



TELECOM ITALIA S.P.A.
REPORT ON CORPORATE GOVERNANCE AND SHARE OWNERSHIP
FOR THE 2013 FINANCIAL YEAR

pursuant to art. 123-bis CFL

(Report approved by the Board of Directors
at the meeting on 6 March 2014 – available on the website www.telecomitalia.com)

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Share capital 10,693,740,302.30 euros fully paid up
Tax Code/VAT Registration Number and
Milan Business Register Number 00488410010

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1. Introduction

The purpose of this Report is to provide an explanation of the general framework of the corporate governance system in force in Telecom Italia in 2013.

Telecom Italia's system of corporate governance, structured according to the traditional model, is in line with the principles contained in the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana (available at the website www.borsaitaliana.it), to which the Company adheres. Moreover, also in response to prompts from the market and the experience we have accrued in some recent events, this system is now in a critical review phase, expected to result in a potentially significant updating of the rules in force: dedicated work sites have been opened or planned, with the aim of bringing, within the year, operational proposals based on analysis of the existing situation and checks of the space available for improvement to the attention of the Board of Directors to be appointed by the next Shareholders' Meeting.

A specific recommendation to evaluate whether or not the Bylaws and or other corporate governance tools in force should be updated is also contained in the guidance document the outgoing Board of Directors has drafted in view of the renewal of the administrative body.

2. Information on share ownership

(pursuant to Article 123-bis, subsection 1, CFL)
as at 31 December 2013

► a) Share capital structure

The subscribed and paid-up share capital is shown in Table 1.

The Company's ordinary and savings shares 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 10 ordinary or savings shares, respectively, represented by American Depositary Receipts issued by JPMorgan Chase Bank.

The characteristics of the savings shares are governed by Article 6 of the Bylaws (available on the website www.telecomitalia.com, *Governance* section - *Governance System/Company Bylaws* channel).

It should be noted that on 20 December 2013 the Extraordinary Meeting of the Shareholders of the Company approved (i) the elimination of the indication of the par value of the ordinary and savings shares, as well as (ii) the issue of new ordinary shares solely to enable conversion of the bonds issued by the subsidiary Telecom Italia Finance S.A., within the framework of the subordinate mandatory bond issue guaranteed by Telecom Italia called "Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A" for a total maximum amount, including any share premium, of 1.3 billion euros (in addition to the value of the interest on the Bonds, which may also be settled in shares, for a maximum sum of 238,875,000 euros). The resolution was filed with the Business Register on 17 January 2014, with date of registration 22 January.

In relation to Telecom Italia's existing share-based incentive plans and the share capital increases to service these plans, reference should be made to the description in the note "Remuneration plans in the form of shareholdings in the Company capital" of the Company's separate financial statements as at 31 December 2013 and to the information documents made available to the public pursuant to Article 123-bis of Legislative Decree no. 58/1998 and Article no. 84-bis of Consob Issuers' Regulations, available on the website www.telecomitalia.com, *Governance* Section - *Remuneration* channel.

► b) Restrictions on transfer of securities

There are no limitations under the Company Bylaws on the transferability of shares issued by the Company, except as provided for in Article 22 of the Bylaws in relation to the special powers of the Minister of Economy and Finance under Law 474/1994, which include the power to oppose the acquisition of shareholdings of over 3% of the capital with voting rights.

Furthermore Telecom Italia is also affected by the special powers in the defence and national security sectors, and in the energy, transport and communications sectors, pursuant to legislative decree 21/2012, converted with amendments by law 56/2012. In application of this law, with Prime Ministerial Decree 129/2013, TLC networks and equipment were included among assets of strategic importance in the defence and national security sectors (pursuant to article 1 of law 56/2012). However, the Council of Ministers has also approved a draft decree to identify assets of strategic importance in the communications sector (pursuant to article 2 of law 56/2012), replicating those already indicated in the Prime Ministerial Decree. To avoid any future uncertainties of interpretation, the competent

parliamentary commissions in the Chamber of Deputies and the Senate have recommended that the Government clarify which regulations on special powers should apply to assets of strategic importance in the communications sector, also by amending or coordinating legislative initiatives.

For a brief description of the prerogatives that the government authority is empowered to exert regarding operations inherent to strategic assets belonging to companies that work in the defence and national security sectors (article 1 of law 56/2012), as well as in the energy, transport and communications sectors (article 2 of law 56/2012³) see letter d) ("Securities that confer special rights of control"), below.

The current share-based incentive plans do not have lock up mechanisms, apart from forfeiture of the right to the assignment of matching shares if the investment is not retained by the recipients of the initiative.

► **c) Significant shareholdings**

Significant holdings in the ordinary capital of Telecom Italia at 31 December 2013 are shown in Table 1 – Information on share ownership. For completeness, it should also be noted that on 10 January 2014 Norges Bank announced that it directly holds a quantity of ordinary shares equal to 2.02% of the total ordinary shares of Telecom Italia.

While for its part, BlackRock Inc. informed Consob that at 13 December 2013 it controlled indirectly, since it is an asset management company, a quantity of ordinary shares equal to 7.789% of the total ordinary shares of Telecom Italia¹.

► **d) Securities that confer special rights of control**

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

The special powers of the Minister of Economy and Finance, pursuant to Law 474/1994, referred to in Article 22 of the Bylaws (which do not depend on having a shareholding in the Company capital), are as follows:

- to object to the acquisition of shareholdings equal to or greater than 3% of the share capital represented by shares that confer the right to vote in ordinary shareholder's meetings. If the Minister believes that the transaction is prejudicial to the vital interests of the State, the objection must be expressed in a reasoned opinion within 10 days of notification by the Company upon the purchaser's application to be registered in the shareholders register. The decision to exercise the power of veto may be appealed against within sixty days by the transferee shareholders before the Regional Administrative Court of Lazio.
- to veto, duly stating reasons relating to the actual prejudice caused to the vital interests of the State, the adoption of resolutions for the dissolution of the Company, transfer of the operations, merger, demerger, transfer of the registered office abroad, change of company purpose and that cancel or modify said special powers. The decision to exercise the power of veto may be appealed against within sixty days by the dissenting shareholders before the Regional Administrative Court of Lazio.

Decree law 21/2012, setting out "Regulations on special powers over corporate ownership in the defence and national security sectors, as well as for activities of strategic relevance in the energy, transport and communications sectors", converted with amendments in law 56/2012, prescribes that, when the Prime Ministerial Decrees identifying the "*networks and equipment, goods and relations of strategic importance for the [...] communications sector*" (referred to in art. 2) come into force, the clauses in the Bylaws regarding special powers shall cease to be effective². Very briefly, the laws on strategic assets in the communications sector provides for:

- a power to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified as above. Purchase is in any case permitted solely on condition of reciprocity;
- a power of veto (including in the form of imposition of prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of said strategic assets or changing their destination, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee.

Furthermore, before the decree pursuant to article 2 of law 56/2012 was issued, Prime Ministerial Decree 129 of 2 October 2013 extended the sphere of application of the special powers in the defence and security sectors, set out in article 1 of said law, to "*the networks and systems used to supply access to the end users of services that fall within the obligations of universal service and broadband and ultrabroadband services*". Following on from this is the obligation to provide the Presidenza del Consiglio dei Ministri (Prime Minister's Office),

1 It should be noted that on 17 March 2014 BlackRock Inc. updated the information of 13 December 2013 informing Consob that at 12 March 2014 it controlled indirectly, since it is an asset management company, a quantity of ordinary shares equal to 4.813% of the total ordinary shares of Telecom Italia.

2 At the date of publication of this report the relative decrees have been adopted and are awaiting publication in the Official Gazette.

- incumbent on Telecom Italia, with a notice giving full information on resolutions to be taken regarding the merger or demerger of the company, transfer of the business or a branch of the business, or of subsidiaries, transfer of the registered offices abroad, change of company purpose, dissolution, amendment of clauses in the company bylaws introduced pursuant to the law on privatisation, the transfer of property rights or rights to use tangible or intangible assets or the assumption of limitations that affect their use;
- incumbent on anyone who acquires a holding of Company share capital with voting rights, when the thresholds of 2%, 3%, 5%, 10%, 15%, 20% and 25% are exceeded.

The provision of a notice is required to exercise the power of veto within 15 days, suspended if further information is requested. Said further information must be supplied within 10 days. The power of veto may also be exercised by imposing prescriptions or conditions, every time this is sufficient to ensure the protection of the essential interests of defence and national security.

Resolutions or acts adopted breaching said prescriptions shall be null and void. The Government may also order the company and any other party to restore the antecedent situation at their own expense.

As for the purchase of holdings, a general description of the proposed acquisition, the purchaser and its sphere of operations must be transmitted with the information notice, so as to evaluate the threat of prejudice to the essential interests of defence and national security. Until the end of the period of time within which conditions may be imposed, or the power to oppose an initiative exercised, the voting rights (and any rights other than the property rights) attaching to the shares that represent the relevant holding shall be suspended. The same rights are suspended in case of any non-compliance with or breach of the conditions imposed on the purchaser, for the whole of the period in which the non-compliance or breach persists. Any resolutions adopted with the determining vote of said shares or holdings, as well as the resolutions or acts adopted that breach or do not comply with the conditions imposed, shall be null and void.

► **e) Employee shareholdings: mechanism for exercising voting rights**

No specific methods or limits on the ways in which employee shareholders can exercise their voting rights are prescribed, irrespective of the provenance of the shares held (including from specific employee share plans).

► **f) Restrictions on voting rights**

There are no restrictions on voting rights of shares constituting the ordinary share capital of Telecom Italia. However, see the preceding point d) ("Securities that confer special rights of control") regarding the limitations to voting rights deriving from the special powers of the State to which Telecom Italia is subject. Savings shares are not granted the right to vote at ordinary shareholders' meetings.

► **g) Shareholders' Agreements**

Telecom Italia's main shareholder is Telco S.p.A. (Telco), whose capital with voting rights at 31 December 2013 was broken down as follows: Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), companies belonging to the Generali Group (30.58%) and Telefónica S.A. (46.18%).

The shareholders of Telco are part of a shareholders' agreement that has been significant for Telecom Italia since 28 April 2007. On 29 February 2012 the shareholders of Telco cancelled, by mutual consent, the agreement signed in 2007, as subsequently amended, signing a new agreement at the same terms and conditions as the previous one, with a duration until 28 February 2015. On 24 September 2013, Telefónica subscribed an increase in the share capital of Telco for approximately 324 million euros, against the issue of non-voting shares, bringing its share of the capital of Telco to 66%; on the same date, the parties amended some matters agreed in the shareholders' agreement (published pursuant to the applicable law and as such a summary may be consulted, inter alia, on the Consob website, www.consob.it).

In relation to this, the agreement includes a Telefónica undertaking to subscribe a further increase in capital - again with the issue of non-voting shares - for a total of approximately 117 million euros, increasing its share of the capital of Telco from 66% to 70%. Furthermore, from 1 January 2014 Telefónica is entitled to convert the shares subscribed with the aforementioned increases in capital into voting shares - also in several *tranches* until it achieves a maximum share of 64.9% of the total voting capital. From the same date, Telefónica is entitled to purchase for cash all the shares of the other Telco shareholders, in accordance with predetermined windows of time, coordinated with the time periods within which the Telco shareholders may exercise their non-proportional demerger options, between 15 June and 30 June 2014 and 1 February and 15 February 2015. The second increase in capital, the conversion right and the purchase right are dependent on the prior obtaining of all the necessary antitrust and communications authorisations (including, where necessary, those of the authorities in Brazil and Argentina).

The agreement identifies, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia to be submitted to the Shareholders' Meeting, providing that

the board of directors of Telco approve a slate for the appointment of directors to the board of Telecom Italia according to the criteria indicated below:

- so long as it holds more than 30% but less than 50% of the voting shares in Telco, Telefónica will be entitled to designate 2 directors of Telecom Italia to be included in the slate; conversely, so long as it holds over 50% of the capital of Telco, the other shareholders of Telco shall have the right to designate the other candidates on the slate, three of whom unanimously and the remainder based on a proportionality principle;
- after the conversion has been completed, and always provided that Telefónica holds more than 50% of the voting shares in Telco: (i) the other shareholders will be entitled to designate the first two members on the slate, unanimously, and half of the remaining candidates (net of the directors to be reserved to the minority shareholders) in proportion to their respective shareholdings in Telco; (ii) Telefónica will be entitled to designate all the remaining candidates (always net of the directors to be reserved to the minority shareholders) to be listed on the Telco slate. The parties have agreed, always provided that the Board of Directors of Telecom Italia is composed of no fewer than 13 directors, that Telefónica shall be entitled to designate at least four Directors. To this end, they will ensure that Telco votes against any proposal to reduce the number of directors of Telecom Italia to less than 13 that might be presented in the Shareholders' Meeting.

The agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings (and nor will Telefónica itself exercise its right to vote in the Telco shareholders' meetings) that examine and propose resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions regarding Brazil and Argentina were altered to take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (Anatel) through "Ato" no. 68.276 of 31 October 2007, and the "Termo de Compromisso de Desempenho" signed before the Brazilian antitrust authority (CADE) on 28 April 2010 by Telefónica, Assicurazioni Generali, Intesa Sanpaolo, Mediobanca and, as intervening party, by TIM Brasil Serviços e Participações S.A., as well as of (ii) of the "Compromiso" signed before the Comisión Nacional de Defensa de Competencia of Argentina (CNDC) on 6 October 2010 by the contracting parties, by Telco and – as intervening parties in order to execute the obligations assumed – by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Mviles SA.

