

REPORT ON CORPORATE GOVERNANCE
AND SHARE OWNERSHIP
OF TELECOM ITALIA S.P.A. 2015

pursuant to art. 123-bis CLF

(Report approved by the Board of Directors at its meeting of 17 March 2016
available on the website www.telecomitalia.com)

CONTENTS

Glossary	Page	6
1. Introduction	Page	7
2. Comparative table	Page	8
3. Information on share ownership (pursuant to art. 123 bis CLF)	Page	20
a) Share capital structure	Page	20
b) Restrictions on transfer of securities	Page	20
c) Significant shareholdings	Page	20
d) Securities that confer special rights of control	Page	20
e) Employee shareholdings: mechanism for exercising voting rights	Page	21
f) Restrictions on voting rights	Page	21
g) Shareholders' agreements	Page	21
h) Change of control clauses and statutory provisions on tender offers	Page	22
i) i) Authorisations to increase share capital and share buy-back	Page	25
j) Direction and coordination	Page	25
4. Compliance	Page	25
5. Board of Directors	Page	26
5.1 Appointment and replacement	Page	26
5.2 Composition	Page	27
5.3 Role of the Board of Directors	Page	28
5.4 Delegated bodies	Page	29
5.5 Other executive Directors	Page	30
5.6 Independent directors	Page	31
5.7 Lead Independent Director	Page	31
6. Handling of corporate information	Page	31
7. Board committees	Page	32
8. Nomination and Remuneration Committee	Page	32
9. Remuneration of directors, general managers and key managers with strategic responsibilities	Page	33
10. Control and Risk Committee	Page	33
11. Internal control and risk management system	Page	34
11.1 Director in charge of the Internal control and risk management system	Page	38
11.2 Head of audit department	Page	38
11.3 Organisational model pursuant to legislative decree 231/2001	Page	39
11.4 Independent Auditor	Page	40
11.5 Manager responsible for preparing the corporate accounting documents and other corporate roles and functions	Page	41
11.6 Coordination of subjects involved in the internal control and risk management system	Page	41
12. Interests of Directors and transactions with related parties	Page	42
13. Appointment of Statutory Auditors	Page	44
14. Composition and operation of the Board of Statutory Auditors	Page	44
15. Shareholder relations	Page	45
16. Shareholders' Meetings	Page	46

17. Further corporate governance practices	Page	46
18. Changes since the end of the reference year	Page	47

Tables

Table 1 - Information on share ownership	Page	48
• Share capital structure up to 31 December 2014	Page	48
• Other financial instruments (attributing the right to subscribe newly issued shares)	Page	48
• Significant shareholdings	Page	48
Table 2 – Structure of the Board of Directors and Committees and other positions held	Page	50
Table 3 – Structure of the Board of Statutory Auditors	Page	52

GLOSSARY

Borsa Code/Corporate Governance Code: the Corporate Governance Code of listed companies approved in July 2015 by the Committee for Corporate Governance and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, available to the public on the website www.borsaitaliana.it.

Civ.cod/ c.c.: the Italian civil code.

Issuer or Company: Telecom Italia S.p.A.

Year: the 2015 financial year to which the Report refers.

Corporate Governance Principles: the document setting out the rules on corporate governance established by the Board of Directors of the Issuer, to supplement and complement the provisions of the Borsa Code to which the Company adheres

Consob Issuers' Regulation: the Regulations issued by Consob with resolution no. 11971 of 1999 (as subsequently amended) on the subject of issuers.

Consob Related Party Regulations: the Regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as subsequently amended) on the subject of transactions with related parties.

Report: the report on corporate governance and share ownership drawn up by the Issuer pursuant to art. 123-bis CLF.

Remuneration Report: the remuneration report drawn up pursuant to art. 123-ter of the CLF and art. 84-quater of the Consob Issuers' Regulation, available pursuant to the law at the company headquarters, on the website of the Issuer at www.telecomitalia.com About Us section Remuneration Channel, and through the 1info authorised storage platform www.1info.it.

Consolidated Law on Finance/CLF: Legislative Decree no. 58 of 24 February 1998 (as subsequently amended)

1. INTRODUCTION

The Telecom Italia corporate governance system is organised according to the traditional model, as set out in article 2380 and subsequent articles of the Italian Civil Code.

This Report, approved by the Board of Directors on 17 March 2016, is intended to provide an overview of the corporate governance system adopted by Telecom Italia. Complying with the current regulations on this subject, the Report provides information on the share ownership structure and adhesion of the Company to the Corporate Governance Code, including the principal governance practices applied and the principal features of the internal control and risk management system, also in relation to financial reporting. Non-alignment or partial alignment with specific provisions of the Corporate Governance Code is justified in the section of the Report which deals with the governance practice otherwise applied by the Company, as per the comparison table below.

The information contained in this Report refers to the 2015 financial year, and, with regard to specific issues, is updated to the date of the meeting of the Board of Directors that approved it (17 march 2016); see the Remuneration Report for details on pay issues.

2. COMPARATIVE TABLE

Article 1 Role of the Board of Directors	Comply or explain
Principles	
1.P.1. The issuer is guided by a board of directors that meets regularly and is organised and operates in such a way as to guarantee the effective execution of its functions.	(see Chapter 5. of the Report on Corporate Governance and Share Ownership - RCG)
1.P.2. The directors act and resolve with full knowledge of the facts and autonomously, pursuing the priority objective of creating value for the shareholders with a medium-long term perspective.	(see Chapters 5.3 and 5.4. of the RCG)
Application criteria	
1.C.1. The board of directors:	
a) examines and approves the strategic, operational and financial plans of both the issuer and the group it heads, monitoring their implementation periodically; it defines the issuer's corporate governance system and the group structure;	(see Chapter 5.3 of the RCG)
b) defines the nature and level of risk compatible with the strategic objectives of the issuer, including in its assessments all the risks that can assume importance from a sustainability perspective in the medium-long period of issuer activity;	(see Chapter 5.3 of the RCG)
c) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer as well as of its strategically significant subsidiaries in particular with regard to the internal control system and risk management;	(see Chapters 5.3 and 11. - RCG)
d) specifies the frequency, in any case no less than once every three months, with which the delegated bodies must report to the Board on the activities performed in the exercise of the powers delegated to them;	(see Chapter 5.4 of the RCG)
e) evaluate the general performance of the company, paying particular attention to the information received from the delegated bodies and periodically comparing the results achieved with those planned;	(see Chapters 5.3 and 5.4. of the RCG)
F) resolves upon transactions to be carried out by the issuer or its subsidiaries when such transactions have a significant impact on the issuer's strategies, profitability, assets and liabilities or financial position; to this end, the Board shall establish general criteria for identifying the material transactions;	(see Chapter 5.3 of the RCG)
g) perform at least annually an evaluation of the performance of the Board of Directors and its Committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience) and gender of its members, as well as the number of years for which they have served as director. Where the board of directors avails itself of external consultants for self-assessment, the report on corporate governance provides information on the identity of such consultants and on other services, if any, supplied by such consultants to the issuer or to companies having a control relationship with the issuer;	(see Chapters 5.3 and Table 2. of the RCG)
H) taking into account the outcome of the evaluation mentioned under the previous item g), reports to shareholders its view on the managerial and professional profiles deemed appropriate for the composition of the Board of Directors, prior to the appointment of the new board;	(see Chapter 5.3 of the RCG)
I) provides information in the Report on Corporate Governance on: (1) its composition, indicating for each member their title (executive, non-executive, independent), the role that they perform within the Board of Directors (for example, chairman or chief executive officer, as defined in article 2), their main professional characteristics as well as the length of time since their first appointment; (2) the procedures for applying this article 1 and, in particular, the number and average duration of meetings of the board and of the executive committee, if there is one, held during the fiscal year, as well as the corresponding attendance of each director; (3) the methods used to carry out the self-assessment procedure referred to in item g) above;	(see Chapters 5.3 and 5.4. and Table 2 of the RCG)
j) in order to ensure the correct handling of corporate information,	(see Chapters 5.4 and 6 of the

adopts, upon proposal of the chief executive officer or the chairman of the Board of Directors, procedures for the internal handling and disclosure to third parties of documents and information concerning the issuer, having special regard to price sensitive information.	RCG)
1.C.2. The directors accept office when they consider that they are able to dedicate the necessary time to the diligent execution of their duties, also taking account of the commitment connected to their own work and professional activities, the number of directorships or appointments as statutory auditor they hold in other companies listed in regulated markets (including foreign markets) in finance companies, banks, insurance companies or companies of significant size. Based on the information received from the directors, the board collects annually, and makes known in the report on corporate governance, the directorships or appointments as statutory auditor held by the directors in aforementioned companies.	(see Chapters 5.2 and Note to Table 2 of the RCG)
1.C.3. The board expresses its view of the maximum number of directorships or appointments as statutory auditor in the companies stated in the previous paragraph that can be considered compatible with the effective execution of the role of director of the issuer, taking account of the participation of directors in the internal board committees constituted. For this purpose, it identifies general criteria differentiated according to the commitment required for each role (executive director, non-executive director or independent director), also in relation to the nature and dimensions of the companies in which they hold office as well as their membership of the issuer's group, if applicable.	(see Chapter 5.2 of the RCG)
1.C.4. If the shareholders' meeting, in order to meet organisational requirements, should authorise derogations of the non-competition clause set out in art. 2390 of the Italian Civil Code, the board of directors considers the merits of each issue of this kind and reports any critical aspects to the first useful meeting of the shareholders. For this purpose, each director informs the board, upon acceptance of their appointment, of any activities undertaken in competition with the issuer and, subsequently, of all relevant changes.	(see Chapter 5.2 of the RCG)
1.C.5. The chairman of the board of directors uses his/her best endeavours for the documentation relating to the topics on the agenda to be brought to the knowledge of the directors and statutory auditors sufficiently in advance of the date of the board meeting. In its report on corporate governance, the board provides information on the timeliness and completeness of the pre-board reporting, also providing indications on the notice generally considered sufficient for the despatch of the documentation and indicating if this period of time has been respected normally.	(see Chapter 5.3 of the RCG)
1.C.6. The chairman of the board of directors, also at the request of one or more directors, may ask the chief executive officers that senior managers of the issuers, and those of the group companies that answer to it, responsible for the competent business functions according to the topic, are in attendance at board meetings to provide suitable in depth information on the items on the agenda. The report on corporate governance provides information on their actual attendance.	(see Chapter 5.3 of the RCG)
Article 2 - Composition of the Board of Directors	
Principles	
2.P.1. The board of directors is composed of executive and non-executive directors with adequate skills and professional capabilities.	(see Chapters 5.2 and 5.3 of the RCG)
2.P.2. The non-executive directors bring their specific skills to board discussions, contributing to informed decision-making and paying particular attention to those areas in which there may be conflicts of interest.	(see Chapter 5.3 of the RCG)
2.P.3. The number, skills, authority and available time of the non-executive directors shall be such as to guarantee that their opinion can have a significant weight in board decision-making.	(see Chapters 5.2 and 5.3 of the RCG)
2.P.4. It is advisable to avoid concentrating corporate offices in a single person.	(see Chapters 5.4 and 5.5 of the RCG)
2.P.5. Where the board of directors has conferred management powers on the chairman, the board of directors provides an adequate explanation of the reasons for this organisational choice in the report on corporate governance.	(see Chapters 5.4 and 5.5 of the RCG)

