**" means an account bank agreement dated the Initial Execution Date, as subsequently amended and restated on the Signing Date, between the Issuer, the Account Bank, the Computation Agent and the Representative of the Noteholders;

"**Accounts**" means the Collection Account, the Expense Account, the Expenses Reserve Account, the Payments Account, the Equity Capital Account, the Italian Paying Agent Account and the Collateral Account (if any) and "**Account**" means any one of them;

"**Agency and Account Agreement**" means an agency and account agreement dated the Signing Date between, the Issuer, the Luxembourg Listing Agent, the Luxembourg Paying Agent, the Agent Bank, the Computation Agent and the Representative of the Noteholders;

"**Business Day**" means a day on which banks are open for business in Milan, Rome, Luxembourg and London and which is a TARGET Settlement Day;

"**Calculation Date**" means the third Business Day preceding each Interest Payment Date;

"**Cancellation Date**" means the last Business Day in June 2014;

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Collateral Account**" means the collateral account to be opened by Issuer with the Account Bank on the date when the Credit Support Annex is executed, into which the collateral posted by the Swap Counteparty pursuant to the Swap Agreement will be credited;

"**Collection Account**" means a euro-denominated dual account opened by the Issuer with the Account Bank, as better identified in the Account Bank Agreement into which all amounts paid by the Region under the Delegations of Payment and by the Health Authorities under the Settlement Agreement or under the Contracts are required to be credited;

"**Collection Date**" means the fifth Business Day immediately preceding each Interest Payment Date;

"**Collection Period**" means each period commencing on (but excluding) a Collection Date and ending on (and including) the next succeeding Collection Date, and in the case of the first Collection Period, commencing on the Initial Execution Date and ending on the fifth Business Day immediately preceding the Interest Payment Date falling in December 2004 (both included);

"**Collections**" means the monies collectively received under or in respect of the Portfolio;

"**CONSOB**" means the Commissione Nazionale per le Società e la Borsa;

"**Corporate Services Agreement**" means a corporate services agreement dated the Signing Date between the Corporate Services Provider, the Representative of the Noteholders and the Issuer;

"**Corporate Services Provider**" means Structured Finance Management Italia S.r.l. or any successor acting as such under the Corporate Services Agreement;

"**Credit Support Annex**" means the credit support annex to be entered into between the Swap Counterparty, the Issuer and the Representative of the Noteholders in accordance with the Swap Agreement;

"**Decree 239**" means Italian legislative decree No. 239 of 1 April, 1996, as subsequently amended;

"**Decree 239 Interest Payment Date**" means the Interest Payment Date falling in June 2006;

"**Decree 239 Withholding**" means any withholding or deduction for or on account of "*imposta sostitutiva*" under Decree 239;

"**Deed of Release and Termination**" means a deed of discharge under English law dated the Signing Date between, *inter alios*, the Issuer, the Bridge Loan Lender and the Swap Counterparty, pursuant to which the security interests created under the Security and Intercreditor Deed will be discharged and reassigned, as applicable, and the Security and Intercreditor Deed will be terminated;

"**Eligible Institution**" means (i) any depository institution organised under the laws of any state which is a member of the European Union or of the United States of America, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "F1" by Fitch and "P-1" by Moody's and the long-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "F1" by Fitch and "A1" by Moody's; and (ii) BNP Paribas Securities Services for so long as (A) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of BNP Paribas S.A. are rated at least "P-1" by Moody's; (B) BNP Paribas S.A. holds a 100 per cent. interest in BNP Paribas Securities Services; and (C) the words "BNP Paribas" are contained in its legal name;

"**Eligible Investments**" means:

(a) euro-denominated money market funds which have (i) a long-term rating of "Aaa" and a short-term rating of "MR1+" from Moody's and (ii) a long-term rating of "AAA" or a short-term rating of "V1+" from Fitch, and permit daily or weekly liquidation of investments, or have a maturity date falling before the next Liquidation Date, provided they are disposable without penalty; or

(b) euro-denominated senior (unsubordinated) debt securities or other debt instruments providing a repayment in full of principal at maturity provided that, in all cases, (i) such investments have a maturity date falling on or before the next following Liquidation Date and (ii) the debt securities or other debt instruments are issued by, or fully and unconditionally guaranteed on an unsubordinated basis by, an institution whose unsecured and unsubordinated debt obligations are rated at least "F1" by Fitch in respect of short-term debt and "A1" and "P-1" by Moody's in respect of, respectively, long-term and short-term debt;

"**English Accounts**" means the Collection Account, the Expense Account, the Expenses Reserve Account, the Payments Account, the Equity Capital Account and the Collateral Account (if any) and "**English Account**" means any one of them;

"**English Deed of Charge and Assignment**" means the deed of charge and assignment to be dated the Issue Date between the Issuer and the Representative of the Noteholders and governed by English law;

"**English Law Transaction Documents**" means the Account Bank Agreement, the Deed of Release and Termination, the Swap Agreement, the Subscription Agreement, the English Deed of Charge and Assignment and the Stichtingen Corporate Services Agreement;

"**Equity Capital Account**" means the euro-denominated deposit account opened by the Issuer with the Account Bank pursuant to the Account Bank Agreement into which the Issuer's equity capital of €10,000 shall remain deposited for as long as any Notes are outstanding;

"**EURIBOR**" has the meaning attributed to it in Condition 6(c) (*Rate of interest on the Notes*);

"**Euro**" or "**euro**" or "**€**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25 March, 1957), as amended;

"**Euroclear**" means Euroclear Bank S.A./N.V. as operator of the Euroclear System;

"**euro-zone**" means the region comprising those member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March, 1957) as amended by the Treaty on European Union (signed in Maastricht on 7 February, 1992) and the Treaty of Amsterdam (signed on 2 October, 1997);

"**Event of Default**" has the meaning ascribed to it in Condition 10 (*Events of Default*);

"**Expense Account**" means a euro-denominated dual account opened by the Issuer with the Account Bank, as better identified in the Account Bank Agreement, into which the Issuer will deposit €332,111.14 on or immediately before the Issue Date;

"**Expenses Reserve Account**" means a euro-denominated dual account opened by the Issuer with the Account Bank, as better identified in the Account Bank Agreement, into which the Issuer will deposit €262,350.86 on or around the Issue Date, which amount, *inter alia*, will be used by the Issuer to pay unforeseen, contingent or extraordinary costs and expenses to the extent that the amounts standing to the credit of the Expense Account are insufficient to pay such costs and to make payments from the Issuer to the Swap Counterparty;

"**Extraordinary Resolution**" has the meaning given to it in the Rules of the Organisation of Noteholders;

"**Final Maturity Date**" has the meaning given to it in Condition 7(a) (*Final redemption*);

"**Financing Party**" means Farmafactoring S.p.A. in its capacity as financing party under the Letter of Undertaking;

"**Fitch**" means Fitch Ratings Limited;

"**Initial Execution Date**" means 22 July, 2004;

"**Insolvency Event**" will have occurred in respect of the Issuer if:

(a) the Issuer becomes subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (among which, without limitation, *fallimento*, *liquidazione coatta amministrativa*, *concordato preventivo*, *amministrazione straordinaria* and *amministrazione controllata*, each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including also any equivalent or analogous proceedings under the law of the jurisdiction in which the Issuer is deemed to carry on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors) or similar proceedings or the whole or any substantial part of the undertaking or assets of the Issuer are subject to a *pignoramento* or similar procedure having a similar effect (other than any portfolio of assets purchased by the Issuer for the purposes of further securitisation transactions), unless in the opinion of the Representative of the Noteholders (who may in this respect rely on the advice of a lawyer selected by it), such proceedings are being disputed in good faith with a reasonable prospect of success;

(b) an application for the commencement of any of the proceedings under (a) above is made in respect of or by the Issuer or the same proceedings are otherwise initiated against the Issuer and, in the

opinion of the Representative of the Noteholders (who may in this respect rely on the advice of a lawyer selected by it), the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success;

(c) the Issuer takes any action for a re-adjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than the Issuer Secured Creditors) or is granted by a competent court a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments; or

(d) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of the Issuer (except a winding-up for the purposes of or pursuant to a solvent amalgamation or reconstruction, the terms of which have been previously approved in writing by the Representative of the Noteholders) or any of the events under article 2484 of the Italian civil code occurs with respect to the Issuer;

"**Insolvent**" means, in respect of the Issuer, that:

(a) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business;

(b) the Issuer is deemed unable to pay its debts pursuant to or for the purposes of any applicable law; or

(c) the Issuer becomes unable to pay its debts as they fall due;

"**Intercreditor Agreement**" means an intercreditor agreement dated the Signing Date between the Issuer, the Noteholders (represented by the Representative of the Noteholders) and the Other Issuer Creditors;

"**Interest Amount**" has the meaning given to it in Condition 6(d) (*Calculation of Interest Amounts*);

"**Interest Amount Arrears**" means the portion of the relevant Interest Amount for the Notes, calculated pursuant to Condition 6(d) (*Calculation of Interest Amounts*), which remains unpaid on the relevant Interest Payment Date;

"**Interest Determination Date**" has the meaning attributed to it in Condition 6(c) (*Rate of interest on the Notes*);

"**Interest Payment Date**" has the meaning attributed to it in Condition 6(a) (*Interest Payment Dates and Interest Periods*);

"**Interest Period**" has the meaning attributed to it in Condition 6(a) (*Interest Payment Dates and Interest Periods*);

"**Interim Documents**" means the Facility Agreement, the Security and Intercreditor Deed, the Interim Hedging Agreement and the Novation Agreement;

"**Issuer**" means FL Finance S.r.l.;

"**Issuer Acceleration Notice**" has the meaning ascribed to it in Condition 10(b) (*Delivery of an Issuer Acceleration Notice*);

"**Issuer Available Funds**" means, on each Calculation Date and in respect of the immediately following Interest Payment Date, an amount equal to the aggregate of:

(a) the amount standing to the credit of the Payments Account on such Calculation Date consisting of, *inter alia*:

(i) amounts transferred from the Collection Account consisting of, *inter alia* (A) sums collected or recovered by, or on behalf of, the Issuer in respect of the Claims during the preceding Collection Period, (B) any amount received by the Issuer under any of the Transaction

Documents during the preceding Collection Period, (C) all amounts of interest paid on the English Accounts (other than the Equity Capital Account) during the preceding Collection Period, (D) an amount equal to the Collections invested in Eligible Investments (if any) during the immediately preceding six-month period from the Collection Account, following liquidation thereof on the preceding Liquidation Date, (E) the Revenue Eligible Investments Amount relating to the preceding Liquidation Date;

(ii) up to the Calculation Date preceding (but excluding) the Interest Payment Date on which the Notes will be redeemed in full, a portion of the amount standing to the credit of the Expense Account as set out in the Account Bank Agreement;

(iii) up to the Calculation Date preceding (but excluding) the Interest Payment Date on which the Notes will be redeemed in full, a portion of the amount standing to the credit of the Expense Reserve Account as set out in the Account Bank Agreement;

(iv) any amount paid to the Issuer by the Swap Counterparty in accordance with the terms of the Swap Agreement on the fourth Business Day before the immediately following Interest Payment Date; and

(b) on the Calculation Date immediately preceding the Interest Payment Date on which the Notes will be redeemed in full, the amount standing to the credit of the Expense Account and of the Expenses Reserve Account at such date,

but excluding (i) prior to the date on which the Swap Transaction is terminated early, the amount (if any) standing to the credit of the Collateral Account pursuant to the Credit Support Annex and (ii) following the date on which the Swap Transaction is terminated, the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided;

"**Issuer Creditors**" means (i) the Noteholders (represented, as the case may be, by the Representative of the Noteholders); (ii) the Other Issuer Creditors; and (iii) any other third-party creditors in respect of any taxes, costs, fees, liabilities or expenses incurred by the Issuer in relation to the Securitisation;

"**Issuer Secured Creditors**" means the Noteholders, the Representative of the Noteholders, the Computation Agent, the Servicer, the Italian Paying Agent, the Agent Bank, the Account Bank, the Swap Counterparty, the Financing Party, the Originator, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Corporate Services Provider and the Stichtingen Corporate Services Provider;

"**Issuer's Rights**" means the Issuer's right, title and interest in and to the Claims, any rights that the Issuer has acquired under the Transaction Documents and any other rights that the Issuer has acquired against the Originator, any Other Issuer Creditors (including any applicable guarantors or successors) or third parties for the benefit of the Noteholders in connection with the securitisation of the Portfolio;

"**Italian Deed of Pledge**" means a deed of pledge under Italian law to be executed on or around the Issue Date between the Issuer and the Representative of the Noteholders acting on its own behalf and on behalf of the other Issuer Secured Creditors, and governed by Italian law;

"**Italian Law Transaction Documents**" means the Transfer Agreement, the Transfer Deeds, the Servicing Agreement, the Warranty and Indemnity Agreement, the Put Option Agreement, the Mandate Agreement, the Monte Titoli Mandate Agreement, the Shareholders' Agreement, the Corporate Services Agreement, the Agency and Account Agreement, the Intercreditor Agreement, the Italian Deed of Pledge and the Letter of Undertaking;

"**Italian Paying Agent Account**" means a euro-denominated current account opened by the Issuer with the Italian Paying Agent, as better identified in the Agency and Account Agreement, into which the Account Bank will be required to transfer one Business Day prior to each Interest Payment Date such amounts as are indicated in the relevant Payments Report as payable to the Noteholders;

"**Joint Lead Managers**" means Merrill Lynch International and Dexia Crediop S.p.A. and "**Joint Lead Manager**" means any one of them;

"**Letter of Undertaking**" means a letter of undertaking dated the Signing Date between the Issuer, the Representative of the Noteholders and the Financing Party;

"**Liquidation Date**" means the date falling four Business Days before each Interest Payment Date;

"**Mandate Agreement**" means a mandate agreement dated the Signing Date between the Issuer and the Representative of the Noteholders;

"**Meeting**" has the meaning given to it in the Rules of the Organisation of Noteholders;

"**Monte Titoli**" means Monte Titoli S.p.A.;

"**Monte Titoli Account Holder**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli and includes depository banks appointed by Clearstream, Luxembourg and Euroclear;

"**Monte Titoli Mandate Agreement**" means a Monte Titoli mandate agreement dated on or before the Signing Date between Monte Titoli and the Issuer;

"**Moody's**" means Moody's Investors Service Inc.;

"**Organisation of Noteholders**" means the organisation of the Noteholders created by the issue and subscription of the Notes and regulated by the Rules of the Organisation of Noteholders attached hereto as the exhibit;

"**Originator**" means Farmafactoring S.p.A.;

"**Originator's Claims**" has the same meaning attributed to it in Clause 10 of the Transfer Agreement (which term identifies all the claims of the Originator against the Issuer under the Transfer Agreement other than in respect of the Purchase Price of the Claims);

"**Other Issuer Creditors**" means, collectively, the Representative of the Noteholders, the Originator, the Servicer, the Financing Party, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Account Bank, the Computation Agent, the Swap Counterparty, the Italian Paying Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent and the Agent Bank;

"**Payments Account**" means a euro-denominated cash account opened by the Issuer with the Account Bank, as better identified in the Account Bank Agreement, that will be used, *inter alia*, on each Interest Payment Date to make payments to the Other Issuer Creditors in accordance with the applicable Priority of Payments;

"**Post-Enforcement Priority of Payments**" means the provisions relating to the order of priority of payments as set out in Condition 3(d) (*Post-Enforcement Priority of Payments*);

"**Pre-Enforcement Priority of Payments**" means the provisions relating to the order of priority of payments as set out in Condition 3(c) (*Pre-Enforcement Priority of Payments*);

"**Principal Amount Outstanding**" means, at any point in time in relation to a Note, the principal amount of that Note upon issue less the aggregate amount of all Principal Payments in respect of that Note which have become due and payable (and which have been actually paid) on or prior to that date;

"**Principal Payments**" has the meaning given in Condition 7(d) (*Mandatory redemption of the Notes*);

"**Priority of Payments**" means, as the case may be, the Pre-Enforcement Priority of Payments or the Post-Enforcement Priority of Payments;

"**Purchase Price of the Claims**" has the meaning given to it in the Transfer Agreement, which term identifies the purchase price of the Claims;

"**Rate of Interest**" has the meaning given in Condition 6(c) (*Rate of interest on the Notes*);

"**Rating Agencies**" means Fitch and Moody's;

"**Ratings Downgrade Termination**" means the early termination of the Swap Transaction by the Issuer as a result of:

(a) the failure by the Swap Counterparty, within the time period specified in the Swap Agreement, to:

(i) transfer all of its rights and obligations with respect to the Swap Agreement to an appropriately rated entity; or

(ii) arrange for an appropriately rated entity to become co-obligor in respect of the obligations of the Swap Counterparty under the Swap Agreement; or

(iii) deliver collateral under the Credit Support Annex; or

(iv) take such other action as may be agreed with the relevant Rating Agency,

in the event that the ratings of (i) the short-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "F1" by Fitch or "P-1" by Moody's or (ii) the long-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "A+" by Fitch or "A1" by Moody's, or

(b) the failure by the Swap Counterparty, within the time period specified in the Swap Agreement, to:

(i) transfer all of its rights and obligations with respect to the Swap Agreement to an appropriately rated entity; or

(ii) arrange for an appropriately rated entity to become co-obligor in respect of the obligations of the Swap Counterparty under the Swap Agreement; or

(iii) take such other action as may be agreed with the relevant Rating Agency,

in the event that (i) the short-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "F2" by Fitch or "P-2" by Moody's or (ii) the long-term, unsecured and unsubordinated debt obligations of the Swap Guarantor fall below "BBB+" by Fitch or "A3" by Moody's;

"**Reference Banks**" means, initially, Citibank N.A., Deutsche Bank AG and Royal Bank of Scotland Limited, each through its London office and its successors or assignors and, if the principal London office of any such bank is unable or unwilling to continue to act as a Reference Bank, the principal London office of such other bank as the Issuer shall appoint and as may be approved in writing by the Representative of the Noteholders to act in its place;

"**Relevant Date**" means, in respect of any payment in relation to the Notes, whichever is the later of:

(a) the date on which the payment in question first becomes due; and

(b) if the full amount payable has not been received by the Italian Paying Agent or the Representative of the Noteholders on or prior to such date, the date on which, the full amount having been so received, notice to that effect has been given to the Noteholders in accordance with Condition 17 (*Notices*);

"**Revenue Eligible Investments Amount**" means, as at each Liquidation Date, any interest or other remuneration on the Eligible Investments bought by or for the account of the Issuer other than repayment of principal or repayment of the initial capital invested, as applicable, in respect of each Eligible Investment;

"**Scheduled Repayment Amount**" means, with respect to each Interest Payment Date (starting from the Decree 239 Interest Payment Date), the amount indicated under the heading "Scheduled Repayment Amount" in the table below against the corresponding Interest Payment Date:

Interest Payment Date falling in:	**Scheduled Repayment Amount:**
June 2006	€76,643,000
December 2006	€19,436,000
June 2007	€19,436,000
December 2007	€19,436,000
June 2008	€19,436,000
December 2008	€19,436,000
June 2009	€19,436,000

"**Screen Rate**" has the meaning attributed to it in Condition 6(c) (*Rate of interest on the Notes*);

"**Secured Amounts**" means all the amounts due, owing or payable by the Issuer, whether present or future, actual or contingent, to the Noteholders under the Notes and the other Issuer Secured Creditors pursuant to the relevant Transaction Documents;

"**Security Interest**" means any mortgage, charge, pledge, lien, right of set-off, special privilege (*privilegio speciale*), assignment by way of security, retention of title or any other security interest whatsoever or any other agreement or arrangement having the effect of conferring security;

"**Servicer**" means Farmafactoring S.p.A.;

"**Servicing Agreement**" means the servicing agreement dated the Initial Execution Date and amended on the Signing Date between the Issuer, the Representative of the Noteholders and the Servicer;

"**Shareholders' Agreement**" means a quotaholders' agreement in relation to the Issuer dated the Signing Date between the Issuer, the Representative of the Noteholders, Stichting Farma 1 and Stichting Farma 2;

"**Specified Offices**" has the meaning given in Condition 17(d) (*Initial Specified Offices*);

"**Stichting Farma 1**" means Stichting Farma 1, a Dutch foundation (*stichting*) established under the laws of The Netherlands, with statutory seat at Olympic Plaza, Frederik Roeskestraat 123, 1076 EE Amsterdam, The Netherlands;

"**Stichting Farma 2**" means Stichting Farma 2, a Dutch foundation (*stichting*) established under the laws of The Netherlands, with statutory seat at Olympic Plaza, Frederik Roeskestraat 123, 1076 EE Amsterdam, The Netherlands;

"**Stichtingen**" means, collectively, Stichting Farma 1 and Stichting Farma 2, and "**Stichting**" means any one of them;

"**Subscription Agreement**" means the subscription agreement in respect of the Notes dated the Signing Date among the Joint Lead Managers, the Originator, the Issuer and the Representative of the Noteholders;

"**Swap Agreement**" means the Swap Transaction documented under the 1992 ISDA Master Agreement (Multicurrency-Cross Border), the Schedule thereto, as published by the International Swap & Derivatives Association, Inc., and a confirmation thereunder;

"**Swap Guarantee**" means the guarantee provided by the Swap Guarantor, dated the Signing Date, to the Issuer, guaranteeing the due and punctual payment of all amounts payable by the Swap Counterparty under the Swap Agreement, when the obligations of the Swap Counterparty become due and payable thereunder;

"**Swap Guarantor**" means Merrill Lynch & Co., Inc.;

"**Swap Transaction**" means an interest rate swap transaction dated the Signing Date and executed between the Issuer, Merrill Lynch Capital Markets Bank Limited and the Representative of the Noteholders;

"**Swap Trigger**" means the occurrence of an early termination of the Swap Transaction due to:

(a) a Ratings Downgrade Termination; or

(b) the occurrence of an Event of Default (as defined in the Swap Agreement (which, for the avoidance of doubt, is not the same as an Event of Default under the Notes)) where the Defaulting Party (as defined in the Swap Agreement) is the Swap Counterparty;

"**TARGET Settlement Day**" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

"**Transaction Documents**" means the English Law Transaction Documents together with the Italian Law Transaction Documents and the Swap Guarantee and each a "**Transaction Document**";

"**Transfer Agreement**" means a transfer agreement dated the Initial Execution Date and amended on the Signing Date between the Issuer and the Originator;

"**Transfer Deeds**" means the 20 notarial transfer deeds dated the Initial Execution Date between the Issuer and the Originator pursuant to which the Issuer has acquired the ownership of the Claims pursuant to the Securitisation Law and Decree 2440 and "**Transfer Deed**" means any one of them;

"**Warranty and Indemnity Agreement**" means a warranty and indemnity agreement dated the Initial Execution Date between the Issuer and the Originator; and

"**Written Resolution**" means a resolution in writing signed by or on behalf of all holders of Notes who for the time being are entitled to receive notice of a Meeting of such holders of Notes in accordance with the Rules of the Organisation of Noteholders, whether contained in one document, or several documents in the same form, each signed by or on behalf of one or more such holders of Notes.

For the purposes of these Conditions, payments made by the Swap Guarantor, in accordance with the terms of the Swap Guarantee, shall be treated as if they were payments made by the Swap Counterparty under the Swap Agreement.

2. Form, denomination and title

(a) Form

The Notes are in bearer and dematerialised form and will be wholly and exclusively deposited with Monte Titoli in accordance with article 28 of Italian legislative decree No. 213 of 24 June, 1998, through the authorised institutions listed in article 30 of such legislative decree.

(b) Denomination

The Notes are issued in the denomination of €1,000.

(c) Title

The Notes will be held by Monte Titoli on behalf of the Noteholders until redemption and cancellation for the account of each relevant Monte Titoli Account Holder. The Notes will at all times be in book entry form and title to the Notes will be evidenced by book entries in accordance with the provisions of: (i) article 28 of Italian legislative decree No. 213 of 24 June, 1998; and (ii) resolution No. 11768 of 23 December, 1998 of the CONSOB as subsequently amended. No physical document of title will be issued in respect of the Notes.

(d) Holder Absolute Owner

The Issuer, the Representative of the Noteholders and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the Monte Titoli Account Holder as the absolute owner for all purposes (whether or not the Note shall be overdue and notwithstanding any notice of ownership or writing on the Note or any notice of previous loss or theft of the Note).

3. Status and priority

(a) Status

The Notes are limited-recourse obligations of the Issuer and, accordingly, the extent of the obligation of the Issuer to make payments under the Notes is limited to the share of the amounts received or recovered by or on behalf of the Issuer or the Representative of the Noteholders in respect of the Claims and under the Transaction Documents (but excluding the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided). The Notes are secured over certain assets of the Issuer pursuant to the Italian Deed of Pledge and the English Deed of Charge and Assignment. The Noteholders acknowledge that the limited-recourse nature of the Notes produces the effects of a *contratto aleatorio* under Italian law and they accept the consequences thereof, including but not limited to the provisions of article 1469 of the Italian civil code. The rights arising from the Italian Deed of Pledge and the English Deed of Charge and Assignment are included in each Note.

(b) Sole obligations

The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other parties to the Transaction Documents.

(c) Pre-Enforcement Priority of Payments

Prior to the service of an Issuer Acceleration Notice, the Issuer Available Funds as calculated on each Calculation Date will be applied by the Issuer on the Interest Payment Date immediately following such Calculation Date in making payments or provisions in the following order of priority (the "**Pre-Enforcement Priority of Payments**") but, in each case, only if and to the extent that payments or provisions of a higher priority have been made in full:

(i) *first*, in or towards satisfaction of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders or any appointee thereof;

(ii) *second*, in or towards satisfaction, *pro rata* and *pari passu*, of any and all outstanding taxes due and payable by the Issuer (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking);

(iii) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

(a) any and all outstanding fees, costs, liabilities and any other expenses to be paid in order to preserve the corporate existence of the Issuer, to maintain it in good standing, to comply with applicable legislation and to fulfil obligations to third parties (not being Other Issuer Creditors) incurred in the course of the Issuer's business (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking);

(b) any and all outstanding fees, costs, expenses and taxes required to be paid in connection with the listing or deposit of the Notes, or any notice to be given to the Noteholders or the other

parties to the Transaction Documents (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs);

(iv) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Corporate Services Provider, the Stichtingen Corporate Services Provider, the Servicer and the Account Bank, each under the Transaction Documents to which it is a party;

(v) *fifth*, in or towards satisfaction of all amounts due and payable to the Swap Counterparty under the terms of the Swap Agreement other than any termination payment due to the Swap Counterparty following the occurrence of a Swap Trigger but including, in any event the amount of any termination payment due and payable to the Swap Counterparty in relation to the Swap Transaction to the extent of any premium received (net of any costs incurred by the Issuer to find a replacement swap counterparty), if any, by the Issuer from a replacement swap counterparty in consideration for entering into a swap transaction with the Issuer on the same terms as the Swap Transaction;

(vi) *sixth*, in or towards payment, *pro rata* and *pari passu*, of all amounts of interest due and payable on the Notes;

(vii) *seventh*, on the Decree 239 Interest Payment Date and on each Interest Payment Date thereafter, in or towards repayment, *pro rata* and *pari passu*, of principal on the Notes in an amount equal to the applicable Scheduled Repayment Amount;

(viii) *eighth*, in or towards satisfaction of any termination payment due and payable to the Swap Counterparty under the terms of the Swap Agreement following the occurrence of a Swap Trigger other than payments referred to under item (v);

(ix) *ninth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable to the Originator, in respect of the Originator's Claims (if any) under the terms of the Transfer Agreement;

(x) *tenth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of all amounts due and payable to the Originator:

(a) in connection with a limited recourse loan under the Letter of Undertaking; and

(b) under the terms of the Warranty and Indemnity Agreement; and

(xi) *eleventh*, to credit the remainder (if any) to the Collection Account.