Also following the decision adopted by CADE on 4 December 2013 (by which the Brazilian antitrust authority made its approval of the concentration of the control of Brazilian operator Vivo in Telefónica, which occurred in 2010 by means of the acquisition of the share previously held by fellow shareholder Portugal Telecom dependant on *"the extinction of the Telefónica direct or indirect stake in TIM Brasil or the entry of a new shareholder in Vivo, with experience of the sector and without other holdings in another Brazilian telecommunications operator"*, Directors César Alierta Izuel and Julio Linares López (designated by Telefónica) resigned on 13 December 2013 and Telefónica unilaterally announced, in a press release, that, while not renouncing any of the rights granted to it in the agreement, it would not, "for the time being", exercise its right to appoint or designate two Directors to the Board of Directors of the Company.

For completeness, it should be recalled that an option to purchase the Telco shares of the Company is in force between Telco and Telefónica, and hence, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

It should also be noted that pursuant to the agreement, the Board of Directors of Telco is expected to resolve with the favourable vote of at least 7 directors on the determinations on the vote to be expressed in the extraordinary meeting of the shareholders of Telecom Italia called to approve transactions of an extraordinary nature (including, but not limited to, resolutions with an impact on the share capital of Telecom Italia, such as increases or decreases, mergers or de-mergers, excepting, however, resolutions pursuant to articles 2446-2447 of the Italian Civil Code or other resolutions required to comply with the applicable law). If a qualified quorum is not achieved, resolutions may be made by simple majority, without prejudice to the right of dissenting shareholders to request the demerger of Telco.

► **h) Change of control clauses and statutory provisions on Tender Offer**

In a series of agreements to which Telecom Italia is party, provision is made for the obligation to give notice of any change of control.

This obligation, provided for by national legislation on certificates of permission, is first of all referred to in the general authorisation certificates granted to Telecom Italia for operating and providing the network together with the supply of electronic communications services; the same obligation is specified in the general concession/authorisation

certificates granted to subsidiary TI Media as network operator (and, at that time, content provider). A similar obligation is regulated by local legislation and specified in the concession/license certificates of telecommunications services granted to foreign subsidiaries of the Group.

Telecom Italia is also party to agreements in which the change of control involves a modification or even the cancellation of the facility. Other agreements, however, not related to financing, are subject to confidentiality constraints, such that the Company exercises the right not to make a disclosure on this point. In other cases, the agreement is not considered significant.

The following cases remain, all of which relate to financing agreements:

- Multi currency revolving credit facility (8,000,000,000 euros), expiring on 1 August 2014. The agreement was signed by Telecom Italia with a syndicate of banks on 1 August 2005, and subsequently amended. The regulations on change of control are similar to those in the syndicated credit lines called Forward Start Facilities which will come into force when the Multi currency revolving credit facility ends on 1 August 2014, and specifically:

- Revolving Credit Facility signed on 24 May 2012 for 4 billion euros, expiring on 24 May 2017; and
- Revolving Credit Facility signed on 25 March 2013 for 3 billion euros, expiring on 26 March 2018.

In the event of a change of control, Telecom Italia must inform the agent within 5 working days and the agent, on behalf of the financing banks, will negotiate in good faith to determine how to continue the relationship. No party will be obliged to continue these negotiations for longer than 30 days, at the end of which: (a) if there is no agreement with 2/3rds of the lenders in the Multi currency revolving credit facility, the facility will cease to be effective, and Telecom Italia will be required to return the sums it has received (currently totalling 1.5 billion euro), or (b) if there is no agreement with just one bank in the Revolving Credit Facilities 2017 and 2018, the bank in question may request repayment of the share it has supplied and the cancellation of the related share of its commitment. No change of control arises should the control be acquired (i) by shareholders who, at the date of signature of the agreement, directly or indirectly, held more than 13% of the voting rights at the shareholder's meeting, or (ii) by the parties to the Telco shareholder's agreement, or (iii) by a pool of subjects belonging to these two categories;

- Bonds, and specifically:
 - Fixed-rate subordinated bond with mandatory conversion into ordinary shares of Telecom Italia S.p.A., issued by Telecom Italia Finance S.A. (the "Issuer") and guaranteed by Telecom Italia S.p.A. (the "Guarantor"). The bond rules specify that if there should be a change of control the Issuer must inform the Trustee of this, and bond-holders will have the right to request conversion of the loan into ordinary shares of the Guarantor within the following 60 days. No acquisition of control arises should the control be acquired (i) by shareholders who, at the date of signature of the agreement, directly or indirectly, held more than 13% of the voting rights at the shareholder's meeting, or (ii) by the parties to the Telco shareholder's agreement signed on 28 April 2007, or (iii) by a pool of subjects belonging to these two categories;
 - The regulations of loans issued within the framework of the EMTN Programme and loans denominated in U.S. dollars typically state that, in the case of merger or transfer of all or substantially all of the assets of the issuing company or surety, the incorporating or transferee company must assume all the obligations of the incorporated or transferred company. Failure to comply with this obligation, if not rectified, constitutes an event of default;
- Contracts with the European Investment Bank (EIB), and specifically:
 - in the first set of contracts for an amount of 2.15 billion euros, there is an obligation to promptly notify the Bank of any amendments to the Bylaws or the distribution of capital among the shareholders that may lead to a change of control. Failure to provide this notification entails the termination of the contract. In addition, if a shareholder who at the date of signature of the contract does not hold at least 2% of the share capital comes to hold more than 50% of the voting rights at the ordinary Shareholders' Meeting, or in any event, of the share capital, and, according to the reasonable opinion of the Bank, this could prejudice or compromise the execution of the funding project, the Bank has the right to require Telecom Italia to arrange guarantees or amendments to the contract or an alternative solution. If Telecom Italia does not comply with the EIB's request, the latter has the right to terminate the contract;
 - in the contracts entered by Telecom Italia with EIB into in 2011 and in 2013, for a total amount of 600 million euros, the obligation was specified for Telecom Italia to notify the Bank immediately of any substantial alteration regarding the Company Bylaws or its shareholder ownership. Failure to provide this notification entails the termination of the contract. Under the terms of the contracts under examination, a change of control is produced if a party or group of parties acquire control of Telecom Italia, or of the entity that directly or indirectly controls it. A change of control is not

brought about if control is acquired directly or indirectly by (i) any shareholder who at the date of the contract holds directly or indirectly at least 13% of the voting rights in the ordinary shareholders' meeting or (ii) by the investors Telefonica S.A., Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A. or Mediobanca S.p.A. or subsidiaries thereof. In the event that a change of control occurs, the Bank shall have the right to require immediate repayment of the loan;

- general loan contracts: it should be noted that existing loan contracts contain a generic commitment by Telecom Italia - breach of which constitutes an Event of Default - to not institute operations for corporate merger, demerger, transfers of branches of the business outside the Group. If such an Event of Default should occur, it can imply early repayment of the sums used and/or cancellation of commitments not yet used, if requested by the Lender.

* * *

The Bylaws do not contain derogations of the regulations on the passivity rule in the case of public offerings to purchase or exchange securities issued by the Company, nor do they specify the application of other specific rules in derogation of the legal regulations.

► ***i) Authorisation to increase share capital and share buy-back***

As set out in article 5 of the Bylaws (as amended by the Board of Directors on 6 March 2014 after it had been determined that the threshold levels of the incentivisation objectives in the "Long Term Incentive Plan 2011" had not been achieved, with the consequent lapse of the related rights, and the powers to increase the share capital to serve these rights having been overcome, the Directors were authorised to increase the share capital as follows:

- for five years from 8 April 2009, for a maximum nominal total sum of 880,000,000 euros, by the issue, with or without share premium, of a maximum of 1,600,000,000 ordinary shares, to be offered with the right of pre-emption to persons having entitlement, or, even if only for some of the shares, to be offered by subscription to employees of Telecom Italia S.p.A. or its subsidiaries, with the exclusion of the right of pre-emption;
- for five years from 29 April 2010, to service the "Long Term Incentive Plan 2010-2015" for a maximum amount of 5,000,000 euros by assignment of the corresponding maximum amount of profits, with the issue of a sufficient number of new ordinary shares for the assignment of one free share for every paid share subscribed, subject to the terms and conditions and by the methods specified in the "Long Term Incentive Plan 2012-2015". In light of the maximum increase in share capital for cash resolved by the Board of Directors on 7 March 2013 to service the "Long Term Incentive Plan 2010-2015", the maximum number of matching shares must be understood to have been recalculated as 576,544 shares, for a maximum amount of 317,099.20 euros;
- for five years from 15 May 2012, to service the "Long Term Incentive Plan 2012", as follows:
 - ✓ (i) for cash, by the issue of new ordinary shares, for a maximum amount of 5,500,000 euros, excluding the right of pre-emption, to be reserved for some of the employees who are beneficiaries of the "Long Term Incentive Plan 2012", and then, subsequently (ii) for a maximum amount of a further 5,500,000 euros, by allocation of the corresponding maximum amount of profits or retained profits, by the issue of a sufficient number of ordinary shares in the number necessary for the allocation of one free share for each paid share, subject to the terms and conditions and by the methods specified in the "Long Term Incentive Plan 2012";
 - ✓ by a maximum amount of 4,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits, by the issue of ordinary shares reserved to a part of the employees who are beneficiaries of the "Long Term Incentive Plan 2012", subject to the terms and conditions and by the methods specified in the "Long Term Incentive Plan 2012".
- for five years from 17 April 2013, up to a maximum amount of Euro 9,900,000 by the allocation of the corresponding maximum amount of profits pursuant to Art. 2349 of the Civil Code, by the issue of new ordinary shares (with imputation to capital of the sum of 0.55 euros for each share issued), with regular dividend entitlement, in the number necessary for the allocation of one free share for every three shares subscribed for cash by employee beneficiaries of the "2013 Employee Share Ownership Plan," within the time periods and under the terms and conditions provided for therein.

For a description of the status as at 31 December 2013 of the aforementioned remuneration plans (excluding the Employee Share Ownership Plan 2013, not activated on that date), please refer to the note in the separate financial statements "Remuneration plans in the form of shareholdings in the Company capital"

* * *

On 6 March 2014, the Board of Directors exercised its power to increase the share capital for cash, by the issue of a maximum of 54,000,000 new ordinary shares for a nominal amount of no more than 29,700,000 euros (with imputation to capital of the sum of 0.55 euros for each share issued), with regular dividend entitlement, excluding the

right of pre-emption pursuant to article 2441, subsection 8, of the Italian Civil Code, to be offered for subscription to the employees who are beneficiaries of the “2013 Employee Share Ownership Plan”.

* * *

As at 31 December 2013 Telecom Italia owned 37,672,014 treasury shares; Telecom Italia Finance owned 124,544,373 Telecom Italia ordinary shares. No authorisations to purchase treasury shares are currently in force.

► **j) Management and coordination**

Telecom Italia is not subject to management and coordination pursuant to Article 2497 and subsequent articles of the Italian Civil Code.

3. Compliance

Telecom Italia is a limited company with registered office in Italy, subject to Italian and European Community law. Moreover,

- in relation to the listing of its shares on Borsa Italiana and of some of its bonds on the Luxembourg Stock Exchange, it is required to comply with corresponding regulations;
- in its capacity as a foreign issuer, registered at the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, it is subject to U.S. law.

As indicated in the introduction, Telecom Italia adheres to the Corporate Governance Code of Borsa Italiana and adapts its own system of corporate governance to Italian and international best practices in the matter.

* * *

The following companies are included among the subsidiaries of Telecom Italia:

- the Tim Brasil group companies, the holding company of which Tim Participações S.A. is a company registered and listed in Brazil, as well as registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange;
- the Telecom Argentina group companies, of which Nortel Inversora and Telecom Argentina itself are Argentine-registered companies, listed locally as well as registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange (although the offer to purchase the entire controlling shareholding in Telecom Argentina, held directly or indirectly, was accepted on 14 November 2013, the transfer of control is subject to the suspensive condition that the necessary regulatory authorisations are obtained).

The corporate governance structure of Telecom Italia is not affected by the legal provisions governing Tim Participações S.A. and Telecom Argentina S.A.

In compliance, therefore with the provisions of the Brazilian telecommunications authority Anatel (31 October 2007, 31 July 2009 and 8 November 2011) and the agreement made on 28 April 2010 between Conselho Administrativo de Defesa Econômica (CADE) and Telco shareholders (in which the company TIM Brasil Serviços e Participações S.A. intervened, assuming a series of obligations in its own name and that of companies in the Group), Telecom Italia took appropriate proceedings to formalise the separation between the activities of the Telecom Italia Group and the Telefónica Group in the Brazilian telecommunications market. A similar procedure was adopted to ensure compliance with the undertakings assumed by the Group with regard to CNDC Argentina, aimed at maintaining separation and independence between the Telefónica and Telecom Italia groups in activities in Argentina.

The aforementioned procedures can be found at the website www.telecomitalia.com, *Governance* section – *Governance System/Procedures* channel.

4. Board of Directors

► **4.1 Appointment and replacement**

In accordance with Article 9 of the Bylaws, the Board of Directors (composed of a minimum of 7 to a maximum of 19 Directors) is appointed on the basis of slates submitted by persons entitled to vote holding a total of at least 0.5% of the ordinary share capital or different proportion as required by Consob, with Resolution no. 18775 of 29 January 2014 Consob set said threshold at 1%. Moreover, in light of the renewal of the Board of Directors to be appointed in the Shareholders' Meeting called for 16 April 2014, the outgoing Board, adopting an interpretation of the Bylaws text more favourable to minorities, and which, according to Consob, is more in line with the rationale behind the regulation on slates voting, has indicated the minimum shareholding required to submit candidates at 0.5%.

Slates that contain a number of candidates greater than or equal to three must ensure that both genders are present, in such a way that candidates of the less represented gender are at least one third of the total, rounding any fractions

up to the whole number.