Application criteria	
2.C.1. The following are qualified as executive directors of the issuer:	
<ul style="list-style-type: none"> – the chief executive officers of the issuer or of a company controlled by the issuer with strategic importance, including their chairmen, when individual management powers are granted to them, or when they play a specific role in the development of business strategies; – the directors who hold executive positions in the issuer or in a company controlled by the issuer with strategic importance, or in the parent company when the office also regards the issuer; – the directors who hold executive positions in the issuer or in a company controlled by the issuer with strategic importance, or in the parent company when the office also regards the issuer; – the directors who are members of the executive committee of the issuer, when a chief executive officer has not been identified, or when membership of the executive committee, taking the frequency of meetings and the object of its resolutions into account, means the de facto systematic involvement of its members in the current management of the issuer. <p>The attribution of vicarious powers, or only for cases of urgency, to directors without management powers does not in itself mean that they are executive directors, unless such powers are in fact used with notable frequency.</p>	(see Chapters 5.4 and 5.5 of the RCG – it should also be noted that currently a director with vicarious functions is not envisaged in the Board of Directors, and that the serving Board of Directors has decided not to reconstitute the Executive Committee)
2.C.2. The directors are obliged to know the tasks and responsibilities inherent to their office. The chairman of the board of directors ensures that directors and statutory auditors can participate, after their nomination and during their mandate, in the most opportune ways, in initiatives intended to provide them with adequate knowledge of the business sector in which the issuer operates, of the dynamics of the company and their evolution, and of the principles of correct risk management as well as the legal and self-regulatory framework of reference. In the report on corporate governance the issuer reports on the type and organisation of the initiatives that have taken place during the financial year of reference.	(see Chapter 5.3 of the RCG)
2.C.3. The board of directors designates an independent director as lead independent director in the following cases: (i) if the chairman of the board of directors is the principal person responsible for running the business (chief executive officer); (ii) if the office of chairman is filled by the person who controls the issuer. The board of directors of issuers who are part of the FTSE-Mib designates a lead independent director if this is requested by a majority of the independent directors, unless the board makes a different and reasoned assessment, to be published in the report on corporate governance.	(although neither of the eventualities set out in the application criteria apply, the BoD - as designated by the independent Directors - has appointed an LID - see Chapter 5.7, RCG)
2.C.4. The Lead Independent Director: <ul style="list-style-type: none"> a) represents a point of reference and coordination for the issues and contributions of the non-executive directors and, in particular, of those that are independent pursuant to article 3 below; b) collaborates with the chairman of the board of directors to guarantee that the directors receive complete and timely flows of information. 	(see Chapter 5.7 of the RCG)
2.C.5. The chief executive officer of an issuer (A) may not assume the office of director of another issuer (B) is not a member of the same group, of which an issuer (A) director is chief executive officer.	(currently the CEO of Telecom Italia does not hold directorships in other companies in which a director of Telecom Italia is CEO; see Table 2 of the RCG)
Article 3 – Independent Directors	
Principles	
3.P.1. An adequate number of non-executive directors are independent, in the sense that they do not have relations such as to currently condition their independence of judgement, nor have they recently had such relations, even indirectly, with the issuer or subject linked to the issuer.	(see Chapter 5.6 of the RCG)
3.P.2. The independence of the directors is assessed by the board of directors after their appointment and subsequently at yearly intervals. The	(see Chapter 5.6 of the RCG)

outcome of the board's assessments is communicated to the market.	
Application criteria	
<p>3.C.1. The board of directors assesses the independence of its non-executive members having regard more to the substance than to the form, and bearing in mind the fact that a director does not normally appear independent in the following eventualities, which are not to be considered mandatory:</p> <ul style="list-style-type: none"> a) if they control the issuer directly, indirectly or also through subsidiaries, trustee companies or nominees, or are able to exercise a significant influence over said issuer, or are party to shareholders' agreements through which one or more subjects can exercise significant influence or control over the issuer; b) if they occupy, or have occupied in the three preceding financial years, a prominent position in the issuer, in a company controlled by the issuer with strategic importance or in a company subject to joint control with the issuer, or in a company or body which, also together with others through a shareholders' agreement, controls the issuer or is able to exert significant influence over it; c) if, directly or indirectly (for example, through subsidiaries or companies in which they occupy a prominent position, or as a partner in a professional firm or consultancy company) they have, or have had in the preceding year, a significant commercial, financial or professional relationship: <ul style="list-style-type: none"> – with the issuer, a company controlled by the issuer, or any person holding a prominent position in such a company; – with a subject that, also with others through a shareholders' agreement, controls the issuer, or - in the case of a company or body - with the persons in a prominent position in such a company or body; or is, or has been in the preceding three years, an employee of one of the aforementioned subjects; d) if they receive, or have received in the preceding three years, from the issuer or from a company controlled by or that controls the issuer, a significant additional remuneration (by comparison with the "fixed" fee of a non-executive director of the issuer and the fee paid for participation in the committees recommended in this Code) also in the form of participation in incentive plans linked to company performance, including share-based plans; e) if they have not been a director of the issuer for more than nine of the last twelve years; f) if they have held office as an executive director of another company in which an executive director of the issuer serves as a director; g) if they are a shareholder or director of a company or entity belonging to the network of firms charged with the external audit of the issuer; h) if they have close family ties with a person who is in one of the situations set out in the previous points. 	(see Chapter 5.6 of the RCG)
<p>3.C.2. For the above purposes the following are to be considered "persons in a prominent position" in a company or body : the chairman of the body, the chairman of the board of directors, the executive directors or key managers with strategic responsibilities in the company or body considered.</p>	(see Chapter 5.6 of the RCG)
<p>3.C.3. The number and skills of the independent directors are consistent with the size of the board and the activity undertaken by the issuer; they are also such as to permit the constitution of internal committees of the board, according to the indications contained in the Code.</p> <p>In issuers that are members of the FTSE-Mib index, at least one third of the board of directors is composed of independent directors. If this quota should not correspond to a whole number, this should be rounded down.</p> <p>In any event there shall be no fewer than two independent directors.</p>	(see Chapter 5.6 of the RCG)
<p>3.C.4. After the appointment of a director who qualifies as an independent, and subsequently, when circumstances relevant to their independence arise and in any event at least once a year, the board of directors assesses the relations that might be or appear to be such as to compromise the</p>	(see Chapter 5.6 of the RCG)

<p>independence of judgement of said director, based on the information provided by the person concerned or available to the issuer.</p> <p>The board of directors makes the outcome of its assessments known, after the appointment, by means of a press release to the market and, subsequently, in its report on corporate governance.</p> <p>In these documents the board of directors:</p> <ul style="list-style-type: none"> – will report if assessment parameters different to those indicated in the Code, also with reference to individual directors, have been adopted, and if so, for what reason – will illustrate the quantitative and/or qualitative criteria that might be used to evaluate the significance of the relationships assessed. 	
<p>3.C.5. The board of statutory auditors, as part of the duties assigned to it by law, checks that the criteria and procedures of ascertainment adopted by the board to assess the independence of its members have been correctly applied. The outcome of these controls is made known to the market in the report on corporate governance or the statutory auditors' report to the shareholders' meeting.</p>	<p>(see Chapter 5.6 of the RCG)</p>
<p>3.C.6. The independent directors meet at least once a year in the absence of the other directors.</p>	<p>(see Chapter 5.7 of the RCG)</p>
<p>Article 4 – Institution and functioning of the internal committees of the board of directors</p>	
<p style="text-align: center;">Principles</p>	
<p>4.P.1. The board of directors institutes from among its members one or more committees with consulting and proposing functions as indicated in the following articles.</p>	<p>(see Chapter 7.5 of the RCG)</p>
<p style="text-align: center;">Application criteria</p>	
<p>4.C.1. The institution and functioning of the committees specified in the Code meets the following criteria:</p> <ul style="list-style-type: none"> a) the committees are composed of no fewer than three members. However, in issuers whose board of directors is composed of no more than eight members, the committees may be composed of just two directors, provided they are independent. The works of the committees is coordinated by a chairman; b) the tasks of the single committees are established with the resolution constituting them, and they may be supplemented or modified with subsequent resolutions of the board of directors; c) the functions that the Code attributes to different committees may be distributed differently or assigned to a lower number of committees than specified, provided that the rules for the composition indicated case by case by the Code are respected, and that achievement of the objectives below is guaranteed; d) the meetings of each committee are minuted, and the chairman of the committee reports on them at the first possible board meeting; e) in carrying out their functions, the committees have the right to access the company functions and information necessary for the execution of their tasks, and to avail themselves of external consultants, within the terms established by the board of directors. The issuer makes available to the committees adequate financial resources for the fulfilment of their tasks, within the limit of the budget approved by the board; f) subjects who are not members may participate in the meetings of each committee, including other members of the board or the structure of the issuer, at the invitation of said committee, with reference to single items on the agenda; g) the issuer provides adequate information, in its report on corporate governance, about the institution and composition of the committees, the content of the office conferred on it and, based on the indications provided by each committee, on the activity actually carried out over the financial year, on the number and mean duration of the meetings held and on the percentage attendance of each member. 	<p>(see Chapters 8 and 10 of the RCG)</p>
<p>4.C.2. The institution of one or more committees may be avoided, reserving</p>	<p>Although the Board of Directors</p>

<p>their functions to the full board, under the coordination of the chairman, and at the following conditions: (i) the independent directors represent at least half the board of directors, rounding down to the nearest whole unit if the board consists of an odd number of people; (ii) that adequate space is dedicated within board meetings to the execution of the functions that the Code attributes to said committees, of which an account is to be provided in the report on corporate governance; (iii) regarding the control and risk committee only, the issuer is not controlled by another listed company, or subject to direction and coordination.</p> <p>The board of directors illustrates analytically, in the report on corporate governance, the reasons underlying the choice to not institute one or more committees; in particular, it adequately motivates the choice to not institute the control and risk committee in relation to the degree of complexity of the issuer and the sector in which it operates. The board also proceeds to periodically reconsider the choice made.</p>	<p>of Telecom Italia is composed in majority of directors who qualify as independent, both the Control and Risk Committee and the Nomination and Remuneration Committee have been instituted.</p>
Article 5 – Nomination of Directors	
Principles	
5.P.1. The board of directors constitutes an internal nomination committee composed, in majority, of independent directors.	(see Chapter 8 of the RCG)
Application criteria	
5.C.1. The nomination committee is vested with the following functions:	
<ul style="list-style-type: none"> a) to express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board as well as with regard to the topics indicated by articles 1.C.3 and 1.C.4; b) to submit to the Board of Directors candidates for directors offices in case of co-optation, should the replacement of independent directors be necessary. 	(see Chapter 8 of the RCG)
5.C.2. The board of directors assesses whether or not to adopt a plan for the succession of executive directors. If it should have adopted such a plan, the issuer will report this in its report on corporate governance. The investigation for the preparation of the plan is carried out by the nomination committee or such other internal board committee with responsibility to do so.	(see Chapter 5.1 of the RCG)
Article 6 – Remuneration of Directors	
Principles	
6.P.1. The remuneration of the directors and key managers with strategic responsibilities is established in an amount sufficient to attract, retain and motivate people with the required professional qualities to manage the issuer with success.	(see Chapter 9 of the RCG)
6.P.2. The remuneration of the executive directors and key managers with strategic responsibilities is defined in such a way as to align their interests with the pursuit of the priority objective of creating value for the shareholders with a medium-long term perspective. For the directors who are recipients of management powers or who perform, even on a de facto basis only, functions related to the management of the business as well as for key managers with strategic responsibilities, a significant part of the remuneration is linked to the achievement of specific performance objectives, including those of a non-economic nature, indicated beforehand and determined in coherence with the guidelines contained in the policy specified in principles 6.P.4 below. The remuneration of the non-executive directors is commensurate with the commitment required of each, also taking account of any membership of one or more committees.	(see Chapter 9 of the RCG)
6.P.3. The board of directors constitutes an internal remuneration committee composed of independent directors. Alternatively, the committee may be composed of non-executive directors, with a majority of independent directors; in this case, the chairman of the committee is selected from the independent directors. At least one member of the committee shall possess an adequate knowledge and experience of financial matters or pay policies, to be assessed by the board of directors at the time of appointment.	(see Chapter 8 of the RCG)
6.P.4. The board of directors, at the proposal of the remuneration committee, defines a policy for the remuneration of the directors and key managers with strategic responsibilities.	(see Chapter 9 of the RCG)

