



**Annual Report
on Corporate Governance
of Telecom Italia S.p.A.
2009**

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Report on the Corporate Governance and ownership structure of Telecom Italia S.p.A.

pursuant to Art. 123-bis of the Finance Consolidation Act (TUF)

Please note that the English document is a mere translation
from the original Italian version

Introduction

The Company used the (new) format for the Report on the Corporate Governance and Ownership Structure published by the Italian Stock Exchange (Borsa Italiana) in February 2010 purely as reference when preparing this report; therefore, the format of paragraphs and headings in this report may not match it exactly.

1. Issuer profile

The Company's corporate governance system consists of a series of principles, rules and procedures that are updated from time to time and adapted to regulatory innovations and international best practices.

This system, as already mentioned in the Reports from preceding years, is focused on the guiding role of the Board of Directors in strategic orientation, on the transparency of the management choices both within the Company as well as in relation to the market, on the efficiency and effectiveness of the internal control system, on the rigorous governance of potential conflicts of interest and on clear rules of conduct in effecting transactions with related parties.

2. Information on the ownership structure

(pursuant to Art. 123-bis, paragraph 1, of the Finance Consolidation Act (TUF))
as of 31 December 2009

► a) Structure of the share capital

The share capital subscribed and paid in is reported in Table 1.

The characteristics of the savings shares are governed by Art. 6 of the Bylaws (available on the www.telecomitalia.it website, Corporate section, under Governance).

The ordinary shares and savings shares of the Company are listed on the Italian Stock Exchange (Borsa Italiana) as well as on the New York Stock Exchange in the form of American Depositary Shares, each corresponding to ten ordinary or savings shares, respectively, represented by American Depositary Receipts issued by JPMorgan Chase Bank.

For details of the existing Telecom Italia stock option plans and the capital increases serving these plans, refer to the description given in note 42 to the Company's separate financial statements as of 31 December 2009 and to the information documents provided and made available to the public pursuant to Art. 84-bis of the Consob Issuer Regulations, available on the www.telecomitalia.it website, Corporate section, under Governance.

► b) Restrictions on the transfer of securities

No limitations exist in the Bylaws on the free disposal of securities except as provided for in Art. 22 of the Bylaws with respect to the special powers of the Minister of Economy and Finance under Law 474/1994, which include the power to oppose an acquisition of shareholdings greater than 3% of the capital with the right to vote.

► c) Significant shareholdings

Based on the information available, the following are the significant holdings in the ordinary capital of Telecom Italia:

Entity	Type of ownership	% of ordinary capital	% of voting capital
Telco S.p.A.	Direct	22.447%	22.447%
Findim Group S.A.	Direct	4.999%	4.999%
Sintonia S.A.	Direct	2.056%	2.056%

(*) On 5 January 2010 the portion held by Sintonia S.A. fell to below 2%.

Note also that the following companies, as investment management firms, have informed CONSOB that they hold Telecom Italia S.p.A. ordinary shares:

- Brandes Investment Partners LP: which reported that it holds a quantity of ordinary shares equivalent to 4.024% of the total ordinary shares of Telecom Italia S.p.A., on 23 July 2008;
- Alliance Bernstein LP: which reported that it holds a quantity of ordinary shares equivalent to 2.069% of the total ordinary shares of Telecom Italia S.p.A., on 14 November 2008;
- Blackrock Inc. reported that it holds a quantity of ordinary shares equivalent to 2.823% of the total ordinary shares of Telecom Italia S.p.A., on 1 December 2009.

► d) Securities that confer special rights

No securities have been issued that confer special rights of control.

In the present configuration, the special powers of the Minister of Economy and Finance under Law 474/1994, referred to at Art. 22 of the Bylaws, are the following:

- To object to the acquisition of stakes equal to or greater than 3% of the share capital represented by shares with the right to vote in ordinary shareholders' meetings. If the Minister believes that the transaction is prejudicial to the vital interests of the state, the objection must be made, with a reasoned determination, within ten days of the date of the communication made by the Company at the time of the application for entry in the shareholders' register of the acquiring party. An appeal may be lodged by the transferee against the measure exercising the right of objection within sixty days before the Lazio Regional Administrative Court;
- To veto, giving reasons that detail the actual prejudice caused to the vital interests of the state, the adoption of resolutions to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the company purpose and eliminate or modify the special powers themselves. An appeal may be lodged by the transferee against the measure exercising the right of objection within sixty days before the Lazio Regional Administrative Court.

Under the Prime Ministerial Decree (DPCM) of 10 June 2004, the special powers can only be exercised for significant and compelling reasons of public order, safety, security, health and defence in determined cases of danger involving, among other things, continuity in the provision of a public service or the safety and security of facilities and networks in essential public services.

► e) Involvement by employees in the shareholding structure: mechanism for the exercise of voting rights

There are no programmes for involving employees in the shareholding structure.

► f) Restrictions on voting rights

There are no restrictions on voting rights for shares constituting the ordinary share capital of Telecom Italia. However, pending expiry of the term for the exercise of the power to object to the acquisition of shareholdings greater than 3% of the ordinary capital, referred to in Art. 22 of the Bylaws, the right to vote in connection with shares that represent the relevant shareholding is suspended. Similarly, the right to vote cannot be exercised if such power of objection is exercised.

As provided for by Italian rules, savings shares have no right to vote in ordinary shareholders' meetings.

► g) Shareholder agreements

The principal shareholder of Telecom Italia is Telco S.p.A. (Telco), in turn currently held by: Intesa Sanpaolo S.p.A., Mediobanca S.p.A., companies belonging to the Generali Group and Telefónica S.A. According to information in the public domain, on 28 April 2007, the shareholders of Telco (the company structure of which included Sintonia S.A. at that time) entered into a shareholder agreement that identified, among other things, the criteria for drawing up the list of candidates for the offices of Telecom Italia directors:

- Telefónica will be entitled to designate two candidates for as long as it holds at least 30% of Telco's share capital;
- Other Telco shareholders will be entitled to designate the other candidates on the list, three of them candidates unanimously and the others on a proportional basis, for as long as they hold an absolute majority of the share capital.

The shareholder agreement provides for the Telecom Italia Group and the Telefónica Group to be operated autonomously and independently. In particular, the Directors appointed by Telefónica to serve in Telco and Telecom Italia receive instructions from Telefónica not to participate in or vote in board meetings where there are discussions and proposals of resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia that provide their own services in countries where restrictions or limitations, whether legal or regulatory, are in force on Telefónica's exercise of the right to vote.

On 19 November 2007, the agreement was modified to take into account the requirements imposed by the measure adopted by the Brazilian telecommunications authority (Anatel) issued on 23 October 2007 and published on 5 November 2007 (the Anatel Decision), which provides as follows:

- Telefónica and its directors/officers shall not participate, vote or exercise vetoes in the shareholders' meetings, board of directors meetings, committees and bodies with similar attributes of Telco, of Telecom Italia or of any other company controlled by Telecom Italia when involving deliberation upon subjects relating to the performance of telecommunications activities within the Brazilian market. Furthermore, Telefónica shall not designate directors or officers (i) of companies controlled by Telecom Italia established in Brazil that provide telecommunications services within the Brazilian market or (ii) of companies established in Brazil that control such suppliers of telecommunications services;
- Telefónica shall conduct itself in such manner that its subsidiaries that provide telecommunications services within the Brazilian market do not enter into specific types of relationships with the subsidiaries of Telecom Italia that provide telecommunications services within the Brazilian market on terms and conditions differing from those provided for by the Brazilian rules applicable to telecommunications services;
- Telefónica, even where it may exercise the right to acquire Telco shares, shall not exercise direct or indirect control over any subsidiary of Telecom Italia in Brazil;
- The contractual parties shall give instructions to the members of the Board of Directors of Telco appointed by each of them, as well as to the members of the Board of Directors of Telecom Italia designated by Telco in order that (i) separate agendas be prepared for the meetings of the boards of directors of Telco, Telecom Italia and Telecom Italia International N.V., or of any other company established outside of Brazil and controlled by Telecom Italia with investments in the Brazilian telecommunications sector in which the participation of directors designated by Telefónica is allowed and for the meetings in which the participation of directors designated by Telefónica is not allowed and (ii) a copy of the agendas and of the minutes of the meetings referred to in the preceding point is to be provided to Anatel within a term of 30 days.

The restrictions and limitations referred to above shall also be applicable in the event of a Telco spin-off.

In accordance with the above, the Directors Alierta and Linares have committed not to participate in the discussion or voting in the Board (as well as in the Executive Committee) when considering proposals or subjects pertaining to the activities of Telecom Italia or of its subsidiaries within the Brazilian and Argentinean telecommunications markets as well as, in general, in any eventuality where there may be possible detriment to the Telecom Italia Group.

On 28 October 2009, Sintonia S.A. requested a non-proportional spin-off of Telco in accordance with the shareholder agreement.

On that same date, the parties to the agreement, other than Sintonia S.A., entered into an amending agreement in renewal of the shareholder agreement (which remains in force until the expiry date of 28 April 2010) by which they agreed to renew it for a further three years, and thus effective from 28 April 2010 up to 27 April 2013, with the right to terminate between 1 and 28 April 2011, extended – under certain circumstances – until 5 May 2011. It was also agreed that procedures be evaluated with Sintonia S.A. to enable it to withdraw from the capital of Telco as alternatives to a spin-off.

In view of the above, on 22 December 2009, Sintonia S.A. acquired from Telco 275,115,716 ordinary shares of Telecom Italia attributable to the former (equivalent to 2.06% of the ordinary share capital of the Company) and Telco acquired from Sintonia S.A. the entirety of the stake held by the latter in the share capital of Telco itself, resulting in the retirement thereof.

As of 31 December 2009, the signatories to the agreement and the stakes held by each in the capital of Telco were as follows: Telefonica S.A. (46.18%), Assicurazioni Generali S.p.A. (12.98%), Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), Alleanza Toro S.p.A. (6.76%), Ina Assitalia (6.21%), Generali Lebensversicherung A.G. (2.36%) and Generali Vie S.A. (2.27%).

When the agreement was renewed (28 October 2009), Telco and Telefónica also agreed to extend up to 27 April 2013 the term of the purchase option held by the latter in the event of dissent with the decision of the Telco board of directors to transfer the Telecom Italia shares in the company portfolio. In such case Telefónica could alternatively acquire the Telecom Italia shares from Telco at the same price and under the same conditions offered by the third party proposing to acquire them, or else require the spin-off of Telco.

On 11 January 2010, Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Alleanza Toro S.p.A., Ina Assitalia S.p.A., Generali Lebensversicherung A.G. and Generali Vie S.A. signed a supplementary agreement to the shareholder agreement:

- to confirm their own financial support in favour of Telco;
- to stipulate the methods by which such financial support would be provided when necessary in accordance with the financing agreement – accompanied by a pledge on ordinary shares of Telecom Italia – signed on that same date between Telco and a pool of financial institutions;
- to govern the means of exercising the right to acquire the Telecom Italia ordinary shares that may become available to the financial institutions as a result of their enforcement of the pledge.

► h) Change of control clauses

The duty to give notice of change of control is provided for in a series of agreements to which Telecom Italia is party.