Four-fifths of the Directors to be elected are chosen from the slate that obtains more votes (so-called Majority Slate) in the order they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number. The remaining directors are appointed from the other slates, with a proportional criterion (the so-called quotients method), without prejudice to the legal provisions requiring the presence of at least one Director chosen from a slate not connected with the shareholders who have submitted or voted for the Majority Slate and at least two Directors meeting the requirements of independence legally established for the members of the Board of Statutory Auditors. For the appointment of Directors, for any reason not appointed pursuant to the procedure described above, the Shareholders' meeting shall vote on the basis of the majorities required by law.

If the composition of the board resulting from the slate voting system does not reflect gender balance, the necessary number of the last candidates of the more represented gender elected from the Majority Slate shall forfeit their post to ensure compliance with this requirement, and shall be replaced by the first candidates not elected from the same slate who are of the less represented gender. In the absence of candidates of the less represented gender on the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall supplement the board with the majorities required by law, thus ensuring that the requirement is met. At the first renewal of the Board of Directors after the Shareholders' Meeting of 15 May 2012, the quota to be assigned to the less represented gender is limited to one fifth of the total; in the event of a fractional number, it shall be rounded up to the nearest whole number.

The Board of Directors has adopted a procedure for planning the succession of Executive Directors, in order to ensure the availability over time of a shortlist of possible replacements, with reference to cases of retirement earlier than the ordinary expiry of the term of office. The Board of Directors is responsible for the existence and efficacy of the Succession Plan, the establishment, updating and monitoring of which it has assigned to the Nomination and Remuneration Committee, working closely with the competent human resource management structures of the company. The plan provides that, if the need to replace an Executive Director earlier than planned should arise, the Nomination and Remuneration Committee must formulate a recommendation without delay, and transmit it to the Chairman or, in his absence, to the Vice Chairman of the Board of Directors, in view of the decisions to be taken by the full board. In making its selection, the Board of Directors is obliged to consider the suggestions and proposals of the Nomination and Remuneration Committee, but is not bound by them. In particular, the candidates indicated by the Committee are examined in a special hearing, with the participation of at least three Directors, at least one of whom independent.

When Franco Bernabè resigned on 3 October 2013, as per the procedure, the Vice Chairman became chairman of the board while his management mandates were assigned to the Managing Director. Given the imminent expiry of the mandate, but also the almost concomitant call of the Shareholders' Meeting on 20 December 2013 to revoke the serving Board of Directors (as requested by shareholder Findim Group S.A.), the replacement of the Chairman with an external candidate was not completed, notwithstanding the completion of an extensive selection process, and the Board of Directors firstly decided to not proceed to co-opt new members of the Board, confirming Aldo Minucci as deputising Vice Chairman (board meeting of 16 January 2014), and subsequently opted to appoint Mr. Minucci as Chairman, without amending the mandates held by Managing Director Marco Patuano (board meeting of 6 February 2014).

The new Board of Directors will have to take charge of updating the plan, checking the current procedure in light of its first application.

► 4.2 Composition

The Shareholders' meeting of 12 April 2011 set the number of members of the Board of Directors at 15 and their term of office at three financial years (until the shareholders' meeting called to approve the financial statements for the year ended 31 December 2013). The Directors have also been authorized to continue their activities as indicated in their curricula vitae, releasing them from the non-competition clause contained in Article 2390 of the Italian Civil Code.

Pursuant to the regulations applicable at that time, three slates were presented:

Telco Slate

(Presenting 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. Julio Linares Lopez

8. Gaetano Miccichè
9. Aldo Minucci
10. Renato Pagliaro
11. Marco Patuano
12. Mauro Sentinelli
13. Francesco Coatti
14. Filippo Bruno
15. Oliviero Edoardo Pessi

Institutional Investors' slate

(Presenting Shareholder: Allianz Global Investors Italia SGR S.p.A., Anima SGR S.p.A., APG Algemene Pensioen Groep N.V., Arca SGR S.p.A., Aviva Investors Global Services Limited, Azimut SGR S.p.A., AZ Fund Management SA, Carige A.M. SGR, Ersel Gestion Internationale S.A., Ersel Asset Management SGR S.p.A., Eurizon Capital SGR S.p.A., Eurizon Capital S.A., Fideuram Gestions S.A., Fideuram Investimenti SGR S.p.A., Interfund Sicav, JP Morgan Asset Management Limited, Kairos Partners SGR S.p.A., Mediolanum Gestione Fondi SGR p.A., Mediolanum International Funds Limited, Pioneer Asset Management S.A., Pioneer Investment Management SGR p.A. Prima SGR S.p.A.).

1. Luigi Zingales
2. Ferdinando Falco Beccalli
3. Francesco Profumo

Findim Slate

(Presenting Shareholder: Findim S.A.)

1. Gianemilio Osculati
2. Paolo Carlo Renato Dal Pino
3. Carlos Manuel De Lucena e Vasconcelos Cruz

The number of votes in relation to the voting capital at the meeting gave the following results:

- Telco Slate: 3,151,992,215 votes (46.88%%)
- Institutional Investors' slate: 2,645,933,381 votes (39.35%)
- Findim Slate: 786,861,815 votes (11.70%)

Twelve Directors were therefore appointed from the Telco slate: Cesar Alierta Izuel, Tarak Ben Ammar, Franco Bernabè, Elio Cosimo Catania, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Miccichè, Aldo Minucci, Renato Pagliaro, Marco Patuano and Mauro Sentinelli. The remaining three Directors, in compliance with the criteria governed by article 9 of the Company Bylaws, were drawn from the Institutional Investors' slate: Luigi Zingales, Ferdinando Falco Beccalli and Francesco Profumo.

During 2011, Directors Falco Beccalli and Profumo ceased to hold office, and were replaced by the cooption and subsequent appointment by the Shareholders' Meeting of 15 May 2012 of Directors Lucia Calvosa and Massimo Egidi.

In 2013, after the resignation of Elio Catania (who qualified as an independent Director) on 13 September, the Board of Directors, in its meeting on 3 October, coopted Angelo Provasoli (another independent) at the proposal of the Nominations and Remuneration Committee. On the same date, Chairman of the Board of Directors Franco Bernabè resigned. Finally, on 13 December 2013 Messrs. Cesar Alierta and Julio Linares resigned.

Since the Shareholders' Meeting of 20 December did not appoint a replacement, on 31 December 2013 the Board of Directors was made up of 11 Directors, of whom one was an executive director (Managing Director, Marco Patuano), and ten non-executive directors, five of whom independent (Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales).

The curricula vitae of the members of the administrative body are available on the website www.telecomitalia.com, *Governance* Section - *Board of Directors* channel.

Table 2 provides information on the current composition of the Board of Directors.

* * *

According to the provisions of Telecom Italia's Corporate Governance Principles, acting as a director of the Company is not considered compatible with being a director or statutory auditor in more than five companies, other than those subject to the control and coordination of Telecom Italia or its subsidiaries or affiliates, which are

- listed in the FTSE/MIB index and/or
- operating primarily in the financial sector for the general public and/or that carry out banking or insurance activities.

In the case of executive directors in companies with the characteristics listed above, the limit is reduced to three. The Board of Directors may, however, make a different assessment (to be published in the annual report on corporate governance), even if departing from the stated criteria. If a Director holds office in more than one company belonging to the same Group, only one appointment held within that Group shall be taken into account when calculating the number of appointments.

The Directors who served during the 2013 financial year always respected the accumulation limits and criteria indicated above.

► **4.3 Role of the Board of Directors**

During 2013, there were sixteen meetings of the Board of Directors; documentation was sent to the Directors, as promptly as compatible with the circumstances of the case (as a rule, the Friday of the week preceding the day on which the meeting is to be held), to enable informed participation in the meetings; in some circumstances, the need for confidentiality or urgency (also in relation to the progress of negotiations with third parties) prevented this notice period. When required by the subjects discussed, representatives of the Company management or external consultants were invited to take part, who ensured the necessary technical and professional support. The average duration of the meetings was approximately 4 hours and twenty minutes. The percentage of attendance was 94.43% (96.14% for independent Directors). There are fourteen meetings scheduled for 2014, four of which have already been held.

* * *

Without prejudice to the application of the Borsa Italiana Code regarding matters reserved to the full board, pursuant to the Corporate Governance Principles, the following matters have a notable effect on the business of the Company and the Group, and as such are subject to prior resolutions of the board:

- agreements with competitors which, considering the subject, commitments, conditions, or limits that they may produce, have long-term effects on the freedom of strategic business decisions;
- investments and disinvestments exceeding 250 million euros, and in any event purchases or sales of shareholdings, or businesses or business units that are of strategic significance in the overall framework of the business; transactions that, in their execution or upon their completion, can create commitments and/or purchases and/or sales of this nature and scale;
- the acceptance of loans for amounts exceeding 500 million euros and the granting of loans and guarantees in favour of non-subsidiary companies for amounts exceeding 250 million euros; transactions that, in their execution or upon their completion, can create commitments and/or deeds of this nature and scale;
- the above transactions, to be performed by unlisted subsidiaries of the Group, excluding those controlled by listed subsidiaries;
- the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe;
- instructions to be given to listed subsidiaries (and their subsidiaries), when the Parent Company exercises its management and coordination activity for the performance of transactions with the characteristics indicated above.

The evaluation of business 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 service is provided by the Secretary. This happens from time to time during the meetings and specifically, with a detailed comparison between the results obtained and the objectives of the budget, when examining financial reports and monthly progress data.

The Board of Directors assesses the adequacy of the general organizational, administrative and accounting structure of the company based on information from management, and, with regard to the internal control and risk management system, based on the preparatory work conducted by the Control and Risks Committee.

The relations between the Parent Company and its subsidiaries (including regulations for the supervision and direction/intervention role of the Board of Telecom Italia, as well as the ways in which said Board and/or its subcommittees coordinate with the corporate bodies of the controlled companies) will be the object of specific rules, to be developed in the sphere of the improvement initiatives indicated in the Introduction.

During 2013, Directors attended specific meetings with the management (including of the subsidiaries) and/or external consultants to provide them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their evolution. Working lunches, workshops on new technologies, and training-information meetings preparatory to strategic meetings were organised. Updates of the reference regulatory framework were communicated in specific information notes.

* * *

The size, composition and operation of the Board and its Committees were self-assessed (at the start of 2014, addressed to the board members holding office on 31 December 2013) with the support of external consultant Spencer Stuart. Spencer Stuart is one of the most renowned suppliers of management consultancy services, with particular experience in executive search, CEO succession and executive assessment, and Telecom Italia also engages this firm, although with frequency and for sums that exclude the possibility that the independence of its professional opinion may be challenged.

The aim of the work was to carry out a structured documentation of the effectiveness of the Board, in operational

terms, and to identify opportunities to improve the ways in which it fulfils its responsibilities. The project was carried out applying the methodology that Spencer Stuart has developed at international level, based on three principal activities:

- interviews with Directors and with the Chairman of the Board of Statutory Auditors regarding the size, composition and operation of the Board;
- analysis of best practices;
- examination of the minutes of the Board of Directors and its Committees.

The interviews with Directors were carried out using a specific "Interview guide": both quantitative assessments and qualitative comments were requested on the topics submitted to the Directors for their attention. On the operation of the Board of Directors, a comparison was also made between internal practices and best practice. The results of the activity were first discussed in the Nominations and Remuneration Committee (meeting of 5 February 2014) and then after the board meeting on 6 February 2014.

From the work done, it emerged that the Board of Directors of Telecom Italia dealt with a number of major issues in 2013, linked to changes in the market and to strategic choices which were necessary for the development of the Group in a medium-long term perspective. These choices led to an intense confrontation, operating in exceptional situations, dealing with a series of difficulties that were closely connected to the corporate affairs and relations between shareholders. Debate in board meetings was lively, with sustained discussion of the principle topics on the agenda, in meetings that were more frequent and longer than the market average. The Board considered operations of a strategic nature in depth, also through ad hoc work groups and projects; however, some Directors consider that the ways in which the Board undertakes its directing activity must be improved, to involve it in the strategic planning process, in the context of its prerogatives and responsibilities. In general, the Directors believe that the other areas that fall within the responsibilities of the board (internal control, risk management, financial structure, investments) are well supervised by the Board, also through the work of its Committees.

Knowledge of the Group is considered to be adequate, thanks to the fact that several Directors have served on the Board for a number of years, and to the work done by the Executive Directors, with the support of first tier management, who attend board meetings to present topics within their competence. The quality of the information and documents prepared by management, including information on the business outlook, is considered to be good. The directors also expressed a good level of satisfaction with the effectiveness of induction and updating opportunities.

Their appreciation of the work done by the Committees is great, but they expressed reservations on the operational effectiveness of the Executive Committee.

Going forward, the findings of the Board Review were taken into account in the drafting of the guidance included in the report to the Shareholders' Meeting, in view of the renewal of the Board of Directors, to which reference should be made.

► **4.4 Delegated bodies**

The assignment (and revocation) of powers to Directors is reserved to the Board, which defines the purpose, limits and methods of exercising the assigned powers.

On 13 April 2011, following the renewal approved by the Shareholders' Meeting on 12 April 2011, the Board of Directors appointed Franco Bernabè Chairman and Chief Executive Officer, Aldo Minucci Vice Chairman and Marco Patuano Managing Director and Chief Operating Officer.

Without prejudice to the limits deriving from the board competence described above, as per Borsa Italiana Code and Corporate Governance Principles, in addition to the power to legally represent the Company, as laid down in the Bylaws, and all the powers necessary for performing actions pertinent to the activity of the company in its various manifestations, to be exercised with a single signature, the following powers were conferred on the Chairman:

- overall governance of the Group, including coordinating the activities of the Managing Director, and defining the Company's strategic guidelines;
- responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors.