<p>6.P.5. The issuer, on the occasion of the cessation of office and/or termination of relations with an executive director or general manager, makes known, at the outcome of the internal processes that lead to the attribution or acknowledgement of indemnities and/or other benefits, detailed information in this regard, by means of a press release disseminated to the market.</p>	(see Chapter 9 of the RCG)
Application criteria	
<p>6.C.1. The remuneration policy for executive directors or directors vested with special offices defines the guidelines with reference to the issues and in coherence with the criteria indicated below</p> <ul style="list-style-type: none"> a) the fixed component and the variable component are adequately balanced according to the strategic objectives and risk management policy of the issuer, also taking account of the sector of activity in which it operates and the characteristics of the business activity actually carried out; b) maximum limits are set for the variable components; c) the fixed component is sufficient to remunerate the service of the director in the eventuality that the variable component should not be paid due to non-achievement of the performance objectives indicated by the board of directors; d) the performance objectives - namely the economic results and any other specific objectives to which payment of the variable components is linked (including the objectives defined for the share-based remuneration plans) - are predetermined, measurable, and linked to the creation of value for the shareholders in a medium-long term perspective; e) payment of a major portion of the variable component of the remuneration is deferred by an adequate period of time after the moment of its accrual; the measure of said portion and the duration of the deferment shall be coherent with the characteristics of the business activity undertaken and with the related risk profiles; 	(see Chapter 9 of the RCG)
<ul style="list-style-type: none"> f) contractual agreements are provided that enable the company to require the repayment, whole or in part, of variable components of the remuneration paid (or to retain sums that are deferred), determined based on data that are subsequently found to be manifestly incorrect; 	(see Chapter 9 of the RCG)
<ul style="list-style-type: none"> g) any compensation that might be envisaged for termination of the directorship shall be defined in such a way that its total amount does not exceed a certain sum or certain number of years of remuneration. Said compensation is not paid if the termination of the directorship is due to the achievement of results that are objectively inadequate. 	(see Chapter 9 of the RCG)
<p>6.C.2. In preparing share-based remuneration plans, the board of directors ensures that:</p> <ul style="list-style-type: none"> a) the shares, options and every other right assigned to the directors to acquire shares or be remunerated based on the trend in the share price have an average vesting period of at least three years; b) the vesting referred to in point a) is subject to predetermined and measurable performance objectives; c) the directors maintain a quota of the shares allocated or acquired through the exercise of the rights referred in point a) until the end of their mandate. 	<p>(see Chapter 9 of the RCG) Currently only the Chief Executive Officer is the beneficiary of stock option plans.</p>
<p>6.C.3. Criteria 6.C.1 and 6.C.2 apply, insofar as they are compatible, also to the determination - by the bodies delegated to do this - of the remuneration of key managers with strategic responsibilities. The incentive mechanisms of the head of the internal audit function and the executive responsible for preparing the corporate accounting documents reflects the tasks assigned to them.</p>	(see Chapter 9 of the RCG)
<p>6.C.4. The remuneration of the non-executive directors is not - unless for a non-significant part - linked to the economic results achieved by the issuer. The non-executive directors are not the beneficiaries of share-based remuneration plans, unless decided, with reasoning, by the shareholders' meeting.</p>	(see Chapter 9 of the RCG)
<p>6.C.5. The Remuneration Committee:</p> <ul style="list-style-type: none"> - periodically evaluate the adequacy, overall consistency and actual 	(see Chapters 8 - 9 of the RCG)

<p>application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard</p> <ul style="list-style-type: none"> – submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives. 	
6.C.6. No director takes part in the meetings of the remuneration committee where proposals for the board of directors are formulated relating to his/her own remuneration.	(see Chapters 8 - 9 of the RCG and art. 2.4 of the Regulations of the Nomination and Remuneration Committee)
6.C.7. If it should intend to avail itself of the services of a consultant in order to obtain information on market practices on pay policies, the remuneration committee checks in advance that it is not in situations that might compromise the independence of its judgement.	(see Chapters 8 - 9 of the RCG)
<p>6.C.8. The communication to the market specified in principles 6.P.5. comprises:</p> <ul style="list-style-type: none"> a) adequate information on the compensation and/or other benefits, including their amount, and the timing of their payment - distinguishing the part paid immediately from any part subject to deferment mechanisms, and also distinguishing the components attributed by virtue of the office of director from those relating to any employment relationship, and any repayment clauses, with particular reference to: <ul style="list-style-type: none"> – end of office or termination of employment compensation, specifying the particular case that justifies the accrual (for example, due to expiry of the term of office, revocation of office or settlement agreement); – maintenance of the rights related to any incentive plan based on money or financial instruments. – benefits (monetary and non-monetary) after the director ceases to hold office; – non-competition obligations, describing their principal content; – any other compensation attributed for any reason and in any form; b) information on the conformity or otherwise of the compensation and/or other benefits with the indications contained in the remuneration policy, in case of even partial non-respect of the indications in said policy, information on the resolution procedures followed in application of the Consob regulations on transactions with related parties; c) indications on the application or non-application of any mechanisms that place limitations or impose corrective measures on the payment of compensation in the case in which the termination of the relationship is due to objectively inadequate achievement of results, as well as on any formulation of request for the repayment of compensation already paid; d) information on the fact that the replacement of the executive director or general manager who has ceased to hold office is regulated by a succession plan adopted by the company, if this is the case, and, in any event, indications regarding the procedures that have been or will be followed in replacing the director or senior manager. 	(see Chapter 9 of the RCG)
Article 7 – Internal control and risk management system	
Principles	
7.P.1. Every issuer equips itself with an internal control and risk management system composed of the set of rules, procedures and organisational structures to identify, measure, manage and monitor the principal risks. This system is integrated into the more general organisational and corporate governance structures adopted by the issuer	(see Chapter 11 of the RCG)

and gives due consideration to the existing national and international reference models and best practices.	
7.P.2. An effective internal control and risk management system contributes to conduct of the business that is coherent with the company objectives defined by the board of directors, promoting knowledgeable decision-taking. It contributes to ensure that the equity of the company, the efficiency and effectiveness of its business processes and the reliability of the information supplied to the corporate bodies and the market are safeguarded, and that the laws and regulations, and the bylaws and internal procedures, are respected.	(see Chapter 11 of the RCG)
7.P.3. The internal control and risk management system also involves, each for those matters for which it is competent:	
a) the board of directors, which plays a directing role and assesses the adequacy of the system, and identifies from its members:	(see Chapter 11 of the RCG)
i. one or more directors, appointed to create and maintain an effective internal control and risk management system (in article 7 below, the "director in charge of the internal control and risk management system"), and	(see Chapter 11.1 of the RCG)
ii. a control and risk committee, with the characteristics indicated in principle 7.P.4., with the task of supporting, with adequate investigatory activity, the assessments and decisions of the board of directors regarding the internal control and risk management system, and the activities relating to the approval of the periodic financial reports;	(see Chapter 10 of the RCG)
b) the head of the internal audit function, appointed to check that the internal control and risk management system is functioning and adequate;	(see Chapter 11.2 of the RCG)
c) the other company roles and functions with specific tasks regarding internal control and risk management, articulated according to the size, complexity and risk profile of the business;	(see Chapter 11.6 of the RCG)
d) the board of statutory auditors, also as internal control and accounting audit committee, that monitors the effectiveness of the internal control and risk management system. The issuer ensures arrangements for coordination between the subjects listed above in order to maximise the efficiency of the internal control and risk management system and to reduce duplication of activity.	(see Chapter 11.6 of the RCG)
7.P.4. The control and risk committee is composed of independent directors. Alternatively, the committee may be composed of non-executive directors, with a majority of independent directors; in this case, the chairman of the committee is selected from the independent directors. If the issuer is controlled by another listed company or is subject to the direction and coordination of another company, the committee is in any event composed exclusively of independent directors. At least one member of the committee shall possess adequate experience of accounts and financial matters or risk management, to be assessed by the board of directors at the time of appointment.	(see Chapter 10 of the RCG)
Application criteria	
7.C.1. The board of directors, after having received the opinion of the control and risk committee: a) defines the broad policies of the internal control and risk management system in such a way that the principal risks pertinent to the issuer and the companies it controls are correctly identified, and adequately measured, managed and monitored, also determining the degree of compatibility of such risks with a business management that is coherent with the strategic objectives identified; b) assesses, at yearly intervals at least, the adequacy of the internal control and risk management system in relation to the characteristics of the business and the assumed risk profile, as well as its effectiveness; c) approves, at yearly intervals at least, the plan of work drawn up by the head of the internal audit function, having obtained the opinion of the board of statutory auditors and the director in charge of the internal control and risk management system; d) describes in the report on corporate governance, the principal	(see Chapter 11 of the RCG)

<p>characteristics of the internal control and risk management system and how the different subjects involved in it are coordinated, expressing its assessment of the adequacy of said system;</p> <p>e) assesses, after having obtained the opinion of the board of statutory auditors, the results set out by the external auditor in its letter of suggestions, if any, and in its report on the fundamental issues that emerged during the external audit.</p>	
<p>The board of directors, at the proposal of the director in charge of the internal control and risk management system, and having obtained the favourable opinion of the control and risk committee, and obtained the opinion of the board of statutory auditors:</p> <ul style="list-style-type: none"> – appoints and terminates the appointment of the head of the internal audit department; – assures that said person is equipped with adequate resources to fulfil its responsibilities; – defines the remuneration paid, in line with company policy. 	<p>(the current head of internal audit was appointed – with the involvement of all the components specified in the Corporate Governance Code – according to the process summarised in Chapter 11.2 of the RCG)</p>
<p>7.C.2. The control and risk committee, in assisting the board of directors:</p> <ul style="list-style-type: none"> a. together with the person responsible for the preparation of the company's accounting documents, after hearing the external auditors and the Board of statutory auditors, assess whether the accounting principles have been correctly applied, and, in the case of groups, their consistency for the purposes of preparing the consolidated financial statements; b. express opinions on specific aspects relating to the identification of the main risks for the company; c. review the periodic reports evaluating the internal control and risk management system, as well as those reports of the internal audit department that are particularly significant; d. monitor the independence, adequacy, efficiency and effectiveness of the internal audit department; e. request that the internal audit department review specific operational areas, giving simultaneous notice to the chairman of the Board of Statutory Auditors; f. report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system; g. support, with adequate investigatory activities, the Board of Directors' assessments and decisions on the management of risks arising from detrimental facts which the Board of Directors may have become aware of. 	<p>(see Chapter 10 of the RCG)</p>
<p>7.C.3. The chairman of the board of statutory auditors, or another statutory auditor designated by the chairman, attends the meetings of the control and risk committee, although the other statutory auditors may also attend.</p>	<p>(see Chapter 10 of the RCG)</p>
<p>7.C.4. Director in charge of the internal control and risk management system:</p> <ul style="list-style-type: none"> a) ensures that the principal business risks are identified, taking account of the characteristics of the activities carried out by the issuer and the companies it controls, and periodically submits them to review by the board of directors; b) implement the guidelines defined by the board of directors, overseeing the design, creation and management of the internal control and risk management system and constantly checking the system's adequacy and efficacy; c) focuses on the adaptation of said system to the dynamics of the operating conditions and legislative and regulatory panorama; d) may request that the internal audit department review specific operational areas, and respect for the internal procedures and rules in the execution of business transactions giving simultaneous notice to the chairman of the board of directors, the chairman of the control and risk committee and the chairman of the board of statutory auditors; e) promptly refers to the control and risk committee (or to the board of directors) any issues or critical points that have emerged from the execution of their activity or which have in some way come to 	<p>(see Chapter 11.1 of the RCG)</p>

their attention, in order that the committee (or the board) may take the appropriate initiatives.	
7.C.5. The head of the internal audit department <ul style="list-style-type: none"> 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 adequate 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) submit the reports indicated under items d) and e) above to the chairmen of the Board of Statutory Auditors, the Control and Risk Committee and the Board of Directors, as well as to the director in charge of the internal control and risk management system; g) tests the reliability of the information systems, including the accounting system, as part of the audit plan. 	(see Chapter 11.2 of the RCG)
7.C.6. The internal audit function, as a whole or by operational segment, may be assigned to a subject external to the issuer, provided it adequately meets the requirements of professionalism, independence and organisation. The adoption of such organisational choices, adequately reasoned, is communicated to the shareholders and to the market in the report on corporate governance.	N.A. (responsibility for the Internal Audit function is assigned to a Company employee)
Article 8 – Statutory Auditors	
Principles	
8.P.1. The statutory auditors act with autonomy and independence, also from the shareholders that elected them.	(see Chapters 13 - 14 and Table 3 of the RCG)
8.P.2. The issuer puts in place suitable measures to guarantee the effective execution of the tasks assigned to the board of statutory auditors.	(see Chapters 13 - 14 and Table 3 of the RCG)
Application criteria	
8.C.1. The statutory auditors are chosen from among people who may be qualified as independent also based on the criteria set out in this Code for directors. The board of statutory auditors checks that its members meet these criteria after nomination and at yearly intervals, informing the board of directors of the outcome of these checks. The board makes these results known, after the appointment, by means of a press release to the market, and subsequently in its report on corporate governance in the same way as prescribed for the directors.	(see Chapters 13 - 14 and Table 3 of the RCG)
8.C.2. The statutory auditors should accept office when they believe they can dedicate the necessary time to the diligent execution of their tasks.	(see Chapters 13 - 14 and Table 3 of the RCG)
8.C.3. The remuneration of statutory auditors is proportionate to the commitment required from each of them, to the importance of his/her role as well as to the size and business sector of the company.	(see Chapter 14 of the RCG)
8.C.4. A statutory auditor who, on his or her own account or on behalf of third parties, has an interest in a particular transaction of the issuer promptly and thoroughly informs the other statutory auditors and the chairman of the board of directors of the nature, terms, origin and extent of their interest.	(see Chapters 13 - 14 and Table 3 of the RCG)
8.C.5. As part of their activities, the statutory auditors may ask the internal audit function to carry out audits of specific operational areas or company transactions.	(see Chapter 11 of the RCG)
8.C.6. The board of statutory auditors and the control and risk committee promptly exchange information relevant for the execution of their respective tasks.	(see Chapter 10 of the RCG)
Article 9 – Relations with stakeholders	
Principles	