(d) Post-Enforcement Priority of Payments

At any time following delivery of an Issuer Acceleration Notice, or, in the event that the Issuer opts for the early redemption of the Notes under Condition 7(c) (*Optional redemption for taxation, legal or regulatory reasons*), all amounts received or recovered by or on behalf of the Issuer or the Representative of the Noteholders in respect of the Claims, the Note Security and/or any of the other Transaction Documents (but excluding the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided) will be applied by or on behalf of the Representative of the Noteholders in the following order (the "**Post-Enforcement Priority of Payments**") but, in each case, only if and to the extent that payments of a higher priority have been made in full:

(i) *first*, in or towards satisfaction of any and all outstanding taxes to be paid in order to preserve the corporate existence of the Issuer to maintain it in good standing and to comply with applicable legislation (to the extent that amounts standing to the credit of the Expense Account or the

Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by Financing Party under the Letter of Undertaking);

(ii) *second*, in or towards satisfaction of any and all outstanding fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders or any appointee thereof;

(iii) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

(a) any and all outstanding fees, costs, liabilities and any other expenses to be paid in order to preserve the corporate existence of the Issuer, to maintain it in good standing, to comply with applicable legislation and to fulfil obligations to third parties (not being Other Issuer Creditors) incurred in the course of the Issuer's business in relation to this Securitisation (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent not paid by the Financing Party under the Letter of Undertaking); and

(b) any and all outstanding fees, costs, expenses and taxes required to be paid in connection with the listing, deposit or ratings of the Notes, or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that amounts standing to the credit of the Expense Account or the Expenses Reserve Account are insufficient to pay such costs and to the extent the Issuer is not already subject to any insolvency or insolvency-like proceeding);

(iv) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of any and all outstanding fees, costs and expenses of and all other amounts due and payable to the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Servicer, the Corporate Services Provider, the Stichtingen Corporate Services Provider and the Account Bank each, under the Transaction Document(s) to which it is a party;

(v) *fifth*, in or towards satisfaction of all amounts due and payable to the Swap Counterparty under the terms of the Swap Agreement other than any termination payment due to the Swap Counterparty following the occurrence of a Swap Trigger but including, in any event the amount of any termination payment due and payable to the Swap Counterparty in relation to the Swap Transaction to the extent of any premium received (net of any costs incurred by the Issuer to find a replacement swap counterparty), if any, by the Issuer from a replacement swap counterparty in consideration for entering into a swap transaction with the Issuer on the same terms as the Swap Transaction;

(vi) *sixth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable in respect of interest (including any interest accrued but unpaid) on the Notes at such date;

(vii) *seventh*, in or towards repayment, *pro rata* and *pari passu*, of the Principal Amount Outstanding of the Notes, until repayment in full of the Notes;

(viii) *eighth*, in or towards satisfaction of any termination payment due and payable to the Swap Counterparty under the terms of the Swap Agreement following the occurrence of a Swap Trigger other than payments referred to under item (v); and

(ix) *ninth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof, of all amounts due and payable to Farmafactoring:

(a) in connection with a limited recourse loan under the Letter of Undertaking;

(b) under the terms of the Warranty and Indemnity Agreement; and

(c) in or towards satisfaction, *pro rata* and *pari passu*, of all amounts due and payable to the Originator, in respect of the Originator's Claims (if any) under the terms of the Transfer Agreement,

provided however that if the amount of the monies at any time available to the Issuer or the Representative of the Noteholders for the payments above shall be less than 10 per cent. of the Principal Amount Outstanding of all the Notes, the Representative of the Noteholders may at its discretion invest such monies in some or one of the investments authorised pursuant to the Intercreditor Agreement. The Representative of the Noteholders at its discretion may vary such investments and may accumulate such investments and the resulting income until the earlier of: (i) the day on which the accumulations, together with any other funds for the time being under the control of the Representative of the Noteholders and available for such purpose, amount to at least 10 per cent. of the Principal Amount Outstanding of all the Notes and (ii) the Business Day immediately following the service of an Issuer Acceleration Notice that would have been an Interest Payment Date. Such accumulations and funds shall then be applied to make the payments above.

In the event that the Issuer redeems any Notes in whole or in part prior to the date which is 18 months after the Issue Date, the Issuer will be required to pay a tax in Italy equal to 20 per cent. of all interest accrued on such principal amount repaid early up to the relevant repayment date. This requirement will apply whether or not the redemption takes place following an Event of Default under the Notes or pursuant to any requirement of the Issuer to redeem Notes following the service of an Issuer Acceleration Notice in connection with any such Event of Default. Consequently, following an Event of Default, the Issuer may, with the consent of the Representative of the Noteholders, and shall, if so instructed by the Representative of the Noteholders, delay the redemption of the Notes until the end of such 18-month period.

(e) Expenses

From time to time, during an Interest Period, the Issuer shall, in accordance with the Account Bank Agreement, be entitled to apply amounts standing to the credit of the Expense Account or the Expenses Reserve Account in respect of certain monies which properly belong to third parties and in payment of sums due to third parties under obligations incurred in the course of the Issuer's business or as otherwise referred to in items (ii), (iii)(a) and (iii)(b) of Condition 3(c) (*Pre-Enforcement Priority of Payments*) and items (i), (iii)(a) and (iii)(b) of Condition 3(d) (*Post-Enforcement Priority of Payments*).

4. Security

As security for the discharge of the Secured Amounts, the Issuer will create, pursuant to the Italian Deed of Pledge and the English Deed of Charge and Assignment, the following security (together, the "**Note Security**"):

(i) concurrently with the issue of the Notes, in favour of the Representative of the Noteholders for itself and on behalf of the Noteholders and the other Issuer Secured Creditors a first ranking pledge over all monetary claims and rights and all the amounts (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Issuer is entitled to from time to time pursuant to the Transfer Agreement, the Transfer Deeds, the Warranty and Indemnity Agreement, the Put Option Agreement, the Servicing Agreement, the Intercreditor Agreement, the Agency and Account Agreement, the Corporate Services Agreement, the Letter of Undertaking and the Shareholders' Agreement;

(ii) concurrently with the issue of the Notes, in favour of the Representative of the Noteholders for itself and as trustee for the Noteholders and the other Issuer Secured Creditors, (a) an English law assignment by way of security of all the Issuer's rights under the Swap Agreement, the Stichtingen Corporate Services Agreement, the Account Bank Agreement, the Deed of Release and Termination and all present and future contracts, agreements, deeds and documents governed by English law (other than the Subscription Agreement) to which the Issuer may become a party in relation to the Notes, the Claims and the Portfolio; (b) a first fixed charge over each English Account, the Eligible Investments (to the extent they are capable of being subject to a security interest governed and perfected under English law), any amount or Eligible Investment which stands to the credit of an English Account, and the debts represented thereby, as well as any other bank or other account of the Issuer situated in England and Wales; and (c) a first floating charge

over all of the Issuer's property, assets and undertakings which are not effectively assigned or charged under such provisions.

In addition, by operation of Italian law, the Issuer's right, title and interest in and to the Claims thereunder is segregated from all other assets of the Issuer and amounts deriving therefrom will be available both prior to and following a winding-up of the Issuer only to satisfy the obligations of the Issuer to the Noteholders and the other Issuer Creditors in accordance with the applicable Priority of Payments.

5. Covenants

(a) Covenants by the Issuer

For so long as any Note remains outstanding, the Issuer shall not, save with the prior written consent of the Representative of the Noteholders (having regard to the interests of the Noteholders) or as provided in or envisaged by any of the Transaction Documents:

(i) Negative pledge

create or permit to subsist any Security Interest whatsoever upon, or with respect to the Claims, or any part thereof or any of its present or future business, undertaking, assets or revenues relating to this Securitisation or undertakings (other than under the Note Security) or sell, lend, part with or otherwise dispose of all or any part of the Claims, or any part thereof or any of its present or future business, undertaking, assets or revenues relating to this Securitisation whether in one transaction or in a series of transactions;

(ii) Restrictions on activities

(A) without prejudice to Condition 5(b) (*Further securitisations*) below, engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage;

(B) have any subsidiary (*societá controllata*) or affiliate company (*societá collegata*) (as defined in article 2359 of the Italian civil code) or any employees or premises;

(C) at any time approve or agree or consent to any act or thing whatsoever which is materially prejudicial to the interests of the Noteholders under the Transaction Documents or do, or permit to be done, any act or thing in relation thereto which is materially prejudicial to the interests of the Noteholders under the Transaction Documents; or

(D) become the owner of any real estate asset;

(iii) Dividends or distributions

pay any dividend or make any other distribution or return or repay any equity capital to its quotaholders, other than in accordance with the provisions of the Shareholders' Agreement, or increase its equity capital;

(iv) Borrowings

without prejudice to Condition 5(b) (*Further securitisations*) below, incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of any indebtedness or of any obligation of any person;

(v) Merger

consolidate or merge with any other person or convey or transfer any of its properties or assets substantially as an entirety to any other person;

(vi) No variation or waiver

permit any of the Transaction Documents (i) to be amended, terminated or discharged, if such amendment, termination or discharge may negatively affect the interests of the holders of the Notes or (ii) to become invalid or ineffective or the priority of the Security Interests created thereby to be reduced or consent to any variation thereof or exercise any powers of consent, direction or waiver pursuant to the terms of any of the Transaction Documents or permit any party to the Transaction Documents or any other person whose obligations form part of the Note Security to be released from its respective obligations in a way which may negatively affect the interests of the holders of the Notes;

(vii) Bank accounts

without prejudice to Condition 5(b) (*Further securitisations*) below, have an interest in any bank account other than the Accounts, unless the Representative of the Noteholders receives confirmation from the Rating Agencies that the opening of any such account will not prejudice any of the ratings of the Notes and that the net interest or other return on any such new account is not lower than that of the Accounts;

(viii) Statutory documents

amend, supplement or otherwise modify its by-laws (*statuto*) or deed of incorporation (*atto costitutivo*), except where such amendment, supplement or modification is required by any compulsory provision of Italian law or by the competent regulatory authorities;

(ix) Corporate records, financial statements and books of account

cease to maintain corporate records, financial statements and books of account separate from those of the Originator and of any other person or entity;

(x) Compliance with corporate formalities

cease to comply with all necessary corporate formalities; or

(xi) Residency and Centre of Main Interest

become resident, including (without limitation) for tax purposes, in any country outside of the Republic of Italy or cease to be managed and administered in Italy or cease to have its centre of main interest in Italy.

(b) Further securitisations

None of the covenants in Condition 5(a) (*Covenants by the Issuer*) above shall prohibit the Issuer from:

(i) acquiring, by way of separate transactions unrelated to this Securitisation, further portfolios of monetary claims in addition to the Claims either from the Originator or, with the latter's consent in writing, from any other entity (the "**Further Portfolios**");

(ii) securitising such Further Portfolios (each, a "**Further Securitisation**") through the issue of further debt securities additional to the Notes (the "**Further Notes**");

(iii) entering into agreements and transactions, with the Originator or any other entity, that are incidental to or necessary in connection with such Further Securitisation including, *inter alia*, the ring-fencing or the granting of security over such Further Portfolios and any right, benefit, agreement, instrument, document or other asset of the Issuer relating thereto to secure such Further Notes (the "**Further Security**"), provided that:

(A) the Issuer confirms in writing to the Representative of the Noteholders that such Further Security does not comprise or extend over any of the Claims or any of the other Issuer's Rights;

(B) the Issuer confirms in writing to the Representative of the Noteholders that the terms and conditions of the Further Notes contain provisions to the effect that the obligations of the Issuer whether in respect of interest, principal, premium or other amounts in respect of such Further Notes, are limited recourse obligations of the Issuer, limited to some or all of the assets comprised in such Further Security;

(C) the Issuer confirms in writing to the Representative of the Noteholders that each person party to such Further Securitisation agrees and acknowledges that the obligations of the Issuer to such person in connection with such Further Securitisation are limited recourse obligations of the Issuer, limited to some or all of the assets comprised in such Further Security and that each creditor in respect of such Further Securitisation or the representative of the holders of such Further Notes has agreed to limitations on its ability to take action against the Issuer, including in respect of insolvency proceedings relating to the Issuer, on terms in all significant respects equivalent to those contained in the Intercreditor Agreement;

(D) the Rating Agencies give written confirmation to the Representative of the Noteholders that the issue of such Further Notes would not adversely affect the then current rating of the Notes;

(E) the Issuer confirms in writing to the Representative of the Noteholders that the terms and conditions of such Further Notes will include:

1. covenants by the Issuer in all significant respects equivalent to those covenants provided in paragraphs (A) to (D) above; and

2. provisions which are the same as or, in the sole discretion of the Representative of the Noteholders, equivalent to this proviso; and

(F) the Representative of the Noteholders is satisfied that conditions (A) to (E) of this proviso have been satisfied.

In giving any consent to the foregoing, the Representative of the Noteholders may require the Issuer to make such modifications or additions to the provisions of any of the Transaction Documents (as may itself consent thereto on behalf of the Noteholders) or may impose such other conditions or requirements as the Representative of the Noteholders may deem expedient (in its absolute discretion) in the interests of the Noteholders and may rely on any written confirmation from the Issuer as to the matters contained therein.

6. Interest

(a) Interest Payment Dates and Interest Periods

Each Note bears interest on its Principal Amount Outstanding from (and including) the Issue Date at the applicable rate determined in accordance with this Condition 6, payable in euro in arrear on 22 December, 2004 and thereafter semi-annually in arrear on 22 June and 22 December in each year or, if any such date is not a Business Day, on the immediately succeeding Business Day (each such date, an "**Interest Payment Date**"), in any case subject as provided in Condition 8 (Payments). Each period beginning on (and including) an Interest Payment Date (or, in the case of the first Interest Period, the Issue Date) and ending on (but excluding) the next (or, in the case of the first Interest Period, the first) Interest Payment Date is herein called an "**Interest Period**".

(b) Termination of interest

Each Note shall cease to bear interest from and including its due date for final redemption, unless payment of principal due is improperly withheld or refused or default is otherwise made in respect of payment thereof, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Note up to that date are received by or on behalf of the relevant Noteholder; and

(ii) the Cancellation Date.

(c) Rate of interest on the Notes

The rate of interest payable from time to time in respect of the Notes (the "**Rate of Interest**") for each Interest Period will be determined by the Agent Bank on the basis of the following provisions:

(i) the Agent Bank will determine the rate offered in the euro-zone inter-bank market for six-month deposits in euro ("**EURIBOR**") (save that for the first Interest Period the rate will be obtained upon linear interpolation of EURIBOR for one- and two-month deposits in euro) which appears on Telerate page 248 (the "**Screen Rate**") or (A) such other page as may replace Telerate page 248 on that service for the purpose of displaying such information or (B) if that service ceases to display such information, such page as displays such information on such equivalent service (or, if more than one, that one which is approved by the Representative of the Noteholders) as may replace the Telerate page 248 at or about 11.00 a.m. (Brussels time) on the second Business Day immediately preceding such Interest Period (the "**Interest Determination Date**"); or

(ii) if the Screen Rate is unavailable at such time for six-month deposits in euro, then the rate for any relevant period shall be the arithmetic mean (rounded to four decimal places with the mid-point rounded upwards) of the rates notified to the Agent Bank at its request by each of the Reference Banks as the rate at which six-month deposits in euro in a representative amount are offered by that Reference Bank to leading banks in the euro-zone inter-bank market at or about 11.00 a.m. (Brussels time) on the relevant Interest Determination Date; or

(iii) if, at that time, the Screen Rate is unavailable and only two or three of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations; or

(iv) if, at that time, the Screen Rate is unavailable and only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the relevant rate shall be the rate in effect for the immediately preceding period to which one of sub-paragraphs (i) or (ii) above shall have applied; and

(v) the Rate of Interest for such Interest Period shall be the sum of:

(A) 0.235 per cent. per annum; and

(B) EURIBOR or (as the case may be) the arithmetic mean as determined above.

(d) Calculation of Interest Amounts

The Agent Bank will, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date in relation to each Interest Period, but in no event later than the third Business Day thereafter, determine the amount of interest payable in respect of the Notes for the relevant Interest Period (each such amount, the "**Interest Amount**"). The Interest Amount shall be determined by applying the Rate of Interest for such Interest Period to the Principal Amount Outstanding of the Notes during such Interest Period, multiplying the product of such calculation by the actual number of days in the Interest Period concerned divided by 360, and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(e) Publication of Rate of Interest and lnterest Amount

The Agent Bank will cause each Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date, to be notified to the Issuer, the Paying Agents, the Computation Agent, the Luxembourg Listing Agent, the Servicer, the Swap Counterparty, the Representative of the Noteholders, Monte Titoli and any stock exchange or other relevant authority on which the Notes are

at the relevant time listed and (if so required by the rules of the relevant stock exchange) to be published in accordance with Condition 17 (Notices) as soon as practicable after their determination, but in any event not later than the second Business Day thereafter.

(f) Amendments to publications

The Agent Bank will be entitled to recalculate any Rate of Interest or Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(g) Determination or calculation by the Representative of the Noteholders

If the Agent Bank does not at any time for any reason determine the Rate of Interest or the Interest Amount for any Notes in accordance with this Condition 6, the Representative of the Noteholders shall (but without incurring any liability to any person as a result):

(i) determine the Rate of Interest for the Notes at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 6), it shall deem fair and reasonable in all the circumstances; and/or (as the case may be);

(ii) calculate the relevant Interest Amount in the manner specified in this Condition 6, and any determination and/or calculation shall be deemed to have been made by the Agent Bank.

(h) Interest Amount Arrears

Without prejudice to the right of the Representative of the Noteholders to serve the Issuer with an Issuer Acceleration Notice pursuant to Condition 10(a)(i) (*Non-payment*), prior to the service of an Issuer Acceleration Notice, in the event that on any Interest Payment Date there are any Interest Amount Arrears, such Interest Amount Arrears shall be deferred to the following Interest Payment Date or the day an Issuer Acceleration Notice is served to the Issuer, whichever comes first. Any such Interest Amount Arrears shall not accrue additional interest. A *pro rata* share of such Interest Amount Arrears shall be aggregated with the amount of, and treated for the purpose of this Condition as if it were, interest due, subject to this Condition 6(h), on each Note on the next succeeding Interest Payment Date or, as the case may be, such day.

(i) Notification of Interest Amount Arrears

If, on any Calculation Date, the Computation Agent determines that any Interest Amount Arrears in respect of the Notes will arise on the immediately succeeding Interest Payment Date, notice to this effect shall be given or procured to be given by the Issuer to the Representative of the Noteholders, the Italian Paying Agent, Monte Titoli, each stock exchange on which the Notes are then listed, for so long as such Notes are listed on the relevant stock exchange, and (if so required by the rules of the relevant stock exchange) to the Noteholders in accordance with Condition 17 (*Notices*), specifying the amount of the Interest Amount Arrears to be deferred on such following Interest Payment Date in respect of the Notes.

7. Redemption, purchase and cancellation

(a) Final redemption

Unless previously redeemed in full and cancelled as provided in this Condition 7, the Issuer shall redeem the Notes in full at their Principal Amount Outstanding, plus any accrued but unpaid interest, on the Interest Payment Date falling in June 2009 (the "**Final Maturity Date**"), subject as provided in Condition 8 (*Payments*).

(b) Cancellation Date

If the Notes cannot be redeemed in full on the Final Maturity Date, as a result of the Issuer having insufficient funds for application in or towards such redemption, any amount unpaid shall remain outstanding and these Conditions shall continue to apply in full in respect of the Notes until the

Cancellation Date, at which date, in the absence of gross negligence (*colpa grave*) or wilful misconduct (*dolo*) on the part of the Issuer, any amount outstanding, whether in respect of interest, principal or other amounts in respect of the Notes, shall be finally and definitively cancelled.

(c) Optional redemption for taxation, legal or regulatory reasons

Prior to the service of an Issuer Acceleration Notice, the Issuer may at its option redeem the Notes (in whole but not in part) at their Principal Amount Outstanding (plus any accrued but unpaid interest) in accordance with the payment order set out in the Post-Enforcement Priority of Payments and subject to the Issuer having sufficient funds to redeem all the Notes and to make all payments ranking in priority thereto, on any Interest Payment Date if:

(i) by reason of a change in law or the interpretation or administration thereof since the Issue Date, the assets of the Issuer in respect of this Securitisation (including the Claims and the other Issuer's Rights) become subject to taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein or any applicable taxing authority having jurisdiction; or

(ii) either the Issuer or any paying agent appointed in respect of the Notes or any custodian of the Notes is required (by reason of a change in law or the interpretation or administration thereof since the Issue Date) to deduct or withhold any amount (other than in respect of a Decree 239 Withholding) in respect of any Notes, from any payment of principal or interest on such Interest Payment Date for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein or any other applicable taxing authority having jurisdiction and provided that such deduction or withholding may not be avoided by appointing a replacement paying agent or custodian in respect of the Notes before the Interest Payment Date following the change in law or the interpretation or administration thereof; or

(iii) it is or will become unlawful for the Issuer (by reason of a change in law or the interpretation or administration thereof since the Issue Date) to perform or comply with any of its obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party,

subject to the Issuer:

(i) giving not more than 60 nor less than 30 days' written notice (which notice shall be irrevocable) to the Representative of the Noteholders and the Noteholders, pursuant to Condition 17 (*Notices*), of its intention to redeem all (but not some only) of the Notes on the next Interest Payment Date at their Principal Amount Outstanding together with interest accrued to but excluding the date of redemption; and

(ii) providing to the Representative of the Noteholders:

(A) a legal opinion (in form and substance satisfactory to the Representative of the Noteholders) from a firm of lawyers of international reputation (approved in writing by the Representative of the Noteholders) opining on the relevant change in law or the interpretation or administration thereof;

(B) a certificate from the chairman of the board of directors or the sole director of the Issuer (as applicable) to the effect that the obligation to make such deduction or withholding or the suffering by the Issuer of such deduction or withholding cannot be avoided or, as the case may be, the events under item (iii) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer using reasonable endeavours; and

(C) a certificate from the chairman of the board of directors or the sole director of the Issuer (as applicable) to the effect that it will have the funds on such Interest Payment Date to discharge its obligations under: (a) the Notes and any obligations ranking in priority thereto;

and (b) any additional taxes payable by the Issuer by reason of such early redemption of the Notes.

The Issuer is entitled, pursuant to the Intercreditor Agreement, to dispose of the Claims in order to finance the redemption of the Notes in the circumstances described above.

(d) Mandatory redemption of the Notes

(i) Prior to the service of an Issuer Acceleration Notice, on the Decree 239 Interest Payment Date and on each Interest Payment Date thereafter, the Issuer shall redeem the Notes in an amount equal to the applicable Scheduled Repayment Amount.

(ii) The principal amount redeemable in respect of each Note on any Interest Payment Date (each, a "**Principal Payment**") shall be a *pro rata* share of the Issuer Available Funds determined in accordance with the provisions of this Condition 7 and the Pre-Enforcement Priority of Payments to be available to redeem Notes on such date, calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Note to the then Principal Amount Outstanding of the Notes (rounded down to the nearest cent), provided always that no such Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

(e) Calculation of Issuer Available Funds, Principal Payments and Principal Amount Outstanding

On each Calculation Date, the Issuer will procure that the Computation Agent determines, in accordance (where applicable) with Condition 3 (*Status and priority*):

(i) the Issuer Available Funds;

(ii) (starting from the Collection Date preceding the Decree 239 Interest Payment Date) the applicable Scheduled Repayment Amount and the Principal Payments (if any) due on the Notes on the next following Interest Payment Date;

(iii) (starting from the Collection Date preceding the Decree 239 Interest Payment Date) the Principal Amount Outstanding of the Notes on the next following Interest Payment Date;

(iv) the interest payable (if any) in respect of the Notes on the next following Interest Payment Date;

(v) the Interest Amount Arrears, if any, that will arise in respect of the Notes on the immediately following Interest Payment Date;

(vi) the Revenue Eligible Investments Amount in respect of the immediately preceding Liquidation Date;

(vii) the amount invested in Eligible Investments out of the Collection Account on the immediately preceding investment date;

(viii) the amount to be debited to the Expense Account or the Expenses Reserve Account; and

(ix) the payments (if any) to be made to each of the parties to the Intercreditor Agreement under the relevant Transaction Document,

and will determine how the Issuer's funds available for distribution pursuant to these Conditions shall be applied, on the immediately following Interest Payment Date, pursuant to the Pre-Enforcement Priority of Payments, and will deliver to the Representative of the Noteholders, the Paying Agents, the Luxembourg Listing Agent and the Account Bank a report setting forth such determinations and amounts.

(f) Calculations final and binding

Each determination by or on behalf of the Issuer under Condition 7(e) (*Calculation of Issuer Available Funds, Principal Payments and Principal Amount Outstanding*) will in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

(g) Notice of determination and redemption

The Issuer will cause each determination of any Interest Amounts, Principal Payments (if any) and Principal Amount Outstanding in relation to the Notes to be notified immediately after the calculation to the Representative of the Noteholders, the Paying Agents, the Agent Bank, Monte Titoli and (for so long as any Notes are listed on any stock exchange) each stock exchange on which the Notes are then listed and will immediately cause details of each determination of any Interest Amounts, Principal Payments (if any) and Principal Amount Outstanding in relation to the Notes to be published in accordance with Condition 17 (Notices) by not later that one Business Day prior to such Interest Payment Date if required by the rules of the Luxembourg Stock Exchange.

(h) Notice irrevocable

Any such notice as is referred to in Condition 7(g) (*Notice of determination and redemption*) shall be irrevocable and the Issuer shall, in the case of a notice under Condition 7(g) (*Notice of determination and redemption*), be bound to redeem the relevant Notes to which such notice refers (in whole or in part, as applicable) in accordance with this Condition 7.