In addition to the power to legally represent the Company and to exercise, with a single signature, all powers required to perform actions pertinent to the activity of the company in its various manifestations, the Managing Director was made responsible for the overall governance of operations in Italy. Moreover, the Executive Directors (each for their own delegated area) have been charged with establishing and maintaining the internal control system (see paragraph headed "Director in charge of the internal control and risk management system" contained in the chapter entitled "Internal control and risk management system"). The powers conferred on the Vice Chairman were the representation of the Company, as laid down in the Bylaws, in the event that the Chairman is absent or unable to act.

Given the frequency with which the Board of Directors meets, it is the practice of the Executive Directors to report on the activities carried out during board meetings, often after having transmitted illustrative documentation

beforehand.

On 3 October 2013, after the resignation of Franco Bernabè, the Board of Directors of Telecom Italia started the process to identify the new Chairman of the Company. In the meantime, as set out in the succession plan, the powers and organisational responsibilities previously assigned to Mr. Bernabè were attributed to Managing Director Marco Patuano (now Managing Director and Chief Executive Officer), while the Vice Chairman, acting as deputy, remained responsible for chairing the board and acting as legal representative of Telecom Italia. Finally, on 6 February 2014, the Board of Directors appointed Aldo Minucci Chairman of the Board of Directors, with the powers of the law and the Bylaws, until the natural expiry of the mandate of the Board (the Shareholders' Meeting to approve the financial statements at 31 December 2013), without amending the powers held by Managing Director Marco Patuano.

* * *

Since 2008 there has been an Executive Committee, composed of the executive Directors (who ensure coordination with the Group's management) and some non-executive Directors; the Chairman of the Committee is the Chairman of the Board of Directors. Its current composition can be found in Table 2.

As provided for by the Corporate Governance Principles of the Company, the Committee has the task of monitoring the performance of the Company and the Group, approving, upon the proposal of the executive Directors, the organizational macro-structures, formulating opinions to the Board of Directors on the budget and the strategic, industrial and financial plans of the Company and the Group as well as on operations that, according to their nature, strategic importance, size or commitments, may have a significant impact on the activity of the Company and the Group and carrying out any other duties assigned by the Board of Directors relating to matters that can be delegated. The Committee reports to the Board on the activities carried out in the most appropriate ways, and, in any case, each time at the first useful meeting.

Insofar as they are applicable, the operational rules specified for the Board of Directors shall apply to the Committee. During 2013, the Committee held two meetings, with an average duration of approximately 3 hours and 30 minutes. The percentage of attendance was 92.85% (75% for independent Directors). Only one meeting of this Committee is scheduled for 2014.

► **4.5 Other executive Directors**

On 31 December 2013, only the Managing Director was considered an executive director.

► **4.6 Independent directors**

Telecom Italia has adopted the criteria established by the Corporate Governance Code of Borsa Italiana for the qualification of the independence of Directors.

The Board of Directors, at its meeting of 6 March 2014, verified the independence requirements of its members, based on their declarations, noting, on one hand, that the requirements for the composition of the administrative body (the presence of at least two independent Directors according to the criteria established by law for Statutory Auditors) had been complied with, and, on the other hand, that Directors Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales maintain their qualification as independent Directors.

Regarding Mr. Fitoussi, it should be noted that he is a member of the Supervisory Board of Intesa San Paolo S.p.A., and a member of the strategy committee that is a subcommittee of this Board; in addition, on 6 May 2013 he completed nine years' service on the Board of Directors of Telecom Italia. These circumstances induced the Control and Risks Committee (in the absence of Mr. Fitoussi) to suggest, in its (self) assessment of its own independence, to apply criteria more rigorous than the standard criteria contemplated in the Corporate Governance Code of Borsa Italiana, and in any event to formally call his attention to this situation (also with reference to the size of the remuneration he receives for the offices in question in relation to the total sum of his professional income). The Director considered this, and, notwithstanding, confirmed his independence. The Board of Directors acknowledged this declaration and in any event excluded the existence of *de facto* circumstances that might cast doubt on his independent judgement.

As for Mr. Sentinelli, Consob revealed that at the time of his first appointment as director (Shareholders' Meeting of 29 April 2010) he did not qualify as an independent, and was not considered such for the financial year 2010 in the corporate governance report, and that he in fact qualified as independent at the renewal of the Board of Directors by the Shareholders' Meeting of 12 April 2011, and was considered such in the corporate governance reports for financial years 2011 and 2012. The reasons for the change are related to the passage of time: on 10 December 2004, Mauro Sentinelli left Tim (where he served as General Manager), and continued to work as a consultant to the Chairman of the Company within the framework of a relationship that lasted three years. The paid collaboration of Mr. Sentinelli with the Company had therefore ended less than three years before his initial appointment as Director (29 April 2010); however, the further passage of time allowed to attest his status as an independent director, in April-May 2011, since at that point more than three years had elapsed since the moment he ceased his professional

collaboration with the Company.

During the meeting held on 10 March 2014 the Board of Statutory Auditors verified the activities to ascertain the requirements and correct application of the criteria of independence.

► **4.7 Lead Independent Director**

The Lead Independent Director is the Luigi Zingales.

He is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. He is granted the right to use corporate structures to perform the tasks entrusted to him and to convene special meetings of only the Independent Directors (Independent Directors' Executive Sessions) to discuss issues affecting the functioning of the Board of Directors or the management of the business, and may invite representatives of the management of the Group to these meetings. During 2013 there were ten of these meetings, usually held the day before the Board meetings. Attention was focussed on the analysis of strategic issues, according to the topics that were discussed by the board.

5. Handling of corporate information

Telecom Italia has suitable procedures for classifying and managing information in terms of confidentiality.

Moreover, a procedure has been adopted for the internal handling and external communication of documents and information concerning the Company, with specific reference to sensitive information (available at www.telecomitalia.com, *Governance* Section, *Governance System Channel*). The procedure regulates the management of sensitive information relating to Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group; this procedure is addressed to all members of corporate bodies as well as employees and outside collaborators who have access to information that is likely to evolve into sensitive information (known as market sensitive information). It also applies as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfilment of the public disclosure obligations. The procedure in question, finally, regulates the register of persons having access to sensitive information (article 152-bis et seq. of the Issuers Regulations).

In December 2013 the Company deemed it appropriate to start a specific project intended to develop a new process for the handling of insider information. The method adopted to implement this review prescribed an analysis of the current procedure (which dates back to 2006) in terms of its compliance with the regulations and the reference guidance on interpretation, benchmarking against similar procedures adopted by other issuers and, finally, the identification (and implementation) of improvement initiatives.

* * *

In its meeting on 17 January 2013, the Board of Directors resolved to avail itself of the right to waive the obligations to publish information documents in case of significant merger or de-merger, purchase or sale operations, or operations to increase the share capital by investment in kind.

6. Board committees

In addition to the aforementioned Executive Committee, the Board also has a Nomination and Remuneration Committee and a Control and Risks Committee, whose functions are described in the Company's Corporate Governance Code.

Furthermore, during the 2013 financial year the Board of Directors, in relation to an initiative of particular strategic importance (the proposed integration of the activities of operator 3 Italia), decided to constitute an ad hoc committee to undertake preliminary investigations.

Specifically, during the meeting on 11 April 2013, the Board decided to constitute a small committee with fact-finding functions chaired by the Chairman of the Board (at that time, Director Franco Bernabè) and composed of the Chairman of the Control and Risks Committee (at that time, Director Elio Catania), the Lead Independent Director (Luigi Zingales), and Directors Gabriele Galateri and Julio Linares, with the aim of checking the viability (in regulatory and antitrust terms) and overall industrial and economic interest regarding the operation, which would then report to the Board of Directors, in view of the resolutions to be made on the matter. The Committee met five times.

Considering the particular importance of the operation, it was also decided to voluntarily apply to it the safeguards applicable to the management of transactions with related parties of greater importance, and to this end there were two meetings of the Committee attended only by its non-related independent director members. This committee met twice.

The activities of the two committees were properly minuted.

7. Nomination and Remuneration Committee

The composition, responsibilities and rules of operation of the Nominations and Remuneration Committee are contained in the Corporate Governance Principles, based on which the rules set out for the Board of Directors are applied, insofar as they are compatible.

The Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate submitted pursuant to the Bylaws. At least one member of this Committee shall possess adequate expertise in financial matters or remuneration policies. In its meeting of 3 October 2013, the Committee appointed director Jean Paul Fitoussi as its Chairman, to replace the outgoing Elio Catania. Its current composition can be found in Table 2.

* * *

Consob advised that the Company specifically disclose the circumstance that the composition requirement regarding the presence of a "minority" Director on the Committee was only satisfied if Mr. Egidi were considered to be the Director in question. However, Mr. Egidi was appointed by the Shareholders' Meeting of 15 May 2012, to replace Francesco Profumo (who was at the time of his appointment taken from the Institutional Investors slate, referred to in paragraph 4.2 above), outside the appointment by slates mechanism.

In this regard, it should be noted that - in the absence of a "*simul stabunt simul cadent*" clause in the company bylaws, it is intrinsically possible that, during the term of office, there may be a progressive reduction (and even, ultimately, total overwhelming) of the component of the board that at renewal was elected by the minority shareholders, which leaves co-option pursuant to the law as the only option. Moreover, the mechanism of appointment by voting on slates of candidates, contemplated by the law, seems intended to assure a form of pluralism in the board, rather than a true "representation" (of the interests) of specific minority shareholdings, of themselves susceptible (once again, intrinsically) to evolving and changing over time, particularly when "market" minorities are involved. In light of these considerations, and also of the replacement process that actually occurred (which was publicly announced in the corporate communications of the company) for the designation and replacement of the "minority" Directors who ceased to hold office, the Board of Directors deemed satisfied the rationale of the composition requirement of the Nominations and Remuneration Committee (at that time as set out in article 13.1 of the Corporate Governance Code, only set aside in December 2012 with the adoption of the previously mentioned Corporate Governance Principles) by the appointment of Professor Massimo Egidi to replace Professor Francesco Profumo (the "minority" Director who resigned). Professor Egidi was in fact co-opted by the Board of Directors at the proposal of the Committee itself (and then appointed by the first subsequent Shareholders' Meeting) after informal consultation and at the suggestion of Assogestioni, which is known to have coordinated the submission of the minority list from which Professor Profumo was appointed and also known to act as "representative" (coordinator) of the applications made by the "market shareholders" in view of the renewal of the corporate bodies of major Italian listed companies, and, in particular, of Telecom Italia.

* * *

The Chairman of the Board of Statutory Auditors (or, if he or she cannot attend, another Statutory Auditor appointed by the latter), shall attend the meetings of the Committee, which makes use of the Company structures or of external consultants of its choice to perform its functions.

The Committee, which combines duties and responsibilities attributed to the nomination committee and the remuneration committee by the Borsa Italiana Code, also, pursuant to the corporate governance principles of the Company:

- oversees the succession plan for Executive Directors, and monitors the updating of the company management replacement lists, prepared by the Executive directors.
- establishes the procedure and period for the annual evaluation of the Board of Directors;
- proposes the criteria for allocating the total annual compensation established by the Shareholders' Meeting for the whole Board of Directors;
- performs other duties assigned to it by the Board of Directors.

During 2013 the Committee monitored the deployment of the remuneration policy for the year, defined the incentive measures for the 2014 cycle; specified the methods to be used for the 2013 board evaluation, assigning the task to Spencer Stuart, which had previously undertaken this activity for the 2009, 2010 and 2011 financial years. It also undertook the investigations for the replacement by co-option of Mr. Catania (independent director), with the consequent appointment of Mr. Provasoli. It supervised the Executive Directors' succession plan, and carried out the required investigations for the replacement of outgoing Chairman Franco Bernabè, with the support of an executive search firm to identify possible candidates. For further information on the work of the Committee on the 2014 corporate remuneration policy, see the Remuneration report for 2013, which may be consulted on the company website at www.telecomitalia.com, Governance section Remuneration channel.

The Board of Directors was kept informed of these various activities at each first available meeting.

The Committee had access to the necessary information and corporate functions for performing its tasks. The Committee was not assigned financial resources of a predetermined amount, but was able autonomously to bring in external consultants.

During 2013, there were fourteen meetings, all duly minuted. At the meetings (average length: approximately 2 hours and 45 minutes), from time to time, the managers responsible for the issues under discussion were invited to offer support. The percentage of attendance was 94.75% (93% for independent Directors).

Five meetings have already been held in 2014; no long term schedule of meetings of the Committee has been defined.

8. Remuneration of directors, general managers and key managers with strategic responsibilities

The information in this section and that regarding the agreements between the Company and the Directors which provide for compensation in the case of resignation or dismissal without just cause or in the event that their employment ceases following a tender offer, are made available in the Remuneration Report for 2013, which may be consulted on the company website at www.telecomitalia.com, Governance section *Remuneration* channel.

Regarding the compensation awarded to Franco Bernabè at the end of his working relationship on the Board of Directors, extensive information is provided in the Remuneration Report for the 2013 financial year.

9. Control and Risk Committee

The composition, responsibilities and rules of operation of the control and risks Committee are contained in the Corporate Governance Principles, based on which the rules set out for the Board of Directors are applied, insofar as they are compatible.

The Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate submitted pursuant to the Bylaws. At least one member of this Committee shall possess adequate expertise in accounting and finance or risk management. After the resignation of Mr. Catania, the Committee did not replace him; so pursuant to the combined provisions of point 8.5 of the Corporate Governance Principles and article 10.2 of the Company Bylaws, the chairmanship of the Committee was assumed at each meeting by Mr. Fitoussi. The composition of the Committee is shown in Table 2.

Without prejudice to the duties attributed to it by the Borsa Italiana Code and the internal corporate rules (which, in particular, assign to the Committee the oversight of transactions with related parties), the Committee

- provides high-level supervision related to corporate social responsibility, monitoring the consistency of the actions performed with the principles laid down by the Code of Ethics of the Group and the values of Telecom Italia;
- monitors observance of the Company's corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;
- performs other duties assigned to it by the Board of Directors.
- expresses a prior opinion (i) on the transactions with related parties entrusted to the board pursuant to the law, Bylaws or Corporate Governance Code; (ii) on ordinary standard or market transactions, according to terms not predetermined or defined after a tender worth over 10 million euros; (iii) on non ordinary transactions worth more than 2 million euros.