Such duty, which is provided for in national legislation governing certificates of permission, is contained, in the first place, in general authorisation certificates granted to Telecom Italia to act as supplier of the electronic communications network and to offer electronic communications services, as well as in the certificates of general authorisation/concession granted to the subsidiary TI Media to act as network operator and supplier of content. A similar duty is provided for in local legislation and is contained in the concession/license certificates for telecommunications services in favour of the foreign subsidiaries of the group.

Telecom Italia is also party to agreements under which a change of control would cause a modification or even a dissolution of the relationship. Other agreements, which do not relate to financing relationships, are subject to confidentiality restrictions where disclosure of the existence of the clause would cause serious harm to the Company, which therefore invokes the power not to make disclosure on this point under Art. 123-bis, paragraph 1, letter h), second part, of the TUF. In other cases, the agreement is not deemed to be significant.

This leaves the following agreements, all of which relate to financing relationships:

- *Multi currency revolving credit facility* (8,000,000,000). This agreement was entered into between Telecom Italia and a pool of banks on 1 August 2005 and subsequently amended. In the event of a change of control, Telecom Italia must inform the agent of this within 5 business days and the agent, on behalf of the financing banks, must negotiate in good faith to determine how the relationship can continue. None of the parties will be required to continue such negotiations beyond a term of 30 days, upon the expiry of which, in the absence of any agreement, the facility shall cease to be effective and Telecom Italia shall be required to return such sums as may have been disbursed to it (presently equivalent to 1,500,000,000). Traditionally, a change of control does not arise in cases where control, within the meaning of Art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who, as of the date of the signing of the agreement, directly or indirectly hold more than 13% of the voting rights in shareholders' meetings or (ii) by investors (Telefonica, Assicurazioni Generali, Sintonia, Intesa Sanpaolo and Mediobanca) that entered into a shareholder agreement on 28 April 2007 concerning the Telecom Italia shares or else (iii) by a combination of entities belonging to the two categories;
- *Revolving credit facility* (1,250,000,000). This agreement was entered into by Telecom Italia and a pool of banks on 12 February 2010 and it provides for a regime similar to that contained in the facility of 1 August 2005, but updated to take into account the 28 October 2009 amendment of the shareholder agreement of 28 April 2007. No change of control therefore arises in cases where the control, within the meaning of Art. 2359 of the Italian Civil Code, is directly or indirectly acquired (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining otherwise unchanged;

- Bonded loans. The rules on loans issued within the context of the Olivetti or Telecom Italia EMTN Programme, and loans denominated in US dollars typically, provide that, in the event of mergers or transfers of all or substantially all of the assets of the issuer or guarantor company, the absorbing or transferee company must assume all of the obligations of the absorbed or transferring company. A failure to fulfil the obligation, if not remedied, gives rise to an event of default;
- Contracts with the European Investment Bank (EIB). In the contracts entered into by Telecom Italia and the EIB, for a total maximum amount of around € 2.5 billion, there is a duty to inform the Bank promptly of any modifications regarding the Bylaws or the distribution of the capital among the shareholders that could amount to a change of control. Any failure to provide this information leads to termination of the contract, which also occurs when a shareholder who does not hold at least 2% of the share capital as of the date of signing the contract comes to hold more than 50% of the rights to vote in ordinary shareholders' meetings or, in any event, of the share capital, in the event that, according to the reasonable judgment of the Bank, this could cause harm to the Bank or compromise the performance of the financing project.

► **i) Authorisation to increase the share capital and to repurchase treasury shares**

The Shareholders' Meeting of 8 April 2009 resolved to empower the Directors to increase the share capital, against payment in one or more instalments, by the issuance of a maximum of 1,600,000,000 ordinary shares, to be offered, in full or in part:

- under option to the partners and to the holders of convertible bonds, or else
- by subscription to the employees of Telecom Italia or of subsidiaries, as well as the power to issue convertible bonds, one or more times, for a maximum amount of € 1,000,000,000.

As a result of the authorisation issued by the Shareholders' Meeting of 14 April 2008 for the repurchase of treasury shares on the regulated markets by 14 October 2009, for a maximum of 11,400,000 ordinary shares, to service the stock option plan reserved for Senior Management, in the period between 17 and 31 March 2009, 11,400,000 treasury shares were purchased on the market at a weighted average price of between a minimum of € 0.8942 and a maximum of € 0.9686. Consob was informed of this transaction on 6 April 2009.

As of now no authorisations exist for the repurchase of treasury shares.

► **j) Management and coordination**

Telecom Italia is not subject to management and coordination within the meaning of Articles 2497, *et seq.*, of the Italian Civil Code.

3. Compliance

Telecom Italia adheres to the Corporate Governance Code of Borsa Italiana (available at http://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2006/codiceautodisciplina_pdf.htm) and, since 2000, it has adapted its own corporate governance system to the relevant national and international best practices, to the recommendations of the Corporate Governance Code of Borsa Italiana and to the regulatory provisions introduced from time to time, keeping shareholders and the market constantly informed in its management report attached to the annual financial statements.

As a foreign issuer registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange, Telecom Italia is also subject to US legislation. In this regard, as specified in the Corporate Governance Code (available at the website www.telecomitalia.it, Corporate section, under Governance), the Board of Statutory Auditors performs the duties of an audit committee.

The strategic subsidiaries of Telecom Italia include the companies of the Tim Brasil group, the holding company of which is Tim Participações S.A. (indirectly controlled by Telecom Italia), a Brazilian company that is listed locally, registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange.

The corporate governance structure at Telecom Italia is not affected by legal provisions applicable to Tim Participações S.A. Furthermore, in compliance with the aforementioned measure adopted by Anatel on 23 October 2007 and the subsequent measure adopted on 7 July 2009 (with which the

Brazilian Authority found to be in full compliance with the imposed requirements), since 2007 Telecom Italia has established a specific procedure that formalizes the pre-existent separation between Gruppo Telecom Italia and Gruppo Telefónica activities in the Brazilian telecoms market. A similar internal procedure was adopted at the end of 2008 to formalize the separation between Gruppo Telecom Italia and Gruppo Telefónica activities in the Argentinian telecoms market.

4. Board of Directors

► 4.1 Appointment and replacement

The company's Bylaws (Art. 9) provide that the Board of Directors shall consist of no less than seven and no more than nineteen members and that they shall be appointed on the basis of lists submitted by shareholders owning a total of at least 0.5% of the ordinary capital, deposited at the company's registered office at least fifteen days before the date set for the first call of the Shareholders' Meeting. Four fifths of the Directors to be elected shall be taken from the list that obtained the highest number of votes, in the order in which they are listed, rounded down to the lower number in the case of fractional numbers. The remaining directors shall be taken from the other lists. To this end, the votes obtained by them shall then be divided by progressive whole numbers from one up to the number of Directors to be elected and the quotients assigned to the respective candidates in the order in which they are listed. Quotients allocated in this way shall be arranged in descending order in a single list and the candidates elected matched to the highest quotients. In appointing Directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

In accordance with the provisions of Art. 9.7 of Telecom Italia's Bylaws, together with the list of candidates to be appointed to the Board of Directors, each candidate must present his acceptance of candidacy and declaration attesting to the inexistence of any reason for ineligibility and incompatibility, as well as the existence of the prescribed requirements and all other information required by the applicable rules and regulations and the Bylaws. Each candidate shall present, together with his declaration, a curriculum vitae containing his personal and professional details and the administrative and managerial offices he has held at other companies and his suitability to qualify as independent, in accordance with legal criteria and criteria established by the Company.

According to the provisions of the company's corporate governance code, carrying out the duties of a director of Telecom Italia is incompatible with being a director or auditor of more than five companies other than those managed and coordinated by Telecom Italia, controlled by or affiliated to it, that are

- listed in the FTSE/MIB index and/or
- operate predominantly in the public financial sector and/or
- carry out banking or insurance activities.

Where executive tasks in companies with the above characteristics are involved, the limit is reduced to three. The Board of Directors may, however, make another assessment (which would be made public within the scope of the annual report on corporate governance) and even diverge from the criteria stated.

If a Director holds office in several companies in the same group, the procedure followed when calculating the number of offices is to take into account one single office in the context of that group.

► 4.2 Composition

The Shareholders' Meeting of 14 April 2008 appointed the current Board of Directors, deciding on 15 as the number of their members, setting at 3 years (and therefore until the meeting convened to approve the financial statement on 31 December 2010) the duration of their mandate and authorising candidates for the board of directors to carry out the activities indicated in the respective curricula vitae and thus releasing them from the prohibition on competition for all intents and purposes pursuant to Art. 2390 of the Civil Code.

Pursuant to the applicable regulations, the three lists indicated below were submitted according to the procedures and time limits laid down by the bylaws (cfr. par. 4.1 of the present Report):

Telco list

(Bearer shareholder: Telco S.p.A.)

1. Cesar Alierta Izuel
2. Tarak Ben Ammar
3. Franco Bernabè
4. Elio Cosimo Catania
5. Jean Paul Fitoussi
6. Gabriele Galateri di Genola
7. Berardino Libonati
8. Julio Linares Lopez
9. Gaetano Micciché
10. Aldo Minucci
11. Gianni Mion
12. Renato Pagliaro
13. Clemente Rebecchini
14. Filippo Maria Bruno
15. Karl Pardaens

Funds list

(Bearer shareholders: Arca SGR S.p.A., UBI Pramerica SGR S.p.A., BNP Paribas Asset Management SGR S.p.A., Monte Paschi Asset Management SGR S.p.A., Eurizon Investimenti SGR S.p.A., Pioneer Investment Management SGR p.A., Pioneer Asset Management S.A., Eurizon Capital SGR S.p.A., Eurizon Capital S.A., Fideuram Investimenti SGR S.p.A., Fideuram Gestions S.A., Interfund Sicav)

1. Luigi Zingales
2. Stefano Cao
3. Aldo Roveri
4. Francesco Vella

Findim Group List

(Bearer shareholder: Findim Group S.A.)

1. Paolo Baratta
2. Roland Berger
3. Gianemilio Osculati

The number of votes in proportion to the voting capital gave the following results:

Telco list: 3,588,317,001 votes (67.92%)

Funds list: 385,290,381 votes (7.29%)

Findim Group list: 670,887,342 votes (12.70%)

12 board members were taken from the Telco list, which obtained the majority of the votes cast, according to the order in which they were listed:

Cesar Alierta Izuel, Tarak Ben Ammar, Franco Bernabè, Elio Cosimo Catania, Jean Paul Fitoussi, Gabriele Galateri di Genola, Berardino Libonati, Julio Linares Lopez, Gaetano Micciché, Aldo Minucci, Gianni Mion and Renato Pagliaro.

As required by the Bylaws, three board members were taken from the other two lists, in particular, Luigi Zingales (taken from the Funds list), Paolo Baratta and Roland Berger (taken from the Findim Group list) were elected in this way.

Following the resignation of Gianni Mion, the Board of Directors' meeting on 27 February 2009 co-opted as director of the company Stefano Cao until the Shareholders' Meeting approving the 2008 financial statement. Taking into account the fact that, in this case, the list voting mechanism (provided for by the company's Bylaws only in the event of the complete renewal of the body) did not apply, the Shareholders' Meeting appointed Stefano Cao as director for the residual duration of the mandate of the Board of Directors in office.