(i) Determinations by the Representative of the Noteholders

If the Issuer does not at any time for any reason determine or cause to be determined a Principal Payment or the Principal Amount Outstanding in accordance with the preceding provisions of this Condition 7, such Principal Payment and/or, as applicable, Principal Amount Outstanding shall be determined by the Representative of the Noteholders in accordance with this Condition (but without the Representative of the Noteholders incurring any liability to any person as a result) and each such determination shall be deemed to have been made by the Issuer.

(j) No purchase by the Issuer

The Issuer will not purchase any of the Notes.

(k) Cancellation

All Notes redeemed in full will forthwith be cancelled upon redemption and accordingly may not be reissued or resold.

8. Payments

(a) Payments through Monte Titoli, Euroclear and Clearstream, Luxembourg

Payments of principal and interest in respect of the Notes deposited with Monte Titoli will be credited, according to the instructions of Monte Titoli, by or on behalf of the Issuer to the accounts with Monte Titoli of the banks and authorised brokers whose accounts are credited with those Notes, and thereafter credited by such banks and authorised brokers from such aforementioned accounts to the accounts of the beneficial owners of those Notes. Payments made by or on behalf of the Issuer according to the instructions of Monte Titoli to the accounts with Monte Titoli of the banks and authorised brokers whose accounts are credited with those Notes will relieve the Issuer *pro tanto* from the corresponding payment obligations under the Notes.

Alternatively, the Italian Paying Agent may arrange for payments of principal and interest in respect of the Notes to be made to the Noteholders through Euroclear and Clearstream, Luxembourg to be credited to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of the Notes, in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg. Payments made by or on behalf of the Issuer to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of the Notes, in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg will relieve the Issuer *pro tanto* from the corresponding payment obligations under the Notes.

(b) Payments subject to tax laws

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other applicable laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation in the Republic of Italy*).

(c) Payments on Business Days

If the due date for payment of amount in respect of any Note is not a Business Day, the Noteholders shall not be entitled to payment until the next succeeding Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

(d) Notification to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of Condition 6 (*Interest*) or Condition 7 (*Redemption, purchase and cancellation*), whether by the Reference Banks (or any of them), the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent or the Representative of the Noteholders, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents, all Noteholders and all Other Issuer Creditors and (in the absence of wilful default, bad faith or manifest error) no liability to the Representative of the Noteholders, the Noteholders or the Other Issuer Creditors shall attach to the Reference Banks, the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent or the Representative of the Noteholders in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under Condition 6 (*Interest*) or Condition 7 (*Redemption, purchase and cancellation*).

9. Taxation in the Republic of Italy

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature other than a Decree 239 Withholding or any other withholding or deduction required to be made by applicable law. The Issuer shall not be obliged to pay any additional amount to any Noteholder on account of such withholding or deduction.

10. Events of Default

(a) Events of Default

Subject to the other provisions of this Condition 10, each of the following events shall be treated as an "**Event of Default**":

(i) *Non-payment:*

(A) the Issuer fails to repay principal in respect of the Notes (starting from the Decree 239 Interest Payment Date) in an amount equal to the applicable Scheduled Repayment Amount and/or fails to pay any Interest Amount in respect of the Notes, in each case within two Business Days of the relevant Interest Payment Date; or

(B) the Region fails to make any payments due under the Delegations of Payment and such failure is not remedied by the Region within five Business Days of the relevant due date; or

(ii) *Breach of other obligations:* the Issuer fails to perform or observe any of its other obligations under or in respect of the Notes, the Intercreditor Agreement or any other Transaction Document to which it is a party and such default is, in the sole opinion of the Representative of the Noteholders, (A) incapable of remedy or (B) capable of remedy, but remains unremedied for 30 days or such longer period as the Representative of the Noteholders may agree (in its sole discretion) after the Representative of the Noteholders has given written notice of such default to the Issuer, certifying that such default is, in the opinion of the Representative of the Noteholders, materially prejudicial to the interests of the Noteholders and requiring the same to be remedied; or

(iii) *Failure to take action:* any action, condition or thing at any time required to be taken, fulfilled or done in order:

(A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes and the Transaction Documents to which the Issuer is a party; or

(B) to ensure that those obligations are legal, valid, binding and enforceable,

is not taken, fulfilled or done at any time and the Representative of the Noteholders has given written notice of such default to the Issuer, certifying that such default is, in the opinion of the Representative of the Noteholders, materially prejudicial to the interests of the Noteholders and requiring the same to be remedied; or

(iv) *Insolvency Event:* an Insolvency Event occurs in relation to the Issuer or the Issuer becomes Insolvent; or

(v) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Transaction Documents to which the Issuer is a party; or

(vi) *Termination of the Swap Agreement:* the Swap Transaction is terminated prior to its Termination Date (as defined in the relevant confirmation) and the Issuer does not, within 30 Business Days after such termination, enter into a replacement swap transaction (having substantially the same terms and conditions as the Swap Agreement) with a replacement swap counterparty (i) the short-term, unsecured and unsubordinated debt obligations of which are rated at least "F1" by Fitch and "P-1" by Moody's and (ii) the long-term, unsecured and unsubordinated debt obligations of which are rated at least "A+" by Fitch and "A1" by Moody's; or

(vii) *Others:*

(A) the Delegations of Payment are revoked, invalidated or rescinded; or

(B) any laws, decrees and resolutions enacted by the Region, which are relevant to the Securitisation, are revoked or amended or new laws, decrees and resolutions are enacted so that, in each case, in the sole opinion of the Representative of the Noteholders, (which may be based on such legal or other advice as the Representative of the Noteholders shall deem appropriate and which opinion shall not be called into question as a result of relying on such advice or otherwise) negatively impact the performance of the Securitisation in any material respect.

(b) Delivery of an Issuer Acceleration Notice

If an Event of Default occurs, then (subject to Condition 10(c) (*Consequences of delivery of an Issuer Acceleration Notice*) the Representative of the Noteholders may, at its sole discretion, and shall,

(i) if so directed in writing by the holders of at least 75 per cent. of the Principal Amount Outstanding of the Notes; or

(ii) if so directed by an Extraordinary Resolution of the holders of the Notes,

give written notice (an "**Issuer Acceleration Notice**") to the Issuer and to the Servicer declaring the Notes to be due and payable, provided that:

(A) in the case of the occurrence of any of the events mentioned in Condition 10(a)(ii) (*Breach of other obligations*) and Condition 10(a)(iii) (*Failure to take action*), the service of an Issuer Acceleration Notice has been approved either in writing by the holders of at least 75 per cent. of the Principal Amount Outstanding of the Notes or by an Extraordinary Resolution of the holders of the Notes; and

(B) in each case, the Representative of the Noteholders shall have been indemnified and/or secured to its satisfaction against all fees, costs, expenses and liabilities (provided that supporting documents are delivered) to which it may thereby become liable or which it may incur by so doing.

(c) Consequences of delivery of an Issuer Acceleration Notice

Upon the service of an Issuer Acceleration Notice as described in this Condition 10, (i) the Notes shall become immediately due and repayable at their Principal Amount Outstanding, together with any interest accrued but which has not been paid on any preceding Interest Payment Date in accordance with Condition 6(h) (*Interest Amount Arrears*), without further action, notice or formality; (ii) the Note Security shall become immediately enforceable; and (iii) the Representative of the Noteholders may, subject to Condition 11(b) (*Restrictions on disposal of Issuer's assets*) dispose of the Claims in the name and on behalf of the Issuer. The Noteholders hereby irrevocably appoint, as from the date hereof and with effect on and from the date on which the Notes shall become due and payable following the service of an Issuer Acceleration Notice, the Representative of the Noteholders as their exclusive agent (*mandatario esclusivo*) to receive on their behalf from the Issuer any and all monies payable by the Issuer to the Noteholders and the Other Issuer Creditors from and including the date on which the Notes shall become due and payable, such monies to be applied in accordance with the Post-Enforcement Priority of Payments.

11. Enforcement

(a) Proceedings

The Representative of the Noteholders may, at its discretion and without further notice, institute such proceedings as it thinks fit at any time after the delivery of an Issuer Acceleration Notice to enforce repayment of the Notes and payment of accrued interest thereon or at any time to enforce any other obligation of the Issuer under the Notes or any Transaction Document, but, in either case, it shall not be bound to do so unless it shall have been so directed by an Extraordinary Resolution of the holders of the Notes and only if it shall have been indemnified and/or secured to its satisfaction against all fees, costs, expenses and liabilities (provided that supporting documents are delivered) to which it may thereby become liable or which it may incur by so doing.

(b) Restrictions on disposal of Issuer's assets

If an Issuer Acceleration Notice has been delivered by the Representative of the Noteholders otherwise than by reason of non-payment of any amount due in respect of the Notes, the Representative of the Noteholders will not be entitled to dispose of the assets of the Issuer or any part thereof unless either:

(i) a sufficient amount would be realised to allow payment in full of all amounts owing to the holders of the Notes after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; or

(ii) the Representative of the Noteholders is of the opinion, which shall be binding on the Noteholders and the other Issuer Secured Creditors, reached after considering at any time and from time to time the advice of a merchant or investment bank or other financial adviser selected by the Representative of the Noteholders (and if the Representative of the Noteholders is unable to obtain such advice having made reasonable efforts to do so, this Condition 11(b)(ii) shall not apply), that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments, and

the Representative of the Noteholders shall not be bound to make the determination contained in Condition 11(b)(ii) unless the Representative of the Noteholders shall have been indemnified and/or secured to its satisfaction against all fees, costs, expenses and liabilities (provided that supporting documents are delivered) to which it may thereby become liable or which it may incur by so doing.

12. Representative of the Noteholders

(a) Legal representative

The Representative of the Noteholders is The Bank of New York, London Branch at its offices at One Canada Square, London E14 5AL, United Kingdom, and is the legal representative (*rappresentante legale*) of the Noteholders in accordance with these Conditions, the Rules of the Organisation of Noteholders and the other Transaction Documents.

(b) Powers of the Representative of the Noteholders

The duties and powers of the Representative of the Noteholders are set forth in the Rules of the Organisation of Noteholders.

(c) Meetings of Noteholders

The Rules of the Organisation of Noteholders contain provisions for convening Meetings of Noteholders as well as the subject matter of the Meetings and the relevant quorums.

(d) Individual action

The Rules of the Organisation of Noteholders contain provisions limiting the powers of the Noteholders, *inter alia*, to bring individual actions or take other individual remedies to enforce their rights under the Notes. In particular, such actions will be subject to the Meeting of the Noteholders approving by way of Extraordinary Resolution such individual action or other remedy. No individual action or remedy can be taken or sought by a Noteholder to enforce his or her rights under the Notes before the Meeting of the Noteholders has approved such action or remedy in accordance with the provisions of the Rules of the Organisation of Noteholders.

(e) Resolutions binding

The resolutions passed at any Meeting of the Noteholders under the Rules of the Organisation of Noteholders will be binding on all Noteholders whether or not they are absent or dissenting and whether or not voting at the Meeting.

(f) Written Resolutions

A Written Resolution will take effect as if it were an Extraordinary Resolution passed at a Meeting of the Noteholders.

13. Modification and waiver

(a) Modification

The Representative of the Noteholders may, without the consent of the Noteholders or any Other Issuer Creditors and subject to the Representative of the Noteholders giving prior written notice thereof to the Rating Agencies, concur with the Issuer and any other relevant parties in making:

(i) any amendment or modification to these Conditions (other than in respect of a Basic Terms Modification as defined in the Rules of the Organisation of Noteholders) or any of the Transaction Documents which, in the opinion of the Representative of the Noteholders, it may be proper to make and will not be materially prejudicial to the interests of the holders of the Notes; or

(ii) any amendment or modification to these Conditions or to any of the Transaction Documents if, in the opinion of the Representative of the Noteholders, such amendment or modification is expedient to make; is of a formal, minor or technical nature; is made to correct a manifest error or an error which is, in the opinion of the Representative of the Noteholders, proven; or is necessary or desirable for the purposes of clarification.

(b) Waiver

In addition, the Representative of the Noteholders may, without the consent of the Noteholders or any Other Issuer Creditor and subject to the Representative of the Noteholders giving prior written notice thereof to the Rating Agencies, authorise or waive any proposed breach or breach of the Notes (including an Event of Default) or of the Intercreditor Agreement or of any other Transaction Document if, in the opinion of the Representative of the Noteholders, the interests of the holders of the Notes will not be materially prejudiced by such authorisation or waiver.

(c) Restriction on power of waiver

The Representative of the Noteholders shall not exercise any powers conferred upon it by Condition 13(b) (*Waiver*) in contravention of any express direction by an Extraordinary Resolution (as defined in the Rules of the Organisation of Noteholders) or of a request in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Notes (but so that no such direction or request shall affect any authorisation, waiver or determination previously given or made) or so as to authorise or waive any proposed breach or breach relating to a Basic Terms Modification.

(d) Notification

Unless the Representative of the Noteholders agrees otherwise, any such authorisation, waiver, modification or determination shall be notified to the Noteholders, in accordance with Condition 17 (*Notices*), as soon as practicable after it has been made.

14. Representative of the Noteholders and Agents

(a) Organisation of Noteholders

The Organisation of Noteholders is created by the issue and subscription of the Notes and will remain in force and effect until full repayment and cancellation of the Notes.

(b) Appointment of Representative of the Noteholders

Pursuant to the Rules of the Organisation of Noteholders, for as long as any Note is outstanding, there will at all times be a Representative of the Noteholders. The appointment of the Representative of the Noteholders, as legal representative of the Organisation of Noteholders, is made by the Noteholders subject to and in accordance with the Rules of the Organisation of Noteholders. However, the initial Representative of the Noteholders has been appointed at the time of issue of the Notes by the Joint Lead Managers pursuant to the Intercreditor Agreement. Each Noteholder is deemed to accept such appointment.

(c) Paying Agents, Agent Bank, Computation Agent, Luxembourg Listing Agent and Account Bank sole agent of Issuer

In acting under the Agency and Account Agreement and in connection with the Notes, the Italian Paying Agent, the Computation Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Account Bank and the Agent Bank act as agents solely of the Issuer and (to the extent provided therein) the Representative of the Noteholders and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

(d) Initial Agents

The initial Paying Agents, the initial Computation Agent, the initial Luxembourg Listing Agent, the initial Account Bank and the initial Agent Bank and their Specified Offices are listed in Condition 17 (*Notices*) below. The Issuer reserves the right (with the prior written approval of the Representative of the Noteholders) at any time to vary or terminate the appointment of the Paying Agents, the Computation Agent, the Luxembourg Listing Agent, the Account Bank and the Agent Bank and to appoint a successor Italian paying agent, computation agent, Luxembourg paying agent, Luxembourg listing agent, account bank or agent bank and additional or successor paying agents at any time, in accordance with the terms of the Agency and Account Agreement and these Conditions.

(e) Maintenance of Agents

The Issuer undertakes that it will ensure that it maintains:

(i) at least one Paying Agent having its Specified Office in a European city which, so long as the Notes are listed on the Luxembourg Stock Exchange, shall be Luxembourg, a paying agent having its Specified Office in Milan, a computation agent, an account bank (acting through an office or branch located in the United Kingdom) and an agent bank; and

(ii) 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 other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27˘November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment change in any of the Paying Agents, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Account Bank and of any changes in the Specified Offices shall promptly be given to the Noteholders by the Issuer in accordance with Condition 17 (*Notices*).

15. Prescription

Claims against the Issuer for payments in respect of the Notes will be barred and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

16. Limited recourse and non-petition

(a) Limited recourse

Notwithstanding any other provision of these Conditions, the obligation of the Issuer to make any payment, at any given time, under the Notes shall be equa1 to the lesser of (i) the nominal amount of such payment which, but for the operation of this Condition 16 and the applicable Priority of Payments, would be due and payable at such time; and (ii) the actual amount received or recovered, at such time, by or on behalf of the Issuer or the Representative of the Noteholders, in respect of the Claims and the other Transaction Documents (but excluding the amount standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided), and which the Issuer or the Representative of the Noteholders is entitled, at such time, to apply in accordance with the applicable Priority of Payments and the terms of the Intercreditor Agreement.

(b) Non-petition

Without prejudice to the right of the Representative of the Noteholders to enforce the Note Security or to exercise any of its other rights, no Noteholder shall be entitled to institute against the Issuer, or join any other person in instituting against the Issuer, any reorganisation, liquidation, bankruptcy, insolvency or similar proceedings until one year plus one day has elapsed since the earlier of (A) the Cancellation Date and (B) the day on which the Notes have been paid in full.

17. Notices

(a) Valid notices

All notices to Noteholders shall be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper published in Luxembourg. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt*.

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 other relevant authority on which the Notes are for the time being listed.

(b) Date of publication

Any notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication in all required newspapers.

(c) Other methods

The Representative of the Noteholders shall be at liberty to sanction some other method of giving notice to the Noteholders or to a Class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which any of the Notes are then listed, and provided that notice of such other method is given to the Noteholders in such manner as the Representative of the Noteholders shall require.

(d) Initial Specified Offices

The Specified Offices of the Account Bank, the Italian Paying Agent, the Agent Bank, the Computation Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent and the Representative of the Noteholders, are as follows:

(i) Account Bank, Computation Agent, Agent Bank and Representative of the Noteholders: The Bank of New York, London Branch, at its offices at One Canada Square, London E14 5AL, United Kingdom;

(ii) Italian Paying Agent: BNP Paribas Securities Services, Milan Branch, at its offices at via Ansperto, 5 Milan, Italy;

(iii) Luxembourg Paying Agent: The Bank of New York Luxembourg S.A., at its offices at Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg; and

(iv) Luxembourg Listing Agent: The Bank of New York Europe Limited, at its offices at One Canada Square, London E14 5AL, United Kingdom.

18. Governing law and jurisdiction

(a) Governing law

The Notes, these Conditions, the Rules of the Organisation of Noteholders and the Italian Law Transaction Documents are governed by, and shall be construed in accordance with, Italian law. The English Law Transaction Documents are governed by, and shall be construed in accordance with, English law. The Swap Guarantee is governed by, and shall be construed in accordance with, the laws of New York.

(b) Jurisdiction

(i) The Courts of Milan are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, these Conditions, the Rules of the Organisation of Noteholders and the Italian Law Transaction Documents and, accordingly, any legal action or proceedings arising out of or in connection with any Notes, these Conditions, the Rules of the Organisation of Noteholders or any Italian Law Transaction Document may be brought in such courts. The Issuer has in each of the Italian Law Transaction Documents irrevocably submitted to the jurisdiction of such courts.

(ii) The Courts of England and Wales are to have jurisdiction to settle any disputes that may arise out of or in connection with the English Law Transaction Documents and, accordingly, any legal action or proceedings arising out of or in connection with any English Law Transaction Document

may be brought in such courts. The Issuer has in each of the English Law Transaction Documents irrevocably submitted to the jurisdiction of such courts.

(c) Process agent

The Issuer has in the English Deed of Charge and Assignment, agreed, *inter alia*, at all times to maintain an agent for service of process in England. The Issuer appoints SFM Corporate Services Limited at its offices at Blackwell House, Guildhall Yard, London EC2V 5AE as such agent. Any writ, judgment or other notice of legal process issued out of the English Courts in respect of any English Law Transaction Document shall be sufficiently served on the Issuer if delivered to such agent at its address for the time being. The Issuer undertakes not to revoke the authority of the above agent and if, for any reason, such agent no longer serves as process agent of the Issuer to receive service of process, the Issuer shall promptly appoint another such agent and advise the Representative of the Noteholders of the details of such new agent.

SCHEDULE – RULES OF THE ORGANISATION OF NOTEHOLDERS

TITLE I

GENERAL PROVISIONS

Article 1

General

The Organisation of Noteholders is created by the issue and subscription of the Notes, and shall remain in force and in effect until full repayment and cancellation of the Notes.

The contents of these rules are deemed to form part of each Note issued by the Issuer.

Article 2

Definitions

In these rules, the following terms shall have the following meanings:

"**Basic Terms Modification**" means:

(a) a modification of the date of maturity of the Notes;

(b) a modification which would have the effect of postponing any date for payment of interest or principal on the Notes;

(c) a modification which would have the effect of reducing or cancelling the amount of principal payable in respect of the Notes or the rate of interest applicable in respect of the Notes;

(d) a modification which would have the effect of altering the majority required to pass a specific resolution or the quorum required at any Meeting;

(e) a modification which would have the effect of altering the currency of payment of the Notes or the order of priority of payments due in respect of the Notes;

(f) a modification which would have the effect of altering the authorisation or consent by the Noteholders, as pledgees, to applications of funds as provided for in the Transaction Documents;

(g) the appointment and removal of the Representative of the Noteholders; and

(h) an amendment of this definition;

"**Blocked Notes**" means the Notes which have been blocked in an account with a clearing system for the purposes of obtaining a Voting Certificate or a Blocked Voting Instruction and will not be released until the conclusion of the Meeting;

"**Blocked Voting Instruction**" means, in relation to any Meeting, a document:

(a) certifying that the Blocked Notes have been blocked in an account with a clearing system and will not be released until the conclusion of the Meeting;

(b) certifying that the holder of each Blocked Note or a duly authorised person on its behalf has instructed the Italian Paying Agent that the votes attributable to such Blocked Note are to be cast in a particular way on each resolution to be put to the Meeting and that, during the period of 48 Hours before the time fixed for the Meeting, such instructions may not be amended or revoked;

(c) listing the total number of the Blocked Notes, distinguishing for each resolution between those in respect of which instructions have been given to vote for, or against, the resolution; and

(d) authorising a named individual or individuals to vote in respect of the Blocked Notes in accordance with such instructions;

"**Chairman**" means, in relation to any Meeting, the individual who takes the chair in accordance with Article 9 (*Chairman of the Meeting*);

"**Extraordinary Resolution**" means a resolution of a Meeting duly convened and held in accordance with the provisions contained in these rules on any of the subjects covered by Article 21 (*Powers exercisable by Extraordinary Resolution*);

"**Issuer's Rights**" means the Issuer's right, title and interest in and to the Portfolio, any rights that the Issuer has acquired under the Transaction Documents and any other rights that the Issuer has acquired against the Originator, any Other Issuer Creditors

(including any applicable guarantors or successors) or third parties for the benefit of the Noteholders in connection with the securitisation of the Portfolio;

"**Meeting**" means a joint meeting of all Noteholders (whether originally convened or resumed following an adjournment);

"**Proxy**" means, in relation to any Meeting, a person appointed to vote under a Blocked Voting Instruction;

"**Relevant Fraction**" means:

(a) for all business other than voting on an Extraordinary Resolution, one-tenth of the Principal Amount Outstanding of the Notes;

(b) for voting on any Extraordinary Resolution other than one relating to a Basic Terms Modification, two-thirds of the Principal Amount Outstanding of the Notes; and

(c) for voting on any Extraordinary Resolution relating to a Basic Terms Modification three-quarters of the Principal Amount Outstanding of the Notes;

provided, however, that, in the case of a Meeting which has resumed after adjournment for want of a quorum, it means:

(d) for all business other than voting on an Extraordinary Resolution relating to a Basic Terms Modification, the fraction of the Principal Amount Outstanding of the Notes represented at such Meeting or the fraction of the Principal Amount Outstanding of the Notes; and

(e) for voting on any Extraordinary Resolution relating to a Basic Terms Modification, one-third of the Principal Amount Outstanding of the Notes;

"**Voter**" means, in relation to any Meeting, the holder of a Blocked Note;

"**Voting Certificate**" means, in relation to any Meeting, a certificate issued by the Italian Paying Agent and dated, stating:

(a) that the Blocked Notes have been blocked in an account with a clearing system and will not be released until the conclusion of the Meeting; and

(b) that the bearer of such certificate is entitled to attend and vote at the Meeting in respect of the Blocked Notes;

"**24 Hours**" means a period of 24 hours including all or part of a day upon which banks are open for business in the place where the Meeting is to be held and in the place where the Italian Paying Agent has its Specified Office (disregarding for this purpose the day upon which such Meeting is to be held) and such period shall be extended by one or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and

"**48 Hours**" means two consecutive periods of 24 Hours.

Capitalised terms not defined herein shall have the meaning attributed to them in the terms and conditions of the Notes.

Article 3

Organisation purpose

Each holder of the Notes is a member of the Organisation of Noteholders.

The purpose of the Organisation of Noteholders is to co-ordinate the exercise of the rights of the Noteholders and the taking of any action for the protection of their interests.

TITLE II

THE MEETING OF NOTEHOLDERS

Article 4

General

Subject to the proviso of Article 21 (*Powers exercisable by Extraordinary Resolution*), any resolution passed at a Meeting, duly convened and held in accordance with these rules, shall be binding upon all the Noteholders, whether or not absent or dissenting and whether or not voting and, in each case, all the Noteholders shall be bound by such resolution irrespective of its effect upon such Noteholders and such Noteholders shall be bound to give effect to any such resolution accordingly and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof.

Notice of the result of every vote on a resolution duly passed by the Noteholders shall be published by and at the expense of the Issuer, in accordance with the Conditions and given to the Italian Paying Agent (with a copy to the Issuer and the Representative of the Noteholders) within 14 days of the conclusion of the Meeting.

Article 5

Issue of Voting Certificates and Blocked Voting Instructions

Noteholders may obtain a Voting Certificate from the Italian Paying Agent or require the Italian Paying Agent to issue a Blocked Voting Instruction by arranging for their Notes to be blocked in an account with a clearing system not later than 48 Hours before the time fixed for the Meeting of the Noteholders, providing to the Italian Paying Agent, where appropriate, evidence that the Notes are so blocked. The Noteholders may obtain such evidence by requesting their Monte Titoli Account Holders to release a certificate in accordance with article 34 of CONSOB regulation No. 11768 of 23 December, 1998, (as subsequently amended and integrated). A Voting Certificate or Blocked Voting Instruction shall be valid until the release of the Blocked Notes to which it relates. So long as a Voting Certificate or Blocked Voting Instruction is valid, the bearer thereof (in the case of a Voting Certificate) or any Proxy named therein (in the case of a Blocked Voting Instruction) shall be deemed to be the holder of the Blocked Notes to which it relates for all purposes in connection with the Meeting. A Voting Certificate and a Blocked Voting Instruction cannot be outstanding simultaneously in respect of the same Note.

Article 6

Validity of Blocked Voting Instructions

A Blocked Voting Instruction shall be valid only if it is deposited at the Specified Office of the Italian Paying Agent, or at some other place approved by the Italian Paying Agent, at least 24 Hours before the time fixed for the Meeting and if not deposited before such deadline, the Blocked Voting Instruction shall not be valid unless the Chairman decides otherwise before the Meeting proceeds to business. If the Italian Paying Agent so requires, a notarised copy of each Blocked Voting Instruction and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but the Italian Paying Agent shall not be obliged to investigate the validity of any Blocked Voting Instruction or the authority of any Proxy.