The Chairman of the Board of Statutory Auditors attends those Committee meetings that are not held jointly with the former (or, if he cannot attend, another Auditor delegated by him will take his place). With reference to control issues (hearings of executives responsible for the corresponding departments, audit of the related organisational structure, scheduling of activities), the Director who represents the link between the Board of Directors and the control structures that report directly to the Board (cf. paragraph 10.6: "Coordination of subjects involved in the internal control and risk management system") is invited to participate.

During 2013 the Committee, *inter alia*, verified the procedure and outcome of the impairment test for the 2012 financial statements and the financial report at 30 June 2013; monitored the progress of audit, compliance and IT & Security Compliance activities, according to the activity plans; supervised the activities affecting certain strategic transactions; monitored the maintenance and updating of Organisational Model 231 (see below), as well as the activities connected with the adaptation of the Bylaws related to the elimination of the nominal value of shares, and supervised the implementation of the Enterprise Risk Management review project. The Board of Directors was informed of all of the above at each following Board meeting.

The Committee had access to the necessary information and corporate departments for performing its tasks. The Committee was not assigned financial resources of a predetermined amount, but was able autonomously to bring in external consultants of its choice.

During 2013, the Committee held fifteen meetings (all regularly minuted), supported by the expert contribution of the company management or consultants external to the Board, to which it has free access, without budget limits. The average duration of meetings was approximately 4 hours and the percentage attendance was 97.40%. The Board of Statutory Auditors was represented at all meetings through the attendance of at least its Chairman (or other Auditor delegated by the Chairman).

In 2014 the Control and Risks Committee has already met five times; an annual schedule of the activities of the Committee has not been defined, although the practice is for the Committee to meet prior to all meetings of the Board of Directors.

10. Internal control and risk management system

The internal control and risk management system is organised and operates according to the principles and criteria set out in the Borsa Italiana Code. It is an integral part of the general organisational structure of the Company and the Group, and involves several components that act in a coordinated way according to their respective responsibilities – the responsibility of the Board of Directors to direct and provide strategic supervision, the responsibility of the Executive Directors and management to monitor and manage, the responsibility of the Control and risk Committee and the Head of the Audit Department to overview and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

In particular, the internal control and risk management system consists of set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the principal risks, allows the sound, fair and consistent operation of the company in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, which are considered key factors for managing Telecom Italia's business, in compliance with the Code of Ethics and Conduct of the Group and the Company's Corporate Governance Principles (both of which can be found on the website www.telecomitalia.com, Governance section, Governance System channel). This process, constantly monitored with a view to progressive improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control and risk management system, defines the guidelines of the system, verifying its adequacy, effectiveness and proper functioning, so that the main corporate risks (including, among others, operational, compliance-related, economic and financial risks) are properly identified and managed over time. For 2013, given the weaknesses of varying intensity of the internal control and risk management system found in the audits in relation to the operational contexts analysed, and having assessed the process of implementation of the improvement initiatives undertaken by the owner functions to quickly overcome these weaknesses, it assessed the system to be adequate and capable of reducing the risk profiles to a level acceptable for the correct operation of the business processes.

* * *

To ensure a comprehensive approach to risk management, the Telecom Italia Group has implemented an integrated process on the basis of the Enterprise Risk Management (ERM) to identify, assess and manage risks, which integrates the outcomes of oversight activities under way on compliance risks.

The process of risk management (defined as "potential events whose occurrence could compromise the achievement of strategic objectives") is governed by the Group managerial Committee (the Group Risk Management Committee), chaired and coordinated by the Manager of the Administration, Finance and Control Function. As at 31 December 2013 this Committee reports to the Managing Director and periodically informs the control and risks Committee and the Board of Statutory Auditors on the results of its activities.

The ERM process is based on self-assessment of the risk profile by management and is intended to define:

- the mapping of risks, assessed by level of impact and probability of occurrence, focusing on the most significant risks (so-called Top Risks).
- treatment of risk, performed by risk-owner company structures by defining and implementing specific action plans, aimed at reducing the level of residual risk.

The Group Risk Management Committee receives periodic reports on the results of the compliance risks oversight activities by the responsible functions (the Group Compliance Officer and the manager of the IT & Security Compliance function).

With a view to continuous improvement, an action to renew the ERM process was started in 2013. It will be

operational from 2014. Responsibility for overseeing the replanning of the new process was assigned to a specific Enterprise Risk Management Steering Committee, chaired and coordinated by the Group CFO, which reports to the Managing Director.

The new ERM process being defined is inspired by the principles of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report) which enables risks to be identified and managed in a homogeneous way inside the Group companies, and is characterised by greater integration with the planning and capital allocation processes. The principal changes involve both the identification phase (passage from a simple self assessment approach to a Top Down/Bottom Up approach, mapped on the processes and business functions), and the assessment phase (relationship between impact/probability in the existing ERM process). The risks detected and assessed (including compliance risks) will be positioned in a Risk and Control Panel matrix which will be used to determine the priority of mitigation actions i.e. the status of the risks deriving from compliance oversight activities already under way.

* * *

With regard to financial risks, the Telecom Italia Group, in conducting its operations, is exposed to:

- market risk: arising from variations in interest and exchange rates related to financial assets and financial liabilities incurred;
- credit risk: representing the risk of non-fulfilment of obligations assumed by a counterparty in relation to the utilization of liquidity;
- liquidity risk: related to the need to meet short-term financial liabilities.

These risks are faced through (i) the definition of guidelines which must motivate the operations, (ii) the operation of an internal management committee which monitors the level of risk exposure in line with the pre-set objectives, (iii) monitoring the results achieved. In particular, management policies include:

- for market risk: fully hedging the exchange risk and minimizing exposure to interest rates through appropriate diversification of the portfolio, including the use of derivative financial instruments;
- for credit risk: liquidity management based on prudential criteria and articulated primarily in "money market management" activities (investment of temporary cash surplus) and "bond portfolio management" (investment of a permanent level of liquidity). In both situations, in order to reduce the risk of non-fulfilment of the obligations assumed by a counterparty, the counterparties and selected issuers have a credit rating within the limits established by the aforementioned guidelines, and a careful policy is pursued to diversify the use of liquidity and allocate credit positions among the different banks;
- for liquidity risk: an adequate level of financial flexibility obtained by maintaining a Treasury margin that allows the refinancing requirements to be covered for at least the next twelve months.

* * *

Telecom Italia is aware that financial information has a central role when building and maintaining positive relationships between the company and those it interacts with, contributing – in addition to the company performance – to create value for the shareholders.

The internal control system on financial reporting is aimed at supplying reasonable assurance of the trustworthiness³, accuracy⁴, reliability⁵ and promptness⁶ of the financial reporting. For that purpose, Telecom Italia has prepared and constantly updates a regulatory/documentary system including accounting principles of the Group, administrative and accounting procedures, guidelines, operation instructions, accounting manuals and a chart of accounts, intended to guarantee an efficient coordination and exchange of information between the Parent company and the subsidiaries as well as the correct drafting of the separate and consolidated financial statements. Also in order to guarantee compliance with the Italian law (law no. 262/2005) and U.S. law (Section 404 of the Sarbanes Oxley Act), Telecom Italia operates a structured and documented model of detection and monitoring of risks connected to the financial reporting, which refers to the *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereafter CoSO report).

The system of risk management and internal control on the financial reporting of Telecom Italia is a structured process operating continuously, that includes periodic assessment phases intended to document and assess its planning and operational effectiveness.

The process starts with the identification and assessment of the risks⁷ regarding financial reporting. For that

3 Trustworthiness (of the reporting): reports that are correct and comply with the generally accepted accounting principles and with the requirements of the applicable laws and regulations.

4 Accuracy (of the reporting): reports that are neutral and precise. Reporting is considered neutral if it does not have pre-conceived distortions aimed to influence the decision-making process of its users in order to obtain a specific result.

5 Reliability (of the reporting): reporting that is so clear and complete that investors can make informed and aware investment decisions. Reporting is considered clear if it simplifies the understanding of complex aspects of the Company, without being excessive and pointless.

6 Promptness (of the reporting): reporting that complies with due dates set for its release.

7 Risk: potential event that may impair the achievement of goals related to the control system on financial reporting (the System), that is to say, accuracy, reliability, trustworthiness and promptness goals of the financial information.

purpose, Telecom Italia defines identification criteria of the organization limits and of the “significant” processes in terms of potential impact on the financial reporting (understood as the reporting contained in the financial statements prospectuses and the explanatory notes), as well as on the risks resulting from non-achievement of the control objectives⁸, due to potential non-intentional errors⁹ or frauds¹⁰, if capable of having a significant impact on the financial reporting. In particular, the annual process starts with the identification of the accounts and disclosures in the financial statements that are deemed significant, whether in terms of their quality value¹¹ or with reference to updated materiality parameters. The reporting units that contribute significantly to make up the previously selected items are then identified, using both quantitative parameters and specific qualitative assessments.

In parallel, the processes¹² associated with the financial statement items and selected disclosures are identified, and the specific inherent risks are assessed for each process, contextualising the risk of non-achievement of the general control objectives, phase by phase. The frequency of this assessment, at least once a year, allows the new risks inherent in the financial reporting, deriving from the evolution of exogenous or endogenous factors. The inherent risks of the components¹³ of the CoSO Model are assessed in coherence with their present allocation across the reference framework.

Telecom Italia presents the internal control system in its financial reporting in coherence with the CoSO Report, documenting the assessment activities, controls and processes in an organised way¹⁴, in a specific application, attributing responsibilities precisely, in accordance with the principle of accountability.

The process continues with a more operational phase that involves determining the controls for the risks identified, during which Telecom Italia updates and documents the controls carried out in the company that are able to mitigate the previously identified risks. The controls are classified by degree of assurance into primary controls and secondary controls. Within the primary controls, the set of key controls, that is those controls deemed necessary to guarantee with reasonable security that material errors on financial reporting are promptly prevented or identified, are determined using top-down risk-based criteria. Telecom Italia uses different types of controls in its model, in order to assess all five components of the control system relating to the objective of trustworthy financial reporting. The Entity Level Controls are the controls defined at the Group/Company/Organisational Unit level and they have a pervasive impact on the efficiency of the controls at the process, transaction or application level. This set of controls thus provides a representation of how sensitive the organisation is on topics such as corporate governance, risk management, responsibilities for the internal control system, the attribution of powers and responsibilities. The IT General Controls are controls that are applicable to all the systems, processes and data of the IT organisations, and they meet specific objectives¹⁵. The Process Controls are the controls to protect the company processes and are carried out through human intervention and/or directly by IT applications that implement or support them.

The next phase is the assessment of the controls against the specific risks identified, which is carried out through specific test activities, managed by a methodology guide and a strategy that is updated annually. Using top-down, risk-based logic, the test activities are differentiated by timing (half-yearly, annually, at closure of the financial statements), frequency and depth, in relation to the type, classification and other characteristics of the controls. The testing activities are designed to check both the efficacy of the design and the operational effectiveness of the control. If a test has a negative outcome, due to a lack of efficacy in the design and/or operation of a control, the risk of error is then assessed in terms of probability and impact. The risk is then managed through the opening of a formal control shortcoming and with the definition, scheduling, and assignment of responsibilities for specific remedial plans.

The Group Compliance Officer periodically brings the findings of the assessment process described above (and in particular, any control shortcomings deemed significant/material in terms of potential impact of error/fraud on the financial reporting) to the attention of Control and Risk Committee and the Board of Statutory Auditors. It also presents a summary of the evolution of control shortcomings for the current certification year at each meeting of the Control and Risk Committee.

8 Control goals: set of goals that the System aims to achieve in order to assure a truthful and correct representation of the Financial Reporting.

9 Error: in relation to the System, any unintentional act or omission that results in a misleading declaration in the financial reporting.

10 Fraud: in relation to the System, any intentional act or omission that results in a misleading declaration in the financial reporting.

11 As also prescribed in Standard 5 of the PCAOB (Public Company Accounting Oversight Board).

12 For example, the Sales, Procurement, Investment, Financial Statement, Finance, Tax, HR etc. processes.

13 The components (Control Environment, Risk Assessment, Control Activity, Information & Communication, Monitoring) identify what the internal control system needs to achieve the objectives pursued by the Company (in this specific instance, the reliability of the financial reporting).

14 For example, the business processes of each reporting unit are organised in a conventional hierarchy, composed of standard documents, the same throughout the Group (Real Process, Sub-process, Activity, Control Objective) and open documents whose content reflects the specific nature of the controls carried out by the management and the consequent assessment activities (Control, Test Design, Efficacy Testing). The key document of the Telecom Italia control model is the control objective, which defines and describes the requirements that the management controls must have to mitigate the specific inherent risks.

15 Such as the integrity of programmes, files and data, the correct development and production of applications, the correct management of changes to applications.

The certification process is guided by a specific organisational procedure that identifies the roles and responsibilities for the different phases of its execution. The Chief Financial Officer¹⁶ retains the final responsibility for the whole process, and has a direct responsibility in the periodic definition of the perimeter of application of the reference standards, in the final and overall assessment of the financial reporting internal control system and in the management of relations with the Independent Auditor. He or she is supported in these phases by the Systems, Processes and Administration and Control Procedures function, which coordinates the scoping activities and periodically shares the information on the execution and outcomes of the process with the offices of the Group Compliance Officer. The management, with the support of resources who coordinate the activities planned in the certification calendar in each business function/company, is responsible for identifying the controls to be assessed against the risks identified, and consequently for the assessment and management of the control shortcomings, as well as for the execution of the remedial plans needed to overcome them. The offices of the Group Compliance Officer are responsible for the definition and updating of the methodology for monitoring the end-to-end process. Together with the IT& Security Compliance function for the technological field, they supervise the designing of the controls and are responsible for the assurance activities (independent testing, follow-ups to check the assessment of the overcoming of the control shortcomings) to strengthen the management certification, and they provide support to the management and the Chief Financial Officer in all phases of the process.