9.P.1. The board of directors should promote initiatives to favour the broadest possible shareholder participation in meetings, and to facilitate the exercise of shareholders' rights.	(see Chapter 16 of the RCG)
9.P.2. The board of directors uses its best endeavours to instigate a continuous dialogue with the shareholders based on understanding of one another's roles.	(see Chapter 16 of the RCG)
Application criteria	
9.C.1. The board of directors ensures that an executive in charge of managing relations with the shareholders is identified, and periodically assesses the advisability of proceeding to constitute a business structure charged with this function.	(see Chapter 15 of the RCG)
9.C.2. All the directors attend meetings of the shareholders, as a rule. Shareholders' meetings are also an occasion to communicate information on the issuer to the shareholders, in compliance with the regulations on sensitive information. In particular, the board of directors reports to the shareholders on the activities undertaken and planned, and uses its best endeavours to ensure that the shareholders have adequate information about the elements necessary for taking decisions, within the competence of the shareholders' meeting, with full knowledge of the facts.	(see Chapter 16 of the RCG)
9.C.3. The board of directors proposes to the shareholders' meeting, for its approval, regulations that indicate the procedures to be followed to enable the orderly and functional running of the shareholders' meetings, while also guaranteeing the right of each shareholder to speak on the topics for debate.	(see Chapter 16 of the RCG)
9.C.4. In the case of significant changes to the market capitalisation of the issuer's shares, or the composition of its share ownership, the board of directors assesses the suitability of proposing to the shareholders' meeting amendments to the bylaws regarding the percentages set out for exercising shares and the prerogatives included to protect minority holdings.	(see Chapter 16 of the RCG)

3. INFORMATION ON SHARE OWNERSHIP

(pursuant to Article 123-bis, subsection 1, CLF)
as at 31 December 2015

a) Share capital structure

The subscribed and paid-up share capital is shown in Table 1 - Share capital structure at 31 December 2015. The Company's ordinary and savings shares, without indication of the par value, are listed, as well as on the Italian Stock Exchange (Borsa Italiana), on the New York Stock Exchange in the form of American Depositary Shares, each corresponding to 10 ordinary or savings shares, 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, About Us section - Governance System/Company Bylaws channel).

In relation to the share-based incentive plan called the "2014-2016 Stock Option Plan", and the increase in capital to service it, see the note "Remuneration plans in the form of shareholdings in the Company capital" in the separate financial statements of the Company as at 31 December 2015 and the corresponding disclosure document that may be consulted on the website www.telecomitalia.com, About Us 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. Telecom Italia is however subject to the special powers in the energy, transport and communication sectors pursuant to legislative decree no. 21/2012 converted with amendments by law 56/2012. For a description of the prerogatives that government authorities are entitled to exercise, see letter d) below "Shares that confer special rights of control".

The 2014-2016 Stock Option Plan does not envisage lockup mechanisms.

c) Significant shareholdings

Significant holdings in the ordinary capital of Telecom Italia at 31 December 2015, and subsequent developments, are shown in Table 1 - Information on share ownership.

d) Securities that confer special rights of control

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

Since the Prime Minister's decrees identifying "*the networks and systems, assets and relations of strategic relevance for the communications [...] sector*" came into force (including art. 2 of legislative decree no. 21/2012 containing "Regulations on the special power over the ownership structure of companies in the defence and national security sectors, as well as for activities of strategic importance in the energy, transport and communications sectors"), the articles of the by-laws on the special powers of the Ministry of the Economy and Finance pursuant to law no. 474/1994, previously reproduced in article 22 of the by-laws, ceased to have efficacy. As a consequence, this provision was removed from the Company Bylaws on 26 June 2014.

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 this type of assets. Purchase is in any case permitted solely on condition of reciprocity. 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), connected to shares whose sale entails the transfer of control, are 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;

- 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. 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.

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.

Savings shares are not granted the right to vote at ordinary shareholders' meetings.

For a description of the restrictions to voting rights deriving from the exercise of the special powers reserved to the Government, see paragraph d) above.

With reference to the exercise of the voting rights of Telefónica S.A. in Telecom Italia, the provisions of art. 20-bis of the Company Bylaws should be noted. These state that, in conformity with the instructions issued by the Agência Nacional de Telecomunicações "ANATEL" in its ruling dated 22 December 2014, as subsequently amended on 12 March 2015, the exercise of all the administrative rights (direitos políticos) of Telefónica S.A. in Telecom Italia and in its subsidiaries (including Tim Celular S.A. and Intelig Telecomunicações Ltda.) shall be understood to be suspended, particularly with regard to:

- the designation of members of the Board of Directors, Board of Statutory Auditors and Executive Committee or any corporate body of such companies with equivalent powers;
- the exercising by Telefónica S.A. of its voting rights and veto rights in the shareholders' meetings of Telecom Italia and said companies or in any corporate body thereof with equivalent powers;
- its participation (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in shareholders' meetings or in any corporate body of Telecom Italia and said companies with equivalent powers;

The aforementioned restrictions shall prevail over the other provisions of the Bylaws of Telecom Italia that are incompatible with them, in such a way that Telefónica S.A. is always precluded from participating, intervening or exercising a voting right or veto, or registering its presence (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in relation to any resolution adopted by Telecom Italia or said companies.

The content of article 20-bis shall have efficacy for as long as Telefónica remains a shareholder of Telecom Italia, irrespective of the number of shares, or until the moment in which this control, object of the restriction identified in the ANATEL case ("Ato nº 454 22 January 2015), shall cease to have efficacy."

g) Shareholders' Agreements

At present there are no shareholders' agreements relevant for Telecom Italia pursuant to article 122 of the CLF. In particular, with effect from 17 June 2015, after the break-up of Telco S.p.A. (the corporate vehicle that previously held a majority stake in the ordinary share capital of the Company, formed by Generali group,

Mediobanca S.p.A., Intesa Sanpaolo S.p.A. and Telefónica S.A.) the shareholders' agreement between the shareholders of Telco S.p.A. (the "Telco Shareholders' Agreement") was terminated, as announced in notices published pursuant to the current regulations. The purpose of the Telco Shareholders' Agreement was, among other things, to submit a slate of candidates for appointment to the Board of Directors of Telecom Italia.

h) Change of control clauses and statutory provisions on Tender Offers

In a series of agreements to which Telecom Italia and/or the companies it controls are party, the duty to announce the change of control is specified, and sometimes the phenomenon of change of control means an amendment or extinction of the relationship. The situations not subject to contractual confidentiality constraints in which the change of control is significant are reported below.

Financial relationships

Regarding the financing relationships set out below:

- Revolving Credit Facility signed with a syndicate of banks on 24 May 2012 for 4 billion euros, expiring on 24 May 2017.
- Revolving Credit Facility signed with a syndicate of banks on 25 March 2013 for 3 billion euros, expiring on 26 March 2018.
- Facility Agreement signed with Cassa Depositi e Prestiti on 20 October 2014 for 150 million euros, expiring on 21 October 2019; and a further agreement signed on 10 April 2015 for 100 million euros, expiring on 10 April 2019.
- Facility Agreement signed with Mediobanca - Banca di Credito Finanziario S.p.A. on 10 November 2014 for 200 million euros, expiring on 11 November 2019; and a further agreement signed on 6 July 2015 for 150 million euros, expiring on 3 July 2020.
- Facility Agreement signed with ICBC- Industrial & Commercial Bank of China on 13 July 2015 for 120 million euros, expiring on 06 July 2020.
- Facility Agreement signed with INTESA SANPAOLO on 7 August 2015 for 200 million euros, expiring on 5 August 2021.

Telecom Italia must promptly communicate any change of control to the bank or, where specified, to the agent, within 5 working days, and the bank or agent will, on behalf of the financing banks, negotiate in good faith how the relationship will proceed within a period of 30 days, at the end of which a bank with which agreement has not been reached may ask for reimbursement for the quota of financing it provided, and/or the cancellation of the quota relating to 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; Breach of the obligation to communicate the change of control that has occurred, where not remedied, would imply that an Event of Default had occurred. With respect to these loan contracts, Telecom Italia has also assumed the obligation of not implementing mergers, demergers or transfer of business involving entities outside the Group. If such an Event of Default should occur, it can imply early redemption of the drawn sums and/or cancellation of commitments not yet used, if requested by the bank, or by the agent on behalf of the lender banks.



The following agreements are noted, which, although not having a real change of control clause, provide for a commitment by Telecom Italia to not implement corporate transactions outside the group:

- Facility Agreement signed with UBI Banca Regionale Europea S.p.A. on 27 July 2015 for 200 million euros, expiring on 28 July 2019;
- Facility Agreement signed with BANK OF CHINA on 28/01/2010 for 25,000,000 euros, expiring on 31 July 2017;
- Facility Agreement signed with AB SVENSK EXPORTKREDIT on 26/03/2010 for 61,185,481 euros, expiring on 16 April 2018;
- Facility Agreement signed with THE BANK OF TOKYO - MITSUBISHI on 07/10/2010 for 145,598,195 euros, expiring on 18 March 2019;
- Facility Agreement signed with THE BANK OF TOKYO - MITSUBISHI on 14/10/2011 for 107,827,531 euros, expiring on 11 February 2020.

- Facility Agreement signed with NORDEA on 28/11/2011 for 59,339,525 euros, expiring on 23 April 2020.
- Facility Agreement signed with BANCO SANTANDER on 26/04/2012 for 29,654,910 euros, expiring on 11 May 2020.
- Facility Agreement signed with CHINA DEVELOPMENT Bank Corp on 23/05/2012 for 140,000,000 euros, expiring on 23 May 2022.
- Facility Agreement signed with NORDEA on 30/10/2012 for 60,360,263 euros, expiring on 19 February 2021.
- Facility Agreement signed with THE BANK OF TOKYO - MITSUBISHI on 24/01/2013 for 136,810,201 euros, expiring on 13 April 2021.
- Facility Agreement signed with NORDEA on 25/10/2013 for 99,863,345 euros, expiring on 2 March 2022.
- Facility Agreement signed with THE BANK OF TOKYO - MITSUBISHI on 28/02/2014 for 151,579,675 euros, expiring on 20 January 2022.
- Facility Agreement signed with UNICREDIT BANK AUSTRIA AG on 28/09/2015 for a total of 174 million euros split into two tranches of 113,500,000 euros and 60,500,000 euros and expiring on 31 March 2023 and 30 June 2024, respectively.
- Facility Agreement signed with DEUTSCHE BANK AG on 1/10/2015 for a total of 193,162,936 euros split into two tranches of 102,344,783 euros and 90,818,153 euros and expiring on 31 March 2023 and 30 June 2024, respectively.



The following information is provided regarding the bonds in existence:

- The trust deed for the fixed rate guaranteed subordinated equity-linked mandatory convertible bonds, convertible into Telecom Italia S.p.A. ordinary shares, issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia, established that if there is a change of control, Telecom Italia Finance must provide immediate notification of this to the Trustee and the bondholders, and the bondholders will have the right to convert their bonds 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 trust deed for the fixed rate equity-linked bonds, convertible into Telecom Italia S.p.A. ordinary shares, issued by Telecom, establishes that if there is a change of control, the Issuer must notify the Trustee immediately, and the bondholders will have the right to request conversion of their bonds into ordinary shares of the Company 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.



Finally, in the relations with the European Investment Bank (EIB).

- in the first set of contracts for an amount of 0.9 billion euros, there is an obligation to promptly notify the EIB 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 EIB, this could prejudice or compromise the execution of the funding project, Telecom Italia must immediately inform the Bank which will have the right to consult Telecom and request information. If the Bank should deem, in its reasonable opinion, that

the corporate changes may have negative consequences on the financial capacity of Telecom Italia, it is entitled to ask that guarantees be constituted, or the contract be amended, or an alternative solution be found. If Telecom Italia does not comply with the EIB's request, the latter has the right to terminate the contract;

- in the contracts entered into in 2011, 2013, 2014 and 2015, for a total amount of 1.65 billion euros, the obligation was specified for Telecom Italia to notify the EIB immediately of any substantial alteration regarding the Company Bylaws or its share ownership. Failure to provide this notification, after a notice to comply, 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. In the contracts entered into with EIB in 2011, 2013 and 2014 a change of control is not brought about if control is acquired directly or indirectly (i) by 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 contract signed in 2015, there is no change of control if control is acquired directly or indirectly by: (i) any shareholder of Telecom Italia which at the date of the contract should hold, directly or indirectly, at least 13% of the rights to vote in an ordinary shareholders' meeting, or (ii) any shareholder which at the date of the contract should hold, directly or indirectly, the majority of the rights to vote in the ordinary shareholders' meeting as specified in point (i) above. If a change of control should occur, in all the contracts in question the EIB is entitled to request early repayment of the loan after the expiry of a period within which any consultations that might be requested by the EIB are to be held.