On 22 December 2009, Stefano Cao in turn handed in his resignation from the post of director. The Shareholders' Meeting, convened for next 28-29 April, will take decisions following his resignation.

With regard to the personal and professional characteristics of each director, the curricula vitae of the members of the administrative body are available at www.telecomitalia.it, in the Corporate section under Governance.

Tables 2 and 3 list information relating to the composition of the Board of Directors on 12 April 2010 and the members who resigned their post during 2009.

► 4.3 Role of the Board of Directors

The Corporate Governance Code of Telecom Italia assigns an active role to the Board in providing strategic guidance for the company and exercising management control, granting the body as a whole the power to direct the company strategically and the responsibility to intervene directly in major decisions on the activities of the Company and the Group. In particular, among other things, the Board assumes the following responsibilities:

- to examine and approve strategic, industrial and financial plans as well as the budget;
- to examine and approve strategic operations;
- to assess the adequacy of the organisational, administrative and accounting structure with particular reference to the internal control system;
- to draw up and adopt the company's corporate governance regulations and define the group's corporate governance guidelines;
- to define the limits, the mode of exercise and periodicity of the reporting by the executive committee about the activity carried out;
- to make appointments to the posts of chairman and managing director of strategically important controlled companies;
- to supervise the general progression of the management, periodically comparing results achieved with results projected.

The following come within the scope of strategic operations subject to prior approval from the board:

- agreements with competitors of the group that permanently affect the freedom of corporate strategic choices because of the objective, obligations, conditioning and limits that may be derived from them;
- actions and operations that include entry into (or exit from) geographical and/or product markets;
- industrial investments and divestments with a value of more than 250 million Euros;
- acquisitions and disposals of companies or branches of companies that are of strategic importance to the overall corporate activity or the value of which exceeds 250 million;
- acquisitions or disposals of controlling and significant holdings with a value of more than 250 million and at any rate (even if of a lower value) in companies carrying out activities included in the core business of the Group, and stipulating agreements regarding the exercise of the rights applicable to these holdings;
- accepting loans, as well as granting loans and issuing guarantees in the interest of non-controlled companies for amounts greater than 500 million;
- the above operations carried out by the Group's unlisted controlled companies, without prejudice to the controlled companies of controlled listed companies;
- listing and delisting in European or non-European regulated markets of financial instruments issued by the company or by group companies;
- instructions to be given to listed controlled companies (and their controlled companies) in carrying out management and coordination activities of the parent company to conduct operations with the above characteristics.

Assessment of management performance is based on a continuous flow of information to non-executive Directors and Statutory Auditors coordinated by the Chairman of the Board of Directors. This takes place from time to time during various meetings and specifically during the examination of the financial statements, when the results achieved are accurately compared to the objectives stated in the budget plan.

The Board of Directors assesses the adequacy of the company's organisational, administrative and accounting structure on the basis of the information provided by the management as well as, with specific reference to the internal control system, on the basis of the investigation carried out by the Internal Control and Corporate Governance Committee. In exercising its function of head of the internal control system, the Board also makes use of

- the internal control manager, which performs the internal auditing function and is identified as the associate company Telecom Italia Audit & Compliance Services;
- the executive responsible for drawing up company accounting documents with specific reference to internal controls for financial reporting.

With regard to the annual board assessment, the practice of self-assessment, which was introduced in Telecom Italia in 2005, was renewed for the fifth successive time.

For the purposes of the annual self-assessment procedure, in 2009 the Board of Directors decided to obtain the assistance of a company (Spencer Stuart) that specialises in preparing and executing the self-assessment itself. In addition to the self-assessment, specific analyses were also carried out to identify ways in which the operation of the Board could be improved.

The process was carried out using (i) structured individual interviews with Directors based on the three self-assessment areas identified by the Corporate Governance Code (size, composition, operation); (ii) analysis of the minutes of the meetings of the Board of Directors and Committees to highlight the matters discussed and the duration and sequence of the meetings themselves; (iii) a comparison with best practice adopted by the Boards of Directors of similar companies.

The interviews involved presenting each board member with statements and giving them the opportunity to state their level of agreement or not to respond. The comments made by interviewers were also collected for each matter discussed. The questions took account of the observations made during the self-assessment last year and were intended to thoroughly examine specific areas including: (i) the process of making board decisions, (ii) the information supporting the most important resolutions made by the Board in 2009, (iii) the activity of the Committees and (iv) the mechanisms used to inform and update the Board of Directors.

At its meetings on 25 February and 25 March 2010, the Board examined the results of the self-assessment.

A generally positive picture emerged from the self-assessment. The quality of the members of the Board, the mix of expertise they bring, the constructive climate of discussion that is a feature of its work and the effectiveness of the contribution made by the internal committees were recognised. The interest and willingness of Board members to investigate business issues thoroughly and increase knowledge of the company deserve to be highlighted. Among the areas of improvement recommended is speedier dissemination of information prior to meetings, in order to allow the items on the agenda to be examined in detail. The Board was once again urged to increase the number of independent Directors.

In 2009, seven meetings of the Board of Directors were held. The Directors were sent the appropriate documentation, as promptly as required by the circumstances, to enable them to participate in meetings in an informed way. When specialised topics were discussed during meetings, the relevant managers responsible were invited to participate by the Chairman, with the agreement of the other directors. External consultants also took part in the meetings, when considered useful, in order to provide the necessary technical and professional support.

The average duration of the meetings was around four hours. The attendance percentage was 93.33 (97.14% for independent Directors).

Nine meetings are planned for 2010, three of which have already been held.

► 4.4 Delegated bodies

The power to grant (and revoke) powers of attorney to Directors is reserved for the Board, which defines the purpose, limits and modes of exercise and receives a continuous flow of information regarding the activity carried out, the general management and the most significant economic, financial and asset operations

On 15 April 2008, the Board of Directors appointed Gabriele Galateri di Genola as Chairman and Franco Bernabè as Managing Director.

In addition to the legal representation of Company, the Chairman has been assigned the following responsibilities:

- to oversee the drawing-up of strategic, industrial and financial plans, as well as their implementation and development;
- to oversee the definition of organisational structures;
- to oversee economic and financial progress;
- to oversee the process of examining and establishing the internal control system guidelines.

In addition to the legal representation of the Company and all the powers - to be exercised by sole signature - needed to perform all actions relating to corporate activities in their various forms, with no exclusions, the Managing Director has been assigned responsibility for the overall management of the company and of the group, and in particular:

- responsibility for defining, proposing to the Board of Directors and subsequently implementing and developing, strategic, industrial and financial plans;
- responsibility for defining organisational structures;
- all organisational responsibility for guaranteeing the management and development of the business by coordinating organisational structures in any way that is not assigned to the Chairman.

On 15 April 2008, an Executive Committee was also set up, consisting of executive (who coordinate it with the group's management) and non-executive directors. The Chairman of the Committee is the Chairman of the Board of Directors. For its current composition please see table 4.

The Committee's task is to monitor the management performance of the Company and the Group, to approve organisational macrostructures, on a proposal from the executive Directors, to submit opinions to the Board of Directors on the budget and the strategic, industrial and financial plans of the Company and Group and to perform any subsequent tasks assigned by the Board of Directors within the scope of matters that can be delegated.

The Committee reports to the Board on activities carried out in a timely manner and from time to time at the first meeting that is practical.

During 2009, the Committee held four meetings with an average duration of around three hours.

The attendance percentage was 96% (100% for independent Directors). Five meetings, of which two have already been held, have been planned for 2010.

► 4.5 Other executive Directors

There are no executive Directors on the Board of Directors other than the Chairman and Managing Director.

► 4.6 Independent Directors

Telecom Italia has embraced the criteria established by the Corporate Governance Code of Borsa Italiana to assess the "independence" of its Directors.

On the basis of the information provided by the Directors, the independent Board members are Paolo Baratta, Roland Berger, Elio Cosimo Catania, Jean Paul Fitoussi and Luigi Zingales.

At its meeting on 25 February 2010, the Board of Directors verified the fulfilment of independence requirements pursuant to Art. 147-ter, paragraph 4, of Legislative Decree No. 58/1998 by the aforementioned directors and furthermore determined that the requirements for the composition of the administrative body as a group (presence of at least two independent Directors in accordance with the criteria laid down by law for Statutory Auditors) had been fulfilled.

The Board of Statutory Auditors, as required by the Company's Corporate Governance Code, monitored the activities undertaken to verify fulfilment of the requirements and the correct application of the independence criteria.

► 4.7 Lead Independent Director

The Lead Independent Director is currently Paolo Baratta, the Director who is Chairman of the Internal Control and Corporate Governance Committee, as well as a member of the Supervisory Board pursuant to Legislative Decree 231/2001.

The Independent Directors refer to the Lead Independent Director for guidance and to coordinate their requirements and suggestions. He can exercise his prerogative to make use of company facilities to carry out duties and convene special meetings for Independent Directors only (Independent Directors' Executive Sessions) to discuss topics in connection with the functions of the Board of Directors or with managing the Company. Four meetings were held in 2009.

According to the Corporate Governance Code, the Chairman of the Board of Directors is assisted by the Lead Independent Director in order to improve the administrative body's operations (including identifying any topics to be discussed during meetings of the Board).

5. Handling of Company Information

Telecom Italian has specific procedures for classifying and managing confidential information. There is also a procedure in place for managing internal company documents and information and for divulging them outside the Company, specifically with respect to confidential information (this can be found on the www.telecomitalia.it website, in the Corporate section, under Governance). This procedure governs the handling of confidential information regarding Telecom Italia, its non-listed subsidiaries and the Group's listed financial instruments and applies to all members of the management bodies, as well as to employees and external associates, who have access to information that is likely to become insider information. It also constitutes an instruction to all subsidiary companies to provide, in as short a time as possible, any information needed in order to comply with public disclosure requirements.

Finally, the said procedure also governs the register of people with access to confidential information (articles 152-bis et seq. of the Issuers Regulations).

6. Internal Committees of the Board

In addition to the aforementioned Executive Committee, the Board also has an Appointments and Remuneration committee and an Internal Control and Corporate Governance Committee, whose functions are governed by the Company's Corporate Governance Code.

7. Appointments and Remuneration Committee

The Appointments and Remuneration Committee consists of non-executive directors, the majority of whom are independent Directors, including at least one Director chosen from a minority list. Please refer to Table 4 for its current composition.

The Committee has advisory and consultative functions (i) with regard to the remuneration payable to Directors holding specific offices, in order to ensure that they are aligned with the objective of creating value for shareholders over time; (ii) with regard to periodic assessment of the criteria used to determine the remuneration payable to the Company's senior management and, on the instruction of the Managing Directors, any stock option or share assignment plans; (iii) with regard to monitoring implementation of decisions taken and company policies on remuneration for senior management and (iv) with regard to proposals regarding candidates for the Board, in the event of the replacement of independent officers during their term of office. In 2009, the Committee's activities related to the system for remunerating the executive directors of the Company (the Chairman and the Managing Director) and for remunerating the senior management, so as to align the Company with best market practice. The Committee oversaw the initiatives taken to assess and segment the senior management, including the production of tables for the replacement of strategic managerial positions, and it carried out a detailed study remuneration paid in the form of financial instruments to both management and to employees.