► **10.1 Director in charge of the Internal control and risk management system**

The institution and maintenance of the internal control system are assigned to the Executive Directors, each with respect to the area delegated to him/her, and to the Executive in charge of drawing up the Company's accounting documents for this field of competence, so as to ensure the overall adequacy of the system and its practical functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board's proceedings.

The Executive Directors oversee the identification of the major company risks (strategic, operational, financial and compliance) in the operational areas covered by their mandates, taking account of the activities undertaken by the Company and its subsidiaries. They implement the guidelines defined by the Board, overseeing the design, creation and management of the internal control and risk management system and constantly checking the system's adequacy and efficacy. They may also ask the Internal Audit function to carry out audits of specific operational areas and of respect for the internal rules and procedures in the execution of the company operations, giving simultaneous notice to the Chairmen of the Board of Directors, the Control and risk Committee and the Board of Statutory Auditors.

► **10.2 Head of audit department**

Pursuant to the Corporate Governance Principles that the Company has adopted, in exercising the responsibility of the Board of Directors for the internal control and risk management system, the Board, in addition to the Control and risk Committee, also utilises the Head of the Audit Department, a manager with an adequate level of independence and means suitable to perform this duty. The Head of the Audit Department, in the person of Federico Maurizio d'Andrea, is responsible for supporting the management and control boards in assessing the adequacy, full functioning and effectiveness of the control and risk management system and consequently to propose corrective measures in case of anomalies and malfunctions.

In particular, in accordance with the provisions of the Corporate Governance Code of Borsa Italiana, the Head of the Audit Department:

- a) verifies, both on a continuous basis and in relation to special needs, in conformity with international standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan approved by the Board of Directors, based on a structured analysis and ranking of the main risks;
- b) is not responsible for any operational area and reports directly to the Board of Directors;
- c) has direct access to all information useful for the performance of his or her duties;
- d) drafts periodic reports containing information on his or her own activity, and on the risk management process, as well as about compliance with the plans defined to mitigate these risks. Such periodic reports contain an evaluation of the adequacy of the internal control and risk management system;
- e) prepares timely reports on particularly significant events;
- f) submits the reports referred to in points d) and e) to the Chairs of the Board of Statutory Auditors, Control and Risk Committee and Board of Directors;
- g) tests the reliability of the information systems, including the accounting system, as part of the audit plan;
- h) reports on his work to the Director delegated for this purpose, the Control and risk Committee and, through the latter, to the Board of Directors, as well as the Board of Statutory Auditors. In particular, he reports on how risk

¹⁶ In Telecom Italia he or she is also the Manager responsible for preparing the corporate accounting documents.

is managed, as well as on compliance with established plans for risk containment, and expresses his assessment on the suitability of the internal control system for achieving an acceptable overall risk profile.

The Head of the Audit Department also has a role in ensuring respect for the principles and values expressed in the Code of Ethics and Conduct, by handling reports conveyed from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code itself, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

The oversight role of the Head of the Audit Department is directed, in particular, towards expressing an assessment of the capacity of the internal control and risk management system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the (qualitative/quantitative) risk factors present and the probability of their affecting the achievement of those objectives.

This oversight is assured through:

- the direct execution of assurance services (audits and complementary activities – so-called 3rd level controls – aimed at assessing the governance, control and risk management processes) and consultancy services;
- checking the implementation of improvement plans by continuous monitoring and specific follow-up work in cases that are complex and significant to the topics originally analysed.

In particular, the Audit Department manages its own audit activities using a risk-oriented methodological and professional approach, focussing on the following areas:

- Technical – dedicated to the Group processes with technological content;
- Corporate - dedicated to the business processes and transverse processes.

During 2013 the Audit Department also updated and disseminated - inside the Group - some methodological documents with the aim of illustrating the methodological and operational guidelines it adopts, also in coherence with the regulations in the Borsa Italiana Code and the current professional standards.

* * *

The remuneration of the Head of the Audit Department (like that of the other control functions that report directly to the Board of Directors) is decided by the full board, on the favourable opinion of the Nominations and Remuneration Committee, and after consulting the Board of Statutory Auditors.

► **10.3 Organisational model pursuant to legislative decree 231/2001**

The internal control system is complemented by the so-called "Organizational Model 231", i.e. a model of organization and management adopted pursuant to Legislative Decree No. 231/2001 aimed at preventing offences that can result in liability for the Company.

The Organisational Model has also been adopted by domestic subsidiaries of the Group as well as by Telecom Italia, and consists of:

- the Code of Ethics and Conduct of the Telecom Italia Group, where the general principles (transparency, fairness, loyalty) that guide the Company in the organization and conduct of business are indicated;
- the "general principles of internal control", tools to provide a guarantee with regard to the objectives of efficiency and operational effectiveness, reliability of financial and management information, compliance with laws and regulations, safeguarding of assets against possible fraud;
- the "principles of conduct", which consist of specific rules for relations with third parties and for all fulfilments and activities of a corporate nature, and
- the "internal control schemes" that describe business processes at risk of crime, any predicate offences relating to them, the preventive control activities and the behavioural indications aimed at avoiding the related risks.

The internal control schemes have been prepared in accordance with the following basic principles: (i) the separation of roles in undertaking the principal activities involved in business processes; (ii) the traceability of decisions, to allow for identification of specific points of responsibility and the motivations for the decisions themselves; and (iii) the objectification of the decision-making processes, so that decisions are not made on the basis of purely subjective considerations, but based on pre-established criteria.

The Organisational Model is a dynamic instrument, which affects the corporate operation, which in turn must be constantly checked and updated in the light of feedback, as well as the evolution of the regulatory framework. The amendments were drafted by a managerial committee called Steering Committee 231, briefed by the Supervisory Board and approved by the Board of Directors when of a significant nature.

The Organisational Model incorporates, in terms of application, the predicate offences provided for in Legislative Decree 231/2001, excluding those deemed to not be directly pertinent for the Telecom Italia Group.

The Organisational Model also constitutes an integral component of the reference compliance program for the

application of anti-corruption legislation such as - for example - the FCPA and the UK Bribery Act. In this context, a foreign version of the Organisational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level.

With Reference to the Supervisory Board, its functions, extending to Group level, have been attributed to the Board of Statutory Auditors.

The Supervisory Board (supported in its activities by appropriate offices) oversees the operation and observance of the Organisational Model and reports to the Board the checks it has undertaken and their outcome.

There is a section dedicated to the Organisational Model 231 adopted on the Telecom Italia website (www.telecomitalia.com, Governance section, Governance System/Organisational Model 231 channel).

The adoption in October of a new version of the Group Code of Ethics, the text of which has been comprehensively rewritten to simplify it and bring it closer to the daily routine of the people who work in the Company is also part of the process of revising the governance documents mentioned in the Introduction.

As for the Anti-corruption policy, adopted at Group level as a systematic reference framework on the prohibition of corrupt practices, this was implemented operationally during 2013, by the adoption/adaptation of internal procedures/work methods, with further interventions planned for 2014.

► **10.4 Independent Auditor**

The Shareholders' meeting held on 29 April 2010, on the basis of the proposal put forward by the Board of Statutory Auditors, conferred the office of External Auditor (separate financial statements of Telecom Italia S.p.A., annual consolidated financial statements, abbreviated half-yearly consolidated financial statements, annual report for the purposes of the US Security Laws) on PricewaterhouseCoopers S.p.A. for the nine year period 2010 – 2018.

Telecom Italia has adopted special Guidelines for the appointment of the independent auditors. In compliance with said guidelines PricewaterhouseCoopers was selected after a comparative analysis carried out under the supervision of the Board of Statutory Auditors. When assessing the candidacies, their skills and specific auditing experience in the telecommunications sector, the adequacy of their technical structure in terms of requirements due to the size and complexity of the Company and the Group, the experience in SEC registrant Italian companies, the independent and unbiased judgement with respect to the Company and the Group, and the consistency of the compensation requested with the time and level of professionalism shown were particularly considered.

The independent auditor appointed by the Parent company Shareholders' Meeting is the main independent auditor for the entire Telecom Italia Group. To protect the independence of the appointed auditor, the Guidelines establish the principle under which the appointment of further assignments (when allowed by the reference regulation) is limited to the services and activities closely related to the audit of the financial statements. This is subject to the preventive favourable opinion of the Parent company's Board of Statutory Auditors, which expresses its opinion from time to time or beforehand on different types of assignments (so-called pre-approved assignments). In each case, the Board of Statutory Auditors may establish the guidelines and quali-quantitative criteria regarding the appointment of auditors valid for the entire Group. Starting from 1 January 2012 Telecom Italia has implemented an operating procedure that requires prior analysis by the Board of Statutory Auditors also for preapproved appointments, in the presence of certain qualitative conditions or where specific quantitative thresholds are exceeded. The Board of Statutory Auditors has also stated that it will endorse the corresponding determinations adopted by the audit committees of the SEC-registered subsidiaries (see above, paragraph 3 "Compliance"), provided that they are made on the basis of rules compliant with the applicable regulations - including United States regulations - and in conformity with the Group Guidelines in the matter.

► **10.5 Manager responsible for preparing the corporate accounting documents and other corporate roles and functions**

The position of the executive responsible for preparing the corporate accounting documents is held by the Head of Administration, Finance and Control, Piergiorgio Peluso.

As per the Bylaws (Art. 13), it is the Board of Directors that nominates the responsible manager, after hearing the opinion of the Board of Statutory Auditors and - for corporate governance principles - of the Control and Risk Committee. When the manager responsible for preparing the corporate accounting documents is appointed, his rights and powers are defined, disciplined in the specific Regulations, available on the website www.telecomitalia.com, Governance Section, Governance System channel.

As the person legally responsible for the preparation of suitable administrative and accounting procedures to draw up the annual accounts and consolidated financial statements as well as any other financial communications, the appointed manager is one of the main subjects involved in the operation of the internal control system of the Company. The Regulations acknowledge his functional responsibility (organizational and for topics) with regard to the internal controls for financial reporting, clarifying that, in this context, he or she is supported by the Executive

Directors, as well as by the Management of the Company. The Manager reports to the Board of Directors, the Control and Risk Committee and – for those matters within its competence – the Board of Statutory Auditors.

On the question of internal control and risk management, players other than the “typical” ones are added in Telecom Italia, without entailing any contrast with the principles of the Borsa Italiana Code, including: (i) the head of the Compliance Department (otherwise known as the Group Compliance Officer) and the head of IT & Security Compliance Function, who report directly to the Board of Directors, and who are responsible for Group oversight activities regarding both eminent/transverse compliance (Compliance Department) and technological and security process compliance (IT & Security Compliance Function); (ii) the head of Operational Compliance Function, who reports directly to the Managing Director and is responsible for the specific (regulatory and commercial) compliance of the Domestic division.

► **10.6 Coordination of subjects involved in the internal control and risk management system**

The main subjects involved in the operation of the internal control system are:

1. the Board of Directors, which provides direction and periodic (annual) assessment of the system;
2. the Executive Directors (currently the Managing Director), as directors charged with the establishment and maintenance of the system, in accordance with the guidelines defined by the full Board of Directors (see preceding paragraph 10.1);
3. the Control and Risk Committee, with the role of providing investigative support to the Board in relation to its internal control and risk management duties (see preceding Chapter 9);
4. the head of the Audit Department (the person with sole responsibility for third level controls), who reports directly to the Board of Directors and whose mission, briefly, is to test the functioning and adequacy of the system (see preceding paragraph 10.2);
5. the manager responsible for preparing the accounting documents of the Company, appointed by the Board, with the competences provided for by law and rights defined in the specific internal regulations (see preceding paragraph 10.5);
6. the Board of Statutory Auditors which, borrowing the expression used in the Borsa Italiana Code, represents the top of the supervisory system. In addition to the competences provided for by law of the Board of Statutory Auditors, it also has the following functions, by internal corporate governance choice: (i) the audit committee functions pursuant to the United States’ laws applicable to Telecom Italia as a private foreign issuer registered with the SEC and listed on the NYSE, and (ii) the functions of supervisory board pursuant to Legislative Decree no. 231/2001.

These “typical” players¹⁷ are joined in Telecom Italia (without this implying any contrast with the principles of the Borsa Italiana Code) by others, including:

- a. the head of the Compliance Department (otherwise known as the Group Compliance Officer) and the head of the IT & Security Compliance Function, who report directly to the Board of Directors, and who are responsible for Group oversight activities regarding both eminent/transverse compliance (Compliance Department) and technological and security process compliance (IT & Security Compliance Function);
- b. the head of the Operational Compliance Function, who reports directly to the Managing Director and is responsible for specific (regulatory and commercial) domestic compliance;
- c. the non-executive Director who represents the link between the Board of Directors and the control structures that report directly to the Board (currently: Gabriele Galateri);
- d. the Director charged with the ordinary management of the employment relationship between the Company and the heads of the control structures that report directly to the Board (role attributed to the Chairman of the Board of Directors and - after the resignation of Mr. Bernabè - carried out by the Managing Director);
- e. the Chairman of the Control and Risk Committee who continuously represents it in the execution of the tasks of (i) evaluating and discussing the work plan for the control structures that report directly to the Board, (ii) examining the progress reports on activities (periodic and/or extraordinary reports), (ii) directing activities through specific requests for audit/investigation, all to assist and support the execution of the duties and the exercise of the responsibilities of the full Board on control and risk management system matters.