Article 7

Convening of Meeting

The Issuer or the Representative of the Noteholders may convene a Meeting at any time, and the Issuer shall be obliged to do so upon the request in writing of Noteholders holding not less than one-tenth of the Principal Amount Outstanding of the Notes. If the Issuer fails to convene a Meeting when obliged to do so, the Meeting may be convened by the Representative of the Noteholders.

Whenever the Issuer is about to convene any such Meeting, it shall immediately give notice in writing to the Representative of the Noteholders of the date thereof and of the nature of the business to be transacted thereat. Every such Meeting shall be held at such time and place as the Representative of the Noteholders may designate or approve.

Article 8

Notice

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the Noteholders and the Italian Paying Agent (with a copy to the Issuer and to the Representative of the Noteholders). Any notice to Noteholders shall be given in accordance with Condition 17 (*Notices*). The notice shall set out the full text of any resolutions to be proposed and shall state that the Notes must be blocked in an account with a clearing system for the purpose of obtaining Voting Certificates or appointing Proxies not later than 48 Hours before the time fixed for the Meeting.

Article 9

Chairman of the Meeting

Any individual (who may, but need not, be a Noteholder) nominated in writing by the Representative of the Noteholders may take the chair at any Meeting but: (i) if no such nomination is made; or (ii) if the individual nominated is not present within 15 minutes after the time fixed for the Meeting; those present shall elect one of themselves to take the chair, failing which the Issuer may appoint a Chairman. The Chairman of an adjourned Meeting need not be the same person as the Chairman of the original Meeting.

The Chairman co-ordinates matters to be transacted at the Meeting and monitors the fairness of the Meeting's proceedings.

Article 10

Quorum

The quorum at any Meeting shall be at least one Voter representing or holding not less than the Relevant Fraction relative to the Notes.

Article 11

Adjournment for want of quorum

If within 15 minutes after the time fixed for any Meeting the quorum is not present, then:

(a) in the case of a Meeting requested by Noteholders, it shall be dissolved; and

(b) in the case of any other Meeting, it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines; provided, however, that:

(c) the Meeting shall be dissolved if the Issuer so decides; and

(d) no Meeting may be adjourned by resolution of a Meeting that represents less than the Relevant Fraction applicable in the case of Meetings which have been resumed after adjournment for want of quorum.

Article 12

Adjourned Meeting

The Chairman may, with the consent of (and shall if directed by) any Meeting, adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which might lawfully have been transacted at the Meeting from which the adjournment took place.

Article 13

Notice following adjournment

Article 8 (Notice) shall apply to any Meeting adjourned for want of quorum save that:

(a) at least 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be given; and

(b) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

(c) It shall not be necessary to give notice of the convening of a Meeting which has been adjourned for any other reason.

Article 14

Participation

The following may attend and speak at a Meeting:

(a) Voters;

(b) the Issuer or its representative and the Italian Paying Agent;

(c) the financial advisers to the Issuer;

(d) the legal counsel to each of the Issuer, the Representative of the Noteholders and the Italian Paying Agent;

(e) the Representative of the Noteholders; and

(f) such other person as may be resolved by the Meeting and as may be approved by the Representative of the Noteholders.

Article 15

Passing of resolution

A resolution is validly passed when the majority of votes cast by the Voters attending the relevant Meeting have been cast in favour of it.

Article 16

Show of hands

Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result of the show of hands is declared, the Chairman's declaration that on a show of

hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution.

Article 17

Poll

A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Representative of the Noteholders or one or more Voters holding a Voting Certificate or being a Proxy. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the Meeting for any other business.

Article 18

Votes

Every Voter shall have:

(a) on a show of hands, one vote; and

(b) on a poll, one vote in respect of each e 1,000 in principal amount of Note(s) represented by the Voting Certificate produced by such Voter or in respect of which he is a Proxy.

(c) In the case of equality of votes, the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the votes (if any) to which he may be entitled as a Noteholder or as a holder of a Voting Certificate or a Proxy.

(d) Unless the terms of any Blocked Voting Instruction state otherwise, a Voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same manner.

Article 19

Vote by Proxies

Any vote by a Proxy in accordance with the relevant Blocked Voting Instruction shall be valid even if such Blocked Voting Instruction or any instruction pursuant to which it was given has been amended or revoked, provided that the Italian Paying Agent has not been notified in writing of such amendment or revocation by the time being 24 Hours before the time fixed for the Meeting. Unless revoked, any appointment of a Proxy under a Blocked Voting Instruction in relation to a Meeting shall remain in force in relation to any Meeting resumed following an adjournment except for any appointment of a Proxy in relation to a Meeting which has been adjourned for want of a quorum. Any person appointed to vote at such a Meeting must be re-appointed under a Blocked Voting Instruction to vote at the Meeting when it is resumed.

Article 20

Exclusive powers of the Meeting

The Meeting shall have exclusive powers on the following matters:

(a) to approve any Basic Terms Modification;

(b) to approve any proposal by the Issuer for any alteration, abrogation, variation or compromise of the rights of the Representative of the Noteholders or the Noteholders against the Issuer or against any of its property or against any other persons whether such rights shall arise under these rules, the Notes, or arrangements in respect of the Conditions, any of the Transaction Documents or otherwise;

(c) to approve the substitution of any person for the Issuer (or any previous substitute) as principal obligor under the Notes;

(d) to direct the Representative of the Noteholders to serve an Issuer Acceleration Notice under Condition 10(b) (*Delivery of an Issuer Acceleration Notice*);

(e) to waive any breach or authorise any proposed breach by the Issuer of its obligations under or in respect of the Notes or any Transaction Document or any act or omission which might otherwise constitute an Event of Default;

(f) to direct the Representative of the Noteholders to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to any resolution of the Noteholders; and

(g) to exercise, enforce or dispose of any right and power on payment and application of funds deriving from any claims on which a pledge or other security interest is created in favour of the Noteholders, otherwise than in accordance with the Transaction Documents.

Article 21

Powers exercisable by Extraordinary Resolution

Without limitation to the exclusive powers of the Meeting listed in Article 20 (*Exclusive powers of the Meeting*), each Meeting shall have the following powers exercisable only by way of an Extraordinary Resolution:

(a) approval of any Basic Terms Modification;

(b) (without prejudice to the discretionary powers vested in the Representative of the Noteholders under these rules, the Conditions, the Transaction Documents, or otherwise) approval of any proposal by the Issuer for any alteration, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Representative of the Noteholders or the Noteholders against the Issuer or against any of its property or against any other person whether such rights shall arise under these rules, the Notes, the Conditions, any of the Transaction Documents or otherwise;

(c) approval of any scheme or proposal for the exchange or substitution of any of the Notes for, or the conversion of the Notes into, or the cancellation of the Notes in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or of any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash;

(d) (without prejudice to the discretionary powers vested in the Representative of the Noteholders under these rules, the Conditions, the Transaction Documents, or otherwise), approval of any alteration of the provisions contained in these rules, the Notes, the Conditions, the Intercreditor Agreement or any other Transaction Document which shall be proposed by the Issuer and/or the Representative of the Noteholders or any other party thereto;

(e) discharge or exoneration of the Representative of the Noteholders from any liability in respect of any act or omission for which the Representative of the Noteholders may have become responsible under or in relation to these rules, the Notes, the Conditions or any other Transaction Document;

(f) giving any direction or granting any authority or sanction which under the provisions of these rules, the Conditions or the Notes, is required to be given by Extraordinary Resolution;

(g) authorisation and sanctioning of actions of the Representative of the Noteholders under these rules, the Notes, the Conditions, the terms of the Intercreditor Agreement or any other Transaction Documents and in particular power to sanction the release of the Issuer by the Representative of the Noteholders.

Article 22

Challenge of resolution

Any Noteholder can challenge a resolution which is not passed in conformity with the provisions of these rules.

Article 23

Minutes

Minutes shall be made of all resolutions and proceedings at each Meeting. The Chairman shall sign the minutes, which shall be conclusive evidence of the resolutions and proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings of which minutes have been made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed or transacted.

Article 24

Written Resolution

A Written Resolution shall take effect as if it were an Extraordinary Resolution.

Article 25

Individual actions and remedies

The right of each Noteholder to bring individual actions or seek other individual remedies to enforce his or her rights under the Notes will be subject to the Meeting passing an Extraordinary Resolution authorising such individual action or other remedy. In this respect, the following provisions shall apply:

(a) the Noteholder intending to enforce his or her rights under the Notes will notify the Representative of the Noteholders in writing of his or her intention;

(b) the Representative of the Noteholders will, within 30 days of receiving such notification, convene a Meeting of the Noteholders in accordance with these rules at the expense of such Noteholder;

(c) if the Meeting does not pass a resolution authorising the individual enforcement or remedy, the Noteholder will be prevented from seeking such enforcement or remedy (provided that the same matter can be submitted again to a further Meeting after a reasonable period of time has elapsed); and

(d) if the Meeting does pass an Extraordinary Resolution authorising the individual enforcement or remedy, the Noteholder will be permitted to seek such individual enforcement or remedy in accordance with the terms of the Extraordinary Resolution.

No individual action or remedy can be sought by a Noteholder to enforce his or her rights under the Notes unless a Meeting of Noteholders has been held to resolve on such action or remedy and in accordance with the provisions of this Article 25.

TITLE III

THE REPRESENTATIVE OF THE NOTEHOLDERS

Article 26

Appointment, removal and remuneration

Each appointment of a Representative of the Noteholders must be approved by an Extraordinary Resolution of the holders of the Notes in accordance with the provisions of this Article 26, save in respect of the appointment of the first Representative of the Noteholders which will be The Bank of New York, London Branch.

Save for The Bank of New York, London Branch as first Representative of the Noteholders, the Representative of the Noteholders shall be:

(a) a bank incorporated in any jurisdiction of the European Union or a bank incorporated in any other jurisdiction, in either case provided it is licensed to conduct banking business in Italy; or

(b) a financial institution registered under article 107 of the Banking Act; or

(c) any other entity which may be permitted to act in such capacity by any specific provisions of Italian law applicable to the securitisation of monetary rights and/or by any regulations, instructions, guidelines and/or specific approvals issued by the competent Italian supervising authorities.

The Representative of the Noteholders shall be appointed for an unlimited term and can be removed by way of an Extraordinary Resolution of the Noteholders at any time.

In the event of a termination of the appointment of the Representative of the Noteholders for any reason whatsoever, such Representative of the Noteholders shall remain in office until acceptance of the appointment by the Issuer of a substitute Representative of the Noteholders designated among the entities indicated in (a), (b) or (c) above, and, provided that a Meeting of the Noteholders has not appointed such a substitute within 60 days of such termination, such representative may appoint such a substitute. The powers and authority of the Representative of the Noteholders whose appointment has been terminated shall be limited to those necessary for the performance of the essential functions which are required to be complied with in connection with the Notes.

The Issuer shall pay to the Representative of the Noteholders a fee for its services as Representative of the Noteholders as from the date hereof. Such remuneration shall be payable in accordance with the Intercreditor Agreement and the Priority of Payments up to (and including) the date when the Notes have been repaid in full and cancelled in accordance with the Conditions.

Article 27

Duties and powers

The Representative of the Noteholders is the legal representative of the Organisation of Noteholders subject to and in accordance with Article 15, the Conditions, these rules, the Intercreditor Agreement and the other Transaction Documents to which it is a party (together, the "**Relevant Provisions**").

Subject to the Relevant Provisions, the Representative of the Noteholders is responsible for implementing the directions of a Meeting and for representing the interests of the Noteholders as one class *vis-à-vis* the Issuer. The Representative of the Noteholders has the right to attend Meetings. The Representative of the Noteholders may convene a Meeting in order to obtain the authorisation or directions of the Meeting in respect of any action proposed to be taken by the Representative of the Noteholders.

All actions taken by the Representative of the Noteholders in the execution and exercise of its powers and authorities and of the discretions vested in it shall be taken by duly authorised officer(s) for the time being of the Representative of the

Noteholders. The Representative of the Noteholders may also, whenever it considers it expedient, whether by power of attorney or otherwise, delegate to any person(s) all or any of its duties, powers, authorities or discretions vested in it as aforesaid. Any such delegation may be made upon such terms and conditions, and subject to such regulations (including power to sub-delegate), as the Representative of the Noteholders may think fit in the interests of the Noteholders. The Representative of the Noteholders shall not be bound to supervise the proceedings of any such delegate or sub-delegate and shall not in any way or to any extent be responsible for any loss incurred by any misconduct or default on the part of such delegate or sub-delegate. The Representative of the Noteholders shall, as soon as reasonably practicable, give notice to the Issuer of the appointment of any delegate and of any renewal, extension or termination of such appointment, and shall make it a condition of any such delegation that any delegate shall also, as soon as reasonably practicable, give notice to the Issuer of any sub-delegate.

The Representative of the Noteholders shall be authorised to represent the Organisation of Noteholders in judicial proceedings, including proceedings involving the Issuer in court-supervised administration (*amministrazione controllata*), creditors' agreement (*concordato preventivo*), forced liquidation (*fallimento*) or compulsory administrative liquidation (*liquidazione coatta amministrativa*).

The Representative of the Noteholders shall have regard to the interests of all the Issuer Creditors as regards the exercise and performance of all powers, authorities, duties and discretions of the Representative of the Noteholders under these rules, the Intercreditor Agreement or under the Mandate Agreement (except where expressly provided otherwise), but, notwithstanding the foregoing, the Representative of the Noteholders shall have regard to the interests only: (i) of the Noteholders, and (ii) subject to item (i), of whichever Issuer Creditor ranks higher in the Priority of Payments hereof for the payment of the amounts therein specified if, in its opinion, there is or may be a conflict between the Noteholders and any other Issuer Creditors. The foregoing provision shall not affect the payment order set forth in the applicable Priority of Payments.

Article 28

Resignation of the Representative of the Noteholders

The Representative of the Noteholders may resign at any time upon giving not less than three calendar months' notice in writing to the Issuer without assigning any reason therefore and without being responsible for any costs incurred as a result of such resignation. The resignation of the Representative of the Noteholders shall not become effective until a Meeting of the Noteholders has appointed a new Representative of the Noteholders provided that if a new Representative of the Noteholders has not been so appointed within 60 days of the date of such notice of resignation, the Representative of the Noteholders may appoint a new Representative of the Noteholders.

Article 29

Exoneration of the Representative of the Noteholders

The Representative of the Noteholders shall not assume any other obligations in addition to those expressly provided herein and in the other Transaction Documents to which it is a party.

Without limiting the generality of the foregoing, the Representative of the Noteholders:

(a) shall not be under obligation to take any steps to ascertain whether an Event of Default or any other event, condition or act, the occurrence of which would cause a right or remedy to become exercisable by the Representative of the Noteholders or any Noteholder hereunder or under any of the other Transaction Documents has happened and, until it shall have actual knowledge or express notice to the contrary, the Representative of the Noteholders shall be entitled to assume that no Event of Default or such other event, condition or act has occurred;

(b) shall not be under any obligation to monitor or supervise the observance or performance by the Issuer or any other party to the Transaction Documents of the provisions of, and its obligations under, these rules, the Notes, the Conditions or any other Transaction Document, and, until it shall have actual knowledge or express notice to the contrary, it shall be entitled to assume that the Issuer and each such other party is observing and performing all such provisions and obligations;

(c) shall not be under any obligation to give notice to any person of the execution of these rules, the Notes, the Conditions or any of the Transaction Documents or any transaction contemplated hereby or thereby;

(d) shall not be responsible for, or for investigating, the legality, validity, effectiveness, adequacy, suitability or genuineness of these rules, the Notes, the Conditions, any Transaction Document, or any other document, or any security obligation or rights created or purported to be created hereby or thereby or pursuant hereto or thereto, and (without prejudice to the generality of the foregoing) it shall not have any responsibility for, or have any duty to make any investigation in respect of, or in any way be liable whatsoever for: (i) the nature, status, creditworthiness or solvency of the Issuer or any other party to the Transaction Documents; (ii) the existence, accuracy or sufficiency of any legal or other opinions, searches, reports, certificates, valuations or investigations delivered or obtained or required to be delivered or obtained at any time in connection herewith or with any Transaction Document; (iii) the suitability, adequacy or sufficiency of any collection or recovery procedures operated by the Servicer or compliance therewith; (iv) the failure by the Issuer to obtain or comply with any licence, consent or other authority in connection with the purchase or administration of the Claims; or

(v) any accounts, books, records or files maintained by the Issuer, the Servicer, the Italian Paying Agent or any other person in respect of the Portfolio;

(e) shall not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Notes or the distribution of any of such proceeds, to the persons entitled thereto;

(f) shall have no responsibility for the maintenance of any rating of the Notes by the Rating Agencies or any other credit or rating agency or any other person;

(g) shall not be responsible for, or for investigating, any matter which is the subject of any recitals, statements, warranties or representations of any party, other than the Representative of the Noteholders contained herein or in any Transaction Document;

(h) shall not be bound or concerned to examine, or enquire into, or be liable for, any defect or failure in the right or title of the Issuer to the Claims or any part thereof, whether such defect or failure was known to the Representative of the Noteholders or might have been discovered upon examination or enquiry, or whether capable of remedy or not;

(i) shall not be liable for any failure, omission or defect in registering or filing or procuring registration or filing of, or otherwise protecting or perfecting, these rules, the Notes or any Transaction Document;

(j) shall not be under any obligation to insure the Claims or any part thereof;

(k) shall not have regard to the consequences of any modification of these rules, the Notes, the Conditions or any of the Transaction Documents for individual Noteholders or any relevant persons resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to, the jurisdiction of any particular territory; and

(l) shall not (unless and to the extent ordered so to do by a court of competent jurisdiction) be under any obligation to disclose to any Noteholder, any Other Issuer Creditor or any other person any confidential, financial, price sensitive or other information made available to the Representative of the Noteholders by the Issuer or any other person in connection with these rules, the Notes or any other Transaction Document, and none of the Noteholders, Other Issuer Creditors nor any other person shall be entitled to take any action to obtain from the Representative of the Noteholders any such information.

The Representative of the Noteholders, notwithstanding anything to the contrary contained in these rules:

(a) may, without the consent of the Noteholders or any Other Issuer Creditors and subject to the Representative of the Noteholders giving prior written notice thereof to the Rating Agencies, concur with the Issuer and any other relevant parties in making any amendment or modification to these rules, the Conditions (other than a Basic Terms Modification) or to any of the Transaction Documents which, in the opinion of the Representative of the Noteholders, it is expedient to make or is to correct a manifest error or an error which is, in the opinion of the Representative of the Noteholders, proven, or is of a formal, minor or technical nature or is necessary or desirable for the purposes of clarification. Any such amendment or modification shall be binding on the Noteholders and, unless the Representative of the Noteholders otherwise agrees, the Issuer shall cause such amendment or modification to be notified to the Noteholders as soon as practicable thereafter;

(b) may, without the consent of the Noteholders or any Other Issuer Creditor and subject to the Representative of the Noteholders giving prior written notice thereof to the Rating Agencies, concur with the Issuer and any other relevant parties in making any amendment or modification (other than in respect of a Basic Terms Modification) to these rules, the Conditions or to any of the Transaction Documents, which, in the opinion of the Representative of the Noteholders it may be proper to make, provided that the Representative of the Noteholders is of the opinion that such amendment or modification will not be materially prejudicial to the interests of the Noteholders;

(c) may, without the consent of the Noteholders or any Other Issuer Creditor and subject to the Representative of the Noteholders giving prior written notice thereof to the Rating Agencies, authorise or waive any proposed breach or breach of the Notes (including an Event of Default) or of the Intercreditor Agreement or any other Transaction Document if, in the opinion of the Representative of the Noteholders, the interests of the Noteholders will not be materially prejudiced by such authorisation or waiver; provided that the Representative of the Noteholders shall not exercise any of such powers in contravention of any express direction by an Extraordinary Resolution or of a request in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Notes (but so that no such direction or request shall affect any authorisation, waiver or determination previously given or made) or so as to authorise or waive any proposed breach or breach relating to a Basic Terms Modification;

(d) may act on the advice, certificate, opinion or information (whether or not addressed to the Representative of the Noteholders) obtained from any lawyer, accountant, banker, broker, credit or rating agency or other expert whether obtained by the Issuer, the Representative of the Noteholders or otherwise and shall not, in the absence of gross negligence (*colpa grave*) or wilful default (*dolo*) on the part of the Representative of the Noteholders, be responsible for any loss incurred by so acting. Any such advice, certificate, opinion or information may be sent or obtained by letter, telex, telegram, facsimile transmission or cable and, in the absence of gross negligence (*colpa grave*) or wilful default (*dolo*) on the part of the Representative of the Noteholders, the Representative of the Noteholders shall not be liable for acting on any advice, certificate, opinion or information contained in, or purported to be conveyed by, any such letter,

telex, telegram, facsimile transmission or cable, notwithstanding any error contained therein or the non-authenticity of the same;

(e) may call for, and shall be at liberty to accept as sufficient evidence of any fact or matter or as to the expediency of any dealing, transaction, step or thing, a certificate duly signed by or on behalf of the sole director or the chairman of the board of directors of the Issuer, as the case may be, and the Representative of the Noteholders shall not be bound, in any such case, to call for further evidence or be responsible for any loss that may be occasioned as a result of acting on such certificate;

(f) save as expressly otherwise provided herein, shall have absolute and unfettered discretion as to the exercise, or non-exercise, of any right, power and discretion vested in the Representative of the Noteholders by these rules, the Notes, any Transaction Document or by operation of law and the Representative of the Noteholders shall not be responsible for any loss, costs, damages, expenses or other liabilities that may result from the exercise, or non-exercise thereof except insofar as the same are incurred as a result of its gross negligence (*colpa grave*) or wilful default (*dolo*);

(g) shall be at liberty to leave in custody these rules, the Transaction Documents and any other documents relating thereto or to the Notes in any part of the world with any bank, financial institution or company whose business includes undertaking the safe custody of documents, or with any lawyer or firm of lawyers considered by the Representative of the Noteholders to be of good reputation and the Representative of the Noteholders shall not be responsible for or required to insure against, any loss incurred in connection with any such custody and may pay all sums required to be paid on account of, or in respect of, any such custody;

(h) in connection with matters in respect of which the Representative of the Noteholders is entitled to exercise its discretion hereunder, the Representative of the Noteholders is entitled to convene a Meeting of the Noteholders in order to obtain instructions as to how the Representative of the Noteholders should exercise such discretion provided that nothing herein shall be construed so as to oblige the Representative of the Noteholders to convene such a Meeting. The Representative of the Noteholders shall not be obliged to take any action in respect of these rules, the Notes, the Conditions or any Transaction Document unless it is indemnified and/or provided with security to its satisfaction against all actions, proceedings, claims and demands which may be brought against it and against all costs, charges, damages, expenses and liabilities (provided that supporting documents are delivered) which it may incur by taking such action;

(i) in connection with matters in respect of which the Noteholders are entitled to direct the Representative of the Noteholders, the Representative of the Noteholders shall not be liable for acting upon any resolution purported to have been passed at any Meeting of Noteholders in respect of which minutes have been drawn up and signed notwithstanding that subsequent to so acting, it transpires that the Meeting was not duly convened or constituted, such resolution was not duly passed or that the resolution was otherwise not valid or binding upon the relevant Noteholders;

(j) may call for, and shall be at liberty to accept and place full reliance on as sufficient evidence of the facts stated therein, a certificate or letter of confirmation certified as true and accurate and signed on behalf of any common depository as the Representative of the Noteholders considers appropriate, or any form of record made by any such depository, to the effect that at any particular time or throughout any particular period any particular person is, was, or will be, shown in its records as entitled to a particular principal amount of Notes;

(k) may certify whether or not an Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders and any such certificate shall be conclusive and binding upon the Issuer, the Noteholders, the Other Issuer Creditors and any other relevant person;

(l) may determine whether or not a default in the performance by the Issuer of any obligation under the provisions of these rules, the Notes, the Conditions or any other Transaction Document is capable of remedy and, if the Representative of the Noteholders certifies that any such default is, in its opinion, not capable of remedy, such certificate shall be conclusive and binding upon the Issuer, the Noteholders, the Other Issuer Creditors and any relevant person;

(m) may assume, without enquiry, that no Notes are for the time being held by, or for the benefit of, the Issuer;

(n) shall be entitled to call for, and to rely upon, a certificate or any letter of confirmation or explanation reasonably believed by it to be genuine, of any party to the Intercreditor Agreement, any Other Issuer Creditor or any Rating Agency in respect of any matter and circumstance for which a certificate is expressly provided for hereunder or under any Transaction Document or in respect of the ratings of the Notes and it shall not be bound, in any such case, to call for further evidence or be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be incurred by its failing to do so; and

(o) shall be entitled to assume, for the purposes of exercising any power, authority, duty or discretion under or in relation hereto or to the Notes, the Conditions or any Transaction Document, that such exercise will not be materially prejudicial to the interests of the Noteholders having regard, along with any other relevant factors, to whether one or all of the Rating Agencies (as applicable) has/have confirmed that the then current ratings of the Notes would not be adversely affected by such exercise, or have otherwise given their consent.

Any consent or approval given by the Representative of the Noteholders under these rules, the Notes, the other Conditions or any Transaction Document may be given on such terms and subject to such conditions (if any) as the Representative of the Noteholders thinks fit and, notwithstanding anything to the contrary contained herein, in the Conditions or in any Transaction Document, such consent or approval may be given retrospectively.

No provision of these rules, the Notes, the Conditions or any Transaction Document shall require the Representative of the Noteholders to do anything which may be illegal or contrary to applicable law or regulations, or expend or risk its own funds, or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its powers or discretions, and the Representative of the Noteholders may refrain from taking any action if it has reasonable grounds to believe that it will not be reimbursed for any funds, or that it will not be indemnified against any loss or liability which it may incur as a result of such action.

Article 30

Note Security

The Representative of the Noteholders shall be entitled to exercise all the rights granted by the Issuer in favour of the Representative of the Noteholders on behalf of the Noteholders and the other Issuer Secured Creditors under the Note Security.