At the request of the Board of Directors, the Committee also selected a candidate for the position of external member of the Company's Supervisory Board pursuant to Legislative Decree No. 231/2001. As required by the Company's Corporate Governance Code, in order to carry out its duties the Committee availed itself of the Company's internal facilities and of external consultants of its own choosing.

In 2009, it held eleven meetings and minuted them as required. Managers in charge of the areas under discussion were invited to support these meetings. The average duration of the meetings was approximately two hours and the meetings were attended by all the Committee members.

Three meetings have already been held in 2010.

8. Remuneration for Directors, Chief Executive Officers and Key Managers with Strategic Responsibilities

The remuneration received by Directors, Chief Executive Officers and Key Managers in 2009 appears in Note 46 (Other information) to Telecom Italia S.p.A.'s financial statements.

At the meeting held on 15 April 2008, the Board of Directors proceeded with the distribution of the annual aggregate remuneration of € 2.2 million, as approved by shareholders during the Shareholders' Meeting of 14 April 2008 for the three-year period 2008-2010, as follows:

- remuneration of € 110,000 for each Director in office;
- additional remuneration of € 35,000 for each member of the Executive Committee;
- additional remuneration of € 45,000 for each member of the Internal Control and Corporate Governance Committee;
- additional remuneration of € 20,000 for each member of the Appointments and Remuneration Committee;
- additional remuneration of € 20,000 for the Director appointed to the Supervisory Board pursuant to Legislative Decree No. 231/2001.

The non-executive Directors receive remuneration resulting from the distribution of the aggregate sum established by the Shareholders' Meeting on 14 April 2008, as stated above. Their remuneration is not therefore linked to the Company's financial performance. Non-executive directors are not permitted to participate in any share ownership plans.

The Board of Directors, on a proposal from the Appointments and Remuneration Committee, and with the approval of the Board of Statutory Auditors, established a fixed remuneration for executive Directors of € 1,300,000 for the Chairman and € 1,400,000 for the Managing Director, in addition to the above-mentioned remuneration, as well as: (i) for the Chairman, the use of a Company flat; (ii) for the Managing Director, payments into a welfare plan of an amount equal to 10% of his fixed salary; (iii) for both of them, personal health coverage and insurance against accidents at work and non-professional accidents, life insurance and permanent disability insurance due to illness; (iv) for both of them, a sum equal to the amount required in order to pay taxes on this type of taxable benefits.

An incentive plan is also provided for the Managing Director for the financial year 2009 in the amount of between 50% and 200% of his fixed salary, depending on the extent to which specific, certifiable indicators, linked to objectives in four target areas set as priorities for the 2009-2011 business plan, are achieved.

- Value Creation, expressed by the Net Income (weight: 20%),
- Cash Improvement, assessed in terms of the ratio between Net Debt and EBITDA (weight: 15%),
- Quality, in terms of the Customer Satisfaction Index (weight: 15%),
- Focus on the operational component, either as the ratio between cash costs and revenues (weight: 15%), or in terms of the revenue from specifically identified innovative services (weight: 15%).

The objectives for the above parameters are set by the 2009 budget target and allow for a negative deviation down to a minimum threshold value and a maximum payout for the achievement of predetermined positive deviations. Deviations are differentiated according to the relevant indicators and intermediate performance results are measured according to a linear function. In addition to the quantitative parameters (the total weight of which is 80%) there is a qualitative valuation criteria (weight: 20%) consisting of the discretionary judgement of the Board of Directors.

Furthermore, the Chairman and Managing Director (see the table in Note 46 "Other Information" to the Telecom Italia S.p.A. financial statements), are assigned stock options pursuant to the plan approved at the meeting of 14 April 2008, in the amount of 3,000,000 for the Chairman and 8,400,000 for the Managing Director, according to the conditions set out in more detail in the public disclosure published in accordance with Art. 84-bis of the Issuers Regulations, available on the www.telecomitalia.it website, Corporate section, under Governance.

Provision has also been made for the Chairman and Managing Director, if they should leave office before the mandate granted by the Shareholders' Meeting of 14 April 2008 expires (i) due to objective causes (such as a Company merger or the dismissal of the entire Board pursuant to Art. 9.12 of the Bylaws, (ii) on the initiative of the Company (unless there is just cause) or (iii) on the initiatives

of the parties concerned if there is just cause (e.g.: a change of position, especially with regard to functions assigned, and a significant change to the relevant shareholding), to be paid the sums due them until expiry of their term of office, supplemented by a compensation amounting to one year's remuneration. For the Managing Director, the calculation includes the variable component, calculated as the average of payments already received.

At the meeting held on 25 February 2010, the Board of Directors took note of the new Executives with strategic responsibilities (otherwise known as executive officers or key managers) resulting from the latest reorganisation that took place in late 2009. These are the people who currently hold the positions of *pro tempore* Chief Financial Office, Domestic Market Operations Manager, Technology & Operations Manager, *Diretor Presidente* of Tim Brazil, Human Resources and Organization Manager, Corporate Legal Affairs Manager, Purchasing Manager. In addition to these there are the Chairman of the Board of Directors and the Managing Director.

Total remuneration paid in 2009 to *pro tempore* executive officers recognised as having strategic duties is shown, in aggregate form, in Note 46 (Other Information) to Telecom Italia S.p.A.'s financial statements.

Remuneration payable to executive officers with strategic duties consists of a short-term variable component linked to the Company's financial performance and/or achievement of specific objectives, in the form of the so-called MBO. For them and senior management there is also a free allocation (so-called "Performance Share Granting") of a predetermined maximum number of ordinary shares which is variable depending on the effective period of participation in the 2008-2011 Incentive Plan and the extent to which predetermined share-performance objectives, expressed as absolute and relative Total Shareholder Return, have been achieved. The plan information document is available on the www.telecomitalia.it website, in the Corporate section, under Governance.

9. Internal Control and Corporate Governance Committee

The Internal Control and Corporate Governance Committee, which has been part of the Company's governance structure since 2000, has the following advisory and consultative functions. It:

- assists the Board and, on request, the Managing Director in carrying out duties related to the internal control system in the Company;
- assesses the work plan prepared by the internal control manager, who sends a (quarterly) report to the Board;
- assesses, together with the administrative managers of the Company, the executive in charge of drawing up the company's accounts, having consulted the statutory auditors, the proper use of accounting principles and their consistent application within the Group for the preparation of financial statements;
- assesses the work plan for the audit and the results presented in the report and in any letter of suggestions;
- reports to the Board on its activities periodically, in the first suitable meeting, and on the adequacy of the internal control system when it approves the budget and the half-yearly report.

The Committee also:

- verifies the effectiveness of the auditing procedure, compliance with principles governing transactions with related parties (with subsequent general monitoring and advance reviews of some "prominent" transactions), compliance and regular updating of corporate governance rules.
- expresses its opinion on the appointment, dismissal and assignment of functions to the internal control manager and the executive responsible for drawing up the company's accounts;
- establishes the timetable and procedures for the board performance evaluation;
- performs other duties assigned to it from time to time by the Board of Directors.

The Committee examined the quarterly reports prepared by the internal control manager on auditing activities, on the implementation of plans to improve the internal control system and the implementation of follow-up activities, on the work done to monitor and verify the compliance of company procedures and operations with specific legal provisions and internal procedures, and on the management of risks and IT compliance. Specifically, the Committee carefully supervised standards of compliance

in marketing and compliance with requirements regarding privacy and the handling of traffic and related party data, carrying out a detailed investigation in this respect on the sale of the shareholding in Hansenet to the relative majority shareholder of Telco, Telefónica. Lastly, the Committee monitored the status of the stake held by Telecom Italia in Sofora (holding company of Telecom Argentina).

On a separate front, it also closely monitored the work carried out to maintain and update the so-called Organisational Model 231 (see below) and was updated, as regards corporate social responsibility issues, on the initiatives implemented last year by the Telecom Italia Foundation and Group companies, as well as on the plans for 2010.

Finally, as regards auditing, the Committee held several technical meetings on the subject of goodwill impairment test, supporting both the approach adopted by the Company and its final conclusions.

The Board of Directors was informed of each of the above activities.

For details of the members of the Committee (all of whom are non-executive directors, most of them independent, with at least one from a minority list), please refer to Table 4. All its members have adequate accounting and financial experience.

During 2009, the Committee held twelve meetings, regularly minuted, supported by expert input from Company management and entities not on the Board. The average duration of the meetings was approximately two hours and fifty minutes and the attendance rate was 85.42%. In some cases, because of the matters to be discussed, the Board of Statutory Auditors also held joint meetings with the Internal Control and Corporate Governance Committee. The Board of Statutory Auditors also attended all the Committee's meetings through its Chairman (or at least one Statutory Auditor appointed by him).

There are at least six meetings planned for 2010, of which three have already been held.

10. Internal Control System

The internal control system is a process made up of organisational rules, procedures and structures intended to pursue the values of substantial and procedural fairness, transparency and accountability, that are considered fundamental to the business activities of Telecom Italia, as established by the Group's Code of Ethics and Conduct and by the Company's Corporate Governance Code (both of which are available on <http://www.telecomitalia.it> website, in the *Corporate* section, under *Governance*). The process, continually monitored in view of achieving a steady improvement, is intended to ensure the efficiency of management, its transparency and verifiability, the reliability of accounting and management data, compliance with applicable laws and regulations, safeguarding of the assets of the company and the prevention of fraud perpetrated to the detriment of the Company and the financial markets.

As the body responsible for the internal control system, the Board of Directors establishes its objectives, verifying its adequacy, effectiveness and correct operation to ensure that the principal company risks (operational, economic, financial and compliance-related) are correctly identified and managed over time.

With regard to financial risks, in the course of its business activities Gruppo Telecom Italia is exposed to the following:

- market risk: resulting from fluctuations in interest and exchange rates relating to financial activities commenced and financial liabilities underwritten;
- credit risk: the risk of failure to fulfil obligations assumed by a counterparty in relation to the uses of liquidity;
- liquidity risk: in relation to the requirement to meet short-term financial commitments.

These risks are managed by defining guidelines to be followed by operational management, the activity of an internal committee that monitors levels of risk exposure in line with established goals, and the monitoring of results achieved. In particular, the management policies cover:

- market risk: complete exchange rate risk coverage and minimal exposure to interest rates through appropriate diversification of portfolios, which also includes the use of financial derivative instruments.
- credit risk: cash assets are prudently managed and principally divided into "money market management" (investment of temporary cash surpluses) and "bond portfolio management" (investing with permanent liquidity). For both types of management, in order to reduce the risk of failure to fulfil obligations undertaken by a counterparty, the counterparties and selected

issuers have a high credit rating with a careful diversification policy for liquidity purposes and the distribution of credit positions between various banking counterparties;

- liquidity risk: the objective is to achieve an adequate level of financial flexibility by maintaining an adequate treasury margin that enables coverage of re-financing requirements for at least the following twelve months.

► **10.1 Executive Director in charge of the internal control system**

The Board of Directors has identified its Chairman as the Director in charge of supervising the operation of the internal control system. He is therefore assigned the task of defining the instruments and procedures forming the system, making sure that it is adapted to any operational, legislative and regulatory changes. The Executive Directors, each within his own area of responsibility, acting in conjunction with the executive responsible for drawing up the company's accounting documents and internal control supervisor, with regard to the aspects for which he is specifically responsible, using the established instruments and procedures, ensure the overall adequacy of the system itself and its actual functionality, in a risk-based perspective, which is also essential for establishing the programme of activities of the Board of Directors.