The competences of the figures specified in numbers 1-6 correspond to those recommended by the Borsa Italiana Code, to which, on this matter, Telecom Italia adheres without exceptions. The establishment of the managerial figures specified in letters a and b, with so-called second level control tasks, meets the specific internal control needs of the Group, and as such is expressly referenced in the Borsa Italiana Code, which refers to the organisational assessments of the issuer (also with reference to the corresponding hierarchical relations).

¹⁷ In relation to these essential figures, the internal corporate governance Principles do not waive any of the provisions contained in the Borsa Italiana Code in terms of responsibilities, competences and operational rules.

The “facilitator” Director (letter c) performs the essential guarantee function, in the presence of a Chairman of the Board of Directors with executive functions, and hence first controlled figure. He does not concern himself with either the operational aspects of the controls nor with the flow of information between the control functions and the Board of Directors (which are instead the responsibility of the Committee), but is called on to facilitate board oversight of the adequacy of the resources assigned to the control functions that report directly to the Board of Directors. The option to not assign this role to the Chairman of the Committee meets the redundancy and multiplication logic of the checks and balances that inform the whole control governance of the company.

The Executive Directors are instead responsible for the bureaucratic aspects of the employment relationship of the managers responsible for the control structures who report directly to the Board (letter d). Said managers do not have a single reference point, and it is normal that the administrative aspects mentioned are assigned to a legal representative (who by the will of the board is its representative to the outside world), avoiding the need to issue an ad hoc delegation of powers.

As for the Chairman of the Control and Risk Committee (letter e), he has no independent role, but exercises one that derives from the specific role of the Committee: the board is too broad a body to govern the controls, and the fact that many control and risk management system responsibilities cannot be delegated (and/or the choice of the Board not to delegate them) emphasises the prominent role of the Committee, given its focussed and specialised internal articulation (which also meets specific composition requirements). In this context, the Chairman of the Committee is assigned the task of the continuous operational management of the relations of the Committee with managerial level exponents of the control governance system (while the bureaucratic aspects are assigned to Executive Chairman).

11. Interests of directors and transactions with related parties

The company procedure for undertaking transactions with related parties, drawn up in compliance with Consob Regulation no. 17221 of 12 March 2010 and adopted in November 2010, was updated in June 2012, introducing some clarifying amendments based on the experience accrued in the first year of its application, without changing the authorisation system and investigative responsibilities in force.

The document classifies the transactions into different categories and, according to this classification grid, different validation and approval paths are applied, when these transactions are to be carried out with related parties. There are two main differences:

- a qualitative distinction, by subject, between ordinary transactions and non-ordinary transactions;
- a quali-quantitative distinction, by significance, between relevant transactions, to which the Consob Regulation is applied, and non-relevant transactions, to which the Consob Regulation is not applied, but they are regulated by governance principles.

According to the definition provided by Consob, ordinary transactions are those included in the ordinary business and related financial activities; in short, (i) all the main activities generating revenues for the Company and (ii) all the other management activities, as long as they are not classified as investment or finance activities. As regards the nature of transactions with related parties, the Telecom Italia procedure provides that:

- it does not apply to transactions amounting to less than 100,000 euros;
- the following fall within management’s responsibilities and do not require preventive ad hoc opinions
 - ✓ ordinary transactions under conditions predetermined by independent authorities, that cannot be modified or that are defined after a tender, without amount limits;
 - ✓ ordinary standard or market transactions according to terms not predetermined or defined after a tender, up to 5 million euros;
 - ✓ intercompany financing under market conditions, without amount limits;
- the following require the authorization of a Management Committee (comprised of the Group Compliance Officer, the General Counsel, the Chief Financial Officer and the Telecom Italia manager to the top of the relevant hierarchical line)
 - ✓ ordinary standard or market transactions, according to terms not predetermined by independent authorities or that cannot be modified or defined after a tender, amounting to between 5 and 10 million euros;
 - ✓ non-ordinary transactions up to 2 million euros;
- the transactions are considered relevant and require the preventive opinion of the Control and Risk Committee (or of the Committee of all the independent directors, if they are qualified as “of major importance”: see below)
 - ✓ all transactions entrusted to the Board pursuant to the law, Bylaws or Corporate Governance Code;

- ✓ ordinary standard or market transactions according to terms not predetermined or defined after a tender amounting to over 10 million euros;
- ✓ non-ordinary transactions amounting to over 2 million euros.

The distinction between transactions of major or minor importance is made according to the indexes of importance established by Consob, with a reduced threshold of 3.5% under the self-regulatory procedure (the percentage indicated by Consob is 5%): ratio between transactions value and the net equity (consolidated)/capitalization of the company; ratio between total assets of the entity involved in the transaction and the total (consolidated) assets of the company; ratio between the total liabilities of the entity acquired and the total (consolidated) assets of the company.

To perform the transactions of major importance, the procedure always requires the approval of the Board of Directors, subject to the prior opinion of a Committee comprised of all the independent directors in office. For transactions of minor importance, the decision may be made under standard responsibilities: Board of Directors, Managing Director or management, depending on the case, which must however have acquired the prior opinion of the Control and Risk Committee.

The opinions concern the Company's interests in fulfilment of the transactions as well as the substantial correctness and suitability of the conditions. In order to express their opinions, the Committees carry out specific investigations, with which the management must collaborate. The Management Committee assures the interrelation between the Committee at the Board level and the company structures.

If the opinions on the interest and conditions of the transactions are favourable, the transaction is completed, according to the mentioned responsibilities. If the opinions are negative, in order to be concluded under those conditions, the transaction is analyzed by the Board of Directors. If a double majority is obtained (a "general" one, of all the Directors at the meeting, and a "specific" one, of Independent Directors in non-related positions) the original negative opinion is rendered obsolete. If the transaction is not accepted by the independent directors, even if authorized by the Board, it may only be carried out under certain conditions:

- if it is of minor importance, with application of an increased regime of disclosure to the public, regulated by the Consob Regulations;
- if it is of major importance, it must be discussed further at the shareholders' meeting, where it must obtain the favourable vote of the majority of the non-related shareholders entitled to vote.

Similar rules apply to transactions with parties related to Telecom Italia, to be carried out by its subsidiaries. In these cases (provided that the Board of Directors of the Parent company need not intervene for other reasons), the preventive check is always carried out by the Management Committee.

To support the correct application of the Procedure, an IT application is available; it allows verification of the correlation and the authorization process necessary for its completion. The application also ensures initiatives with related parties can be traced.

The Procedure for Transactions with Related Parties is available on the website www.telecomitalia.com *Governance* section - *Governance System/Procedure* channel.

At the request of the Control and Risks Committee, a work group was established to determine if it would be advisable to improve safeguarding in this area, possibly also in terms of extending it to related situations that may not be directly subsumed into the category of transactions regulated by the law.

* * *

On 6 February 2014 the Board of Directors approved a Procedure for the management of any extraordinary transaction regarding the Telecom Italia holding in the TIM Brasil group companies.

The document regulates the investigation and decision-making process for any transaction that can result in the transfer to subjects outside the Telecom Italia Group of all or part of its holdings in the Tim Brasil Group, or of assets of the related businesses or branches of business exceeding 2 billion euros (including business combination transfers by conferment, merger or share swap). The process places at the centre the full Board, and within this the independent Directors. These transactions in fact require the approval of the Board of Directors of Telecom Italia, subject to the opinion of a committee consisting of all the independent directors in office who have not declared an interest in the transaction. The independent Directors are called upon to express an opinion on the Company's interest in performing the transaction and on the substantial expediency and correctness of the respective conditions. In the case of a negative opinion of the committee, in order for the transaction to be completed under the conditions proposed, it must be approved by the Board of Directors with a double majority: the majority of all the directors attending the meeting and the "specific" majority of independent directors in office who have no interest in the transaction, either personal or on behalf of third parties. If the transaction is not given the specific green light by the independent directors, the Board of Directors may, by majority vote, as voluntary restraint, submit it to an assessment by the ordinary shareholders' meeting, where it is understood to be approved only if accepted by the majority of shareholders attending the meeting who have not declared an interest in the transaction, either personal or on behalf of third parties.

The procedure is available on the Company website www.telecomitalia.com Governance section - Governance System/Procedures channel.

12. Appointment of Statutory Auditors

Pursuant to article 17 of the Bylaws, the Board of Statutory Auditors consists of five standing auditors, including at least two from the less represented gender. The Shareholders' Meeting also appoints four alternate auditors, two of each gender.

The Board of Statutory Auditors is appointed in accordance with the law and applicable regulations, on the basis of slates presented by persons entitled to vote who jointly or separately hold shares representing at least 0.5% of the share capital with voting rights, or the different measure required by Consob for presentation of the slates of candidates for the appointment of the Board of Directors (Resolution No. 18775 of 29 January 2014 set the said percentage for Telecom Italia at 1%). Moreover, with reference to the renewal of the administrative body to which the Shareholders' Meeting has been called for 16 April 2014, the outgoing Board, adopting an interpretation of the Bylaws text more favourable to minorities, and which, according to Consob, is more in line with the rationale behind the regulation on slates voting, has indicated the minimum shareholding required to submit candidates at 0.5%

The slates are divided into two sections: one for candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor. Slates which in one or both sections contain three or more candidates must ensure the presence of both genders in said section, so that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the next whole number. The first candidate in each section shall be selected from among the external auditors entered in the appropriate register who have worked on external audits for a period of not less than three years. Three standing and two alternate auditors are chosen from the slate that obtains the majority of the votes (so-called Majority Slate), while the remaining standing and alternate auditors are chosen from other slates (so-called Minority Slates), in compliance with the applicable regulations concerning the limits of connection with the Majority Slate. For this purpose, the votes obtained from the Minority Slates are divided first by one and then by two and the quotients are assigned to the candidates of one section and of the other, according to the order listed. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking for the appointment of the standing auditor position and in a single decreasing ranking for the appointment of the alternate auditor position and those who have obtained the two highest quotients are elected.

If the composition of the resulting board or category of alternate auditors does not reflect the gender balance, taking into account their ranking order in the respective sections, the necessary number of the last candidates of the more represented gender elected from the Majority Slate shall forfeit their position to ensure compliance with this requirement, and shall be replaced by the first unelected candidates of the less represented gender on the same slate and the same section. In the absence of candidates of the less represented gender in the relevant section of the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall appoint the standing or alternate auditors that are missing with the majorities required by law, ensuring that the requirement is met.

In the event that a statutory auditor chosen from the Majority Slate or one of the Minority Slates should cease to serve, the alternate auditors from the Majority Slate or the Minority Slates shall take his/her place. Appointments to fill vacancies on the Board of Statutory Auditors pursuant to Article 2401 of the Italian Civil Code shall be approved by the Shareholders' Meeting with the affirmative vote of the absolute majority of those voting and in compliance with the principle of the necessary representation of the minority shareholders, and of the requirements of the Bylaws regarding gender balance. In the event that a standing auditor chosen from the Minority Slates should cease to serve, the principle of necessary representation of the minorities shall be deemed to have been respected if one of the alternate auditors chosen from the Minority Slates takes his/her place.

At the first renewal of the Board of Statutory Auditors after the Shareholders' Meeting of 15 May 2012, the quota to be assigned to the less represented gender is limited to one fifth of the total; in the event of a fractional number, it shall be rounded up to the nearest whole number.

13. Composition and operation of the Board of Statutory Auditors

The Shareholders' Meeting of 15 May 2012 appointed the serving Board of Statutory Auditors, whose term will expire with the Shareholders' Meeting to approve the financial statements for financial year 2014; it also appointed its Chairman and determined the amount of remuneration.

Three slates were presented within the terms and according to the procedure required by the applicable regulations:

Telco Slate

(Presenting Shareholder: Telco S.p.A.)

Standing Auditors Section

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

Alternate Auditors Section

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

Findim Group Slate

(Presenting Shareholder: Findim Group S.A.)

Standing Auditors Section

1. Lorenzo Pozza

Alternate Auditors Section

1. Massimiliano Carlo Nova

Slate of Asset Management Companies and international institutional investors

(Presenting Shareholders: Allianz Global Investors Italia S.G.R. S.p.A., Anima S.G.R. S.p.A., APG Algemene Pensioen Groep N.V., Arca S.G.R. S.p.A., BancoPosta Fondi S.p.A., BNP Paribas Investment Partners S.G.R. S.p.A., Ersel Asset Management S.G.R. S.p.A., Eurizon Capital S.G.R. S.p.A., Eurizon Capital S.A., Fideuram Investimenti S.G.R. S.p.A., Fideuram Gestions S.A., Interfund Sicav, Mediolanum Gestione Fondi S.G.R.p.A., Pioneer Investment Management S.G.R.p.A. and Pioneer Asset Management S.A.)

Standing Auditors Section

1. Enrico Maria Bignami
2. Sabrina Bruno

Alternate Auditors Section

1. Roberto Capone
2. Franco Patti

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

- Telco Slate: 3,240,488,244 votes (45.59%)
- Findim Group Slate: 717,374,498 votes (10.09%)
- Asset Management Company slate: 3,121,340,169 votes (43.91%)

Of the Telco slate, three Standing Auditors and two Alternate Auditors were therefore chosen in the order in which they were listed in the slate: Gianluca Ponzellini – Standing Auditor, Salvatore Spiniello - Standing Auditor, Ferdinando Superti Furga - Standing Auditor, Ugo Rock – Alternate Auditor and Vittorio Mariani - Alternate Auditor. The remaining Standing Auditors and two Alternate Auditors were chosen from the Asset Management Companies slate: Enrico Maria Bignami – Standing Auditor, Sabrina Bruno – Standing Auditor, Roberto Capone – Alternate Auditor and Franco Patti – Alternate Auditor. The Shareholders' Meeting also appointed, pursuant to law, Enrico Maria Bignami as Chairman of the Board of Statutory Auditors.