The Representative of the Noteholders, acting on behalf of the Issuer Secured Creditors, may:

(a) prior to enforcement of the Note Security, appoint and entrust the Issuer to collect, in the Issuer Secured Creditors' interest and on their behalf, any amounts deriving from the Note Security and may instruct, jointly with the Issuer, the obligors whose obligations form part of the Note Security to make any payments to be made thereunder to an Account of the Issuer;

(b) acknowledge that the Accounts to which payments have been made in respect of the Note Security shall be deposit accounts for the purpose of article 2803 of the Italian civil code and agree that such Accounts shall be operated in compliance with the provisions of the Account Bank Agreement and the Intercreditor Agreement;

(c) agree that all funds credited to the Accounts from time to time shall be applied prior to enforcement of the Note Security, in accordance with the Conditions and the Intercreditor Agreement; and

(d) agree that cash deriving from time to time from the Note Security and the amounts standing to the credit of the Accounts and, save as provided below, the Collateral Account, if any, shall be applied prior to enforcement of the Note Security, in and towards satisfaction not only of amounts due to the Issuer Secured Creditors, but also of such amounts due and payable to the other Issuer Creditors (i) that rank *pari passu* with, or higher than, the Issuer Secured Creditors, according to the applicable Priority of Payments or (ii) that are not included in the applicable Priority of Payments and, to the extent that all amounts due and payable to the Issuer Secured Creditors have been paid in full, also towards satisfaction of amounts due to the other Issuer Creditors that rank below the Issuer Secured Creditors. The Issuer Secured Creditors irrevocably waive any right which they may have hereunder in respect of cash deriving from time to time from the Note Security and amounts standing to the credit of the Accounts which is not in accordance with the foregoing. The Representative of the Noteholders shall not be entitled to collect, withdraw or apply, or issue instructions for the collection, withdrawal or application of, cash deriving from time to time from the Note Security, under the Note Security, except in accordance with the foregoing, the Conditions and the Intercreditor Agreement;

(e) agree that (i) prior to the date on which the Swap Transaction is terminated early, the amount (if any) standing to the credit of the Collateral Account pursuant to the Credit Support Annex and (ii) following the date on which the Swap Transaction is terminated, the amount (if any) standing to the credit of the Collateral Account (if any) which exceeds the termination amount (if any) that would have otherwise been payable by the Swap Counterparty to the Issuer had the collateral not been provided, may be paid, prior to enforcement of the Note Security, exclusively in or towards satisfaction of amounts that are due and payable to the Swap Counterparty pursuant to the Swap Agreement, irrespective of the order of priority set forth in the applicable Priority of Payments. The Issuer Secured Creditors irrevocably waive any right which they may have hereunder in respect of such amounts which is not in accordance with the foregoing.

The Representative of the Noteholders, on behalf of the Issuer Secured Creditors, acknowledges and agrees that the sums representing the net subscription price of the Notes will be applied in and towards repayment of the Bridge Loan on the Issue Date in accordance with the Facility Agreement.

Article 31

Indemnity

It is hereby acknowledged that the Issuer has covenanted and undertaken under the Intercreditor Agreement to reimburse, pay or discharge (on a full indemnity basis) all costs, liabilities, losses, charges, expenses (provided, in each case, that supporting documents are delivered), damages, actions, proceedings, claims and demands (including, without limitation, legal fees and any applicable value added tax or similar tax) properly incurred by or made against the Representative of the Noteholders or by any person to whom the Representative of the Noteholders has delegated any power, authority or discretion or any appointee thereof, in relation to the preparation and execution of, the exercise or the purported exercise of, its powers, authority and discretion and performance of its duties under and in any other manner in relation to these rules, the Notes, the Conditions, the Intercreditor Agreement or any other Transaction Document, including but not limited to legal and travelling expenses and any stamp, issue, registration, documentary and other taxes or duties paid by the Representative of the Noteholders in connection with any action and/or legal proceedings brought or contemplated by the Representative of the Noteholders pursuant to these

rules, the Notes, the Conditions or any Transaction Document, against the Issuer or any other person for enforcing any obligations under these rules, the Notes or the Transaction Documents, except insofar as the same are incurred as a result of gross negligence (*colpa grave*) or wilful default (*dolo*) on the part of the Representative of the Noteholders.

TITLE IV

THE ORGANISATION OF NOTEHOLDERS UPON SERVICE OF AN ISSUER ACCELERATION NOTICE

Article 32

Powers

It is hereby acknowledged that, upon service of an Issuer Acceleration Notice and/or failure by the Issuer to exercise its rights, the Representative of the Noteholders shall, pursuant to the Mandate Agreement, be entitled, in its capacity as legal representative of the Organisation of Noteholders, also in the interest and for the benefits of the Other Issuer Creditors, pursuant to articles 1411 and 1723 of the Italian civil code, to exercise certain rights in relation to the Portfolio. Therefore, the Representative of the Noteholders, in its capacity as legal representative of the Organisation of Noteholders, will be authorised, pursuant to the terms of the Mandate Agreement, to exercise, in the name and on behalf of the Issuer and as *mandatario in rem propriam* of the Issuer, all and any of the Issuer's Rights, including the right to give directions and instructions to the relevant parties to the Transaction Documents.

In particular and without limiting the generality of the foregoing, following the service of an Issuer Acceleration Notice, the Representative of the Noteholders will be entitled, until the Notes have been repaid in full or cancelled in accordance with the Conditions:

(a) to request the Account Bank to transfer all monies and securities standing to the credit of the Collection Account, Payments Account, Expense Account, Expenses Reserve Account, Equity Capital Account and Collateral Account (if any) to, respectively, a replacement Collection Account, a replacement Payments Account, a replacement Expenses Reserve Account, a replacement Expense Account, a replacement Equity Capital Account and a replacement Collateral Account (if any) opened for such purpose in the United Kingdom by the Representative of the Noteholders with a replacement Account Bank;

(b) to request the Italian Paying Agent to transfer all monies and securities standing to the credit of the Italian Paying Agent Account to a replacement Italian Paying Agent Account opened for such purpose in Italy by the Representative of the Noteholders with a replacement Italian Paying Agent;

(c) to require performance by any Issuer Creditor of its obligations under the relevant Transaction Document to which such Issuer Creditor is a party, to bring any legal actions and exercise any remedies in the name and on behalf of the Issuer that are available to the Issuer under the relevant Transaction Document against such Issuer Creditor in case of failure to perform and generally to take such action in the name and on behalf of the Issuer as the Representative of the Noteholders may deem necessary to protect the interests of the Issuer, the Noteholders and the Other Issuer Creditors in respect of the Portfolio, the Claims and the Issuer's Rights;

(d) to instruct the Servicer in respect of the recovery of the Issuer's Rights;

(e) to take possession, as an agent of the Issuer and to the extent permitted by applicable laws, of all Collections (by way of a power of attorney granted under the Intercreditor Agreement in respect of the relevant Accounts) and of the Claims and to sell or otherwise dispose of the Claims or any of them in such manner and upon such terms and at such price and such time or times as the Representative of the Noteholders shall, in its absolute discretion, deem appropriate and to apply the proceeds in accordance with the Post-Enforcement Priority of Payments; provided however that if the amount of the monies at any time available to the Issuer or the Representative of the Noteholders for the payments above shall be less than 10 per cent. of the Principal Amount Outstanding of all the Notes the Representative of the Noteholders may at its discretion invest such monies (or cause such monies to be invested) in some or one of the investments authorised below. The Representative of the Noteholders at its discretion may vary such investments (or cause such investments to be varied) and may accumulate such investments and the resulting income until the earlier of: (i) the day on which the accumulations, together with any other funds for the time being under the control of the Representative of the Noteholders and available for such purpose, amount to at least 10 per cent. of the Principal Amount Outstanding of all the Notes and (ii) the Business Day immediately following the service of an Issuer Acceleration Notice that would have been an Interest Payment Date. Such accumulations and funds shall be applied to make the payments listed in the Post-Enforcement Priority of Payments. Any monies which under the Intercreditor Agreement or the Conditions may be invested by the Representative of the Noteholders may be invested in the name or under the control of the Representative of the Noteholders in any investments or other assets in any part of the world whether or not they produce income or by placing the same on deposit in the name or under the control of the Representative of the Noteholders at such bank or other financial institution and in such currency as the Representative of the Noteholders may think fit. The Representative of the Noteholders may at any time vary any such investments for or into other investments or convert any monies so deposited into any other currency and shall not be responsible for any loss resulting from any such investments or deposits, whether due to depreciation in value, fluctuations in exchange rates or otherwise, except insofar as such loss is incurred as a result of its gross negligence (*colpa grave*) or wilful default (*dolo*); and

(f) to distribute the monies from time to time standing to the credit of the Accounts and such other accounts as may be opened by the Representative of the Noteholders pursuant to paragraph (a) and/or (b) above to the Noteholders and the Other Issuer Creditors in accordance with the Priority of Payments. For the purposes of this Article 32, all the Noteholders and the Other Issuer Creditors irrevocably appoint, as from the date hereof and with effect on the date on which the Notes will become due and payable following the service of an Issuer Acceleration Notice, the Representative of the Noteholders as their exclusive agent (*mandatario esclusivo*) to receive on their behalf from the Issuer any and all monies payable by the Issuer to the Noteholders and the Other Issuer Creditors from and including the date on which the Notes will become due and payable, such monies to be applied in accordance with the applicable Priority of Payments.

TITLE V

GOVERNING LAW AND JURISDICTION

Article 33

Governing law and jurisdiction

These rules are governed by, and will be construed in accordance with, the laws of Italy.

All disputes arising out of or in connection with these rules, including those concerning their validity, interpretation, performance and termination, shall be exclusively settled by the Courts of Milan.

USE OF PROCEEDS

Monies available to the Issuer on the Issue Date consisting of the net proceeds from the issue of the Notes, being approximately €193,065,741.00, will be applied by the Issuer on the Issue Date:

(a) in or towards repayment of the Bridge Loan (in an amount equal to €191,969,624.71 which was drawn down by the Issuer to pay the Purchase Price of the Claims);

(b) in or towards payment of fees due under the Interim Transaction Documents (in an amount equal to €350,484.63); and

(c) to credit €745,631.66 to the Payments Account. The balance of the Payments Account, consisting also of €901,814.08 previously credited to it as well as of €262,350.86 to be credited to it on the Issue Date under the Swap Agreement, will then be applied as follows:

  (i) €1,282,533.07 will be paid to the Bridge Loan Lender in or towards payment of interest accrued on the Bridge Loan;

  (ii) €332,111.14 will be credited to the Expense Account;

  (iii) €262,350.86 will be credited to the Expenses Reserve Account; and

  (iv) in or towards payments of certain up-front fees and expenses due to third parties (in an amount equal to, approximately €32,801.54).

THE ISSUER

Introduction

FL Finance S.r.l. (the "**Issuer**") is a limited liability company (*società a responsabilità limitata*) incorporated in the Republic of Italy under article 3 of Italian law No. 130 of 30 April, 1999 (*disposizioni sulla cartolarizzazione dei crediti*), as amended from time to time (the "**Securitisation Law**") on 12 March, 2004, with the name of "SPV Project 14 S.r.l.". By way of an extraordinary quotaholders' resolution held on 8 June, 2004, the corporate name of the Issuer was changed from "SPV Project 14 S.r.l." into "FL Finance S.r.l.". The Issuer is registered with the companies register of Brescia under No. 02507350987, with the register (*elenco generale*) held by *Ufficio Italiano dei Cambi*, pursuant to article 106 of Italian legislative decree No. 385 of 1 September, 1993 (the "**Banking Act**") under No. 35593 and with the special register (*elenco speciale*) held by the Bank of Italy pursuant to article 107 of the Banking Act under No. 32929.2, and its tax identification number (*codice fiscale*) is 02507350987. Since the date of its incorporation, the Issuer has not engaged in any business other than the purchase of the Claims thereunder, the entering into of the Transaction Documents and the Interim Transaction Documents and the activities ancillary thereto and has not declared or paid any dividends or incurred any indebtedness, other than the Issuer's costs and expenses of incorporation or otherwise pursuant to the Transaction Documents. The registered office of the Issuer is via Romanino, 1, Brescia, Italy. The Issuer has no employees.

The authorised equity capital of the Issuer is €10,000. The issued and paid-up equity capital of the Issuer is €10,000. The quotaholders of the Issuer (together, the "**Quotaholders**") and their equity interests are as follows:

Quotaholders	Quotaholding in the Issuer expressed in €	Quotaholding in the Issuer expressed in %
Stichting Farma 1	5,000	50 per cent.
Stichting Farma 2	5,000	50 per cent.

Accounting treatment of the Portfolio

Pursuant to Bank of Italy regulations, the accounting information relating to the securitisation of the Claims will be contained in the explanatory notes to the Issuer's accounts (*Nota Integrativa*). The explanatory notes, together with the balance sheet and the profit and loss statements, form part of the financial statements of Italian limited liability companies (*società a responsabilità limitata*).

Accounts of the Issuer

The fiscal year of the Issuer begins on 1 January of each calendar year and ends on 31 December of the same calendar year with the exception of the first fiscal year which started on 12 March, 2004 and will end on 31 December, 2004. Consequently, the first statutory accounts of the Issuer will be those relating to the fiscal year ended on 31 December, 2004.

Principal activities

The principal corporate objectives of the Issuer, as set out in article 2 of its by-laws (*statuto*), include the acquisition of monetary receivables for the purposes of securitisation transactions and the issuance of asset-backed securities pursuant to article 3 of the Securitisation Law.

So long as any of the Notes remain outstanding, the Issuer shall not, without the consent of the Representative of the Noteholders and as provided in the Conditions and the Transaction Documents, incur any other indebtedness for borrowed monies, engage in any activities except pursuant to the Transaction Documents, pay any dividends, repay or otherwise return any equity capital, have any subsidiaries, employees or premises, consolidate or merge with any other person, convey or transfer its property or assets to any person, or increase its equity capital.

The Issuer will covenant to observe, *inter alia*, those restrictions which are detailed in Condition 5 (*Covenants*).

The sole director of the Issuer is:

Name	*Address*	*Principal Activities*
Luigi Passeri	via Romanino, 1	Registered accountant in the Republic of Italy (*libero professionista*)

The Issuer has no statutory auditors.

Capitalisation and indebtedness statement

The capitalisation and indebtedness of the Issuer as at the date of this Offering Circular, adjusted for the issue of the Notes on the Issue Date, are as follows:

	€
Issued equity capital	
€10,000 fully paid up	10,000
	10,000
Borrowings	
€193,259,000 Asset-Backed Floating Rate Notes due 2009	193,259,000
Total Notes	193,259,000

Save for the foregoing, at the Issue Date, the Issuer will not have borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees, or other contingent liabilities.

Interim Financial Statements and report of the Auditors

The financial statement prepared by the Issuer as at and for the period ended 30 September, 2004 are set forth below.

(Translation from the Italian original which remains the definitive version)

FL FINANCE S.r.l.

Registered office: Brescia, Via Romanino, 1

Quota capital: €10,000

Brescia company registrar and tax number 02507350987

* * * * *

INTERIM FINANCIAL STATEMENT AT 30 SEPTEMBER 2004

DIRECTORS' REPORT

Business

The company was set up on 12 March, 2004 before the Notary Giovanni Battista Calini, index No. 67744, under the name of "SPV Project 14 S.r.l.". Its original quota capital of Euro 10,000 was subscribed by Zenith Holding S.r.l. for Euro 6,000 and Zenith Service S.r.l. for Euro 4,000. Its first financial year will close on 31 December, 2004.

On 8 June, 2004, with deed of the Notary Paolo Fenoaltea, index No. 8279, the quotaholders in an extraordinary meeting approved the new legal name "FL FINANCE S.r.l.".

On the same date, they fully sold the company's quota capital to Stichting Farma 1 and Stichting Farma 2, which each bought 50% for Euro 5,000 each.

The company's sole corporate object is the performance of one or more receivable securitisation transactions pursuant to law No. 130 of 30 April, 1999. It is registered with the general list of financial intermediaries as per article 106 of legislative decree No. 385 of 1 September, 1993 (the Banking Act).

The company's articles of association do not provide that accounting records and financial statements are subject to auditing, except as described in the following section.

The company has not carried out any research or development activities.

After 30 September, 2004, the company continued the preliminary activities necessary for a securitisation transaction and related to the agreements that will govern the transaction. On 20 October, 2004, it obtained authorisation from the Bank of Italy to issue notes for the purpose of article 129 of the Banking Act and on 22 October, 2004 registration in the special register of financial intermediaries pursuant to article 107 of the Banking Act.

For the predictable evolution of the management we refer to what contained in the *Nota Integrativa*.

Format and content of the interim financial statement

This interim financial statement has been prepared in Euros, in accordance with the accounting principles set out in legislative decree No. 87 of 27 January, 1992 and in compliance with the instructions of Bank of Italy measure No. 103 of 31 July, 1992 for the sole purpose of its inclusion in the Offering Circular.

Where applicable, the disclosures required by the Bank of Italy measure dated 29 March 2000, published in the Official Journal of Italy on 3 April 2000, have been given.

This interim financial statement as at and for the period from 12 March, 2004 to 30 September, 2004 does not provide the disclosures required by the above Bank of Italy measures necessary for the preparation of annual financial statements.

The interim financial statement is composed of the following:

- balance sheet (A.1);
- profit and loss account (A.2);
- notes to the interim financial statement (A.3).

This interim financial statement has been audited by KPMG S.p.A. on voluntary basis.

FINANCIAL SCHEDULES

A.1 BALANCE SHEET	**30/09/2004**
ASSETS	*Euro*
20. Due from banks	10,000
(a) on demand	10,000
130. Other assets	969
Total assets	**10,969**
LIABILITIES AND NET EQUITY	
50. Other liabilities	967
120. Quota capital	10,000
170. Net profit for the period	2
Total liabilities and net equity	**10,969**

A.2 PROFIT AND LOSS ACCOUNT		**12/03/2004 – 30/09/2004**
COSTS		*Euro*
10.	Interest expense and similar charges	143
40.	Administrative costs:	4,697
	(b) other administrative costs	4,697
140.	Net profit for the period	2
Total costs		**4,842**
REVENUES		
10.	Interest income and similar revenues	7
70	Other operating income	4,835
	Total revenues	**4,842**

A.3 NOTES TO THE INTERIM FINANCIAL STATEMENT

These notes comprise:

Part A – Accounting policies;

Part B – Notes to the balance sheet;

Part C – Notes to the profit and loss account;

Part D – Other information.

Part A – Accounting policies

Description

This interim financial statement has been drawn up in accordance with relevant legislation, interpreted in the context of and integrated by the accounting principles issued by the Italian Accounting Profession.

(1) Receivables and payables

Receivables are stated at their estimated realisation value, as their nominal value is adjusted by the provision for bad debts.

Payables are stated at their nominal value.

(2) Costs and revenues

Costs and revenues are recognised on an accruals basis by recording prepayments, accrued income, accrued expenses and deferred income as appropriate to include relevant costs and revenues in the profit or loss for the period.

During the reporting period, the company has made no fiscally-driven accounting entries.

Part B – Notes to the balance sheet

20. Due from banks

The caption is made up of the positive current account balance of Euro 10,000.

130. Other assets

The balance of Euro 969 includes receivables for the company's management (Euro 967) and withholdings on interest income on the current account (Euro 2).

50. Other liabilities

The balance of Euro 967 consists of VAT due to the taxation authorities.

120. Quota capital

At the balance sheet date, following the transfer of ownership on 8 June 2004, the quota capital of FL Finance S.r.l. is held by Stichting Farma 1 and Stichting Farma 2 both owning 50% (Euro 5,000).

Guarantees, commitments and off-balance sheet transactions

Guarantees given to third parties

None.

Commitments

None.

Off-balance sheet transactions

None.

Foreign currency assets and liabilities

There are no foreign currency items in the balance sheet at 30 September 2004.

Part C – Notes to the profit and loss account

Costs

10. Interest expense and similar charges

This caption comprises other bank charges of Euro 143.

40. Administrative costs

The balance of Euro 4,697 comprises administrative costs incurred for the incorporation and ordinary management of the company.

Revenues

10. Interest income and similar revenues

This caption includes interest income on the current account opened for the ordinary management of the company.

70. Other operating income

Other operating income comprises the recharging of operating costs to Farmafactoring S.p.A.

Part D – Other information

Directors' fees

No fees to company bodies have been provided for during the period.

There are no receivables due from or guarantees given to the sole director.

Employees

The are no employees. Operations are carried out by the sole director who will use the services of specially-appointed external consultants for any administrative, management, accounting, tax or financial duties.

Preliminary activities for securitisation

As at the balance sheet date, the company has only carried the activities preliminary to the securitisation transaction.

On 22 July, 2004, the Issuer purchased from Farmafactoring S.p.A. (the "**Originator**"), with registered office in Milan, Via Domenichino, 5, without recourse (*pro soluto*) all its claims (for principal, interest, penalties, ancillary rights, costs, further losses, damages, etc.) as resulting from its accounting records as at 21 July, 2004, classified, on the basis of the Originator's classification criteria as performing claims (*crediti in bonis*) under, and in the meaning of, the Bank of Italy's guidelines (*Istruzioni di Vigilanza*) which, as at that date, had arisen from:

(a) settlement agreements executed on 18 June, 2004 and Delegations of Payment executed on 19 July, 2004 between Farmafactoring S.p.A., the Region and certain *aziende sanitarie locali*, *aziende ospedaliere and istituti fisioterapici ospitalieri* having their registered office within the Region;

(b) sale agreements (*contratti di compravendita*) and supply agreements (*contratti di somministrazione*) of pharmaceutical products and services entered into between certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* having their registered office within the Region in respect of which their rights and claims have been settled under any one of the Settlement Agreements under (a) above.

Under the above mentioned delegations of payment, the Region has irrevocably undertaken to pay the amounts set out in the above-mentioned deeds on 15 June and 15 December of each year, starting from 15 December, 2004 and up to 15 June, 2009 (€21,417,285 each time).

After the issue of the asset-backed notes, the residual life of securitised assets provides for collections of Euro 21,417,285 up to three months, €21,417,285 from three months to one year and the remainder before five years.

The credit risk is mainly concentrated on the Region and, subordinately, on certain a*ziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* mentioned above.

There are no specific liquidity lines supporting the securitisation transaction.

Its success is mainly based on the Region's punctual fulfilment of its obligations under the delegations of payment.

Should the company be subject to unexpected charges of a tax or regulatory nature, the company will benefit from a subordinated loan granted to it by Farmafactoring pursuant to the Letter of Undertaking (*Impegno a Finanziare*).

The purchased receivables, which do not include future receivables, amount to €214,172,848. After having applied a discount rate, the purchase price paid to the Originator was equal to €191,969,625. The purchase was financed through the facility agreement of €191,969,625 signed on 22 July, 2004 with Merrill Lynch Capital Markets Bank Limited expiring on 29 November, 2004. The irrevocable payment mandate for the purchase price was conferred on 27 July, 2004. Payment was made on 30 July, 2004.

The company entered into an interest rate swap with Merrill Lynch Capital Markets Bank Limited on 22 July, 2004 which aims to hedge the risk on the fixed interest rate of transferred receivables and the variable interest rate of the financing. The amounts due from the counterparty in the swap were collected on 16 August and 15 September, 2004 for a total of Euro 550,210.

At the balance sheet date, the main agreements signed by FL Finance S.r.l. are as follows:

(1) **Transfer Agreement**: by which Farmafactoring S.p.A. has undertaken to transfer a receivable portfolio arising from the sale and supply of pharmaceutical products and services to certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* based in the Lazio region (the "Debtors") by pharmaceutical companies, as well as receivables arising from the out-of-court agreements by which the parties have settled their respective receivable and payable positions relating to receivables arising from sales and supplies of pharmaceutical products and services as described above and receivables arising from the delegations of payment issued by each Debtor to Regione Lazio, under which the latter has conditionally and irrevocably undertaken to make six-monthly payments for a five-year period of the amounts due by such Debtors to Farmafactoring S.p.A. pursuant to the above out-of-court agreements.

(2) **Warranty and Indemnity Agreement**: by which Farmafactoring S.p.A. has provided specific guarantees relating, *inter alia*, to the receivables.

(3) **Put Option Agreement**: by which Farmafactoring S.p.A. has granted the company a put option, which can be exercised if one or more than one of the guarantees provided in the Warranty and Indemnity Agreement are infringed, as long as Farmafactoring has not remedied its default within the terms provided for by the above Warranty and Indemnity Agreement.

(4) **Servicing Agreement**: by which Farmafactoring S.p.A. has been given powers to act as the entity responsible for cash and payment services, to carry out the activities required by article 2 of law No. 130 of 30 April, 1999 and to manage any disputes and credit collection activities. Farmafactoring S.p.A. is also responsible for supervisory reporting activities and for keeping the single computer-based archive as per Law no. 197/91.

(5) **Credit Agreemen**t: by which Merrill Lynch Capital Markets Limited, Milan branch granted a loan to the company for the acquisition of the receivables which will be repaid (together with interest accrued up to the repayment date) using the amounts arising from the issue of the asset-backed notes pursuant to Law no. 130/1999.

(6) **Security and Intercreditor Deed**: by which the company created in favour of Merrill Lynch (in its various roles, including in its capacity as lender of the bridge loan and as swap counterparty) an English law charge over, *inter alia*, the amounts standing to the credit of the Collection Account and the investments purchased from time to time made by the company.

(7) **Account Bank Agreement**: which establishes the terms and conditions of the current accounts opened in the company's name with the Bank of New York, London branch and how sums deposited therein overtime should be invested.

(8) **Swap documents (ISDA Master)**: which hedges the risk of any changes in the interest rate applied to the financing. This agreement will terminate on the issue of the notes. Another swap hedging the risk of any changes in the interest rate applied to the notes will replace it.

On the basis of the above mentioned servicing agreement, the company entrusted the Originator with the management of any activities relating to the management of the securitised receivables portfolio and the check that the transaction complies with the law and the Offering Circular, as provided for by Law 130/99.

The company's administration and accounting activities are carried out by Structured Finance Management – Italia S.r.l.

On the basis of that notified to Bank of Italy pursuant to article 129 of legislative decree No. 385/1993, the company will issue only one class of asset-backed limited recourse notes, which will be repaid in full by 30 June, 2009.

On the same basis, the asset-backed notes will be listed on the Luxembourg Stock Exchange. It is condition precedent to the issue of the notes that Fitch Ratings Ltd and Moody's Investors Service Inc. will assign the securities a rating, equal to the rating assigned by the same agencies to the Regione Lazio.

The asset-backed notes will bear interest at a rate equal to six-month Euribor (save that for the first Interest Period the rate will be obtained upon linear interpolation of Euribor for one- and two-month deposits in euro), increased by a margin to be agreed immediately before their issue.

The notes are expected to be issued before the end of October 2004.

Milan, 22 October, 2004

Sole director
Luigi Passeri

Auditors' report

The following is the text of a report received by the Issuer from KPMG Audit S.p.A., the external auditors to the Issuer.

"(Translation from the Italian original which remains the definitive version)

REPORT OF THE AUDITORS

To the Sole Director of

FL Finance S.r.l.
via Romanino, 1
25122 Brescia
Italy

And to the Joint Lead Managers

Merrill Lynch International
MLFC
2 King Edward Street
London EC1A 1HQ
UK

Dexia Crediop S.p.A.
Via Venti Settembre, 30
00187 Roma RM
Italy

1 We have audited the non-statutory interim financial statements of FL FINANCE S.r.l., the "Issuer", for the period from 12 March 2004 to 30 September 2004. These non-statutory interim financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these non-statutory interim financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Italian Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance, about whether the non-statutory interim financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-statutory interim financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the non-statutory interim financial statements of the "Issuer" as at and for the period from 12 March 2004 to 30 September 2004 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the "Issuer".