► **10.2 Internal control manager**

In exercising the responsibility that it bears for the internal control system, the Board makes use of the Internal Control and Corporate Governance Committee and of a manager which, as already referred to in previous governance Reports, is the associate company Telecom Italia Audit & Compliance Services, and which is granted an appropriate degree of independence and suitable means to carrying out its duties, including direct and independent access to any information needed to carry out its assignment. It is the duty of the manager to support the management and control bodies in checking the adequacy and the effective operation of the control system and consequently to propose corrective measures in the event of anomalies or malfunctions.

Telecom Italia Audit & Compliance Services:

- reports on its operations to the Director appointed for this purpose, to the Internal Control and Corporate Governance Committee and, through it, to the Board of Directors, as well as to the Board of Statutory Auditors;
- carries out checks also at the request of the executive responsible for drawing up the Company's accounting documents;
- is responsible for ensuring compliance with the principles and values expressed in the Code of Ethics and Conduct, investigating reports made by employees and third parties regarding violations and irregularities (including accounting irregularities) and promoting the most appropriate action to be taken, which includes proposing sanctions.

As regards the activities carried out by the internal control manager in the 2009 financial year, a total of 241 operations were conducted covering the organisational areas of the Group in accordance with the established plan, with incremental activities intended to deal with situations that arose during the course of the year, above all in the Technology & Operations field. In 2009, 97 notifications were received, 31 of which concerned company matters (mainly regarding the safety of exchanges, relations with suppliers, vehicle management, product marketing fraud, sale of products to unreliable customers and alleged personal interest of employees in the conduct of their working activities) and if necessary corrective actions were implemented (or are currently being implemented) by the appropriate bodies.

Corrective actions considered appropriate for eliminating weaknesses have been undertaken, specific follow-ups conducted, according to predefined and objective criteria, and activities introduced to monitor the individual actions progressively carried out on a series of matters considered to be particularly sensitive.

During the course of 2009, the associate company TI Audit & Compliance Services pursued its activity of overseeing the internal control system of the Telecom Italia Group, in line with its Corporate Governance objectives, through the following separate organisational components: Audit, Compliance, IT Risk & Security Governance and the subsidiary TIAudit Latam, which ensured effective oversight by performing their respective corporate duties.

In particular, the results of this oversight allow an assessment to be made of the internal control system intended to establish – in terms of adequacy, functionality and reasonable certainty – the capacity of the system itself to contribute to the effective pursuit of the objectives assigned to the individual

company structures (efficacy profile), taking account of the use of the resources for implementing them (efficiency profile), in the light of the (qualitative/quantitative) risk factors and of the likelihood of these risks affecting the achievement of the said objectives.

The development of the internal control system is evaluated by TI Audit & Compliance Services in accordance with the requirements of Corporate Governance Code of Telecom Italia and Borsa Italiana regarding the following principal aspects that qualify and characterise the Corporate Governance of the quoted companies: business ethics, reference regulatory framework, procedural framework, corporate culture, organisational aspects, information and communication aspects and company processes that guarantee operational effectiveness. For the purposes of its overall evaluation of the internal control system, TI Audit & Compliance Services used the following components of the CoSo Report (Control Model drawn up by the Committee of Sponsoring Organisations (CoSO) of the Treadway Commission) as a methodological reference for its operations: (i) Control environment and (ii) Information and Communication, which attribute considerable importance, among other things, to overseeing audit and compliance methodologies, disseminating a control culture and consolidating the ethical values of the company; (iii) Evaluation of the risks and (iv) Control activities that require an audit project identification and management process, as well as a process aimed at verifying the compliance of the processes and the company operations with the legal requirements currently in force and the relevant internal procedures; (v) Monitoring, which requires the implementation of oversight activities for the company areas at greater risk, as well as audit and compliance abilities, intended to verify that the identified weaknesses are overcome.

Therefore with reference to the specific operational contexts analysed and the corresponding corrective actions enacted and planned, the internal control system in its entirety has been judged to be suitable to reduce the risk profiles to an acceptable physiological level to enable the correct operation of the processes.

► 10.3 Organisational model according to Legislative Decree 231/2001

The internal control system is complemented by the so-called “Organisational Model 231”, which is an organisation and management model, adopted according to Legislative Decree 231/2001, intended to prevent all those offences for which the Company could be responsible from being committed. This Organisational Model consists of:

- the Ethics and Conduct Code of the Telecom Italia Group, which states the general principles (transparency, correctness, legality) which inspire the Company in the pursuit and conduct of its business;
- the “general internal control principles”, instruments intended to guarantee the achievement of the objectives of operating efficacy and efficiency, reliability of the financial and management information, respect for the laws and regulations and safeguarding of the company’s assets, particularly against potential fraud;
- the “principles of behaviour”, which consist of specific rules governing relations with government entities, as well as formalities and activities of a corporate nature, and
- the “internal control charts”, which describe the company processes where there is a risk of offences being committed, any offences that may be perpetrated in respect of these and the preventive control activities intended to avoid the related risks.

The internal control charts have been drawn up in line with the following basic principles regarding control systems: (i) separation of roles in carrying out the principal activities inherent to company processes; (ii) traceability of decisions, in order to allow responsibilities and the reasons for decisions to be accurately identified; (iii) objectifying the decision-making processes in such a way that, when decisions are taken, they are independent of merely subjective evaluations, but refer instead to pre-established principles.

As the Organisational Model is a dynamic instrument that impinges on the company’s operation and must in turn be constantly checked and updated in light of the checks carried out on its application as well as the evolution of the reference regulatory framework, various updates were made to the Model during 2009. These were drawn up by a management committee known as the 231 Steering Committee (made up of the General Counsel, the Human Resources & Organization Department Manager, the Chairman of Telecom Italia Audit & Compliance Services and the Group Compliance Officer), with the support of external consultants, and overseen by the Supervisory Body. Furthermore, where major additions to the Model were required, these were submitted for approval by the Board. The Supervisory Body oversees the operation of and compliance with the 231 Organisational Model

and consists of a member of the Board of Statutory Auditors (Chairman of the Body, Ferdinando Superti Furga), an independent Director who is a member of the Internal Control and Corporate Governance Committee (Paolo Baratta) and the internal control manager, in the person of the Chairman of Telecom Italia Audit & Compliance Services (Federico Maurizio d'Andrea). The Body, reappointed on 15 April 2008 following the renewal of the Board of Directors and for the same period of office, reports to the Board, to the Internal Control and Corporate Governance Committee and to the Board of Statutory Auditors with regard to the checking activities conducted and their outcome.

At the meeting held on 24 September 2009, having obtained the favourable opinion of the Internal Control and Corporate Governance Committee and of the Board of Statutory Auditors, the Board of Directors decided to enlarge the Supervisory Body by adding an external member, identified subsequently, on a proposal from the Appointments and Remuneration Committee, as Professor Vincenzo Salafia.

In order to provide support to the Supervisory Bodies of Group Companies, a dedicated structure (Compliance 231) was set up within Telecom Italia Audit & Compliance Services with the task of managing reports of violations of the Organisational Model and conducting specific compliance audits based on the evidence received through the flows of information established within the Group.

► 10.4 Auditing company

The task of auditing the separate financial statements of Telecom Italia S.p.A. and of the consolidated financial statements of the Telecom Italia Group, carrying out a limited audit of the half-year condensed consolidated financial statements of Telecom Italia S.p.A. and auditing the annual report drawn up according to the US Securities Laws is carried out by Reconta Ernst & Young S.p.A., which was originally instructed by the Shareholders' Meeting of 12 June 2001. These instructions were renewed by the Shareholders' Meeting of 6 May 2004 and finally extended by the Shareholders' Meeting of 16 April 2007, according to article 8, paragraph 7, of Legislative Decree No. 303 of 29 December 2006, for a further three years, expiring therefore with the 2009 financial statements. The Shareholders' Meeting convened to approve it will also give instructions for the auditing of accounts for the period 2010 – 2018, on the basis of a reasoned proposal made by the Board of Statutory Auditors.

The auditing company submitted as a candidate for the instructions was selected following a comparative analysis conducted under the supervision of the Board of Statutory Auditors with the support of the company's departments. The bids received from the various auditors contacted for this purpose were examined with particular reference (i) to the expertise and the specific experience of auditing in the telecommunications sector; (ii) to the adequacy of the technical structure in terms of the needs connected with the size and complexity of the Company and the Group to which it reports; (iii) to the experience regarding Italian SEC registrants; (iv) to independence and autonomy of judgement in respect of the Company and the Group; (v) to the consistency of the payments requested with the timescales and levels of professionalism being considered.

Telecom Italia has adopted suitable Guidelines for instructing the audit company that apply: (i) to giving instructions to audit the financial statements of Telecom Italia S.p.A. (Telecom Italia, the Company or the Parent Company); (ii) to giving instructions to audit the financial statements/reporting packages of the subsidiaries of Telecom Italia; (iii) to the Company and its subsidiaries giving further instructions to the company instructed to audit the financial statements of the Parent Company and the bodies that are part of its network, as defined in the applicable rules.

Subject to compliance with the applicable rules, according to these Guidelines, the instructions to audit the separate financial statements, the consolidated financial statements, the annual report published in accordance with the reporting requirements with which Telecom Italia is required to comply because it is registered with the United States Securities and Exchange Commission and the half-year financial report of Telecom Italia are given by the Shareholders' Meeting on the basis of a reasoned proposal from the Board of Statutory Auditors.

The investigation that precedes the granting of these instructions (or subsequent alterations) to audit the financial statements of Telecom Italia is co-ordinated by the executive responsible for drawing up the Company's accounting documents, under the supervision of the Board of Statutory Auditors, who can be assisted by the internal control manager in verifying the independence of the candidate auditor, according to the applicable rules.

The Instructed Auditor is the principal auditor of the entire Telecom Italia Group. The granting of auditing or associated instructions (so-called audit services and audit-related services) to bodies other

than the Instructed Auditor and/or the bodies belonging to its network must be checked beforehand with the executive responsible for drawing up the Parent Company's accounting documents, who will initiate the necessary approval and reporting processes, ensuring compliance with the applicable rules.

In order to safeguard the independence of the Instructed Auditor, the Guidelines establish the principle according to which the granting of further instructions to the Instructed Auditor and the bodies belonging to its network is limited to the services and activities that strictly pertain to auditing the financial statements. However, the granting of further (permitted by relevant legislation) instructions to the Instructed Auditor and to the bodies belonging to its network remains subject to the prior favourable opinion of the Board of Statutory Auditors of the Parent Company. In urgent cases, the prior opinion on the granting of further instructions can be issued by the Chairman of the Board of Statutory Auditors (or another Statutory Auditor appointed by the latter), who will refer it for ratification to the plenum of the control body in the first subsequent meeting.