In some loan agreements signed by Tim Celular SA, for a total amount equivalent to approximately 290 million euros and repayment in 2019 and 2020, there is a change of control clause that may also come into force for change of control events that involve Telecom Italia. If a change of control should occur, the bank is entitled to request early repayment of the loan, after the expiry of a period within which any consultations that might be requested of the bank are to be held.

Authorisation certificates

In relation to the regulations on special powers for activities of strategic relevance in the communications sector, see paragraph d) above.

The duty to communicate the change of control, provided for by Italian law on licences, is also contained in the general authorisation certificates granted to Telecom Italia for operating and providing the network and for offering electronic communications services as well as in the general concession/authorisation certificates granted to subsidiary Persidera for the network operator business.

A similar obligation is regulated by local legislation and by the provisions set out in the concession/licence certificates for telecommunication services held by the foreign subsidiaries of the Group, and, in some Countries, based on the applicable laws, the obligation for specific approval by the competent Authorities is required.

Agreements relating to telecommunications towers in Brazil

Following the tender process, on 21 November 2014 Brazilian subsidiary TIM Celular S.A. signed with American Tower do Brasil – Cessão de Infraestruturas Ltda (ATC) specific agreements for the sale of two parts of the mobile infrastructure (6,481 telecommunications towers). At closing, which occurred on 29 April 2015, TIM Celular signed specific contracts to rent spaces at said infrastructure for the installation of its phone masts.

The space rental contracts provide for penalties to be imposed on TIM Celular, within a maximum of 90 million Reais, in the case of: (i) acquisition of control of TIM Celular by predetermined subjects; (ii) announcement of an agreement, final or in principle, aimed at transferring control of TIM Celular (or launch of a tender offer aimed at acquisition of the control of said company) in the 18 months following the signing of the sale agreement between TIM Celular and ATC mentioned above (and always provided that, in the case of agreements in principal, final and binding agreements are completed within the following two months), as well as, (iii) without prejudice to some exclusions, termination by the purchasers of the control of TIM Celular, within 10 years of the sale of the towers, of the rental contracts in being on the date of the sale itself.



The Bylaws do not contain derogations of the regulations on the passivity rule, nor the application of the so-

called neutralisation rules in the case of public offerings to purchase or exchange securities issued by the Company.

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

As set out in art. 5 of the Bylaws, the Directors have the power to increase the share capital for five years from 16 April 2014 to service the "2014-2016 Stock Option Plan", also in more than one tranche, for a maximum amount of 107,800,000 euros, through the issue of a maximum of 196,000,000 new ordinary shares without par value, with regular dividend entitlement, with the exclusion of preferential subscription right, to be reserved to part of the management of Telecom Italia and its subsidiaries. The issue price of the shares (including any premium) and the time limit for their subscription shall be set by the Board of Directors, specifying that, if the increase resolved is not fully subscribed within that time limit, the capital will be increased by an amount equal to the subscriptions received up to such time.

For a description of the status as at 31 December 2015 of the aforementioned stock option plan, please refer to the note in the separate financial statements "Remuneration plans in the form of shareholdings in the Company capital".



Telecom Italia owned 37,672,014 treasury shares; Telecom Italia Finance owned 126,082,374 Telecom Italia ordinary shares. No authorisations to purchase treasury shares are currently in force.

For completeness, it should be noted that the exchange of Telecom Italia Media shares with Telecom Italia shares, due to the merger by incorporation of the former into the latter (which became effective at 11.59 p.m. on 30 September 2015), involved the allocation of 1,538,001 Telecom Italia ordinary shares to Telecom Italia Finance, in exchange for the 2,330,306 Telecom Italia Media ordinary shares that it held.

j) Direction and coordination

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

4. 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;
- solely 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.



The following companies are included among the subsidiaries of Telecom Italia at 31 December 2015:

- the Tim Brasil group companies, of which the holding company 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 corporate governance structure of Telecom Italia is not affected by the legal provisions governing Tim Participações S.A;
- the Telecom Argentina group companies.

On this point, it should be noted that on 8 March 2016, the Telecom Italia Group completed the sale of its entire remaining stake in Sofora – Telecom Argentina, with the sale of 51% of the share capital of Sofora Telecomunicaciones to the Fintech Group.

After the breakup of Telco S.p.A., the provisions established by the Brazilian authorities aimed at ensuring separation between Telefónica and Telecom Italia groups in the business carried out in the country, ceased to have effect and therefore the procedures intended to ensure compliance with them are understood to be obsolescent. The same occurred to a similar procedure relating to the undertakings given to the Argentine CNDC for the same purpose adopted on 4 November 2010, as a result of the sales transaction mentioned above.

5. BOARD OF DIRECTORS

5.1 Appointment and replacement

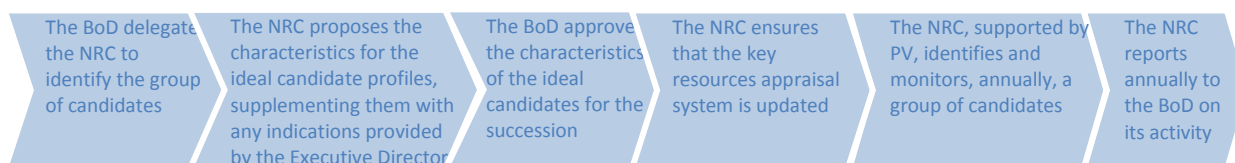
Pursuant to article 9 of the Bylaws (amended on 20 May 2015), the Board of Directors (composed of a minimum of 7 to a maximum of 19 Directors) is appointed on the basis of the slates submitted by the shareholders holding a total of at least 0.5% of the ordinary share capital (as also confirmed by Consob Resolution no. 19499 of 28 January 2016, containing "Publication of the shareholding required for the submission of the lists of candidates for the election of the administrative and control bodies"). 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. Two thirds of the directors to be elected shall be chosen from the slate which has obtained the greatest number of votes (the "Majority Slate"), in the order in which they are listed on said slate, rounding any fractions down. The remaining Directors shall be chosen from the other slates proportionally (the "quotients" method), without prejudice to the legal requirements. At least half of the directors chosen from each slate (with rounding up) must fulfil the requirements of independence specified in art. 148 of the CLF and/or the Corporate Governance Code. If necessary, the last names elected from a slate that do not fulfil these requirements will be replaced, in order, by the first of those not elected from the same slate who fulfil said requirements; in the absence of a sufficient number of independent candidates in a slate to be able to make the replacements, the Shareholders' Meeting shall complete the board with the legal majorities, ensuring that the requirement is fulfilled.

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.

Succession Plans

The Board of Directors has had a procedure for Executive Director succession planning since December 2011. The Board of Directors has assigned the content, updating and monitoring of the succession plan to the Nomination and Remuneration Committee, which utilises the support of the company structure responsible for human resource management.

The architecture of the process, which was revised during 2015, is divided into the phases summarised below:



If an Executive Director must be replaced early, the Nomination and Remuneration Committee formulates a non-binding recommendation which it passes on to the Board, which defines the candidate interview arrangements it deems most suitable. Moreover, it has been established that, when the Chief Executive Officer ceases to hold office, his or her powers are as a rule temporarily assigned to the Chairman until the new Chief

Executive Officer takes office, unless otherwise determined by the board; where it is the Chairman who ceases to hold office, his or her replacement as chairman of the board is regulated by the Bylaws (which provide for the Vice Chairman, if nominated, to take the role), while any management powers will as a rule be assigned to the Chief Executive Officer until the new Chairman takes office, unless otherwise determined by the board.

5.2 Composition

The Shareholders' meeting of 16 April 2014 set the number of members of the Board of Directors at 13 and their term of office at three financial years.

Pursuant to the provisions of the Bylaws applicable at that time (which prescribed that four fifths of the Directors to be appointed should be assigned from the Majority Slate, without specific independence requirements), three slates were presented, by the relative majority shareholder at that time, Telco S.p.A., by Findim S.p.A. and by a group of asset management companies and institutional investors (and specifically: Acomea SGR S.p.A., Anima SGR S.p.A., APG Algemene Pensioen Groep N.V., Arca SGR S.p.A., Eurizon Capital SGR S.p.A., Eurizon Capital S.A., FIL Investments International, Fideuram Gestions S.A., Fideuram Investimenti SGR S.p.A., Interfund Sicav, Mediolanum Gestione Fondi SGR p.A., Pioneer Asset Management S.A., Pioneer Investment Management SGR p.A.). The asset management and institutional investors' slate obtained the highest number of votes (50.28% of the capital voting in the Shareholders' Meeting), and hence 10 Directors should have been selected from this slate. In the absence of other candidates, Lucia Calvosa (independent), Davide Benello (independent) and Francesca Cornelli (independent) were therefore elected. While the 3 places reserved pursuant to the Bylaws for the "minority" slates were assigned to the Telco slate (which obtained 45.50% of the capital voting in the Shareholders' Meeting), and therefore the following people were appointed: Giuseppe Recchi, Marco Emilio Angelo Patuano, Denise Kingsmill (independent). For the remaining 7 positions of Director, there was a separate vote, with the legal majorities (absolute majority of votes in favour), based on a slate submitted by Telco, which proposed the appointment of those of its candidates not elected with the slate vote, and consequently the following people were appointed: Flavio Cattaneo (independent), Giorgina Gallo (independent), Tarak Ben Ammar, Laura Cioli (independent), Giorgio Valerio (independent), Jean Paul Fitoussi (independent pursuant to art. 148 CLF), Luca Marzotto (independent). The Findim slate did not obtain a sufficient number of votes to appoint any Directors (3.49% of the capital voting in the Shareholders' Meeting).

On 15 December 2015, in response to a request from shareholder Vivendi S.A. for the agenda to be supplemented, the ordinary shareholders' meeting then redetermined the number of members of the Board of Directors, increasing it from 13 to 17, and appointed (with votes in favour equal to 52.94% of the voting capital) Arnaud Roy de Puyfontaine, Stéphane Roussel, Hervé Philippe and Félicité Herzog (independent) Directors. The new Directors will cease on expiry of the term of office of the Board of Directors that was in office at that time, and hence at the Shareholders' Meeting called to approve the financial statements at 31 December 2016,

Where the Shareholders' Meeting of 16 April 2014 authorised the Directors appointed at that time to pursue the activities indicated in their respective curricula vitae (with release from the competition prohibition pursuant to art. 2390 of the Italian Civil Code, as necessary), the Shareholders' Meeting of 15 December 2015 did not approve the release from the competition prohibition of the new Directors in relation to the same activities, pursuant to article 2390 of the Italian Civil Code, where applicable. Regarding this, the Board of Directors, at its next meeting, deemed it opportune to proceed to consider the matter further, and after this further consideration (carried out with the support of legal and business experts) ascertained that the conditions for the application of the competition prohibition to Directors de Puyfontaine, Roussel, Philippe and Herzog did not exist, having considered the activities they undertake, as described in their respective curricula vitae. The analysis was an opportunity to reiterate the responsibilities and obligations of each single Director and the full board with regard to the regulations on the Directors' interests.

The curricula vitae of all the members of the administrative body are available on the website www.telecomitalia.com, About Us Section - Corporate Bodies/Board of Directors channel.

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

Maximum accumulation of offices held in other companies

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

companies included in the FTSE/MIB index and/or companies operating principally in the financial sector dealing with the public and/or companies that perform banking or insurance activities. In the case of executive directors in companies with the characteristics listed above, the limit is reduced to three. No diversified thresholds are envisaged to take account of the Directors' participation in the internal board committees. The Board of Directors may, however, make a different assessment (to be published in the Report), 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 2015 financial year respected the accumulation limits indicated above.

5.3 Role of the Board of Directors

During 2015, thirteen meetings of the Board of Directors were held; 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 these circumstances, the need for confidentiality or urgency (also with reference to the progress of negotiations with third parties) meant that the aforementioned notice period could not be observed, and the documentation necessary for informed execution of the directors' duties was provided directly in the meeting, accompanied by presentation of its content. 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 6 hours and twenty minutes. The percentage of attendance was 94.41% (92.10% for independent Directors).