Milan, 28 October, 2004

KPMG S.p.A.

(Signed on the original)

Mario Tamborini
Director of Audit"

KPMG has not been requested to accept responsibility for any financial or other information contained in this offering circular aside from the information referenced in the report of the Auditors above and, accordingly, accepts no responsibility to any person who may rely on this offering circular.

THE SWAP GUARANTOR AND SWAP COUNTERPARTY

The Swap Guarantor

Merrill Lynch & Co., Inc. was incorporated under the laws of the State of Delaware of the United States of America in 1973. The principal executive office of the Swap Guarantor is located at 4 World Financial Center, New York, N.Y. 10080, U.S.A.; its telephone number is (212) 449-1000. The Swap Guarantor's registered office in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A.

The Swap Guarantor is a holding company that, through its subsidiaries and affiliates such as Merrill Lynch, Pierce, Fenner & Smith Incorporated, Merrill Lynch Government Securities, Inc., Merrill Lynch Capital Services, Inc., Merrill Lynch International, Merrill Lynch Capital Markets Bank Limited, Merrill Lynch Investment Managers, L.P., Merrill Lynch Investment Managers Limited, Merrill Lynch Bank USA, Merrill Lynch Bank & Trust Co., Merrill Lynch International Bank Limited, Merrill Lynch Japan Securities Co., Ltd., Merrill Lynch Canada Inc., and Merrill Lynch Insurance Group, Inc., provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis, including:

- securities brokerage, trading and underwriting;
- investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities;
- wealth management products and services, including financial, retirement and generational planning;
- asset management and investment advisory services;
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange products;
- securities clearance, settlement financing services and prime brokerage;
- equity, debt, foreign exchange and economic research;
- private equity and other principal investment activities;
- banking, trust and lending services, including deposit taking, commercial and mortgage lending and related services;
- insurance and annuities sales and annuity underwriting services; and
- investment advisory and related record keeping services.

The Swap Guarantor provides these products and services to a wide array of clients, including individual investors, small businesses, corporations, financial institutions, governments and governmental agencies.

The common stock of the Swap Guarantor is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Euronext Paris S.A, London Stock Exchange and Tokyo Stock Exchange.

The Swap Counterparty

Merrill Lynch Capital Markets Bank Limited ("**MLCMB**"), is an indirect and wholly owned subsidiary of Merrill Lynch & Co., Inc. MLCMB was incorporated in Ireland on 21 February 1995 pursuant to the Companies Act, 1963 to 1990. MLCMB's registration number with the Companies Registration Office in Ireland is 221965. Its registered office is located at Lower Grand Canal Street, Dublin 2, Ireland.

The Swap Counterparty engages in a number of capital markets businesses including lending and credit facilitation, debt derivatives and foreign exchange transactions and credit intermediation. MLCMB provides these products and services to a wide array of corporate and institutional clients acting through its head office in Dublin and branches in Milan and Frankfurt.

THE ACCOUNT BANK

The Bank of New York is a leading global provider of corporate trust and agency services. The Bank and its subsidiaries and affiliates administer a portfolio of more than 90,000 trustee and agency appointments, representing more than $1 trillion in outstanding securities for more than 30,000 clients around the world. The Bank is a recognized leader for trust services in several debt products, including corporate and municipal debt, mortgage-backed and asset-backed securities, derivative securities services and international debt offerings.

The Bank of New York Company, Inc. (NYSE: BK) plays an integral role in the infrastructure of the capital markets, servicing securities in more than 100 markets worldwide. The Company provides quality solutions through leading technology for global financial institutions, asset managers, governments, non-profit organizations, corporations, and individuals. Its principal subsidiary, The Bank of New York, founded in 1784, is the oldest bank in the United States and has a distinguished history of serving clients around the world through its five primary businesses: Securities Servicing and Global Payment Services, Private Client Services and Asset Management, Corporate Banking, Global Market Services, and Retail Banking. Additional information on the Company is available at www.bankofny.com.

The long-term senior unsecured debt of The Bank of New York is rated respectively AA-, Aa2 and AA- by Standard & Poor's, Moody's and Fitch, and the short-term unsecured debt is rated respectively A-1+, P-1 and F1+ by Standard & Poor's, Moody's and Fitch as of September 2004.

THE ACCOUNT BANK AGREEMENT

The description of the Account Bank Agreement set out below is a summary of certain features of such Transaction Document and is qualified in its entirety by reference to the detailed provisions of such Account Bank Agreement. Prospective Noteholders may inspect a copy of the Account Bank Agreement upon request at the registered office of the Representative of the Noteholders and at the Specified Offices of the Paying Agents.

Pursuant to the Account Bank Agreement, the Issuer has opened and will maintain the Accounts with the Account Bank. The Account Bank has agreed to provide to the Issuer certain services in connection with account handling in relation to the monies from time to time standing to the credit of the Accounts. The Account Bank has also agreed to provide to the Issuer certain reporting services in relation to the Accounts and in relation to the Eligible Investments deposited in or credited to securities custody accounts held with the Account Bank, including the preparation of statements of account on each Reporting Date (the "**Statements of English Account**"). The Account Bank will on each Reporting Date deliver the Statements of English Account to the Computation Agent and the Italian Paying Agent.

For a description of the operation of the Accounts and the cash flow through the Accounts, including the investment in Eligible Investments, see "*Credit Structure – Cash flow through the Accounts*", above.

The Account Bank will act as agent or custodian, as applicable, solely of the Issuer in regards to the Accounts and will not assume any obligations towards, or relationship of agency or trust for or with, any of the Noteholders.

In return for the services so provided, the Account Bank will receive a fee, as agreed with the Issuer, payable by the Issuer in accordance with the Priority of Payments.

If the Account Bank ceases to be an Eligible Institution, it will promptly notify the Issuer and the Representative of the Noteholders thereof and the Issuer will within 30 days: (i) terminate the appointment of the Account Bank and close the accounts opened with it and, simultaneously; (ii) open replacement Accounts with a replacement account bank which is an Eligible Institution and which will agree to enter into substantially similar arrangements to those contained in the Account Bank Agreement and accede to the Intercreditor Agreement and the other Transaction Documents relevant to its role as successor the Account Bank.

"**Eligible Institution**" means (i) any depository institution organised under the laws of any state which is a member of the European Union or of the United States of America, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "F1" by Fitch and "P-1" by Moody's and the long-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least "A1" by Moody's; and (ii) BNP Paribas Securities Services for so long as (A) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of BNP Paribas S.A. are rated at least "F1" by Fitch and "P-1" by Moody's; (B) BNP Paribas S.A. holds a 100 per cent. interest in BNP Paribas Securities Services; and (C) the words "BNP Paribas" are contained in its legal name.

The appointment of the Account Bank may be terminated by the Issuer (with the prior written approval of the Representative of the Noteholders) upon 90 days' written notice.

The Account Bank may, at any time, cease to operate the Accounts on giving not less than 90 days prior written notice thereof to each of the other parties hereto without assigning any reason therefor and without being responsible for any costs occasioned by such cessation.

In each of the circumstances above in respect to the termination of the appointment of the Account Bank without cause, the Accounts will not be moved to another bank until: (i) the Issuer has appointed a new account bank which meets the eligibility criteria set forth in the Account Bank Agreement and the Accounts have been transferred to that new account bank and the accounts have been transferred to such replacement account bank; and (ii) security equivalent to the existing security interests created under the English Deed of Charge and Assignment has been created in favour of Representative of the Noteholders for the benefit of the Noteholders and the other Issuer Secured Creditors in relation to the Accounts and the Eligible Investments.

The Account Bank Agreement is governed by English law.

THE AGENCY AND ACCOUNT AGREEMENT

The description of the Agency and Account Agreement set out below is a summary of certain features of such Transaction Document and is qualified in its entirety by reference to the detailed provisions of such Agency and Account Agreement. Prospective Noteholders may inspect a copy of the Agency and Account Agreement upon request at the registered office of the Representative of the Noteholders and at the Specified Office of the Paying Agents.

Pursuant to the Agency and Account Agreement, the Issuer has appointed:

(a) the Italian Paying Agent, for the purpose of, *inter alia*, making payments in respect of the Notes;

(b) the Agent Bank, for the purpose of, *inter alia*, determining the rate of interest payable in respect of the Notes;

(c) the Computation Agent, for the purpose of, *inter alia*, determining certain of the Issuer's liabilities and the funds available to pay the same (subject to the receipt of certain information and in reliance thereon) and instructing the Account Bank to make certain payments into and out of the Accounts;

(d) the Luxembourg Paying Agent, as agent in respect of the Notes;

(e) the Luxembourg Listing Agent, as listing agent in respect of the Notes.

Duties of the Agent Bank

On each Interest Determination Date, the Agent Bank will, in accordance with Condition 6 (*Interest*), determine EURIBOR and the Rate of Interest applicable to the Notes during the following Interest Period, as well as the Interest Amount and the Interest Payment Date in respect of such following Interest Period, all subject to and in accordance with the Conditions, and will notify such amounts to the Issuer, the Representative of the Noteholders, the Servicer, Monte Titoli, the Paying Agents, the Computation Agent and the Luxembourg Stock Exchange.

Duties of the Computation Agent

The duties of the Computation Agent include the making of certain calculations in respect of the Securitisation. The Computation Agent will make such calculations based on:

(a) the statements of accounts in relation to the English Accounts prepared by the Account Bank on each Reporting Date;

(b) the statements of accounts in relation to the Italian Paying Agent Account prepared by the Italian Paying Agent;

(c) the Servicer Reports prepared by the Servicer on each Reporting Date;

(d) the determinations received from the Agent Bank concerning the Rate of Interest, Interest Amount and Interest Payment Date;

(e) the calculations made by the Swap Counterparty under the Swap Agreement; and

(f) the instructions and determinations of the Issuer and Monte Titoli,

and the Computation Agent shall not be liable for any omission or error in so doing save as caused by its own gross negligence (*colpa grave*) or wilful misconduct (*dolo*).

The Computation Agent will calculate, *inter alia*, on each Calculation Date:

(i) the Issuer Available Funds;

(ii) (starting from the Collection Date preceding the Decree 239 Interest Payment Date) the applicable Scheduled Repayment Amount and the Principal Payments (if any) due on the Notes on the next following Interest Payment Date;

(iii) (starting from the Collection Date preceding the Decree 239 Interest Payment Date) the Principal Amount Outstanding of the Notes on the next following Interest Payment Date;

(iv) the interest payable (if any) in respect of the Notes on the next following Interest Payment Date;

(v) the Interest Amount Arrears, if any, that will arise in respect of the Notes on the immediately following Interest Payment Date;

(vi) the Revenue Eligible Investments Amount in respect of the immediately preceding Liquidation Date;

(vii) the amount invested in Eligible Investments out of the Collection Account, the Expense Account and the Expenses Reserve Account on the immediately preceding investment date;

(viii) the amounts to be debited to the Expense Account or the Expenses Reserve Account; and

(ix) the payments (if any) to be made to each of the parties to the Intercreditor Agreement under the relevant Transaction Documents,

and will determine how the Issuer's funds available for distribution pursuant to the Conditions will be applied, on the immediately following Interest Payment Date pursuant to the applicable Priority of Payments, and will deliver to, *inter alios*, the Issuer, the Servicer, the Account Bank, the Swap Counterparty, the Rating Agencies and the Italian Paying Agent a report (the "**Payments Report**") setting forth such determinations and amounts.

In addition, the Computation Agent will agree to prepare and deliver (by no later than 5 (five) calendar days following each Interest Payment Date or, if such day is not a Business Day, on the immediately preceding Business Day) to the Issuer, the Representative of the Noteholders, the Servicer, the Joint Lead Managers, the Rating Agencies and the Luxembourg Stock Exchange, a report substantially in the form set out in the Agency and Account Agreement (the "**Investor Report**") containing details of, *inter alia*, the Portfolio, amounts received by the Issuer from any source during the preceding Collection Period (including any payments received by the Swap Counterparty), amounts paid by the Issuer during such Collection Period and amounts paid by the Issuer on the immediately preceding Interest Payment Date. The Investor Report will be available free of charge at the Specified Office of the Luxembourg Paying Agent. The first Investor Report will be available in December 2004.

The Investor Report will contain summaries of the following items in respect of the preceding Collection Period: (i) the Principal Amounts Outstanding under the Notes and the interest rates applicable thereto; (ii) the revenues received by the Issuer; (iii) the payments of principal, interest and other costs and expenses paid by the Issuer; (iv) an analysis of the performance of the Portfolio, including information on recoveries.

Duties of the Paying Agents

The Italian Paying Agent will, one Business Day prior to each Interest Payment Date, receive from the Account Bank, acting in the name and on behalf of the Issuer, such amounts as are indicated in the relevant Payments Report as payable to the Noteholders on the immediately following Interest Payment Date. The Italian Paying Agent will provide the Issuer and the Corporate Services Provider with the data necessary to maintain and update the Noteholders' register (*registro degli obbligazionisti*) in accordance with Italian law and any other applicable law.

The Luxembourg Listing Agent will act as intermediary between the Noteholders and the Issuer for certain purposes and make available for inspection during normal business hours at its Specified Office such documents as may from time to time be required by the Luxembourg Stock Exchange and, upon reasonable request, will allow copies of such documents to be taken.

The Italian Paying Agent will keep a record of all Notes and of their redemption, purchase, cancellation and repayment and will make such records available for inspection during normal business hours by the Issuer, the Representative of the Noteholders, the Servicer and the Computation Agent.

The Italian Paying Agent will maintain and operate the Italian Paying Agent Account in the name of the Issuer and in the interest of the Noteholders, in accordance with the instructions of the Issuer, the

Representative of the Noteholders and/or the Computation Agent. On each Reporting Date, the Italian Paying Agent will deliver to the Issuer, the Representative of the Noteholders, the Rating Agencies, the Servicer and the Computation Agent a copy of a statement of account setting out the balance of the Italian Paying Agent Account as at the end of the preceding six-month period and showing all payments made to and from such Italian Paying Agent Account over the same period.

In performing their obligations, the Paying Agents may rely on the instructions and determinations of the Issuer, Monte Titoli and the Computation Agent, and will not be liable for any omission or error in so doing.

General Provisions

The Italian Paying Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Agent Bank, the Account Bank and the Computation Agent (hereinafter collectively referred to as the "**Agents**") will act as agents solely of the Issuer and will not assume any obligation towards, or relationship of agency or trust for or with, any of the Noteholders. Each of the Issuer and the Representative of the Noteholders has agreed that it will not consent to any amendment to the Conditions that materially affects the obligations of any of the Agents without such Agent's prior written consent (such consent not to be unreasonably withheld).

The Issuer has undertaken to indemnify each of the Agents and its respective directors, officers, employees and controlling persons against all losses, liabilities, costs, claims, actions, damages, expenses or demands which any of them may incur or which may be made against any of them as a result of or in connection with the appointment of or the exercise of the powers and duties by any Agent, except as may result from its wilful default (*dolo*) or gross negligence (*colpa grave)*, or that of its directors, officers, employees or controlling persons or any of them, or breach by it of the terms of the Agency and Account Agreement.

In return for the services so provided, the Agents will receive a fee agreed on or about the Signing Date between the Issuer and the relevant Agent, payable by the Issuer in accordance with the Priority of Payments.

The appointment of any Agent may be terminated by the Issuer (with the prior written approval of the Representative of the Noteholders) upon 30 days' written notice or upon the occurrence of certain events of default or insolvency or of similar events occurring in relation to such Agent.

The Agency and Account Agreement is governed by Italian law.

THE TRANSFER AGREEMENT AND THE TRANSFER DEEDS

The description of the Transfer Agreement set out below is a summary of certain features of such Transaction Documents and is qualified in its entirety by reference to the detailed provisions of such Transfer Agreement. Prospective Noteholders may inspect a copy of the Transfer Agreement upon request at the registered office of the Representative of the Noteholders and at the Specified Office of the Paying Agents.

On 22 July, 2004 (the "**Initial Execution Date**"), the Issuer, on the one hand, and Farmafactoring, on the other, entered into:

(i) a transfer agreement, which was amended on the Signing Date (the "**Transfer Agreement**"), pursuant to which Farmafactoring has undertaken to assign and transfer without recourse (*pro soluto*) to the Issuer, and the Issuer has undertaken to purchase without recourse (*pro soluto*) from Farmafactoring, in accordance with the Securitisation Law, all of the rights, title and interests in and to the Claims; and

(ii) 20 notarial transfer deeds (the "**Transfer Deeds**"), pursuant to which Farmafactoring has transferred and assigned without recourse (*pro soluto*) to the Issuer, and the Issuer has purchased without recourse (*pro soluto*) from Farmafactoring, in accordance with article 69 and 70 of Decree 2440, all of the rights, title and interests in and to the Claims.

Under the Transfer Agreement and the Transfer Deeds, Farmafactoring transferred title to the Claims to the Issuer on the Initial Execution Date. The transfer of the Claims has been notified by the Issuer to the Health Authorities and the Region pursuant to article 69 of Decree 2440.

Pursuant to the Transfer Agreement, the Claims comprise all and only the monetary claims which, as at the Valuation Date, met the following objective criteria (the "**Criteria**"):

(i) Claims deriving from Settlement Agreements executed on 18 June, 2004 and Delegations of Payment executed on 19 July, 2004 between Farmafactoring S.p.A., the Region and certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* having their registered office within the Region;

(ii) Claims deriving from sale agreements (*contratti di compravendita*) and supply agreements (*contratti di somministrazione*) of pharmaceutical products and services entered into between certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* having their registered office within the Region in respect of which their rights and claims have been settled under any one of the Settlement Agreements under (i) above.

Purchase Price of the Portfolio

As consideration for the acquisition of the Claims pursuant to the Transfer Agreement, the Issuer has paid to Farmafactoring a price equal to €191,969,624.71 (the "**Purchase Price**").

The Purchase Price has been paid by the Issuer to Farmafactoring through a bridge loan (the "**Credit Facility**") granted to the Issuer by Merrill Lynch Capital Markets Bank Limited, Milan Branch (the "**Bridge Loan Lender**") which will be repaid on the Issue Date with the proceeds deriving from the issuance of the Notes.

The Transfer Agreement provides that if, at any time after the Initial Execution Date, it transpires that any of the Claims does not meet the Criteria and was therefore erroneously transferred to the Issuer, then such Claims will be deemed not to have been assigned and transferred to the Issuer pursuant to the Transfer Agreement, and the Originator will pay to the Issuer an amount equal to:

(i) for each of the Claims listed in Schedule 1 to the Transfer Agreement, the sum of the relevant Individual Purchase Prices of the Claims paid hereunder in respect of the Claims to be Excluded; plus

(ii) the interest accrued on the sum of the Individual Purchase Prices referred to in paragraph (i) above at a rate corresponding to EURIBOR plus 1 (one) per cent. (determined on the date of payment by the Originator) from the Valuation Date up to the date of the instructions to credit the amount referred to in paragraph (i) above; less

(iii) an amount equal to the aggregate sum of all amounts collected or recovered by the Issuer (also through the Originator) after the Valuation Date in relation to the Claims to be Excluded; less

(iv) the interest accrued on the amounts referred to in paragraph (iii) above calculated at a rate equal to EURIBOR plus 1 (one) per cent. from the date of collection of the amounts specified in paragraph (iii) above to the date of crediting of the amount referred to in paragraph (i) above. The amounts specified above will accrue interest at a rate equal to three-month EURIBOR plus a spread equal to the average of the spreads payable on the Notes, as calculated on the immediately preceding Interest Payment Date.

The Transfer Agreement further provides that if, at any time after the Initial Execution Date, it transpires that a claim which, at the Valuation Date, met the Criteria was not included in the Portfolio, then the claims under such Claim shall be deemed to have been assigned and transferred to the Issuer by the Originator on the Initial Execution Date. In respect of such loan, the Issuer shall pay to the Originator, in accordance with the Priority of Payments, an amount equal to:

(i) for each of the Claims to be Included, a purchase price determined on the basis of the same criteria provided for the determination of the Individual Purchase Price; less

(ii) an amount equal to the aggregate sum of all amounts collected by the Originator after the Valuation Date in relation to the Claims to be Included; less

(iii) the interest accrued on the amounts referred to in paragraph (ii) above from the date of their collection to the date of the crediting of the amount referred to in paragraph (i) above at a rate equal to EURIBOR plus 1 (one) per cent.

Effectiveness of the transfer

The transfer of the Claims, in accordance with the Securitisation Law, is governed by article 58, paragraphs 2, 3 and 4 of the Banking Act. The prevailing interpretation of this provision, which view has been strengthened by article 4 of the Securitisation Law, is that the assignment can be opposed against the Debtors and third-party creditors by way of publication in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*). In addition, article 9.17 of legislative decree No. 37 of 6 February, 2004 (carrying out amendments and supplements to, *inter alia*, the Banking Act) amended article 58, paragraph 2, of the Banking Act. Pursuant to the above-mentioned amendment, in order to have the assignment perfected against the Originator, Debtors and third-party creditors, the publication of a notice of the assignment in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) must be accompanied by the registration of such notice with the competent companies' register. Notice of the transfer of the Claims pursuant to the Transfer Agreement and the Transfer Deeds has been (i) published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 175 on 28 July, 2004, (ii) registered with the competent Companies Registrar. Furthermore, the Transfer Deeds have been notified to the Region and the Health Authorities in accordance with articles 69 and 70 of Decree 2440.

Settlement expenses

The Transfer Agreement further provides for an out-of-court settlement procedure in the case of a dispute arising between the Issuer and the Originator concerning the qualification of certain claims as Additional Claims. In such a situation the costs and fees of the deciding panel, appointed pursuant to the Transfer Agreement, shall be borne by the succumbent. Should the Issuer succumb, the Originator shall advance to the latter the fees and costs of the deciding panel (the "**Settlement Expenses Amount**"). The Issuer shall reimburse the Settlement Expenses Amount on the next subsequent Interest Payment Date in accordance with the Priority of Payments.

Additional Provisions

The Transfer Agreement contains certain representations and warranties made by the Originator in respect of the Claims. The principal representations and warranties given by the Originator to the Issuer in connection with the transfer of the Claims in relation to the Portfolio are contained in the Warranty and Indemnity Agreement (see "*The Warranty and Indemnity Agreement and the Put Option Agreement*").

The Transfer Agreement provides that the representations and warranties made by the Originator in respect of the Claims are deemed to be given and repeated on the Initial Execution Date and on the Issue Date.

The Transfer Agreement also contains a number of undertakings by the Originator in respect of its activities relating to the Claims.

The Transfer Agreement is governed by Italian law.

THE SERVICING AGREEMENT

The description of the Servicing Agreement set out below is a summary of certain features of such Transaction Document and is qualified in its entirety by reference to the detailed provisions of such Servicing Agreement. Prospective Noteholders may inspect a copy of the Servicing Agreement upon request at the registered office of the Representative of the Noteholders and at the Specified Office of the Paying Agents.

On the Initial Execution Date, the Issuer, on the one hand, and Farmafactoring S.p.A. (in such capacity, the "**Servicer**"), on the other hand, entered into a servicing agreement (the "**Servicing Agreement**"), as amended on the Signing Date, pursuant to which the Servicer has agreed to administer and service the Portfolio on behalf of the Issuer and, following the giving of an Issuer Acceleration Notice, the Representative of the Noteholders.

Duties of the Servicer

The Servicer is responsible for the management of the Portfolio and for cash and payment services (*soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e pagamento*) pursuant to the Securitisation Law. Within the limits of article 2, paragraph 6 of the Securitisation Law, the Servicer of the Portfolio is also responsible for ensuring that such activities comply with the provisions and regulations of Italian law.

The Servicer has undertaken, *inter alia*, under the Servicing Agreement:

(a) to convert the recoveries into liquid available funds as soon as possible and to transfer such funds to the Issuer by crediting the Collection Account accordingly;

(b) to strictly comply with the Servicing Agreement and the collection policy attached to the Servicing Agreement (the "**Collection Policies**");

(c) to carry out the administration and management of the Claims and to manage any possible legal proceedings (*procedura giudiziale*) against the Region or the Health Authorities (the "**Proceedings**") in accordance with the best professional standards (*massima diligenza professionale*);

(d) to initiate any Proceedings in respect of such Claims, if necessary;

(e) to comply with any requirements of laws and regulations applicable in the Republic of Italy in carrying out activities under the Servicing Agreement;

(f) to maintain effective accounting and auditing procedures so as to ensure compliance with the provisions of the Servicing Agreement; and

(g) save where otherwise provided for in the Collection Policies or other than in certain limited circumstances specified in the Servicing Agreement, not to consent to any waiver or cancellation of or other change prejudicial to the Issuer's interests in or to such Claims unless it is ordered to do so by an order of a competent judicial or other authority or authorised to do so by the Issuer and the Representative of the Noteholders;

(h) on behalf of the Issuer, operate an adequate supervision and information disclosure system with respect to the Claims and an adequate database maintenance system as provided for under any laws relating to money laundering, by keeping and maintaining any books, records, documents, magnetic media and IT systems as may be useful for, or relevant to, the implementation of a data disclosure system to permit the Issuer to operate in full compliance with all applicable laws and regulations in matters of supervision, reporting procedures or money laundering;

(i) interpreter, consider and manage autonomously any issue arising out of the application of the Usury Act from time to time. The Servicer has undertaken, in carrying out such task and its functions pursuant to the Servicing Agreement, and in particular in the collection of the Claims, not to breach the Usury Act; and

(l) maintain and implement administrative and operating procedures (including, without limitation, copying recordings in case of destruction thereof), keep and maintain all books, records and all the necessary or advisable documents (i) in order to collect all the Claims and all the other amounts which are to be paid for any reason whatsoever in connection with the Claims (including, without limitation, records which make it possible to identify the nature of any payment and the precise allocation of payment and collected amounts to capital and interest), and (ii) in order to check the amount of all the Collections and recoveries received.

Pursuant to the Servicing Agreement, as far as it results in an advantage for the Noteholders and provided the conditions set forth in the Servicing Agreement are met, the Servicer may sell to third parties, on behalf and in the name of the Issuer, one or more Claims provided that:

(a) all the efforts to recover those Claims provided for in the Collection Policies were made by the Servicer with the best professional standard, but unsuccessfully;

(b) in the prudent opinion of the Servicer, acting with the best professional standard, there are no other possibilities to recover the Claims in a financially advantageous way within the context of the Securitisation;

(c) the transfer of the relevant Claims is without recourse (*pro soluto*) and does not entail any guarantee by the Issuer as to the performance and/or solvency of the relevant debtors;

(d) the transfer of the ownership of the Claim is only perfected upon the full balance of the relevant amount by the payment of the last instalment, if the consideration for the transfer is paid by instalments; and

(e) the payment by instalments provides for an increase in the consideration for the transfer equal to one month EURIBOR plus 1.5 per cent.