► 10.5 Executive responsible for drawing up the company's accounting documents

The position of Executive responsible for drawing up the company's accounting documents was held, until 2 December 2009, by Marco Patuano. In the course of the meeting held on that date, following a reorganisation of certain senior management positions, the Board of Directors appointed the new Administration, Finance and Control Department Manager, Andrea Mangoni, as the Executive responsible for drawing up the company's accounting documents.

According to the Bylaws (article 13), the Board of Directors appoints this person, subject to the opinion of the Board of Statutory Auditors and – under the terms of the Corporate Governance Code (see the appropriate Code, article 14) – the Internal Control and Corporate Governance Committee, defining the allocations and powers at an internal level. These are governed by the appropriate Regulation, available on the <http://www.telecomitalia.it> website, in the Corporate section, under Governance. Given that he is responsible by law for establishing appropriate administrative and accounting procedures for drawing up the statutory and consolidated financial statements, as well as any other communication of a financial nature, the Regulation grants him functional responsibility (organisational and for individual matters) for the internal financial reporting controls, making it clear that, with regard to this area, he is supported by the executive Directors, as well as by the management of the Company.

The Executive reports to the Board of Directors, to the Internal Control and Corporate Governance Committee and – to the extent of its responsibilities – to the Board of Statutory Auditors.

► 10.6 Risk management and internal audit systems relating to the financial disclosure procedure

In regard to risk management and internal audit systems existing in relation to the financial control disclosure procedure, it should be noted that Telecom Italia is aware that financial disclosure plays a central role in establishing and maintaining positive relations between the Company and its stakeholders by improving company performance whilst creating value for its shareholders.

The internal audit system for Financial Reporting is designed to ensure the trustworthiness¹, accuracy², reliability³ and timeliness⁴ of its financial disclosure. In this context, Telecom Italia has established and continuously updates, a regulatory/documentary system with the Group's accounting standards, administrative accounting procedures, guidelines, operating instructions, accounting manuals and chart of accounts, in order to guarantee efficient coordination and exchange of information between the parent company and its subsidiaries, and the correct preparation of the separate financial statements and consolidated financial statements.

(1) Trustworthiness (of the information): the information that has the characteristics of correctness and conformity with the generally accepted accounting principles and has the requirements laid down by the applicable laws and regulations.

(2) Accuracy (of the information): the information that has the characteristics of neutrality and precision. The information is considered neutral if it is free from preconceived distortions likely to influence the decision-making process of its users in order to obtain a predetermined result.

(3) Reliability (of the information): the information that has the characteristics of clarity and completeness such as to lead to investment decisions of which the investors are aware. The information is considered clear if it enables the understanding of complex aspects of the company situation, without however becoming excessive or superfluous.

(4) Timeliness (of the information): the information that meets the due dates laid down for its issue.

In particular, Telecom Italia has introduced:

- a document containing the Group's accounting standards drawn up on the basis of IAS/IFRS (International Accounting Standards / International Financial Reporting Standards) to be adopted by all Group companies, subject to a quarterly update to ensure, through their application, uniformity throughout the Group of items in the financial statements and the related accounting standards which is essential in order to comply with the principle of "truthful and accurate representation" in the Gruppo Telecom Italia consolidated financial statement;
- a chart of accounts for the Group to ensure a uniform method of coding and attributing accounting of management items that feature in the operations of every company in the Group.
- procedures to follow when preparing monthly balance sheets, the separate financial statements and the consolidated financial statements for the Group. In particular these procedures define the roles and responsibilities of the entities/departments involved, the information systems used, the process stages and deadlines, as well as a detailed working calendar;
- procedures that establish the administrative and procedural rules by which Group companies must abide when managing intercompany relations in order to guarantee timely notice of entries between companies and their correct representation in the individual financial statements and to ensure their correct cancellation when preparing the consolidated financial statement;
- an organic, detailed set of guidelines, procedures and operational instructions that refer to management procedures (revenue, costs, investments and other assets) which regulate in detail:
 - the responsibilities of the company departments involved in administrative processes;
 - accounting procedures, accounting principles and assessment of the entries in the financial statements in compliance with the Group's aforementioned accounting principles.
 - internal controls for the various stages of processes.

Ensuring compliance with Italian regulations (Law 262/2005) and American legislation (Section 404 of the Sarbanes Oxley Act), Telecom Italia maintains a framework for the detection and monitoring of financial reporting, based on the COSO framework.

The system for managing risks and internal audits in Telecom Italia's Financial Reporting is structured as follows:

- risk⁵ identification in financial reports: at this stage, Telecom Italia defines the identification criteria for the "relevant" entities and processes in terms of their potential impact on financial reporting (the information contained in the draft balance sheet and in the notes to the accounts), and risks ensuing from not achieving audit objectives⁶. These risks are related to the possible risks of both unintentional errors⁷ and fraud⁸, insofar as they are apt to significantly affect financial reporting. Risks resulting from a failure to achieve audit objectives are defined in accordance with the COSO framework and apply to both the Company/Group⁹ ("entity level") and to the "process level"¹⁰;

(5) Risk: potential event the occurrence of which could compromise the achievement of the objectives connected with the control system for financial reporting (the System), meaning those of accuracy, reliability, trustworthiness and promptness of the financial information.

(6) Control objective: all of the objectives that the internal control system on the company information intends to achieve in order to ensure a true and correct representation of the Financial Reporting. These objectives consist of "balance-sheet assertions" (existence and occurrence, completeness, rights and obligations, assessment and recording, presentation and information) and the "other control objectives" such as "respect for the authorised limits, separation of incompatible duties, checks on the physical security and on the existence of the goods, documentation and traceability of the operations, etc.).

(7) Error: in the context of the System, any unintentional act or omission that results in a misleading declaration in the information.

(8) Fraud: in the context of the System, any intentional act or omission that results in a misleading declaration in the information.

(9) Analysis at company/group level, the so-called "entity level": in this context the analysis (identification of the risks, evaluation of the risks, identification of the controls, etc.) is conducted at company/group level, and is structured according to the components of the COSO model. They constitute elements to be considered for the analysis for example the expertise of the personnel, the system of corporate governance, the company regulatory system, the communication of the responsibilities in terms of the internal control system and the procedures for conducting risk assessment.

(10) Analysis at the level of process, the so-called "process level": in this context the analysis (identification of the risks, evaluation of the risks, identification of the controls, etc.) is conducted at individual process level, identifying the specific process risks and the relative specific controls and monitoring.

- identification of audits in connection with identified risks: at this stage Telecom Italia uses an application hosted on the company's intranet¹¹ to identify and document audits carried out in-house which can mitigate the financial reporting risks at the entity level¹², the process level¹³ and the IT General Controls¹⁴;
- Assessment of audits with reference to identified risks: periodically during the year according to a calendar defined in accordance with the certification requirements of Italian regulations (Law 262/05) and American legislation (Section 404 of the United States Sarbanes Oxley Act) law, previously identified audits are assessed in terms of "design"¹⁵ and "operativity"¹⁶ using specific testing methods. Assessment of audits is the primary responsibility of the competent management, supplemented by an independent evaluation conducted by the management at Telecom Italia Audit & Compliance Services S.c.a.r.l.

The results of the evaluation process described above (particularly, any audit failures deemed to be significant/material in terms of potential impact of the error/fraud on financial reporting) are periodically submitted to the Internal Audit and Corporate Governance Committee and to the Board of Statutory Auditors. The presence of any deficiency activates a process of defining, scheduling and implementing a specific plan to remedy the aforementioned deficiency.

► 10.7 Internal audit system - focus on Telecom Italia Sparkle

On February 23, 2010, a court order (the "Order") was served on the subsidiary Telecom Italia Sparkle in connection with an ongoing investigation regarding Telecom Italia Sparkle and several individuals, including certain employees, former employees and former directors of Telecom Italia Sparkle, regarding, *inter alia*, alleged cross-border conspiracy, tax evasion and international money laundering. For a complete description of the matter please refer to Note 3 ("Erroneous restatement and changes of accounting principles") and 29 ("Potential liabilities, other information, pledges and guarantees") in the consolidated financial statements at December 31, 2009, available on the internet at www.telecomitalia.it.

On March 1, 2010 the Board of Directors of Telecom Italia Sparkle appointed an independent third party expert (Professor Paolo Ferro-Luzzi, Full Professor of Banking Law at the La Sapienza University in Rome) to carry out an analysis of the internal control system and the company's Organizational Model 231, and assigned him the necessary authority to:

- identify amendments to the internal control system and the Organizational Model 231 deemed necessary, in line with corporate and administrative best practices, in order to improve the effectiveness of the internal control system and the Model 231 to the highest prudential level in regard to the prevention of possible offences, including those investigated by the Public Prosecutor's Office before the Court in Rome.
- remove all the people who may come under investigation in the future, as well as those already investigated by the Judicial Authority, from their positions with Telecom Italia Sparkle.

Professor Ferro-Luzzi, in his preliminary conclusions, largely confirmed the suitability of the internal audit system and Model 231 at TI Sparkle.

The Chairman and Chief Executive Officer at Telecom Italia Sparkle had previously been replaced and, in connection with the Order, the Company suspended, as of February 23, 2010, the employees still working at the Company who were under investigation, and terminated the employees. The proceedings relate to a known matter which was at the time described in the 2007 consolidated financial statements and the half-year financial report as of June 30, 2008 based on the information that was available at that time, which led Telecom Italia Sparkle to terminate – for precautionary reasons – its

(11) So-called SOX Accelerator: branch structured database according to the COSO model (structured for each Business Unit/company included in the perimeter into processes, control objectives, individual controls) that, for the profiled users, provides for the management of the envisaged documents by means of workflow.

(12) These are the controls defined at company/group level, which have a pervasive impact on the effectiveness of the controls defined at the process, transaction or application level.

(13) These are the controls governing the company processes; they are conducted manually and/or by means of IT applications implementing or supporting them.

(14) These are the controls included in the IT services delivered (such as telecommunications, networks, technological infrastructure and logical security), implemented by the company or by outside service providers. This set of controls is essentially independent of the specific systems/applications developed and/or implemented.

(15) Evaluation of the "design": consists of the analysis of the adequacy of the design of the control, namely that the check enables the possible risk of failure to reach the control objectives for which it was designed to be contained to an acceptable level.

(16) Evaluation of the "operation": consists of all of the activities intended to check that the controls, designed in order to reduce the risks identified to an acceptable level, are applied in the period under consideration, namely carried out effectively in line with what is set out in the "design".

commercial relations with the companies under investigation, although it believed it had acted in compliance with applicable law in connection with businesses transactions effected during the fiscal years 2005, 2006 and 2007 relating to “Premium” type telecommunications services over the TI Sparkle network, for certain counterparties in the European Union. In 2007 specific initiatives were taken to improve internal processes in these sectors.

The evolution of the Group’s internal control system has continued over time in the following key areas that qualify its corporate governance, including improvements in: corporate ethics, regulatory framework, procedures, compliance culture, organizational aspects, transparency, information and corporate communications.