There are nine formal meetings scheduled for 2016, three of which have already been held.

Tasks reserved to the Board

Without prejudice to the application of the Borsa Code regarding matters reserved to the full board, pursuant to the Corporate Governance Principles, the following matters are deemed to 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 direction 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 data on the progress of operations.

The Board of Directors assesses the adequacy of the organisational, administrative and general accounting structure of the business, based on the information supplied by the management, which include the changes in the company organisation chart, down to the second level of hierarchical reporting to the Executive Directors,

and in any case when developing the business plan. Regarding the internal control and risk management system, the Board avails itself of the investigation undertaken by the Control and Risk Committee.

During 2015 a study was carried out of the regulations applied to relations between the parent company and its subsidiaries (in terms of the supervisory and directing/intervening role of the Board of Telecom Italia, as well as the ways in which said board and/or its committees coordinate with the corporate bodies of the subsidiaries). The topic will be considered by the Board of Directors as part of the initiatives to continuously improve the corporate governance of the company.

Induction Programme

During 2015, Directors attended specific meetings with the management (including of the subsidiaries) to provide them with adequate knowledge of the business sector in which the Company operates, the corporate controls and dynamics and their evolution. In preparation for the discussion of the business plan, special Strategy Days were also organised, according to an annually defined corporate calendar that attributes to these occasions an informal analysis function (as well as providing an opportunity to get to know one another and to network) open to the Directors and Statutory Auditors.

For Directors who requested them, customised induction sessions were organised, and participation in training and development events organised by external bodies was also permitted.

Self-assessment

The self-assessment of the Board and its Committees was carried out for 2015, as for every year since 2005. Also considering the fact that 2015 was the second year in office for the Board, and that there was no need to provide the shareholders with any guidance in view of a renewal (which is required exclusively of the shareholders' Meeting called on to examine the financial statements at 31 December 2016), the board review was carried out internally by completion of an online questionnaire, developed by the offices under the supervision of the Nomination and Remuneration Committee, containing a series of questions on the three self-assessment components specified in the Corporate Governance Code: size, composition, operation.

The results of the questionnaires were first discussed by the Nomination and Remuneration Committee and then by the full Board of Directors, focussing on the operational aspect, commenting on its strong points (completeness of the information available, quality of the debate and the contribution of preparatory work by the management and the Board committees) and areas of improvement (essentially: the need for proceedings to be organised differently, since it is hard to find space for many issues on the agenda, notwithstanding the frequency and duration of meetings) As is now the practice, the Board of Directors will end the exercise by defining a series of concrete actions, with a view to continuous improvement.

In accordance with the corporate governance principles, long term scheduling has been introduced for analysis of operational progress, as well as for the strategic planning process, confirming recourse to instances of more in-depth preparation and investigation work outside the Board, particularly in relation to scenario issues, to facilitate more effective Board discussions.

5.4 Delegated bodies

On 16 April 2014, the Shareholders' Meeting appointed Giuseppe Recchi Chairman of the Board of Directors.

In its meeting on 18 April 2014, the Board of Directors appointed Marco Patuano as Chief Executive Officer, establishing his powers and those of the Chairman; the latter was assigned powers of supervision and guarantee, consistent with and for the purpose of the role attributed to him by law and by the corporate governance documents, for the governance of the activities of the Board as a whole, as well as the institutional representation of the Company and the Group. Subsequently, on 25 September 2015, in acknowledging the new organisation of oversight of regulatory and institutional issues (with separation of the two structures previously combined in the single Public and Regulatory Affairs function), it approved the separation of the corresponding responsibilities with assignment of the Public Affairs component to the Chairman and the Regulatory Affairs component to the Chief Executive Officer, retaining the principle of reciprocal coordination on these matters.

The mandates and powers of the Chairman of the Board of Directors and the Chief Executive Officer are, therefore, currently as listed below:

- Attribution to the Chairman, in addition to the powers attributed by the law and the Bylaws in relation to his office, of the mandates and powers regarding the activities listed below:
 - definition of guidelines for Group development, in agreement with the Chief Executive Officer, with powers to identify and analyse extraordinary transactions;
 - supervision of the processing of strategic, industrial and financial plans, from creation to development, as well as checking the implementation of board resolutions;
 - supervision of the definition of the organisational structures and the power to organise and decide on the size of the labour force and the resources needed for the exercise of his functions, making direct use of the HR function that reports to the Chief Executive Officer;
 - supervision of the economic and financial performance of the Company and the Group;
 - Oversight of the review and definition of the guidelines of the internal control system;
 - representation of the Company and the Group in its external relations with all the Italian and International Institutions and Authorities, and with Investors (it being understood that the Investor Relations function reports to the Chief Executive Officer);
 - organisational responsibility for the following functions that report directly to him:
 - Legal Affairs (although the Chief Executive Officer retains the right to avail himself of the function for support needed in operations);
 - Institutional Communication (although the Chief Executive Officer retains the right to avail himself of the Press Office for support needed in operations, coordinating with the Chairman);
 - *Public Affairs*;
 - organisational responsibility for the Corporate Shared Value function (including responsibility for the drafting of the sustainability report) and governance of Fondazione Telecom Italia.
- Attribution to the Chief Executive Officer of
 - all the powers, to be exercised with a single signature, to perform actions pertinent to the activity of the company in its various manifestations, without exclusion, apart from those powers reserved by law or the Bylaws to the Board of Directors, and those assigned to the Chairman;
 - responsibility for the overall governance of the Company and the Group and, in particular, without prejudice to the powers delegated to the Chairman:
 - responsibility for Administration activities (including drawing up the annual financial statements) of ordinary and extraordinary finance, taxation, management control and Investor Relations;
 - the responsibility for defining, proposing to the Board of Directors and then implementing and developing strategic, industrial and financial plans;
 - responsibility for defining the organisational structure, HR policies and relations with Trade Unions;
 - all organisational responsibilities to ensure the management and development of the business in Italy and South America;
 - responsibility for branding and marketing communication policies;
 - responsibilities for market disclosure with reference to the Company;
 - responsibility as "employer" for the purposes of responsibility for the health and safety of workers in the workplace, with reference to the Company;
 - responsibility and powers regarding the processing and protection of personal data, with reference to the Company.

Given the frequency with which the Board of Directors meets, the Executive Directors normally report on the activities carried out during board meetings, often after having transmitted specific information documents beforehand.

The Chief Executive Officer does not hold directorships in companies in which the remaining Directors of Telecom Italia hold the position of Chief Executive Officers.

5.5 Other executive Directors

On 31 December 2015, only the Chairman and Chief Executive Officer were considered executive directors.

5.6 Independent directors

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

Following the increase in the size of the board that occurred after the Shareholders' Meeting of 15 December 2015, the Board of Directors observed that, of the current 17 serving Directors, 10 were found to fulfil the requirements of independence set out in the Borsa Code. The same Board, in its meeting on 17 March 2016, checked that its members continued to meet the requirements for independence, and acknowledged (i) that Directors Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Herzog, Kingsmill, Marzotto and Valerio possessed the requirements of qualified independence, pursuant to the Corporate Governance Code, and (ii) the same Directors, plus Mr Fitoussi (who, specifically, had on 6 May 2013 accumulated nine years' service as a director, since his first appointment to the Board of Directors of Telecom Italia) possessed the requirements of independence pursuant to the CLF.

At the time of their initial candidature, none of the independent Directors in office undertook to maintain independence for the entire term of office. Moreover, the Directors appointed by the Shareholders' Meeting on 16 April 2014 undertook to promptly inform the Company of any change to the information supplied upon acceptance of their candidature in their respective slates.

At the date of this Report, verification by the Board of Statutory Auditors to ensure that the activities to ascertain that the Directors fulfil the requirements, and that the criteria of independence are being correctly applied is not yet complete.

5.7 Lead Independent Director

In its meeting of 5 August 2014 the Board of Directors established the period of office of the Lead Independent Director as one financial year, so as to ensure that several directors held the role during the term of office of the board. As designated by the independent Directors, Ms Cornelli was therefore appointed as Lead Independent Director for 2014 (i.e. until the approval of the relevant financial statements by the Shareholders' meeting). The following year (meeting on 26 June 2015), Mr. Valerio was appointed to hold this office for 2015 (until approval of the corresponding financial statements by the shareholders' meeting), based on the same mechanism of prior designation of the independent directors.

This figure, now consolidated in Telecom Italia, is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. The Lead Independent Director 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. In the course of 2015 there were 7 such meetings. Attention was focussed on the analysis of strategic issues, according to the topics that were discussed by the board.

6. HANDLING OF CORPORATE INFORMATION

Telecom Italia adopted and has consolidated over time an articulated set of rules and procedures for the correct management of the information and data processed in the company, in compliance with the laws applicable to the various types of data; these rules act on the organisational and technical plan and on the operating procedures. The processing of information, in particular, is supported by information systems and processes linked to their development, maintenance and use, which are governed by specific company rules and requirements, are the object of dedicated organisational oversight carried out by the IT & Security Compliance function.

In particular, as part of the system of company rules, a "Procedure for the internal management and disclosure to the public of sensitive information" related to the methods for the external disclosure of documents and information regarding the Company, with specific reference to sensitive information. The current version of this procedure was approved by the Board of Directors in its meeting on 5 August 2014, and may be accessed on

the website www.telecomitalia.com, About Us Section - Governance System/Procedures channel. It also applies as an instruction to all subsidiaries in order to obtain the information necessary for the timely and proper fulfilment of the public disclosure obligations. Finally, the procedure regulates the register of persons having access to sensitive information (art. 152-bis and subsequent articles of the Issuers' Regulations), managed with the support of computer software which continued to be updated in 2015.



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.

7. BOARD COMMITTEES

The Board committees are a Nomination and Remuneration Committee and a Control and Risk Committee, the functions of which are described in the Corporate Governance Principles.

The conclusion of relevant transactions with related parties is subject to examination by the Control and Risk Committee in case of transactions of less importance, or by a Committee made up of all the independent Directors in case of transactions of greater importance (see paragraph 12).

8. NOMINATION AND REMUNERATION COMMITTEE

Composition and functioning

The regulations of the Nomination and Remuneration Committee are contained not only in the Corporate Governance Principles but also in the special Regulations approved by the Board of Directors at its meeting of 5 August 2014 (document available on the website www.telecomitalia.com, About Us section, Governance System/Regulations channel; including, in particular, the principle for drawing up the minutes of Committee meetings).

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. The members of the Committee must possess adequate skills for the tasks they are called on to carry out; at least one member shall possess adequate skills in financial matters or pay policies. In its current composition (increased from 4 to 5 members on 15 February 2016), all the Directors who sit on the Committee possess adequate skills in financial matters and pay policies.

At its meeting on 9 May 2014 the Committee nominated as its Chairman the Director Davide Benello. The composition of the Committee is shown in Table 2.

Functions and activities performed

The Committee, which combines – on the basis of operational efficiency considerations – the duties and the responsibilities attributed to the nomination committee and the remuneration committee by the Borsa Code, also, pursuant to the corporate governance principles:

- 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 2015 the Committee defined the planning of its activities for the execution of the tasks assigned to it, and there were seven meetings (average length: 2 hours and 15 minutes). In particular, the Committee monitored the deployment of the remuneration policy for the year, and submitted to the Board of Directors the proposal for the short term incentive targets for the Executive Directors, as well as - in agreement with the Control and Risk Committee - for the Heads of the control functions; it prepared the final figures for the 2012-2014 LTI plan and the 2014 MBOs for the Chairman and Chief Executive Officer; it defined the procedures for carrying out the 2015 board evaluation; it oversaw the updating of the succession planning process for

Executive Directors and Top Management; it defined the guidelines for the remuneration policy (introducing - among other things - the clawback rule), submitting them for review to the full board. It also undertook benchmarking of the compensation of the Boards of Statutory Auditors of companies listed on the Electronic Share Market included in the FTSE/MIB index. The Board of Directors was kept informed of these various activities at each first available meeting.

For further information on the work of the Committee relating to the 2016 remuneration policy, see the Remuneration Report.

The Committee (whose meetings are attended by the Chairman of the Board of Statutory Auditors or any other Auditor designated by said Chairman, without prejudice to the possibility for all Statutory Auditors to attend) was able to access the information and company departments necessary to carry out its tasks, inviting the Executive Directors and/or managers responsible for the areas being discussed in each case to provide support. The Committee was not assigned financial resources of a predetermined amount, but was able autonomously to bring in external consultants. In particular, it identified Mercer Italia, having ascertained in advance that is not in situations that might compromise its independence of judgement, as its advisor for the two year period 2015-2016.