The Issuer and the Representative of the Noteholders have the right to inspect and copy the documentation and records relating to the Claims in order to verify the activities undertaken by the Servicer pursuant to the Servicing Agreement, provided that the Servicer has been informed one Business Day in advance of any such inspection.

Pursuant to the terms of the Servicing Agreement, the Servicer will indemnify the Issuer from and against any and all damages and losses incurred or suffered by the Issuer as a consequence of a default by the Servicer of any obligation of the Servicer under the Servicing Agreement. The Servicer has acknowledged and accepted that, pursuant to the terms of the Servicing Agreement, it will not have any recourse against the Issuer for any damages, claims, liabilities or costs incurred by it as a result of the performance of its activities under the Servicing Agreement except as may result from the Issuer's wilful default (*dolo*) or gross negligence (*colpa grave*).

Reporting requirements

The Servicer has undertaken to prepare and submit to the Issuer, to the Corporate Services Provider, to the Representative of the Noteholders and to the Computation Agent, on each Reporting Date, the Servicer Report in the form set out in the Servicing Agreement and which will contain information on the Portfolio and any relevant Collections in respect of the preceding Collection Period.

Moreover, the Servicer has undertaken to furnish to the Issuer, the Corporate Services Provider, the Representative of the Noteholders, and the Computation Agent such further information as the Issuer and/or the Corporate Services Provider and/or the Computation Agent and/or the Representative of the Noteholders may reasonably request with respect to the relevant Claims and/or the related Proceedings.

Remuneration of the Servicer

In return for the services provided by the Servicer in relation to the ongoing management of the Portfolio, on each Interest Payment Date and in accordance with the Priority of Payments, the Issuer will pay to Farmafactoring, as Servicer an annual fee equal to €2,000 (VAT excluded where applicable) (the "**Servicing Fee**").

The Servicing Fee includes any expenses (including, without limitation, the rights and fees of any external counsels) incurred by Farmafactoring in its capacity as Servicer.

Subordination and limited recourse

The Servicer has agreed that the obligations of the Issuer under the Servicing Agreement are subordinated and limited recourse obligations and will be payable only in accordance with the applicable Priority of Payments.

Termination and resignation of the Servicer and withdrawal of the Issuer

The Servicer will carry out such duties in relation to the Claims until the occurrence of the first of the following events:

(a) the end of the first year after all amounts of principal and interest on the Notes have been fully paid; or

(b) the date from which the appointment of a substitute Servicer takes effect, pursuant to the terms of the Servicing Agreement.

The Issuer may terminate the appointment of the Servicer (*revocare il mandato*), pursuant to article 1725 of the Italian civil code, or withdraw from the Servicing Agreement (*recesso unilaterale*), pursuant to article 1373 of the Italian civil code, upon the occurrence of any of the following events:

(a) an order is made by any competent judicial authority providing for the winding-up or dissolution of the Servicer, or for the appointment of a liquidator or receiver, or the Servicer is admitted to any of the proceedings referred to in Title IV of the Banking Act, or a resolution is passed by the Servicer with the intention of applying for such proceedings to be initiated;

(b) failure on the part of the Servicer to deliver and pay any amount due under the Servicing Agreement within two Business Days from the date on which such amount became due and payable;

(c) failure on the part of the Servicer, to perform or to comply with, for a period of five Business Days as from the receipt of the first written request for performance, any obligation of Farmafactoring pursuant to the Servicing Agreement, to the Transfer Agreement, to the Warranty and Indemnity Agreement or to any other Transaction Document to which Farmafactoring is a party and such failure prejudices the fiduciary relationship with the Servicer;

(d) a representation given by the Servicer pursuant to the terms of the Servicing Agreement is verified to be inaccurate and this could have a substantial negative effect on the Issuer and/or the Transaction;

(e) the Servicer changes significantly the offices and/or the services involved in the activity of management of the Claims and/or of the Proceedings, if such offices or services may, severally or jointly, prevent the Servicer from performing the obligations undertaken by it pursuant to this Agreement;

(f) the Issuer fails to receive the auditors' certificate within fifteen days from the date of certification of the Issuer's balance sheet, unless such non-receipt is caused by the auditors.

Upon the occurrence of the events listed under (b), (c) and (d) above, the Issuer is also entitled to rescind (*risolvere*) the Servicing Agreement pursuant to article 1456, second paragraph, of the Italian civil code. The Issuer is obliged to notify the Servicer of its intention to terminate or to rescind the Servicing Agreement with prior written notice to the Representative of the Noteholders.

Moreover, the Servicer is entitled to resign from the Servicing Agreement at any time after a 6-month period has elapsed from the Initial Execution Date by giving at least 12 months' prior written notice to that effect to the Issuer, the Representative of the Noteholders and the Rating Agencies. Following the resignation of the Servicer, the Issuer shall promptly commence procedures necessary to appoint a substitute Servicer.

The termination and the resignation of the Servicer shall become effective after five days have elapsed from the date specified in the notice of the termination or of the resignation, or from the date, if successive, of the appointment of the substitute Servicer.

The Issuer may appoint a substitute Servicer, only with the prior written approval of the Representative of the Noteholders and following confirmation from the Rating Agencies that such substitute Servicer will not adversely affect the rating then assigned to the Notes. The substitute Servicer shall:

(a) be a bank operating for at least three years and having one or more branches in the territory of the Republic of Italy; or

(b) be a financial intermediary registered pursuant to article 107 of the Banking Act operating and having offices in the Republic of Italy, which:

  (i) has proven experience in the management of transfer of trade receivables in the Republic of Italy;

  (ii) has software that is compatible with that used by the previous Servicer; and

  (iii) is a reliable and creditworthy financial institution.

The substitute Servicer must execute a servicing agreement with the Issuer substantially in the form of the Servicing Agreement and must accept all the provisions and obligations set out in the Intercreditor Agreement.

The Servicer, upon termination of its appointment, will continue to cooperate with the substitute Servicer for a period of 6 (six) months in order to allow the substitute Servicer to duly perform its obligations under the new servicing agreement.

The Servicing Agreement is governed by Italian law.

THE WARRANTY AND INDEMNITY AGREEMENT AND THE PUT OPTION AGREEMENT

The description of the Warranty and Indemnity Agreement and of the Put Option Agreement set out below is a summary of certain features of such Transaction Document and is qualified in its entirety by reference to the detailed provisions of such Warranty and Indemnity Agreement and Put Option Agreement. Prospective Noteholders may inspect a copy of the Warranty and Indemnity Agreement and of the Put Option Agreement upon request at the Specified Office of the Representative of the Noteholders and at the Specified Office of the Paying Agents.

Pursuant to the warranty and indemnity agreement dated the Initial Execution Date between the Issuer and the Originator (the "**Warranty and Indemnity Agreement**"), the Originator has made certain representations and warranties and agreed to give certain indemnities in favour of the Issuer in relation to the Portfolio and the Claims.

The Warranty and Indemnity Agreement contains representations and warranties by the Originator in respect, *inter alia*, of the following categories:

(a) the Claims;

(b) disclosure of information;

(c) the Factoring Agreements;

(d) the Settlement Agreements;

(e) the Delegations of Payment; and

(f) the Securitisation Law, article 58 of the Banking Act and Decree 2440.

In the representations and warranties below and in addition to terms defined elsewhere in this Offering Circular, the following terms have the following meanings:

"**Debtor**" has the same meaning ascribed to Health Authority.

"**Factoring Agreements**" means the factoring agreements between Farmafactoring and various pharmaceutical companies pursuant to Law No. 52 of 21 February, 1991 (the "**Factoring Act**") under which Farmafactoring has acquired the ownership of the Claims deriving from the Contracts.

"**Insolvency Proceedings**" means any bankruptcy or other insolvency or compulsory liquidation procedure under Italian law.

"**Settlement Agreements**" means the settlement agreements dated 14 April, 2004 between the Health Authorities, Farmafactoring and the Region pursuant to which Farmafactoring has accorded certain concessions to the Health Authorities in exchange for, among other things, the irrevocable undertaking from the Region to make the payments due by the Health Authorities to Farmafactoring under the Settlement Agreements and the Contracts.

Specifically, the Originator has represented and warranted, *inter alia*, as follows:

(1) Contracts and Claims

(a) Each party to a Contract and, in each case, each party to any agreement, deed or document relating thereto, had, at the date of execution thereof, full power and authority to enter into and execute the relevant agreement, deed or document relating to such Contract.

(b) Each of the Claims derives from one or more Contracts which were duly, completely and validly executed, delivered, entered into by the parties thereto and enforceable in accordance with the terms of such Contracts.

(c) Each Contract has been executed and performed in compliance with all applicable laws, rules and regulations, including, without limitation, all laws, rules and regulations relating to usury, personal data protection and disclosure in force in the Republic of Italy.

(d) Each authorisation, approval, consent, license, registration, recording, presentation or attestation or any other action and each relevant agreement, deed or document, which is required or desirable to ensure the validity, legality, enforceability or priority of rights and obligations of the relevant parties to each Contract was duly and unconditionally obtained, made, taken or executed by the time of the execution of each Contract and the making of any advances thereunder or when otherwise required under the law.

(e) Each Contract and each other related agreement, deed or document was entered into and executed without any fraud or misrepresentation or undue influence by or on behalf of the Originator or any of its directors (*amministratori*), managers (*dirigenti*), officers (*funzionari*) and/or employees (*impiegati*), which would permit any relevant Debtor to successfully undertake any action against the Originator for fraud or wilful misrepresentation or to repudiate any of the obligations under or in respect of such Contract or other agreement, deed or document relating thereto.

(f) Each Claim is fully and unconditionally owned by and available to the Originator and is not subject to any lien (*pignoramento*), seizure (*sequestro*) or other charge in favour of any third party and is freely transferable to the Issuer. The Originator holds sole and unencumbered legal title to each of the Claims and has not assigned (whether absolutely or by way of security), participated, transferred, pledged, charged or created any security interest in or otherwise disposed of any of the Claims or otherwise created or allowed the creation or constitution of any lien, pledge, encumbrance, security interest, arrangement or other right, claim or beneficial interest of any third party on any of the Claims. There are no clauses or provisions in any other agreement, deed or document, (i) pursuant to which the Originator is prevented from transferring, assigning or otherwise disposing of the Claims or of any of them or (ii) which would conflict with and would prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby, including for the avoidance of doubt and without limitation:

  (i) the assignment of the Claims to the Issuer; and

  (ii) the administration of the Claims by the Servicer or a delegate of the Servicer or the appointment of a new servicer under the terms of the Servicing Agreement.

(g) Each Individual Purchase Price has been correctly calculated by the Originator.

(h) The list of the Claims attached as schedule 1 to the Transfer Agreement is an accurate list of all the Claims which met the Criteria as at the Valuation Date and contains an accurate description of each Claim, and an accurate indication of the Individual Purchase Price for each Claim, and all information contained therein is complete, true and correct in all material respects. In particular, the list of Claims attached as schedule 1 to the Transfer Agreement accurately indicates:

  (i) in respect of each Claim:

    (A) invoice number;

    (B) Debtor code;

    (C) Debtor name;

    (D) invoice date;

    (E) invoice amount;

    (F) Farmafactoring purchase date;

    (G) original invoice due date;

    (H) the client name; and

    (I) certified amount;

(ii) in respect of each Debtor:

(A) Debtor code;

(B) Debtor name;

(C) total amount due by each Debtor defined as *Importo Totale* under the relevant Settlement Agreement and Delegation of Payment;

(D) certified face value amount defined as *Importo Dovuto* under the relevant Settlement Agreement; and

(E) *Importo Forfettario* as defined in the Settlement Agreement.

(i) The Originator has not, prior to the Valuation Date, relieved or discharged any Debtors of their obligations, or subordinated their rights to claims of those of other creditors thereof or waived any of their rights, except in relation to payments made in a corresponding amount to satisfy the relevant Claims.

(j) Prior to the Valuation Date the Originator has not granted to any Debtor a novation (*accollo liberatorio*) of their debt.

(k) No Claim nor any other agreement or document or internal policy of the Originator contains clauses or provisions which forbid the Originator to transfer, assign or alienate the Claims or which in any way restricts such transfer, assignment or alienation. The transfer of the Claims to the Issuer under the Transfer Agreement does not prejudice or vitiate the obligations of any of the Debtors regarding payment of the outstanding amounts of the Claims nor does it prejudice any right to enforce the Claims in accordance with their terms.

(l) Each of the Claims exists at the Transfer Date and is denominated in Euro.

(m) Each Claim is governed by the laws of Italy.

(n) With the exception of Servicing Agreement, no servicing, syndicate or pooling agreement has been entered into by the Originator in relation to any of the Claims which will be binding on the Issuer or which may otherwise impair or affect in any manner whatsoever the exercise of any of the Issuer's Rights in respect of the Claims.

(o) As at the Valuation Date, each Claim derives from the exercise of the Companies' ordinary business, has been legally acquired by the Originator, is classified as a performing Claim (*credito in bonis*) under, and in the meaning of, the Bank of Italy's guidelines (*Istruzioni di Vigilanza*) and, as at the Valuation Date, meet the following Criteria:

(i) Claims deriving from Settlement Agreements executed on 18 June, 2004 and Delegations of Payment executed on 19 July, 2004 between Farmafactoring S.p.A., the *Regione Lazio* and certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* having their registered office within the Regione Lazio;

(ii) Claims deriving from sale agreements (*contratti di compravendita*) and supply agreements (*contratti di somministrazione*) of pharmaceutical products and services entered into between certain *aziende sanitarie locali, aziende ospedaliere* and *istituti fisioterapici ospitalieri* having their registered office within the *Regione Lazio* in respect of which their rights and claims have been settled under any one of the Settlement Agreements under (i) above.

(p) No Claim falls, or has ever fallen, within the definition of a restructured debt (*credito ristrutturato*), has ever been subject to restructuring, or is in the process of being restructured (*credito in corso di ristrutturazione*), in each case under and within the meaning of, the Bank of Italy's guidelines (*Istruzioni di Vigilanza*).

(q) All and any disputes and/or complaints regarding the validity, existence, soundness or amount of the Claims deriving from the Contracts have been disposed and settled under the Settlement Agreements.

(r) The Originator has maintained in all material respects complete, proper and up-to-date books, records, data and documents relating to the Claims and the Contracts, all the amounts to be paid or repaid thereunder, and all such books, records, data and documents are kept by the Originator.

(s) The disbursement, servicing, administration and collection procedures adopted and employed by the Originator with respect to each of the Claims and the Contracts have been in all respects conducted in compliance with all applicable laws and regulations and with care, skill and diligence and in a prudent manner and in accordance with all prudent and customary banking practices.

(t) All taxes, duties and fees of any kind required to be paid by the Originator under or in connection with any Contract from the time at which the related Claim was entered into up to the Transfer Date have been duly and timely paid by the Originator.

(u) None of the Debtors is subject to Insolvency Proceedings.

(v) Each of the Claims since its maturity has always been classified as performing (*in bonis*) in accordance with the Bank of Italy guidelines and, therefore, has never been classified as a "*credito ad incaglio*" or a "*credito in sofferenza*" in accordance with the Bank of Italy guidelines.

(w) Each of the Claims deriving from the Contracts has been acquired by Farmafactoring by virtue of separate Factoring Agreements substantially in the form of the Farmafactoring's standard form agreement, as adopted from time to time.

(x) Each Factoring Agreement has been executed and performed in compliance with the Factoring Act and all applicable laws, rules and regulations, including, without limitation, all laws, rules and regulations relating to usury, personal data protection and disclosure in force in the Republic of Italy.

(y) Each Factoring Agreement is legal, valid, binding and enforceable vis-à-vis the relevant Debtor and any third parties, including the bankruptcy receiver (*curatore fallimentare*) of the Companies.

(z) Each Factoring Agreement is completely and validly executed, delivered, entered into by the parties thereto and enforceable in accordance with the terms of such agreement.

(aa) Under each Factoring Agreement the Originator has acquired all the contractual rights, title and interests in and to each Claim deriving from the Contracts, and the Originator has duly performed and fulfilled any action or formalities in compliance with any applicable laws.

(bb) Each authorisation, approval, consent, license, registration, recording, presentation or attestation or any other action and each relevant agreement, deed or document, which is required or desirable to ensure the validity, legality, enforceability or priority of rights and obligations of the relevant parties to each Factoring Agreement was duly and unconditionally obtained, made, taken or executed by the time of the execution of each Factoring Agreement and the making of any advances thereunder or when otherwise required under the law.

(cc) Each Factoring Agreement and each other related agreement, deed or document was entered into and executed without any fraud or misrepresentation or undue influence by or on behalf of the Originator or any of its directors (*amministratori*), managers (*dirigenti*), officers (*funzionari*) and/or employees (*impiegati*), which would permit any relevant Company to successfully undertake any action against the Originator for fraud or wilful misrepresentation or to repudiate any of the obligations under or in respect of such Factoring Agreement or other agreement, deed or document relating thereto.

(dd) No Factoring Agreement contains clauses or provisions which forbid the Originator to transfer, assign or alienate the Claims or which in any way restricts such transfer, assignment or alienation.

(ee) The Originator has duly performed and fulfilled any action or formalities requested under articles 69 and 70 of Decree 2440 in relation to the Claims together with any other action or formalities which would be desirable in respect thereto.

(ff) Each Settlement Agreement (*atto transattivo*) is completely and validly executed, delivered, entered into by Farmafactoring and all the parties thereto.

(gg) Each Settlement Agreement (*atto transattivo*) is legal, valid, binding and enforceable vis-à-vis the relevant Debtor.

(hh) Each Settlement Agreement (*atto transattivo*) has been executed and performed in compliance with all applicable laws, rules and regulations, including, without limitation, all laws, rules and regulations relating to usury, personal data protection and disclosure in force in the Republic of Italy.

(ii) Under each Settlement Agreement the relevant Debtor has validly granted to the Originator its prior consent to the transfer and assignment of the claims deriving from such Settlement Agreement to any third parties.

(jj) Each Settlement Agreement (*atto transattivo*) constitutes a "*transazione non novativa*" and in case of its termination, for any reason, the relevant Debtor is obligated towards the Originator under the terms of the Contracts.

(kk) Each Settlement Agreement (*atto transattivo*) contains the list of the Claims in respect of which the relevant Debtor has acknowledged the existence (*ricognizione di debito*) of the Claims listed thereto and confirmed the correctness of their principal amount for the purpose of article 1988 of the Italian civil code.

(ll) The amounts due by each Debtor under the relevant Settlement Agreement have been correctly calculated by the Originator.

(mm) The Originator had full legal title and capacity to settle the Claims pursuant to the Settlement Agreements for the purposes of article 1966 of Italian civil code.

(nn) Each Delegation of Payment (*delegazione di pagamento*) issued by the relevant Debtor has been irrevocably accepted by the Region and constitutes an irrevocable and unconditional obligation of the Region to pay any amounts due in relation to the Claims.

(oo) Each Delegation of Payment (*delegazione di pagamento*) has been issued by each Debtor pursuant to article 1268 of the Italian civil code and constitutes a *delegazione cumulativa*.

(pp) Each Delegation of Payment (*delegazione di pagamento*) issued by the relevant Debtor constitutes a *delegazione astratta* under which the Region is not entitled to raise any defences or objections against the relevant Debtor and the Originator or any third party which would prejudice, affect or reduce the rights of the Originator under the Delegation of Payment.

(qq) Under each Delegation of Payment (*delegazione di pagamento*) the relevant Debtor has not been released from its obligations towards the Originator and, therefore, in case of non payment from the Region the Originator is entitled to act against the relevant Debtor for the recovery of the relevant Claim (i) in accordance with the terms of the Settlement Agreements and the Delegation of Payment (*delegazione di pagamento*) or (ii) following termination, for any reason, of the Settlement Agreement in accordance with the relevant Contract.

(rr) Each Delegation of Payment (*delegazione di pagamento*) is legal, valid, binding and enforceable vis-à-vis the Region and the Debtors.

(ss) Each Delegation of Payment (*delegazione di pagamento*) has been issued in accordance with the laws applicable, at the time of issue, to the *delegazioni di pagamento* issued by local entities and all formalities requested by law to make them effective towards the relevant treasurer bank, from time to time, have been duly complied with.

(tt) Each Delegation of Payment (*delegazione di pagamento*) is completely and validly executed, delivered, entered into by the parties thereto.

(uu) Under each Delegation of Payment (*delegazione di pagamento*) the Region has validly granted to the Originator its prior consent to the transfer and assignment of the claims deriving from such Delegation of Payment to any third parties.

(vv) The amounts owed by the Region to the Originator under each Delegation of Payment has been correctly calculated by the Originator and coincides with the amounts owed by each relevant Debtor under the relevant Settlement Agreement.

(ww) The Region has undertaken under resolution No. 1329 of 5th December, 2003, No. 66 of 6 February, 2004 and No. 526 of 18 June, 2004 to allocate in its financial statements the funds to make payments to the Originator upon the terms and conditions of each Delegation of Payment.

(2) Disclosure of Information

The information supplied by the Originator to the Arranger and the Issuer and their respective affiliates, agents and advisors, in connection with, the Warranty and Indemnity Agreement, the Transfer Agreement or any transaction contemplated herein or therein, or in connection with, the Securitisation, the Contracts, the Claims and with respect of the application of the Criteria, is true, accurate and complete in every material respect and no material information available to the Originator has been omitted.

(3) Securitisation Law, article 58 of the Banking Act and Decree 2440

(a) The assignment and transfer of the Claims to the Issuer is in accordance with the Securitisation Law and the Decree 2440.

(b) The Claims have specific objective common elements so as to constitute homogenous monetary rights (*crediti pecuniari individuabili in blocco*) to be grouped pursuant to the Securitisation Law and the Treasury decree dated 4 April, 2001.

(c) The Originator has selected the Claims on the basis of, and in accordance with, the Criteria. Each of the Claims held by the Originator which meet the Criteria is listed in schedule 1 to the Transfer Agreement and there are: (i) no Claims in respect of which the Originator holds legal title which meet the Criteria and should, accordingly, have been included in the Claims listed in schedule 1 to the Transfer Agreement and have not been included therein and (ii) no Claims listed in schedule 1 to the Transfer Agreement which do not meet the Criteria.

(d) All the Claims were identified on the basis of, and are in complete accordance with, the Criteria.

(4) Other Representations

(a) The Originator is a *società per azioni* duly incorporated and validly existing under the laws of the Republic of Italy and has full corporate power and authority to enter into, and perform its obligations under the Warranty and Indemnity Agreement, the Transfer Agreement and all other Transaction Documents to which it is a party.

(b) The Originator has taken all corporate, shareholder and other actions required, and obtained all necessary consents and licenses required, if any, to: (i) authorise its entry into, delivery of, and performance of its obligations under the Warranty and Indemnity Agreement, the Transfer Agreement and all other Transaction Documents to which it is or will be a party, including, without limitation, the sale, assignment and transfer of the Claims; and (ii) ensure that the

obligations to be assumed by it in the Warranty and Indemnity Agreement, the Transfer Agreement and all other Transactions Documents to which it is or will be a party are legal, valid and binding on it.

(c) The execution and performance by the Originator of the Warranty and Indemnity Agreement, the Transfer Agreement and all other Transaction Documents to which it is a party do not (or will not at the time of execution thereof) contravene or constitute a default under: (i) its *atto costitutivo and statuto*; (ii) any law, rule or regulation applicable to it; (iii) any contract, deed, agreement, document or other instrument binding on it; or (iv) any order, writ, judgement, award, injunction or decree binding on or affecting it or its assets.

(d) The Warranty and Indemnity Agreement, and the Transfer Agreement and all other Transaction Documents to which the Originator is a party constitute (or will, upon execution, and, where applicable, delivery, constitute) legal, valid and binding obligations of the Originator.

(e) The payment obligations of the Originator under the Warranty and Indemnity Agreement, the Transfer Agreement and all other Transaction Documents to which it is a party constitute (or will, upon execution, and, where applicable, delivery, constitute) claims against it which rank (or will, upon execution, and, where applicable, delivery, rank) at least *pari passu* with the claims of all the other unsecured unsubordinated creditors of the Originator under the laws of the Republic of Italy, save for those claims which are preferred solely under any applicable laws, and solely to the extent provided for by such laws.

(f) At the Transfer Date there are no litigation, arbitration or administrative proceedings, complaints or actions in progress, pending or threatened against the Originator before any courts or competent authority, which may adversely affect the Originator's ability to transfer absolutely, irrevocably and without possibility of claw-back (*azione revocatoria*) or voidance, the Claims under the Warranty and Indemnity Agreement or which could affect the Originator's ability to perform its obligations under the Warranty and Indemnity Agreement, the Transfer Agreement or the other Transaction Documents.

(g) The Originator is solvent and there is no fact or matter which might render the Originator insolvent, unable to perform its obligations, or subject to any Insolvency Proceedings, nor has the Originator taken any corporate action for its winding up or dissolution, nor has any other action been taken against or in respect of it which might adversely affect its ability to effect the sale and transfer of the Claims or to perform its obligations under the Warranty and Indemnity Agreement, nor will it be rendered insolvent as a consequence of entering into the Warranty and Indemnity Agreement, the Transfer Agreement or any other Transaction Document to which it is a party.

(h) The Originator has not appointed any agent or similar person for the management and/or disposal of assets or interests (including a *mandato di gestione*) in connection with the subject (including the underlying assets) of the Warranty and Indemnity Agreement, the Transfer Agreement or the other Transaction Documents to which it is a party, except in accordance with any such agreements or documents.

(i) In the administration and management of the Claims, the Originator has fully complied with all applicable law and rules on data protection and privacy protection, including, but not limited to, all of the provisions of Legislative Decree No. 196 of 30 June, 2003 as subsequently amended and supplemented and all implementing decrees and regulations related thereto.

Times for the making of the representations and warranties

All the representations and warranties referred to above have been made on the Signing Date and, save where otherwise expressly excluded, repeated on the Issue Date, in each case with reference to the then existing facts and circumstances referring to the Signing Date or the date of the execution of the Transfer Agreement.

Pursuant to the Warranty and Indemnity Agreement, the Originator has agreed to indemnify and hold harmless the Issuer, its officers, agents or employees or any of its permitted assignees from and against any

and all damages, losses, claims, liabilities, costs and expenses awarded against, or incurred by the Issuer or any of the other foregoing persons, arising from, *inter alia*, any default by the Originator in the performance of any of its obligations under the Warranty and Indemnity Agreement or any of the other Transaction Documents any representations and/or warranties made by the Originator thereunder, being false, incomplete or incorrect.