In particular, as concerns Telecom Italia Sparkle, the following actions were taken:

- in 2007, monitoring of payees’ bank accounts was established – in connection with payment/settlement of invoices - which provides for payment exclusively to the country of legal residence/head office of the supplier. The procedure subsequently issued explicitly excluded payments to countries considered to be “tax heavens”. The “operative control procedure for high value” services was also adopted, with the aim of ensuring monitoring of transactions that, due to their high value per unit, are more likely to be involved in anomalies;
- in 2008 the internal control system was integrated to further protect against the risk of money laundering and reinvestment of proceeds from criminal activity which, since the end of 2007, may entail criminal liability of a corporation. In the same year the internal risk assessment in Telecom Italia Sparkle was updated and the “Voice Price operational Procedure” was amended to define policies for establishing prices for voice services and the corresponding treatment in the Company systems;
- in 2009 the Company adopted the “Procedure for inter-operator cooperation” established by Italian telecoms operators complying with a specific Memorandum of Understanding which set out principles of cooperation against fraud, and regulates the accounting treatment of calls to non-geographical numbers. During the same year Telecom Italia Sparkle also adopted identification and management procedures for anomalous and fraudulent traffic based on internal detection activities and third-party reports, including daily reports about any anomalies in traffic (volumes, duration, numbers called) and it also launched the internal control scheme “Prevention of telephone traffic fraud”.

After the Order was served, legal, accounting and tax advisors were engaged to carry out a documentary investigation into activities for the period 2005-2009. The analysis covered contracts and commercial relationships of Telecom Italia Sparkle other than those covered by the Order, with particular reference to counterparties other than major telecommunications operators and the other Telecom Italia Group companies. The analysis included traffic data, related revenue, costs and payments. The extent and results of the analysis were brought to the attention of the Directors and Statutory Auditors.

The analyses and information contained in, and acquired since the issuance of the Order have provided additional elements for evaluation with respect to matters under investigation, previously analysed, combining earlier knowledge with factors which were unknown in the past and resulted from the investigation carried out by the judicial authorities using their specific powers and methods. On the basis of the additional information obtained through the Order and the internal investigation, Telecom Italia has concluded that certain transactions in the years 2005, 2006 and 2007 were questionable, mainly with reference to the effectiveness of the transactions and the traffic, as well as the trends and directions of the same, such as to lead to the conclusion today that there were errors, as defined in IAS 8 (see Note 3 to the Consolidated Financial Statements at 31 December 2009).

11. Interests of the Directors and transactions with related parties

Activity carried out by the Group companies is in accordance with principles of correctness and transparency. To that end, operations with correlated parties, including operations within the group, comply with substantial and procedural criteria for correctness according to pre-established principles of conduct to perform them, properly reported to the market.

As of March 2008, , the Board of Directors has replaced the previous procedure for managing trans-

actions with related parties, adopting a more structured discipline for these matters, which separates the roles and decision-making responsibilities according to the type of activity. The current procedure, entitled Principles of conduct for carrying out transactions with related parties, updated in June 2008, is available on the <http://www.telecomitalia.it> website, in the Corporate section, under Governance. A distinction has therefore been made between transactions falling within the so-called ordinary course of business, which may or not require an escalation of the authorisation process based on the procedures for determining the conditions of relations with the related party, distinguishing between generally directed conditions that cannot be modified and competitive procedures (where the risk of conflict of interest is inherently ruled out) and conditions that are comparable with market conditions (“at arm’s length”). The checking and approval matrix (that is additional to the usual internal authorisation procedures) is structured on the basis of the significance of the transaction, in terms of duration and economic value, and is sometimes entrusted to the management, sometimes to a Management Committee (Group Compliance Officer, Chief Financial Officer, General Counsel, supported by the first level manager, the owner of the specific transaction) and sometimes to the Internal Control and Corporate Governance Committee. It may be escalated from one level to the next and required general subsequent monitoring by the said Internal Control and Corporate Governance Committee. In order to support the correct application of the Principles of conduct, an information application is available that enables the relationship and the authorisation procedure needed for its finalisation to be checked to be ascertained. The application also ensures that initiatives with related parties can be traced. A gap analysis is underway to ascertain if any interventions are required or desirable to align the current internal procedures with the new regulations issued by CONSOB resolution 17221 of 12 March 2010, which will become effective on 1 October 2010 (regime of transparency) and 1 January 2011 (new procedures for decision making).

12. Appointment of Statutory Auditors

The Board of Statutory Auditors consists of five statutory auditors. The Shareholders’ Meeting also appoints four alternate statutory auditors.

The board of auditors is appointed in accordance with the relevant legal and regulatory requirements, on the basis of lists submitted (by being filed at the registered office of the company at least fifteen days before the date set by the first call of the Shareholders’ Meeting, unless there is a postponement in cases provided for by the applicable regulations) by shareholders who individually or together with others hold shares representing at least 0.5% of the capital with voting rights.

The lists are divided into two sections: one for candidates to the office of regular statutory auditor and the other for candidates to the office of alternate statutory auditor. Three regular statutory auditors and two alternate statutory auditors are drawn from the list that obtained the majority of votes (“Majority List”), while the remaining regular statutory and alternate statutory auditors are drawn from the other lists (“Minority Lists”), subject to compliance with the legal and regulatory regulations regarding restrictions on links with the Majority List. To this end, the votes obtained by the Minority Lists are divided by one and by two and the quotients assigned to candidates in both sections according to the listing order. The quotients thus assigned to the candidates on the various lists are arranged in a single decreasing ranking for appointment to the office of regular auditor and a single decreasing ranking for appointment to the office of alternate statutory auditor, which results in the election of those who have obtained the two highest quotients. If more than one candidate obtains the same quotient, the candidate from the list that has not yet elected a statutory auditor is elected or, subordinately, a new ballot takes place at the Shareholders’ Meeting and the candidate who obtains a simple majority of the votes is elected.

If any of the statutory auditors chosen from the majority list or from one of the minority lists should leave office, the alternate statutory auditors drawn from the majority list or the minority lists will take their place in order of age. If any statutory auditor drawn from the Minority Lists should leave office, the need to ensure the representation of minorities is understood to be fulfilled if an alternate statutory auditor is drawn from the Minority Lists.

13. Statutory Auditors

The Shareholders' Meeting held on 8 April 2009 appointed the current Board of Statutory Auditors, whose mandate will end with the approval of the financial statements in 2011, appointing its chairman and fixing his level of remuneration. Three lists were submitted according to the procedures and time limits required by the applicable regulations:

Telco List

(Bearer shareholder: Telco S.p.A.)

Candidates for the office of Regular Statutory Auditor

1. Salvatore Spiniello
2. Ferdinando Superti Furga
3. Gianluca Ponzellini
4. Lelio Fornabaio
5. Mario Ragusa

Candidates for the office of Alternate Statutory Auditor

1. Ugo Rock
2. Vittorio Mariani
3. Luigi Merola
4. Luca Novarese

Findim Group List

(Bearer shareholder: Findim Group S.A.)

Candidates for the office of Regular Statutory Auditor

1. Lorenzo Pozza
2. Massimiliano Carlo Nova

Candidates for the office of Alternate Statutory Auditor

1. Silvano Corbella
2. Francesco Nobili

Savings Management Companies List

(Bearer shareholders: Aletti Gestielle S.G.R. S.p.A., Arca S.G.R. S.p.A., Bipiemme Gestioni S.G.R. S.p.A., BNP Paribas Asset Management S.G.R. S.p.A., Fideuram Gestions S.A., Fideuram Investimenti S.G.R. S.p.A., Interfund Sicav, Monte Paschi Asset Management S.G.R. S.p.A., Pioneer Asset Management S.A., Pioneer Investment Management S.G.R.p.A., Stichting Pensioenfond ABP, UBI Pramerica S.G.R. S.p.A.)

Candidates for the office of Regular Statutory Auditor

1. Enrico Maria Bignami
2. Stefano Sarubbi

Candidates for the office of Alternate Statutory Auditor

1. Maurizio Lauri
2. Massimo Gatto

The number of votes in proportion to the voting capital gave the following results:

Telco List: 3,342,324,151 votes (62.76%)

Findim Group List: 675,960,464 votes (12.69%)

Savings Management Companies List: 1,299,819,996 votes (24.41%)

Three Regular Statutory Auditors and three Alternate Statutory Auditors were drawn from the Telco list which obtained the majority of the votes cast, according to the order in which they were listed: Salvatore Spiniello - Regular Statutory Auditor, Ferdinando Superti Furga - Regular Statutory Auditor, Gianluca Ponzellini - Regular Statutory Auditor, Ugo Rock - Alternate Statutory Auditor and Vittorio Mariani - Alternate Statutory Auditor.

Two Regular Statutory Auditors and two Alternate Statutory Auditors were drawn from the other lists: Enrico Maria Bignami - Regular Statutory Auditor (from the Savings Management Companies List), Lorenzo Pozza - Regular Statutory Auditor (from the Findim Group List), Maurizio Lauri - Alternate Statutory Auditor (from the Savings Management Companies List) and Silvano Corbella - Alternate Statutory Auditor (from the Findim Group List).

With regard to the personal and professional characteristics of each Statutory Auditor, the curricula vitae of the members of the control body are available for consultation on the www.telecomitalia.it website, in the Corporate section, under Governance.

In accordance with the law, the Shareholders' Meeting also appointed the Chairman of the Board of Statutory Auditors, who was selected from the two Regular Statutory Auditors elected by the minority in the person of Enrico Maria Bignami. The number of votes in proportion to the voting capital gave the following results:

In favour: 4,584,033,789 shares (86.57%)

Abstentions: 704,745,290 shares (13.30%)

Against: 6,670,553 shares (0.13%)

With regard to the proposal of the Telco Shareholder to set at € 80,000 the gross annual remuneration payable to each of the Regular Statutory Auditors, at € 120,000 the gross annual remuneration payable to the Chairman of the Board of Statutory Auditors and at € 15,000 the additional gross annual remuneration payable to any Statutory Auditor called to join the supervisory body, the number of votes in proportion to the voting capital gave the following results:

In favour: 5,278,939,224 shares (99.13%)

Abstentions: 44,957,612 shares (0.84%)

Against: 1,637,446 shares (0.03%)

At its meeting on 16 March 2010, the Board of Statutory Auditors verified the fulfilment of the independence requirements pursuant to Art. 148, paragraph 3, Legislative Decree 58/1998, noting that the requirements were fulfilled as stated at the time of the appointment, including the independence requirements based on the Corporate Governance Code of Borsa Italiana with reference to the independence of directors.

During 2009, there were 28 meetings of the Board of Statutory Auditors (6 of which were held jointly with the Internal Control and Corporate Governance Committee). The average duration of the meetings was three hours. The percentage of attendance was 95%.

14 meetings have already been held in 2010.

Table 6 provides information relating to the composition of the Board of Statutory Auditors on 12 April 2010, while table 7 provides information on the members of the Board of Statutory Auditors who left office in 2009. For detailed information about the activities carried out by the Board of Statutory Auditors please refer to the Board of Statutory Auditors' Report prepared according the Art. 153 Leg. Decree 58/1998.

14. Relations with Shareholders

A manager responsible for managing relations with the national and international financial community and all the shareholders (Investor Relations Manager) has been identified within the company structure in the person of Elisabetta Ripa. Details of the institutional and individual investors within Telecom Italia are given below:

- Institutional investors:
Telecom Italia S.p.A. - ref. *Investor Relations*
Piazza degli Affari, 2
20123 Milan
Tel: +39 02 85954131
Email: investor_relations@telecomitalia.it
- Individual investors:
Telecom Italia S.p.A. - ref. *Investor Relations*
Piazza degli Affari, 2
20123 Milan
Tel: +39 02 85954131
Email: investitori.individuali@telecomitalia.it

Important information for shareholders, as well as existing and potential investors in general (including bondholders), is provided on the www.telecomitalia.it website, in the Corporate section, under Investors.