The percentage of attendance at meetings in 2015 was 89.25%. In 2016 two meetings have already taken place.

9. REMUNERATION OF DIRECTORS, GENERAL MANAGERS AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

Information on the financial remuneration of the directors, general managers and key managers with strategic responsibilities are reported in the Remuneration Report (see the comparison table).

10. CONTROL AND RISK COMMITTEE

Composition and functioning

The regulations of the Control and Risk Committee are contained not only in the Corporate Governance Principles but also in the specific Regulations approved by the Board of Directors at its meeting of 5 August 2014 (available on the website www.telecomitalia.com, About Us section, Governance System/Regulations channel; including, in particular, the principle for drawing up the minutes of Committee meetings).

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. The members of the Committee must have adequate skills for the tasks they are called on to carry out; at least one member shall possess adequate skills in accounting and finance or risk management. At its meeting on 8 May 2014 the Committee nominated as its Chairman the director Lucia Calvosa. For the composition (increased on 15 February 2016 from 5 to 6 members, all independent), see Table 2.

Functions and activities performed

Without prejudice to the duties attributed by the Borsa 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 regarding transactions with related parties (i) on transactions entrusted to the board pursuant to the law, Bylaws or Corporate Governance Code; (ii) on ordinary transactions at standard

or market conditions, 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) without prejudice to the possibility for all Statutory Auditors to attend. With reference to control issues, the Director who represents the link between the Board of Directors and the control structures that report directly to the Board (see paragraph 11.6) is invited to participate; furthermore, on 26 June 2014 this role was assigned to Ms Calvosa, who already acted as Chairman of the Committee.

During 2015, the Committee, among other things, oversaw the preparatory work for the updating of the Bylaws (Shareholders' Meeting of 20 May 2015) and the definition of the procedure for carrying out the impairment test on goodwill, applied when the financial statements at 31 December 2015 were drawn up; it examined in detail the risks connected with complaints of non-compliance in a regulatory context, with particular reference to the A428 and I761 proceedings, receiving prompt and detailed reports on the improvement actions undertaken; it monitored the progress of Audit, Compliance and IT& Security Compliance activities by means of hearings with the heads of these departments, verifying with them the adequacy of the internal control and risk management system; it received reports on the implementation of the Enterprise Risk Management process; it expressed the opinions specified in the special procedure for relevant transactions with related parties, and also received reports on all the transactions registered on the system (see Paragraph 12 of the Report). Periodically, it examined the reports on the maintenance of the register of persons having access to sensitive information pursuant to art. 115-bis of the CLF. The Board of Directors was informed of all of the above as they occurred.

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

During 2015 the Committee held sixteen meetings (of which 14 jointly with the Board of Statutory Auditors), supported – when invited to attend – by the Executive Directors and/or by the specialist contributions of company management or consultants. The average duration of meetings was approximately 4 hours and ten minutes and the percentage attendance was 91.20%.

In 2016, the Control and Risk Committee has already met five times.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

General

The internal control and risk management system (hereafter, for brevity: the Internal Control System) is organised and operates according to the principles and criteria set out in the Corporate Governance 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 system consists of the 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 (available on the website www.telecomitalia.com, About Us - Governance system channel/Codes) and the Corporate Governance Principles. 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 (which is responsible for approving annually the work plans of the control functions that report directly to it, after hearing the Board of Statutory Auditors and the Executive Directors) defines the guidelines for the Internal Control 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. In carrying out its assessment compared to 2015, the Board endorsed the judgement expressed by Internal Audit (already shared by the Control and Risk Committee), according to which, with reference to the specific operational contexts analysed during the year, given the weaknesses of varying intensity found, and having assessed the process of implementation of the improvement initiatives undertaken by the owner functions to quickly overcome these weaknesses, the internal control system can be considered capable of reducing the risk profiles to a level acceptable for the correct operation of the business processes.

At the same time, the Board of Directors confirmed the central role that the Enterprise Risk Management process plays in Telecom Italia, and gave as a guideline that the relative operating model be applied by the management across the entire company, enhancing its "active" risk management function.

In the above-mentioned perspective of continuous improvement, the models adopted by the control departments have been the subject of a process of independent analysis undertaken by Deloitte, with a view to improving the existing organisational solutions.

Enterprise Risk Management

The Telecom Italia Group has adopted an Enterprise Risk Model (or ERM) which enables risks to be identified, assessed and managed in a homogenous way within the Group companies, highlighting potential synergies between the players involved in the assessment of the Internal Control System. There is particular focus on the relationship between the ERM process and the business planning process, particularly in proposing the acceptable level of risk for the Group (Risk Appetite), as well as its distribution in levels of acceptable deviation on the principal corporate objectives (Risk Tolerance).

The process is guided by the ERM Steering Committee, which is chaired and coordinated by the CFO. The Steering Committee assures governance of Group risk management, aimed at guaranteeing the operational continuity of the business, monitoring the effectiveness of the countermeasures adopted. The ERM process is designed to identify potential events that may impact on business activity, to bring the risk back within acceptable limits and to provide reasonable assurance of the achievement of the corporate objectives.

The process adopted is cyclical and consists of the following output:

1. Definition of Risk Appetite and Risk Tolerance

- **Risk Appetite** is the amount and type of risk that a company is willing to take, overall, to create value, that is in order to meet their strategic objectives (the *Committee of Sponsoring Organizations of the Treadway Commission* definition, CoSO 2013). It is discussed and defined annually by the Board of Directors in sessions dedicated to the approval of the Business Plan, with the support of the CFO (as Chairman of the ERM Steering Committee) and after evaluation by the Control and Risk Committee. If the Risk Appetite level is exceeded, the Board assesses the reasons for this, and the adequacy of the recovery plans.
- **Risk Tolerances** represents the level of risk that the Company is willing to take, with reference to the single categories of objectives (strategic, operational, compliance and reporting: according to the CoSO classification). Within each category of objectives (Strategic, Operational, Financial), the relevant KPIs in the Business Plan have been identified, on which the Risk Tolerance thresholds that are coherent with the aforementioned definition of Risk Appetite are expressed.

Monitoring of compliance with Risk Appetite and Risk Tolerances is quarterly, and is reported to the Control and Risk Committee.

2. Identification of the Risk Profile

The Risk Universe is the document which contains the description of the principal characteristics of all the risks identified, through a process that involves the whole company. These risks are positioned on a specific matrix, the dimensions of which are inherent risk level, linked to the potential deviation from the Business Plan that might derive from the occurrence of a risk event, and the level of oversight. The matrix enables intervention priorities for the mapped risks to be directed.

3. Mitigation Actions

The risks that present incomplete levels of oversight are dealt with through specific mitigation actions with associated projects overseen by the process owner, with the support of the Risk Management function.

4. *Reporting*

Periodic reporting to the ERM Steering Committee, the Corporate Bodies involved, and the Executive Directors, on the outputs mentioned above.

Financial risks

Regarding financial risks, the Group 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 through 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 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.

Financial Reporting

Financial information has a central role when 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 trustworthiness, accuracy, reliability and promptness 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. In order to guarantee compliance with the Italian law (art. 154-Bis of the CLF) and U.S. law (Section 404 of the Sarbanes Oxley Act), the Company operates a structured and documented model of detection and monitoring of risks connected to the financial reporting, which refers to CoSO 2013.

The system of risk management and internal control on the financial reporting of Telecom Italia is a 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 risks regarding financial reporting. For that 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 objectives, due to potential non-intentional errors or frauds, 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 value or with reference to updated materiality parameters.

The reporting units that contribute significantly to the composition of the previously selected items are then identified. In parallel, the processes associated with these items are identified, and, for each process, the inherent risks are assessed, 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

components¹ and the principles of CoSO 2013 are the subject of assessment according to the allocation in the reference framework. Telecom Italia presents the internal control system in its financial reporting, documenting the assessment activities, controls and processes in an organised way, 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 identified risks. Telecom Italia uses different types of controls in its model, in order to assess all the components of the control system relating to the objective of trustworthy financial reporting. The Entity Level Controls are defined at Group/Company/Organisational Unit level, and have a pervasive impact on the effectiveness of the controls defined at process, transaction or application level; this set of controls therefore 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 objectives². The Process Controls are the controls to protect the company processes and are carried out through human intervention and/or by IT applications.

The assessment phase of the controls against the risks identified is carried out through test activities, managed by a methodology guide and a strategy that are updated annually. Using top-down and risk-based logic, the test activities are differentiated by timing and depth, in relation to the type, classification and other characteristics of the controls. The test activities are designed to check both the efficacy of the design and the operational effectiveness of the control. If there is 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 certification process is guided by an organisational procedure that identifies the roles and responsibilities for the different phases of its execution. The *Chief Financial Officer* 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, implementing and assessing the controls 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 area, 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. The Chief Financial Officer receives periodic reports from the Group Compliance Officer on the progress of the activities and the results of the certification process. Furthermore, the Group Compliance Officer periodically brings the findings of the 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, as well as a summary of the evolution of control shortcomings for the current certification year.

11.1 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

1 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).

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

accounting documents for this area of competence, so as to ensure the overall adequacy of the Internal Control System and its practical functionality, in a risk-based perspective.

The Executive Directors oversee in the context of the ERM process the identification of the major company risks (strategic, operational, financial and compliance) in the operational areas covered by their mandates. They implement the guidelines defined by the Board, overseeing the design, creation and management of the Internal Control System and constantly checking the system's adequacy and efficacy. They may also ask the Internal Audit function to carry out audits on specific operational areas and on compliance with the internal rules and procedures in the execution of the company operations, giving simultaneous notice to the Chairpersons of the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors.

11.2 Head of audit department

Pursuant to the Corporate Governance Principles, in exercising the responsibility of the Board of Directors for the Internal Control 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 latter is responsible for supporting the management and control boards in assessing the adequacy and effectiveness of the Control 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, 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 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 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 executive Directors (because they are in charge of the Internal Control System), to the Control and Risk Committee and, through it to the Board of Directors, as well as to the Board of Statutory Auditors. In particular, he reports on how risk 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 acts as guarantor that the principles and values expressed in the Code of Ethics and Conduct are respected. As set out in suitable internal procedures, the recipients of the Code, and those who have adhered to it, must report promptly to the Head of Audit:

- any violation, request or inducement to violate applicable laws and regulations, the provisions of this Code or internal procedures, with reference to activities and services of interest to the Group;
- every irregularity or negligence in keeping books and records or fulfilling obligations of financial or internal reporting in Group companies.

Regarding this, the new reporting procedure ("Whistleblowing Procedure") has been in force in Telecom Italia since November 2015. This consists in the centralised management, by the Audit Department, of all reports - including those within the competence of the Board of Statutory Auditors, also in its role as 231 Supervisory Body - through an IT application which whistleblowers can access through the company intranet. Since February 2016 this reporting channel has also been accessible via the Group website. Reports can be made by any employee, collaborator, consultant, work provider or third party that has business dealings with the Group. For each report, the system assigns an unequivocal ID code, which allows the whistleblower to check its progress in an anonymous way.

The overall oversight role of the Head of the Audit Department is directed towards expressing an assessment of the capacity of the Internal Control 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 third 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-based 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.

For this purpose, it resorts to professional and financial resources consistent with its organisational mandate, in compliance with the requirements of independence, adequacy, efficiency and effectiveness of the department prescribed by Borsa Code.

During 2015 the Audit Department also updated and disseminated – inside the Group – some methodological documents with the aim of illustrating the methodological and operational guidelines adopted, also in coherence with the regulations in the Borsa Code and the current professional standards.



In September 2015 Silvia Ponzoni took over as Head of the Audit Department from Federico Maurizio d'Andrea (who had held the position since 1 February 2007), pursuant to a periodic renewal policy.

Based on a process established for the specific purpose, to improve oversight of the independence of this role from the initial candidate selection phase onwards, a specific subcommittee (composed of the Chairpersons of the internal committees, the Lead Independent Director and the Chairman of the Board of Statutory Auditors) interviewed six potential candidates, both internal and external, who had been identified with the professional support of Egon Zehnder. It then drew up a shortlist that was submitted to the Control and Risk Committee. This – based on the curricula vitae, the opinion of the executive search company and the assessment expressed by the subcommittee – identified two candidates, which were then subject to assessment and approval by the Board. After acknowledging that both candidates were suitable, confirmed by the positive opinion of the Board of Statutory Auditors, the Board invited the Chairman and Chief Executive Officer to make the final choice based on considerations of a management nature, and then to proceed to confirm the appointment, defining the terms and conditions, this occurred in compliance with current company policies.