The Warranty and Indemnity Agreement is governed by Italian law.

The Put Option Agreement

On the Initial Execution Date, the Issuer and Farmafactoring entered into a put option agreement (the "**Put Option Agreement**"), pursuant to which the Issuer may, in the following circumstances, require Farmafactoring to repurchase certain Claims.

Under the Put Option Agreement, in the event of a misrepresentation or breach of any of the representations and warranties made by Farmafactoring under the Warranty and Indemnity Agreement, which materially and adversely affects the value of the Claims relating to any Loan, or the interest of the Issuer in such Claims, and such misrepresentation or breach is not cured, whether by payment of damages or indemnification or otherwise, by Farmafactoring within a period of 30 days from receipt of a written notice from the Issuer to that effect (the "**Cure Period**"), the Issuer has the option, pursuant to article 1331 of the Italian civil code, to assign and transfer to Farmafactoring all of the Claims affected by any such misrepresentation or breach (the "**Affected Claims**"). The Issuer will be entitled to exercise the put option by giving to Farmafactoring, at any time during the period commencing on the Business Day immediately following the last day of the Cure Period and ending on the day which is 120 days after such Business Day, written notice to that effect (the "**Put Option Notice**").

Farmafactoring will be required to pay to the Issuer, within 10 Business Days from the date of receipt by Farmafactoring of the Put Option Notice, an amount equal to:

(i) the Individual Purchase Price paid by the Issuer to the Originator in relation to the Affected Claims; plus

(ii) interest accrued on the amount calculated pursuant to (i) above at a rate equal to EURIBOR plus 0.50 per cent. from the date of payment of the amount under (i) above up to the date of payment of the purchase price due by the Originator for the assignment and transfer to it of the Affected Claims; less

(iii) any sums collected by the Issuer in respect of the Affected Claims; less

(iv) interest calculated on the sums collected pursuant to (iii) above at a rate equal to EURIBOR plus 0.50 per cent. from the date of collection of the sums under (iii) above up to the date of payment of the purchase price due by the Originator for the assignment and transfer to it of the Affected Claims.

The Put Option Agreement is governed by Italian law.

THE OTHER TRANSACTION DOCUMENTS

The description of the Transaction Documents set out below is a summary of certain features of such Transaction Documents and is qualified in its entirety by reference to the detailed provisions of such Transaction Documents. Prospective Noteholders may inspect a copy of such Transaction Documents upon request at the Specified Office of the Representative of the Noteholders and at the Specified Office of the Paying Agents.

The Intercreditor Agreement

Pursuant to an intercreditor agreement dated the Signing Date between the Issuer, the Joint Lead Manager (which are party to such agreement exclusively for the purpose of appointing the Representative of the Noteholders), the Representative of the Noteholders on its own behalf and on behalf of the Noteholders, the Italian Paying Agent, the Luxembourg Paying Agent, the Luxembourg Listing Agent, the Agent Bank, the Computation Agent, the Originator, the Financing Party, the Corporate Services Provider, the Swap Counterparty, the Stichtingen Corporate Services Provider, the Account Bank and the Servicer (the "**Intercreditor Agreement**"), provision has been made as to the application of the proceeds of collections in respect of the Claims and as to the circumstances in which the Representative of the Noteholders will be entitled to exercise certain rights in relation to the Claims. The Intercreditor Agreement also sets out the order of priority for payments to be made by the Issuer in connection with the Securitisation.

Pursuant to the Intercreditor Agreement, following the service of an Issuer Acceleration Notice, the Representative of the Noteholders will be entitled (as an agent of the Issuer and to the extent permitted by applicable laws), until the Notes have been repaid in full or cancelled in accordance with the Conditions, to take possession of all Collections and of the Claims and to sell or otherwise dispose of the Claims or any of them in such manner and upon such terms and at such price and such time or times as the Representative of the Noteholders shall, in its absolute discretion, deem appropriate and to apply the proceeds in accordance with the Post-Enforcement Priority of Payments.

The Intercreditor Agreement is governed by Italian law.

The English Deed of Charge and Assignment

Pursuant to an English law deed of charge to be executed on the Issue Date (the "**English Deed of Charge and Assignment**"), the Issuer will grant in favour of the Representative of the Noteholders for itself and as security trustee for the Noteholders and the other Issuer Secured Creditors, *inter alia*, (i) an English law assignment by way of security of all the Issuer's Rights under the Swap Agreement, the Stichtingen Corporate Services Agreement, the Account Bank Agreement, the Deed of Release and Termination and all present and future contracts, agreements, deeds and documents governed by English law (other than the Subscription Agreement) to which the Issuer may become a party in relation to the Notes, the Claims and the Portfolio; (ii) a first fixed charge over each Account, the Eligible Investments (to the extent they are capable of being subject to a security interest governed and perfected under English law), any amount or Eligible Investment which stands to the credit of an Account, and the debts represented thereby, as well as any other bank or other account of the Issuer situated in England and Wales; and (iii) a first floating charge over all of the Issuer's property, assets and undertaking which are not effectively assigned or charged by way of first fixed charge or assignment. The English Deed of Charge and Assignment is governed by English law.

The Italian Deed of Pledge

Pursuant to a deed of pledge (the "**Italian Deed of Pledge**") to be executed on or around the Issue Date between the Issuer and the Representative of the Noteholders (acting on its own behalf and on behalf of the other Issuer Secured Creditors), the Issuer will grant to the Issuer Secured Creditors a pledge over all the monetary claims and rights and all the amounts (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Issuer is entitled pursuant to the Italian Law Transaction Documents (excluding the Italian Deed of Pledge and the Mandate Agreement) other than the Claims and the contractual rights connected thereto. The Issuer Secured Creditors have appointed the Representative of

the Noteholders as their agent with respect to the rights and obligations arising from the Italian Deed of Pledge.

The Italian Deed of Pledge is governed by Italian law.

The Mandate Agreement

Pursuant to the terms of a mandate agreement dated the Signing Date between the Issuer and the Representative of the Noteholders (the "**Mandate Agreement**"), the Representative of the Noteholders is empowered to take such action in the name of the Issuer, following the delivery of an Issuer Acceleration Notice, as the Representative of the Noteholders may deem necessary to protect the interests of the Noteholders and the Other Issuer Creditors.

The Mandate Agreement is governed by Italian law.

The Shareholders' Agreement

The shareholders' agreement dated the Signing Date between the Issuer, the Representative of the Noteholders, Stichting Farma 1 and Stichting Farma 2 (the "**Shareholders' Agreement**") contains, *inter alia*, provisions in relation to the management of the Issuer.

The Shareholders' Agreement also provides that the Stichtingen will not approve the payment of any dividends or any repayment or return of capital by the Issuer prior to the date on which all amounts of principal and interest on the Notes have been paid in full.

The Shareholders' Agreement is governed by Italian law.

The Letter of Undertaking

Pursuant to a letter of undertaking dated the Signing Date (the "**Letter of Undertaking**") between the Issuer, the Representative of the Noteholders and Farmafactoring (in such capacity, the "**Financing Party**"), the Financing Party has undertaken to provide the Issuer with all necessary monies (in any form of financing deemed appropriate by the Representative of the Noteholders, for example by way of a subordinated loan, the repayment of which is to be made in compliance with item (x)(a) of the Pre-Enforcement Priority of Payments or, as the case may be, item (ix)(a) of the Post-Enforcement Priority of Payments) in order for the Issuer to pay any losses, costs, expenses or liabilities in respect of:

(a) any tax expenses or tax liability which the Issuer is at any time obliged to pay other than: (i) any withholding tax at any time applicable in respect of the Notes; (ii) any withholding tax applicable in respect of the Eligible Investments (other than by reason of a change in law or the interpretation or administration thereof since the Issue Date and provided that it cannot be avoided by the Issuer at no cost); (iii) any withholding tax applicable in respect of interest accruing on the Accounts; (iv) any VAT due in respect of the Transaction Documents or the purchase of services or goods by the Issuer (other than by reason of a change in law or the interpretation or administration thereof since the Issue Date); (v) any tax applicable in respect of the Transaction Documents, except if differently stated in any Transaction Document; and (vi) any court tax applicable to the Issuer, other than those provided for by the Servicing Agreement;

(b) any other costs, charges or liabilities arising in connection with regulatory or supervisory requirements (including as a result of any change of law or regulation or interpretation or administration thereof since the Issue Date) but excluding any amounts payable by the Issuer under the Transaction Documents (including, for the avoidance of doubt, any amount due and payable under the Notes); and

(c) any other costs, charges or liabilities which may affect the Issuer (other than losses, costs, expenses or liabilities in respect of the normal day to day operating costs of the Issuer) and which are not directly related to the securitisation of the Claims;

but, in each case, with the exception of any losses, costs, expenses or liabilities borne by the Issuer as a consequence of events or situations caused by the fraudulent or negligent conduct of the Issuer or of any

other third party (other than the Originator) who provides any services in relation to any of the Transaction Documents.

In addition, the Financing Party has undertaken to ensure that the Issuer is not wound up by reason of the Issuer's equity capital falling below the minimum equity capital required from time to time by Italian law, as a result of any losses, costs, expenses or liabilities arising in respect of paragraph (a), (b) or (c) above in respect of which the Financing Party is obliged to provide the Issuer with a financing as indicated above.

The Letter of Undertaking is governed by Italian law.

The Corporate Services Agreement

Under a corporate services agreement dated the Signing Date between the Issuer, the Corporate Services Provider and the Representative of the Noteholders (the "**Corporate Services Agreement**"), the Corporate Services Provider has agreed to provide certain corporate administration and management services to the Issuer. The services will include the safekeeping of the documents pertaining to the meetings of the Issuer's quotaholders, directors and auditors and of the Noteholders, maintaining the quotaholders' register, preparing tax and accounting records, preparing the Issuer's annual financial statements and liaising with the Representative of the Noteholders.

The Corporate Services Agreement is governed by Italian law.

The Stichtingen Corporate Services Agreement

Pursuant to a corporate services agreement dated the Signing Date between the Issuer, the Representative of the Noteholders, the Stichtingen and the Stichtingen Corporate Services Provider (the "**Stichtingen Corporate Services Agreement**"), the Stichtingen Corporate Services Provider has agreed to provide certain management, administrative and secretarial services to the Stichtingen. These services will include, *inter alia*, the safekeeping of the documentation pertaining to the meetings of the Stichtingen directors, preparing tax and accounting records, preparing the Stichtingen's annual financial statements and using best efforts to cause the Stichtingen to preserve all necessary licenses, authorisations, approvals and registrations. The Stichtingen Corporate Services Provider may be replaced by the Stichtingen subject to certain conditions and to the prior written consent of the Representative of the Noteholders.

The Stichtingen Corporate Services Agreement is governed by English law.

The Deed of Release and Termination

Pursuant to a deed of discharge dated the Signing Date between, *inter alios*, the Issuer, the Arranger, the Bridge Loan Lender and the Swap Counterparty (the "**Deed of Release and Termination**"), the parties thereto have agreed to the unconditional release and discharge of the fixed and floating charges created under the Security and Intercreditor Deed and of the Issuer's obligations under such charges as well as to the reassignment of the agreements assigned under the Security and Intercreditor Deed, and to the termination of the Security and Intercreditor Deed.

The Deed of Release and Termination is governed by English Law.

Other Transaction Documents

For a description of the Subscription Agreement, see "*Subscription and sale*", below. For a description of the Transfer Agreement and of the Transfer Deeds, see "*The Transfer Agreement and the Transfer Deeds*", above. For a description of the Servicing Agreement, see "*The Servicing Agreement*", above. For a description of the Warranty and Indemnity Agreement and of the Put Option Agreement, see "*The Warranty and Indemnity Agreement and the Put Option Agreement*", above.

The Monte Titoli Mandate Agreement is the agreement whereby the Issuer adheres to the Monte Titoli system for the clearance and settlement of the Notes through Monte Titoli.

THE INTERIM DOCUMENTS

The Security and Intercreditor Deed

Pursuant to an English law security and intercreditor deed dated 22 July, 2004 (the "**Security and Intercreditor Deed**") between the Issuer, the Bridge Loan Lender (as lender and as security agent), the Swap Counterparty and Merrill Lynch International (as lead arranger and calculation agent), the Issuer granted in favour of the Bridge Loan Lender (in its capacity as security agent thereunder) the following security for the benefit of itself and on behalf of the Swap Counterparty and Merrill Lynch International, in each of their respective capacities, *inter alia*, (i) an English law assignment by way of first fixed security of all of the Issuer's rights under the Interim Hedging Agreement; (ii) a first fixed charge over the Eligible Investments and the Collection Account, any amounts standing to the credit of such account (together with any other investments or accounts); and (iii) a first floating charge over all of the Issuer's assets not otherwise effectively mortgaged, charged or assigned under (i) or (ii) above.

The Security and Intercreditor Deed is governed by English law.

The Facility Agreement

Introduction

Pursuant to a facility agreement dated 22 July, 2004 (the "**Facility Agreement**") between the Issuer, the Bridge Loan Lender and Merrill Lynch International (as lead arranger and calculation agent), the Bridge Loan Lender granted to the Issuer a bridge loan in an amount equal to €191,969,624.71 (the "**Bridge Loan**") whereby the Issuer paid to the Originator the Purchase Price of the Claims.

Interest

Interest shall accrue on the Bridge Loan at a rate equal to Euribor for one-month deposits in euro plus a margin. Unless otherwise provided in the Facility Agreement, the Issuer shall pay the accrued interest in respect of the Bridge Loan on the repayment date of such loan.

Repayment

The Issuer shall repay the Bridge Loan to the Bridge Loan Lender upon the securitisation and, in any event, no later than 29 November, 2004.

Early termination

Upon the occurrence of any termination event referred to in the Bridge Loan Agreement which has not been waived or which has not been remedied within the applicable grace period (if any) then the Bridge Loan Lender may by notice given to the Issuer declare the Bridge Loan immediately due and payable together with accrued interest thereon an any other amounts then payable by the Issuer under the Facility Agreement. The Facility Agreement is governed by Italian law.

The Interim Hedging Agreement

Pursuant to a interim hedging agreement dated 22 July, 2004 the Issuer entered into an interest rate swap transaction with Merrill Lynch Capital Markets Bank Limited (the "**Interim Hedging Agreement**") in order to hedge the potential interest rate exposure of the Issuer in relation to its floating rate interest obligations under the Facility Agreement.

The Interim Hedging Agreement contains certain limited termination events and events of default which will entitle either party to terminate the Interim Hedging Agreement. The Interim Hedging Agreement will be replaced by the Swap Transaction to be entered into between the Issuer and the Swap Counterparty on the Signing Date.

The Interim Hedging Agreement is governed by English law.

The Novation Agreement

Pursuant to a novation agreement dated 22 July, 2004 between Merrill Lynch Capital Markets Bank Limited, Farmafactoring S.p.A. and the Issuer (the "**Novation Agreement**"), the Issuer has acquired, with effect from the date on which it drew down the Bridge Loan (the "**Effective Date**"), all rights and obligations *vis-à-vis* Merrill Lynch Capital Markets Bank Limited arising from the swap transaction entered into between Farmafactoring and Merrill Lynch Capital Markets Bank Limited and documented under an ISDA Master Agreement and the confirmation thereto dated 15 June, 2004 (the "**Initial Swap Agreement**"). By way of the Novation Agreement Farmafactoring and Merrill Lynch Capital Markets Bank Limited are each released and discharged from the obligations to each other under the Initial Swap Agreement and their respective rights against each other are cancelled, without prejudice to their respective rights accruing and/or obligations to be performed before the Effective Date.

The Novation Agreement is governed by English law.

THE EXPECTED MATURITY AND AVERAGE LIFE OF THE NOTES

The expected final maturity of the Notes is 22 June, 2009 and the weighted average life of the Notes is 2.7 years.

TAXATION IN THE REPUBLIC OF ITALY

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Offering Circular 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 Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Law No. 80 of 7 April, 2003 for the reform of the Italian tax system was approved by the Italian Parliament on 26 March, 2003 which authorises the Italian Government, inter alia, to issue, within two years of the entering into force of such law, legislative decrees introducing a general reform of the tax treatment of financial income, which may impact the tax regime of the Notes, as described under "Taxation in the Republic of Italy". Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Legislative decree No. 344 of 12 December, 2003 published in the Italian Official Gazette of 16 December, 2003, No. 261 (Ordinary Supplement No. 190), effective as of 1 January, 2004 introduced the reform of taxation of corporations and of certain financial income amending the Italian Income Taxes Consolidated Code.

Tax treatment of the Notes

Italian 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 notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian companies incorporated pursuant to law No. 130 of 30 April, 1999, provided that the notes are issued for an original maturity of not less than 18 months.

Italian resident Noteholders

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

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

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 Revenue Agency through circular No. 47/E of 8 August, 2003, payments of interests, premiums or other proceeds in respect of the Notes made to Italian resident real estate investment funds established pursuant to article 37 of legislative decree No. 58 of 25 January, 1994 are subject neither to substitute tax nor to any other income tax in the hands of the real estate investment fund. Pursuant to article 41-*bis*, paragraph 9, of Decree No. 269, a 12.5 per cent. substitute tax on proceeds deriving from the participation in real estate investments fund is applicable to participants qualified as Italian resident taxpayers or non-Italian resident taxpayers that are resident in a country which does not allow for a satisfactory exchange of information with the Republic of Italy. Such substitute tax could be applied as a provisional or a final tax, depending on the status of the taxpayer.

Where an Italian resident Noteholder is an open-ended or a closed-ended investment fund ("**Fund**") or a SICAV and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but to 12.5 or to 5 per cent. annual substitute tax (each the "**Collective Investment Fund Tax**"). The 12.5 per cent. substitute tax is calculated on the net result accrued at the end of the tax period. Pursuant to article 12 of law decree 30 September 2003, No. 269 ("**Decree No. 269**"), the 5 per cent. substitute tax on the net result accrued at the end of the tax period applies if: (i) according to the Fund management regulation or to the SICAV by-laws, the Fund or the SICAV hold a participation of at least two-thirds of their portfolio in small or medium capitalised companies listed on EU Stock Exchanges; and, (ii) following the first year from the application of this tax regime and during the subsequent years (with some days of tolerance), the participation in small or medium capitalised companies is equal at least to two-thirds of the portfolio of the Fund or of the SICAV. For the purpose of article 12 of Decree No. 269, a small or medium capitalised company is a company with a market capitalisation not greater than €800,000,000, calculated with reference to the market price as registered in the last trading day of each quarter.

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by articles 14, 14-*ter* and 14-*quater*, paragraph 1 of Italian legislative decree No. 124 of 21 April, 1993) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to 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 Finance (each an "**Intermediary**").

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

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

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with 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 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 12.5 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders which are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance; and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked and in which the Noteholder declares itself to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is requested neither for the international bodies nor entities set up in accordance with international agreements which have

entered into force in Italy or in the case of foreign Central Banks nor entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements laid down by ministerial decree of 12 December, 2001.

Early redemption

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

Capital gains tax

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

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

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

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

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

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in

the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 12.5 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the risparmio gestito regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in its annual tax return.

Any capital gains realised by a Noteholder which is an Italian open-ended or a closed-ended investment fund or a SICAV will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to Collective Investment Fund Tax.

Any capital gains realised by a Noteholder which is an Italian pension fund (subject to the regime provided for by articles 14, 14-*ter* and 14-*quater*, paragraph 1, of Italian legislative decree No. 124 of 21 April, 1993) will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 11 per cent. substitute tax.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes traded on regulated markets are not subject to the *imposta sostitutiva*.

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

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

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

Italian gift tax

Transfers of the Notes by reason of gift to persons other than spouses, siblings, ascendants, descendants or relatives within the fourth degree will be subject to the transfer taxes ordinarily applicable to the relevant transfer for consideration, if due, in respect of the value of the gift received by each person exceeding €180,759.91.

Transfer tax

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

However, the transfer tax does not apply, *inter alia*, to: (i) contracts entered into on regulated markets relating to the transfer of securities, including contracts between the intermediary and its principal or between qualified intermediaries; (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into (a) between banks, SIMs or other financial intermediaries regulated by Italian legislative decree No. 415 of 23 July, 1996, as superseded by Italian legislative decree

No. 58 of 24 February, 1998, or stockbrokers; (b) between the subjects mentioned in (a) above, on the one hand, and non-Italian residents, on the other hand; and (c) between the subjects mentioned in (a) above, even if non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public offering (*offerta pubblica di vendita*) aimed at the listing on regulated markets, or involving financial instruments already listed on regulated markets; or (iv) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

EU Savings Directive

On 3 June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States will be required, if a number of important conditions are met and from a date not earlier than 1 July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be 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).

SUBSCRIPTION AND SALE

Merrill Lynch International and Dexia Crediop S.p.A. (together, the "**Joint Lead Managers**" and, any one of them, the "**Joint Lead Manager**") have, pursuant to a subscription agreement dated the Signing Date between the Issuer, the Joint Lead Managers, the Representative of the Noteholders and Farmafactoring (the "**Subscription Agreement**"), jointly and severally agreed to subscribe and pay for or procure subscribers for the Notes at the issue price of 100 per cent. of the aggregate principal amount of Notes.

On the Issue Date, the Issuer will pay to the Joint Lead Managers combined selling, management and underwriting commissions as set out in the Subscription Agreement.

On the Issue Date, the Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue, offering and sale of the Notes.

The Subscription Agreement is subject to a number of conditions and may be terminated in certain circumstances prior to payment to the Issuer.

United States of America

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

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

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

In addition, until the expiration of 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer distributor or other person (whether or not participating in this offering) may violate the 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. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Republic of Italy

The offering of the Notes has not been cleared by CONSOB pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to professional investors (*operatori qualificati*), as defined in article 31, second paragraph, of CONSOB regulation No. 11522 of 1 July, 1998, as successively amended; or

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to article 100 of Italian legislative decree No. 58 of 24 February, 1998 (the "**Financial Services Act**") and article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May, 1999, as successively amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and the Banking Act;

(b) in compliance with article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending on, *inter alia*, the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and

(c) in accordance with any other applicable laws and regulations.

In no event may the Junior Notes be sold or offered for sale (on the Issue Date or at any time thereafter) to individuals (*persone fisiche*) residing in the Republic of Italy.

United Kingdom

Each Joint Lead Manager has, pursuant to the Subscription Agreement to which it is a party, represented and agreed with the Issuer that:

(a) it has not offered or sold and, prior to the expiry of the period of six months from the Issue Date, will not offer or sell any Notes to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;

(b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

General

No action has been taken by the Issuer and each Joint Lead Manager has agreed (in the case of each Joint Lead Manager, pursuant to the Subscription Agreement to which it is a party) that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager (in the case of each Joint Lead Manager, pursuant to the Subscription Agreement to which it is a party) has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Notes was authorised by a quotaholders' resolution of the Issuer on 12 October, 2004. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Funds available to the Issuer

The principal source of funds available to the Issuer for the payment of interest and the repayment of principal on the Notes will be collections made in respect of the Portfolio and the Claims thereunder.

Listing

Application has been made to list the Notes on the Luxembourg Stock Exchange. A legal notice relating to the issue of the Notes and the constitutional documents of the Issuer is being lodged with the Luxembourg trade and companies register (*Registre de commerce et des sociétés, Luxembourg*) where such documents may be examined and copies obtained.

Clearing systems

The Notes have been accepted for clearance through Monte Titoli by Euroclear and Clearstream, Luxembourg. Monte Titoli will act as depository for Euroclear and Clearstream, Luxembourg. The ISIN and the Common Code for the Notes are as follows:

	Common Code	ISIN
Notes	020367415	IT0003735369

No significant change

There has been no significant change in the financial position or trading position of the Issuer since 12 March, 2004 (being the date of incorporation of the Issuer), and there has been no material adverse change in the financial position or prospects of the Issuer since 22 July, 2004.

Litigation

The Issuer is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer.

Accounts

The Issuer will produce, and will make available at its registered office, proper accounts (*ordinata contabilità interna*) and audited (to the extent required) financial statements in respect of each financial year (commencing on 1 January and ending on 31 December, the next such accounts to be prepared being those in respect of the financial year ending on 31 December, 2004) but will not produce interim financial statements.

Borrowings

Save as disclosed in this document, as at the date of this document, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages or charges or given any guarantees.

Documents

Copies of the following documents (and the English translations thereof, where the document is not in English) will, when published, be available (and in respect of paragraphs (a), (b), (c), (d)(xxi) and (d)(xxii) below, for collection and free of charge) during usual office hours on any weekday at the registered office of

the Issuer and the Specified Offices of the Representative of the Noteholders and the Paying Agents (as set forth in Condition 17 (*Notices*)):

(a) the by-laws (*statuto*) and the deed of incorporation (*atto costitutivo*) of the Issuer;

(b) the annual audited (to the extent required) financial statements of the Issuer. The first annual financial reports will be those related to the financial year ended on 31 December, 2004 to be approved no later than 30 June, 2005. Other than the audited interim financial statements for the period ended on 30 September, 2004 no interim financial reports will be produced by the Issuer;

(c) the Servicer's Reports setting forth the performance of the Claims and the Collections made in respect of the Claims prepared by the Servicer;

(d) copies of the following documents:

(i) the Subscription Agreement;

(ii) the Account Bank Agreement;

(iii) the Agency and Account Agreement;

(iv) the Deed of Release and Termination;

(v) the Mandate Agreement;

(vi) the Monte Titoli Mandate Agreement;

(vii) the Intercreditor Agreement;

(viii) the Italian Deed of Pledge;

(ix) the English Deed of Charge and Assignment;

(x) the Corporate Services Agreement;

(xi) the Stichtingen Corporate Services Agreement;

(xii) the Shareholders' Agreement;

(xiii) the Letter of Undertaking;

(xiv) the Transfer Agreement;

(xv) the Transfer Deeds;

(xvi) the Servicing Agreement;

(xvii) the Warranty and Indemnity Agreement;

(xviii) the Put Option Agreement;

(xix) the amendment to the Transfer Agreement;

(xx) the amendment to the Servicing Agreement;

(xxi) the Investor Reports (the first Investor Report will be available in December 2004); and

(xxii) this Offering Circular.

Notes freely transferable

According to Chapter VI, article 3, point A/II/2 of the "Rules and Regulations of the Luxembourg Stock Exchange", the Notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Annual fees

The estimated annual fees and expenses payable by the Issuer in connection with the transaction described herein amount to approximately €71,500, excluding all fees payable to the Servicer.

INDEX OF DEFINED TERMS

THE ISSUER
FL Finance S.r.l.
via Romanino, 1
Brescia
Italy

ORIGINATOR AND SERVICER
Farmafactoring S.p.A.
via Domenichino, 5
Milan
Italy

ARRANGER
Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
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