15. Shareholders' Meetings

Pursuant to the Bylaws (Art. 19), shareholders are entitled to attend a Shareholders' Meeting if the Company has received the notification required by Article 2370, second paragraph, of the Civil Code, at least two days prior to the date set for the individual meeting.

Telecom Italia does not require shareholders to block their shares as a requirement for attending a shareholders' meeting: Shareholders are requested to deposit their shares, i.e. to instruct the intermediary that keeps the relevant accounts to make the notification. This does not prevent subsequent withdrawal of the shares. However, if they are withdrawn, any earlier deposit ceases to be effective for the purpose of entitlement to attend the meeting. Any requests for advance notice to perform the relevant formalities or unavailability of deposited shares as a consequence of intermediaries' market practices may not be imputed in any way to the Company.

Ordinary shareholders are entitled to exercise their right to vote by post and to be represented, issuing the appropriate proxy to an individual or legal entity.

In order to facilitate the collection of proxies from ordinary shareholders who are employees of the company or its associate controlled companies and members of shareholders' associations that meet the requirements of current legislation, appropriate spaces are made available for communication and for carrying out the collection of proxies.

In order to ensure the smooth running of Shareholders' Meetings, the Company has since 2000 adopted a set of Regulations for Shareholders' Meetings which are available on the www.telecomitalia.it website, in the Corporate section, under Governance.

16. Additional Corporate Governance practices

Nothing to report.

17. Changes since the end of the relevant financial year

Nothing to report.

Annexes to the Annual Report

Annexes to the Annual Report on Corporate Governance of Telecom Italia S.p.A.

Table 1 - Share capital as of 31 December 2009

	No. of Shares	% of share capital	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary Shares	13,380,906,939	68.95%	Listed on Borsa Italiana S.p.A.	Right to vote at the Company's Ordinary and Extraordinary Shareholders' Meetings.
Savings Shares	6,026,120,661	31.05%	Listed on Borsa Italiana S.p.A.	Right to vote at special savings shareholders' meetings. Preferential rights as specified in Article 6 of the Bylaws: 5% preferred dividend; two-year carryover of right to preferred dividend; 2% higher dividend compared to ordinary shares.

Table 2 - Membership of the Board of Directors as of 12 April 2010

Name	Position	Position held from	List	Exec.	Non exec.	Indep.	Indep. Finance Consolidation Act	% Board Meetings	Other offices
Gabriele Galateri di Genola	Chairman	3/12/2007	M	X				100	4
Franco Bernabè	Managing Director	3/12/2007	M	X				100	=
Cesar Izuel Alierta	Director	8/11/2007	M		X			70	=
Paolo Baratta	Director	6/5/2004	m		X	X	X	100	=
Tarak Ben Ammar	Director	14/4/2008	M		X			70	1
Roland Berger	Director	14/4/2008	m		X	X	X	100	1
Elio Catania	Director	14/4/2008	M		X	X	X	100	1
Jean Paul Fitoussi	Director	6/5/2004	M		X	X	X	85	1
Berardino Libonati	Director	14/4/2008	M		X			100	2
Julio Linares Lopez	Director	8/11/2007	M		X			100	=
Gaetano Micciché	Director	24/7/2007	M		X			85	1
Aldo Minucci	Director	16/4/2007	M		X			100	7
Renato Pagliaro	Director	6/5/2004	M		X			85	3
Luigi Zingales	Director	16/4/2007	m		X	X	X	100	=

LEGEND

List:	"M" indicates that the director was drawn from the so-called majority list; "m" indicates that the director was drawn from a minority list.
Indep.:	indicates that the director qualifies as independent according to the criteria specified in the Company's Corporate Governance Code, which embodies the criteria established by Borsa Italiana's Corporate Governance Code.
Indep., Finance Consolidation Act:	indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Finance Consolidation Act.
% Board Meetings:	director's board meeting attendance rate during the financial year, from the time when he took up his position.
Other offices:	the total number of offices held in other companies referred to in Article 5 of Telecom Italia's Corporate Governance Code and detailed below.

Shown below are the positions held by Telecom Italia's current directors in other companies included in the FTSE/MIB index or operating primarily in the financial sector providing services to the public (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385 of 1 September 1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia's Corporate Governance Code.

Gabriele Galateri di Genola	Deputy Chairman of Assicurazioni Generali S.p.A.; Director of Banca Esperia S.p.A., Banca Carige S.p.A. and Banca Cassa di Risparmio di Savigliano S.p.A.
Franco Bernabè	- - -
Cesar Izuel Alierta	- - -
Paolo Baratta	- - -
Tarak Ben Ammar	Independent Director of Mediobanca S.p.A.
Roland Berger	Independent Director of FIAT S.p.A.
Elio Catania	Member of the Board of Directors of Banca Intesa Sanpaolo S.p.A.
Jean Paul Fitoussi	Director of Banca Sella Holding S.p.A.
Berardino Libonati	Independent Director of Pirelli & C. S.p.A. and RCS Mediagroup S.p.A.
Julio Linares Lopez	- - -
Gaetano Miccichè	Managing Director of Banca IMI S.p.A.
Aldo Minucci	Chairman of Genertel S.p.A.; Director of Banca Generali S.p.A., Intesa Previdenza SIM S.p.A., Intesa Vita S.p.A., INA Assitalia S.p.A., Fata Vita S.p.A. and Fata Assicurazioni Danni S.p.A.
Renato Pagliaro	Deputy Chairman of RCS Mediagroup S.p.A.; Director of Pirelli & C. S.p.A. and Mediobanca S.p.A.
Luigi Zingales	- - -

Table 3 - Directors who left office in 2009

Name	Position	Position held from / to	List	Exec.	Non exec.	Indep.	Indep. Finance Consolidation Act	% Board meetings	Other offices
Stefano Cao	Director	8/4/2009 22/12/2009	M		X			100	=
Gianni Mion	Director	7/11/2001 27/2/2009	M		X			100	3

LEGEND

List:	"M" indicates that the director was drawn from the so-called majority list; "m" indicates that the director was drawn from a minority list.
Indep.:	indicates that the director qualifies as independent according to the criteria specified in the Company's Corporate Governance Code, which embodies the criteria established by Borsa Italiana's Corporate Governance Code.
Indep., Finance Consolidation Act:	indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Finance Consolidation Act.
% Board Meetings:	director's board meeting attendance rate during the financial year, from the time when he took up his position.
Other offices:	the total number of offices held in other companies referred to in Article 5 of Telecom Italia's Corporate Governance Code and detailed below.

Shown below are the positions held by the directors of Telecom Italia who left office during the 2009 financial year in companies included in the FTSE/MIB index or operating primarily in the financial sector providing services to the public (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385 of 1 September 1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia's Corporate Governance Code.

Stefano Cao	- - -
Gianni Mion	Director of Autogrill S.p.A., Atlantia S.p.A. and Luxottica Group S.p.A.

Table 4 - Membership of the Board of Directors' committees as of 12 April 2010

Name	Position	A.R.C.	% A.R.C. meetings	I.C.C.	% I.C.C. meetings	E.C.	% E.C. meetings
Paolo Baratta	Director			C	100		
Franco Bernabè	Managing Director					M	100
Roland Berger	Director			M	40	M	100
Elio Catania	Director	C	100			M	100
Jean Paul Fitoussi	Director			M	100		
Gabriele Galateri di Genola	Chairman					C	100
Berardino Libonati	Director	M	100				
Julio Linares Lopez	Director					M	75
Aldo Minucci	Director			M	100	M	100
Renato Pagliaro	Director					M	100
Luigi Zingales	Director	M	100				

LEGEND

A.R.C.: Appointments and Remuneration Committee ("C" stands for Chairman, "M" for member).
% A.R.C. meetings: director's rate of attendance at Appointments and Remuneration Committee meetings.
I.C.C.: Internal Control and Corporate Governance Committee ("C" stands for Chairman, "M" for member).
% I.C.C. meetings: director's rate of attendance at Internal Control and Corporate Governance Committee meetings.
E.C.: Executive Committee ("C" stands for Chairman, "M" for member).
% E.C. meetings: director's rate of attendance at Executive Committee meetings.

Table 5 - Directors sitting on Board of Directors' committees who left office in 2009

Name	Position	E.C.	% E. C.
Stefano Cao	Director	M	100
Gianni Mion	Director	M	100

LEGEND

E.C.: Executive Committee ("M" stands for member).
% E.C. meetings: director's rate of attendance at Executive Committee meetings.

Table 6 - Membership of the Board of Statutory Auditors as of 12 April 2010

Name	Position	Position held from	List	% Board meetings	Other offices
Enrico Maria Bignami	Chairman	16 April 2007	m	100	25
Gianluca Ponzellini	Statutory Auditor	8 April 2009	M	93	18
Lorenzo Pozza	Statutory Auditor	8 April 2009	m	100	9
Salvatore Spiniello	Statutory Auditor	13 April 2006	M	85	21
Ferdinando Superti Furga	Statutory Auditor	13 April 2006	M	100	14
Silvano Corbella	Alternate	8 April 2009	m	=	=
Maurizio Lauri	Alternate	8 April 2009	m	=	=
Vittorio Giacomo Mariani	Alternate	8 April 2009	M	=	=
Ugo Rock	Alternate	8 April 2009	M	=	=

LEGEND

List: "M" indicates that the director was drawn from the so-called majority slate; "m" indicates that the director was drawn from a minority slate.
% Board Meetings: statutory auditor's rate of attendance at meetings of the Board of Statutory Auditors during the financial year, from the time of taking up the position.
Other offices: the total number of offices held in companies referred to in Book V, Title V, Chapters V, VI and VII of the Civil Code, as shown in the list annexed, pursuant to Article 144- quinquiesdecies Consob Regulation 11971/1999, to the report on supervisory activity drawn up by the statutory auditors pursuant to Article 153.1 of the Finance Consolidation Act.

Table 7 - Members of the Board of Statutory Auditors who left office in 2009

Name	Position	Position held from / to	List	% Board meetings	Other offices
Paolo Golia	Chairman	16 April 2007 8 April 2009	m	100	14
Gianfranco Zanda	Statutory Auditor	24 May 2003 8 April 2009	M	100	4
Enrico Laghi	Alternate	13 April 2006 8 April 2009	M	=	=
Luigi Gaspari	Alternate	16 April 2007 8 April 2009	m	=	=

LEGEND

List: "M" indicates that the director was drawn from the so-called majority list; "m" indicates that the director was drawn from a minority list.

% Board Meetings: statutory auditor's rate of attendance at meetings of the Board of Statutory Auditors during the financial year, from the time of taking up the position.

Other offices: the total number of offices held in companies referred to in Book V, Title V, Chapters V, VI and VII of the Civil Code, as shown in the list annexed, pursuant to Article 144- quinquiesdecies Consob Regulation 11971/1999, to the report on supervisory activity drawn up by the statutory auditors pursuant to Article 153.1 of the Finance Consolidation Act.

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