On 17 April 2013, the Shareholders' Meeting supplemented the composition of the Board of Statutory Auditors with the appointment of Roberto Capone as standing Auditor of the Company - who, as provided for in the Bylaws, on 18 September 2012 had already taken the place of Standing Auditor Sabrina Bruno, who ceased to hold office on that date - and Fabrizio Riccardo Di Giusto as Alternate Auditor, both with mandate expiring in alignment with those of the other members of the Board of Statutory Auditors and hence until approval of the financial statements for the year ending on 31 December 2014.

The *curricula vitae* of the members of the control body are available on the website www.telecomitalia.com Governance Section - *Board of Statutory Auditors* channel.

In its meeting of 10 March 2014, the Board of Statutory Auditors confirmed that the independence requirements specified in article 148, subsection 3 of the CFL had been met, as had the requirements of the Borsa Italiana Code of Corporate Governance. After this check, the Board of Statutory Auditors took account of the circumstance that two of its members (Salvatore Spiniello and Ferdinando Superti Furga) had acted as standing auditors for more than nine financial years, without the emergence of elements that might be construed as a decrease in their independence.

During 2013, there were 50 meetings of the Board of Statutory Auditors (14 of which were held jointly with the Control and Risk Committee). The average duration of the meetings was 2 hours and thirty minutes. The percentage of attendance was 91.60%.

Table 3 presents information on the composition of the Board of Statutory.

For detailed information on the activities performed by the Board of Statutory Auditors refer to the Board of Statutory Auditors' Report to the Shareholders' Meeting prepared pursuant to article 153 of the CFL.

14. Shareholder relations

Within the Administration Finance and Control Function, Alex Pierre Bolis is the executive appointed to manage relations with the Italian and international financial community and with all the shareholders (Investor Relations Manager). The references for the institutional and individual investors within Telecom Italia are:

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

Important information for shareholders and, in general, for current or potential investors (also with bonds) is available at www.telecomitalia.com in the *Investors* section.

15. Shareholders' Meetings

Pursuant to law, the shareholders entitled to attend the Meeting and to vote are those for whom the reference intermediary sent the Company specific communication certifying such right at the record date (seventh working day prior to the meeting first call). Those who are holders of shares only after such date will not be entitled to attend the Meeting and vote.

Ordinary shareholders may also exercise their right to vote by mail, as well as be represented, by giving a proxy to a physical or legal person, including the representative designated by the Company, if appointed (the decision is to be taken by the Board of Directors, at the time of calling the meeting). The Board of Directors also has the option of allowing electronic voting, specifying the procedure in the notice convening the meeting.

In order to facilitate the collection of proxies among employee ordinary shareholders of the Company and its subsidiaries who belong to shareholder associations satisfying the requirements established by law, special areas and instruments are made available for communication and performance of the activity.

The Board of Directors shall use its best endeavours to ensure that Shareholders have adequate information about the elements necessary for taking decisions within the competence of the Shareholders' meeting, with full knowledge of the facts.

The ordinary Shareholders' Meeting resolves on matters of law and authorises transactions with parties related to the Company, in the circumstances and according to the methods provided for in the specific procedure adopted by the Board of Directors, in accordance with the applicable regulations (see preceding Paragraph 11). The Bylaws also provide (article 12.1) decisions on the merger into Telecom Italia or demerger in favour of Telecom Italia of companies of which Telecom Italia owns at least 90% of the share capital, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the Bylaws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of secondary offices are matters that are remitted to the competence of the Board of Directors.

To ensure the regular conduct of shareholders' meetings, since 2000 the Company has adopted the Regulations for the Shareholders' Meetings, available at the website www.telecomitalia.com, Governance section, Governance System channel.

Eight directors (of a total of 15 serving Directors) participated in the Shareholders' Meeting of 17 April 2013, and seven (of a total of 11 serving Directors) participated in the Shareholders' Meeting of 20 December 2013. When calling both meetings, the Board of Directors did not consider it opportune to appoint the designated representative of the Company to issue proxies to participate in the Shareholders' Meeting, and instead allowed the shareholders to vote electronically, specifying the related arrangements in the call notice.

* * *

The Meeting of the Savings Shareholders was held on 22 May 2013 and examined the report on the use of the fund for the expenditure necessary to protect the common interests, constituted by resolution on 21 June 1999, and proceeded to appoint a Common Representative (in the person of Dario Trevisan, attorney) with a mandate to the approval of the financial statements of the Company for the year to 31 December 2015.

* * *

During the course of the year no significant variations occurred in the composition of the Shareholders' list. For the amendment of the agreement between the shareholders of the relative majority shareholder, Telco S.p.A., see paragraph 2, letter g) above "Shareholder agreements").

16. Further corporate governance practices

Nothing to indicate.

17. Changes since the end of the reference year

Apart from the procedure for the sale of the Brazilian assets, already mentioned (see paragraph 11, above), it should be recalled that in its meeting of 16 January 2014 the Board of Directors approved the undertaking of benchmarking of the corporate governance rules of the Company, to be reported on 6 February. The aim of the analysis was to make available elements of comparison between the current Telecom Italia solutions and those found in organisations of comparable characteristics and size, taking account of the regulatory constraints imposed by Italian law.

The results of the activity undertaken were taken into account in the drafting of the guidance provided by the outgoing Board of Directors, contained in the explanatory report to the Shareholders' Meeting called to renew the administrative body, to which reference should be made.

TABLE1 – INFORMATION ON SHARE OWNERSHIP

Share capital structure up to 31 December 2013

	No. shares	% of share capital	Listed (indicate markets) / non listed	Rights and obligations
Ordinary shares	13,417,043,525	69.01%	Listed on Borsa Italiana S.p.A.	Voting rights at the Company Ordinary and Extraordinary Meetings
Savings shares	6,026,120,661	30.99%	Listed on Borsa Italiana S.p.A.	Right to vote in special shareholders' meetings; capital privileges contemplated by Article 6 of the Bylaws; preference dividend 5%, biennial carrying over of the right to preference dividend, dividend increased by 2% compared to the ordinary share

Other financial instruments

(attributing the right to subscribe newly issued shares)

	Listed (indicate markets)/non listed	Number of instruments in circulation	Category of shares available for conversion/subsorption	Number of shares available for conversion/subsorption
Convertible Bonds ⁽¹⁾	Vienna Stock Exchange third market	13,000	Telecom Italia ordinary shares	(2)

(1) Bonds called “Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.” issued by subsidiary Telecom Italia Finance S.A.

(2) Solely to enable conversion of the bonds issued by subsidiary Telecom Italia Finance S.A., an increase in share capital for cash for a total maximum amount, including share premium, of 1.3 billion euros (in addition to the value of the interest on the bonds, which may also be settled in shares, for a maximum sum of 238,875,000 euros) was approved. The maximum number of conversion shares that may be issued shall be determined by the issue price of the shares.

Significant shareholdings

Declarant	Direct shareholder	% on ordinary capital	% on voting capital
Telco S.p.A.	Telco S.p.A.	22.386%	22.386%
Findim Group S.A.	Findim Group S.A.	5.004%	5.004%

TABLE 2 – STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES AND OTHER OFFICES HELD

Position	Members	Serving since	Serving until	Board of Directors						Control and Risk Committee		Nomination and Remuneration Committee		Executive Committee		
				Slate (M/m) *	Exec.	Non exec.	Independent **	(%) ***	Number of other offices ****	****	***	****	***	****	***	
Chairman	Minucci Aldo	16/04/2007	31/12/2013	M		X			100	1					X	100
Managing Director	Marco Patuano	12/04/2011	31/12/2013	M	X				100	=					X	100
Director	Tarak Ben Ammar	14/04/2008	31/12/2013	M		X			100	1						
Director	Lucia Calvosa ⁽¹⁾	04/08/2011	31/12/2013	m		X	X		100	=	X	100				
Director	Massimo Egidi ⁽¹⁾	01/12/2011	31/12/2013	m		X	X		94	=			X	86		
Director	Jean Paul Fitoussi	06/05/2004	31/12/2013	M		X	X		87	2	X	87	X	93		
Director	Gabriele Galateri	03/12/2007	31/12/2013	M		X			100	2			X	100		
Director	Gaetano Micciché	24/07/2007	31/12/2013	M		X			94	2 ⁽²⁾						
Director	Renato Pagliaro	06/05/2004	31/12/2013	M		X			100	2					X	100
Director	Mauro Sentinelli	29/04/2010	31/12/2013	M		X	X		100	=	X	100			X	50
Director	Luigi Zingales	16/04/2007	31/12/2013	m		X	X		100	=	X	100				
Directors who resigned during financial year 2013																
Executive Chairman	Franco Bernabè	03/12/2007	03/10/2013	M	X				100	=					X	100
Director	Cesar Izuel Alierta	08/11/2007	13/12/2013	M		X			44	=						
Director	Elio Catania	14/04/2008	13/09/2013	M		X	X		92	1	X	100	X	100	X	100
Director	Julio Linares Lopez	08/11/2007	13/12/2013	M		X			100	=					X	100
Director	Angelo Provasoli	03/10/2013	20/12/2013	M		X	X		100	=			X	---	(3)	
Number of meetings held during the reference year:									BOD: 16		CRC: 15		NRC: 14		EC: 2	

NOTES:

* This column shows M/m, depending on whether the member was elected from the slate voted for by the majority (M) or by a minority (m), or had replaced another Director who ceased office, in turn then chosen from the majority slate or a minority slate

** Independent Directors as per the Corporate Governance Code. As stated in the Report, Directors Calvosa, Egidi, Fitoussi, Sentinelli and Zingales have declared that they also possess the independence requirements specified by Legislative Decree no. 58/98.

*** This column indicates the percentage participation by the directors in the meetings respectively of the BoD and the committees (no. of attendances/no. of meetings held during the actual period of office of the person concerned).

**** This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed in regulated markets, including foreign markets, in finance, banking, insurance or other sizeable companies. The list of such companies with reference to each director, stating whether the company in which the position is held does or does not form part of the group which is controlled by the issuer or of which the Issuer forms part is provided below.

***** In this column, X indicates that the member of the BoD is a member of the committee.

(1) Independent directors appointed/co-opted on the instruction of the Nomination and Remuneration Committee and the suggestion of Assogestioni (the slate voting as per the Bylaws does not apply).

(2) If a Director holds office in more than one company belonging to the same Group, it is standard practice to take into account, when calculating the number of offices, only one office held within that Group.

(3) No meetings were held from the date of his/her appointment as a member of the NRC (Board of Directors of 5 December 2013) to the termination date (20 December 2013).

Shown below are the positions held by the Directors, currently in office, in companies included in FTSE/MIB index, or in companies that operate principally in the financial sector in favour of the public (included in the slates referred to in Articles 106 and 107 of Legislative Decree No. 385 of 1 September 1993) or in companies that perform banking or insurance activities, considered significant pursuant to chapter three "Composition of the Board of Directors" paragraph 3.2 of the Corporate Governance Code of Telecom Italia.

Aldo Minucci	Chairman of Genertel S.p.A.
Marco Emilio Angelo Patuano	---
Tarak Ben Ammar	Independent member of the Board of Directors of Mediobanca S.p.A.
Lucia Calvosa	---
Massimo Egidi	---
Jean Paul Fitoussi	Independent Member of the Supervisory Board of Intesa Sanpaolo S.p.A. and Member of the Board of directors of Pirelli & C. S.p.A.
Gabriele Galateri di Genola	Chairman of Assicurazioni Generali S.p.A. and Member of the Board of Directors of SAIPEM S.p.A.
Gaetano Micciché	Chief Executive Officer of Banca IMI S.p.A., Member of the Board of Directors of Pirelli & C. S.p.A. and member of the Management Board of Intesa San Paolo S.p.A.
Renato Pagliaro	Chairman of Mediobanca S.p.A. and Member of the Board of Directors of Pirelli & C. S.p.A.
Mauro Sentinelli	---
Luigi Zingales	---

TABLE 3 – STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Members	Serving since	Serving until	* Slate (M/m)	Independence as per Civil Code	** (%)	*** Number of other offices
Chairman	Enrico Maria Bignami	16/04/2007	31/12/2014	m	X	100	20
Standing auditor	Roberto Capone (1)	18/09/2012	31/12/2014	m	X	100	21
Standing auditor	Gianluca Ponzellini	08/04/2009	31/12/2014	M	X	95	13
Standing auditor	Salvatore Spiniello	24/05/2003	31/12/2014	M	X	87	19
Standing auditor	Ferdinando Superti Furga	24/05/2003	31/12/2014	M	X	87	7
Alternate auditor	Franco Patti	15/05/2012	31/12/2014	m	X	=	=
Alternate auditor	Vittorio Giacomo Mariani	08/04/2009	31/12/2014	M	X	=	=
Alternate auditor	Ugo Rock	08/04/2009	31/12/2014	M	X	=	=
Alternate auditor	Fabrizio Riccardo Di Giusto (2)	17/04/2013	31/12/2014	m	X	=	=

Number of meetings held during the relevant year: 50

NOTES

* This column shows M/m, depending on whether the member was elected from the slate voted for by the majority (M) or by a minority (m).

** This column indicates the percentage participation by the statutory auditors in the meetings of the BoSA. (no. of attendances/no. of meetings held during the actual period of office of the person concerned).

*** This column indicates the number of offices as director or statutory auditor held by the person concerned, considered significant pursuant to Article 148-bis of the CFL. The full list of offices is attached, pursuant to Article 144-*quinquiesdecies* of the Consob Issuer Regulations, to the report on supervisory activity, drafted by the statutory auditors for the purposes of Article 153, subsection 1 of the CFL.

(1) Confirmed as standing Auditor by the Shareholders' Meeting of 17/4/2013.

(2) Appointed alternate Auditor by the Shareholders' Meeting of 17/4/2013.