11.3 Organisational model pursuant to legislative decree 231/2001

The internal control System is complemented by the so-called Organisational Model 231, meaning an organisation and management model, intended to prevent offences that can result in liability for the Company pursuant to legislative decree no. 231/2001 (for which they are considered the predicate offences, excluding those deemed not of direct pertinence for the Group).

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, 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", aimed at providing 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 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 231 Steering Committee, briefed by the Supervisory Board (i.e. The Board of Statutory Auditors: see below) and approved by the Board of Directors when of a significant nature.

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 US Foreign Corrupt Practices Act and the UK Bribery Act. In this context, a foreign version of it has also been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level.

The functions of the Supervisory Body are assigned to the Board of Statutory Auditors, which as such oversees the operation and observance of the Organisational Model and reports to the Board on the oversight and examination activities which it has performed and the corresponding outcomes. In this regard the Board of Statutory Auditors is supported by a dedicated corporate structure, within the Compliance Department.

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

11.4 Independent Auditor

The Shareholders' meeting held on 29 April 2010 conferred the office of External Auditor (separate financial statements of Telecom Italia, 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.

In compliance with specific guidelines that can be consulted on the website www.telecomitalia.com About Us section, Governance System/Procedures channel, 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, and the consistency of the compensation requested with the time and level of professionalism shown were particularly considered.

The external auditor appointed by the Parent company is the main external 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 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 qualitative-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 pre-approved 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 subsidiary companies (currently: Tim Participações S.A.; see paragraph 4), provided that they are made on the basis of rules compliant with the applicable regulations and in conformity with the Group Guidelines in the matter

11.5 Manager responsible for preparing the corporate accounting documents and other corporate roles and functions

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. Upon appointment, his/her tasks and powers are defined. These are covered in the specific

Regulations, available at the website www.telecomitalia.com, About Us Section, Governance System/Regulations channel.

The renewal of the Board of Directors entailed, at the meeting of 18 April 2014, proceeding with the renewal of the executive responsible for preparing the corporate accounting documents. The Board confirmed in this role the Head of the Administration Finance and Control Department, Piergiorgio Peluso.

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. 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 Code, including, the Head of the Compliance Department (otherwise known as the Group Compliance Officer, Valerio Cavallo) and the Head of IT & Security Compliance (Roberto Mazzilli), who report directly to the Board of Directors, and who are responsible for Group oversight activities regarding respectively institutional/regulatory and commercial compliance (Compliance Department) and technological and security process compliance (IT & Security Compliance).

11.6 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 Chairman of the Board of Directors and the Chief Executive Officer), as Directors in charge of establishing and maintaining the system, in accordance with the guidelines defined by the full Board of Directors (see preceding paragraph 11.1);
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 10);
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 11.2);
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 11.5);
6. the Board of Statutory Auditors which, borrowing the expression used in the Borsa 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.

In addition to these “typical” players, at the date of this Report the following roles are present in Telecom Italia:

- 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 institutional/regulatory and commercial compliance (Compliance Department) and technological and security process compliance (IT & Security Compliance Function);
- b. the non-executive Director who represents the link between the Board of Directors and the control structures that report directly to the Board (currently: Director Calvosa, who also acts as Chairman of the Control and Risk Committee)

The competences of the figures specified in numbers 1-6 correspond to those recommended by the Borsa Code, to which, on this matter, Telecom Italia adheres without exceptions. The establishment of the managerial

figures specified in letter a. meets the specific internal control needs of the Group, and as such is set out in the Corporate Governance Code, which refers to the organisational assessments of the issuer (also with reference to the corresponding hierarchical relations). The “facilitator” Director (letter b.) performs the essential guarantee function, in the presence of a Chairman of the Board of Directors with executive functions. This Director does not deal with either the operational aspects of the controls nor with the flow of information between the control functions and the Board of Directors, 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 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. Said managers do not have a single reference point, and it is normal that the administrative aspects mentioned are assigned to legal representatives (who by the will of the board are its representatives 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, he exercises a role serving the organisation and operation of the meetings of the Committee: the board is too broad a body to govern the controls, and the fact that many Internal Control 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.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

At Telecom Italia, at self-regulatory level, there is no rule governing the removal and/or compulsory abstention of a Director with a non-shareholding interest, but a disclosure regime applies in keeping with the legal system. The topic of the directors' interests with respect to company activity and the decisions brought to the attention of the Board of Directors is therefore the object of specific attention (with a detailed written report at single meetings), as well as careful checking by the Control and Risk Committee and the Board of Statutory Auditors.



The corporate procedure for carrying out transactions with related parties, drawn up in accordance with the Related Parties Regulations and adopted in November 2010, was most recently updated in March 2016, and may be consulted on the website www.telecomitalia.com, About Us section - Governance System/Procedures channel

Compared to the previous versions, all references to the undertakings given to the Brazilian regulatory authorities (Anatel and CADE) have been removed, and the rules on "intra-group transactions" have been sharpened. These are transactions with subsidiary or affiliated company that are not within the scope of application of the procedure, provided that another non-intra-group related party does not have any interests in the intra-group related party: the interest that determines this effect has been qualified as the existence of a stake in the capital of the intra-group related party that is above the threshold of 5%. It was considered that this rigorous criterion, together with the right to assume/devolve discretionary powers in the examination of the transactions at higher investigatory level, and in any event of authorisation escalation (see below), represents a suitable form of oversight to protect the substantial interests that underlie the rules on transactions with related parties.

In short, the company procedure classifies the transactions into different categories and, according to this classification table, different assessment and approval plans 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 and non-ordinary transactions;
- a quali-quantitative distinction, by significance, between relevant transactions, to which the Regulations on Related Parties is applied, and non-relevant transactions, to which the Regulations on Related Parties is not applied, but that 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 intra-group transactions and transactions not qualified as above and those worth 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;
- 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, according to the threshold set by the same Authority of 5% in terms of the 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, Chief Executive Officer or management, depending on the case, which must however have acquired the prior opinion of the Control and Risk Committee. As deemed opportune, moreover

- the Board of Directors may classify as material any transaction performed by Telecom Italia or by its subsidiaries;
- the Control and Risk Committee may classify a transaction submitted for its assessment as being of major material relevance;
- the Managerial Committee may devolve single transactions for assessment by 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. If the opinions on the interest and conditions of the transactions are favourable, the transaction is completed, according to the mentioned responsibilities. The possible negative opinion of the Board Committee is considered binding and irrefutable, with the consequence that the transaction cannot be performed.

An IT application is active to support the correct application of the procedure, 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.

13. 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.

Appointments are made based on slates presented by shareholders who, jointly or separately, hold shares representing at least 0.5% of the voting capital (as also confirmed by Consob Resolution no. 19499 of 28

January 2016, containing “Publication of the shareholding required for the submission of the lists of candidates for the election of the administrative and control bodies”). 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. Sections 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. 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) proportionally (the quotients method), in accordance with the requirements set out in the applicable regulations.

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 with the gender balance rule (Shareholders' Meeting of 20 May 2015), the quota reserved to the less represented gender was limited - pursuant to law - to one fifth of the total.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS

The Shareholders' Meeting of 20 May 2015 appointed the serving Board of Statutory Auditors, whose term will expire with the Shareholders' Meeting to approve the financial statements for financial year 2017.

Two slates were presented within the terms and according to the procedure required by the applicable regulations, by the relative majority shareholder at that time, Telco S.p.A., and by a group of Asset Management Companies (SGRs) and international institutional investors (specifically: Aletti Gestielle S.G.R. S.p.A., Anima S.G.R. S.p.A., APG Asset Management N.V., Arca S.G.R. S.p.A., Eurizon Capital S.G.R. S.p.A., Eurizon Capital S.A., Fil Investments International, Fideuram Investimenti S.G.R. S.p.A., Fideuram Asset Management (Ireland), Interfund Sicav, Legal & General Investment Management Limited - Legal & General Assurance (Pensions Management) Limited, Mediolanum Gestione Fondi S.G.R. S.p.A., Mediolanum International Funds – Challenge Funds – Challenge Italian Equity; Pioneer Investment Management S.G.R.P.A., Pioneer Asset Management S.A., Standard Life Investments Limited). From the Telco slate, which obtained more votes (78.75% of the voting capital), three Standing Auditors and two Alternate Auditors were appointed: Gianluca Ponzellini (Standing Auditor), Ugo Rock (Standing Auditor), Paola Maiorana (Standing Auditor), Francesco Di Carlo (Alternate Auditor) and Gabriella Chersicla (Alternate Auditor). The remaining appointees were chosen from the Asset Management Companies slate (which obtained 18.52% of the votes) : Roberto Capone (Standing Auditor), Vincenzo Cariello (Standing Auditor), Piera Vitali (Alternate Auditor) and Riccardo Schioppo (Alternate Auditor).

The Shareholders' Meeting also appointed Roberto Capone as Chairman of the Board of Statutory Auditors. The annual remuneration was established, as proposed by shareholder Telco, as 95,000 euros for each Standing Auditor and 135,000 euros for the Chairman of the Board of Statutory Auditors.

The *curricula vitae* of the members of the control body are available on the website www.telecomitalia.com About Us Section - Corporate Bodies/Board of Statutory Auditors channel.

At the date of this Report verification by the Board of Statutory Auditors of the independence requirements specified in article 148, subsection 3 of the CLF and those pursuant to the Borsa Italiana Corporate Governance Code is not yet complete.



The Statutory Auditors attended meetings with the management (including that of the subsidiaries), to provide the members of the Board of Directors with adequate knowledge of the business sector in which the Company operates, the oversight and corporate dynamics and their evolution, including the Strategy Days mentioned in paragraph 5.3.

For Statutory Auditors who requested them, customised induction sessions were organised, and participation in training and development events organised by external bodies was also permitted.



The Board of Statutory Auditors performs the activities assigned to it by Italian regulations, as well as the duties of the audit Committee pursuant to the United States' regulations, applicable to the Company by virtue of its status as a foreign issuer listed on the New York Stock Exchange. The Board of Statutory Auditors is also assigned the functions of supervisory body pursuant to legislative decree no. 231/2001.

It has access to the necessary information and corporate functions (first and foremost the control functions) for performing its tasks. The control body was not assigned financial resources of a predetermined amount, but the Board of Statutory Auditors was able autonomously to bring in external consultants of its choice.

Despite the absence of specific provisions on this point, it is practice to inform the Board of Directors of any interests that the Statutory Auditors may have in the Company's operations, on their own account or on that of third parties.

During 2015, forty-two meetings were held (fourteen of which jointly with the Control and Risk Committee, which all the Statutory Auditors always have the possibility to attend). The average duration of the meetings was 3 hours and 23 minutes. The average percentage of attendance was 90.95%.

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

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

15. SHAREHOLDER RELATIONS

Within the Administration Finance and Control Function, Alex Pierre Bolis is the executive appointed to manage relations with the financial community and with all the shareholders (Investor Relations Manager). The contact information is:

- Institutional investors:
Telecom Italia S.p.A. - ref. *Investor Relations*
Via Gaetano Negri, 1
20123 Milan
Telephone: +39 02 85954131
E-mail: investor_relations@telecomitalia.it
- Individual investors:
Telecom Italia S.p.A. - ref. *Investor Relations*
Via Gaetano Negri, 1
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.

16. 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).

Furthermore, in Telecom Italia, the ordinary shareholders may also exercise their voting rights by post, and the Board of Directors has the power to permit electronic voting, specifying the arrangements for this in the call notice. For this purpose, it is practice to activate a special platform that can be accessed through the Company website. 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. More generally, 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 Shareholders' Meeting resolves on legal matters, but the Bylaws provide that decisions on mergers into Telecom Italia or demergers 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, About Us section, Governance System/Regulations channel.

Six directors participated in the Shareholders' Meeting of 20 May 2015, and 7 of a total of 13 serving Directors participated in the Shareholders' Meeting of 15 December 2015. When calling the two Shareholders' Meeting, 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.



During the year there have been significant changes in the share ownership of the company: after the dissolution of the Telco shareholders' agreement, on 17 June 2015, Vivendi SA acquired the stake in Telecom Italia that was previously held by Telefonica SA. The French company subsequently purchased ordinary Telecom Italia shares on the market (the percentage is reported in table 1 "Information on Share Ownership - Major holdings in share capital").

17. FURTHER CORPORATE GOVERNANCE PRACTICES

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. More precisely, the document regulates the investigation and decision-making process for transactions 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 companies, 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 About Us section - Governance

18. CHANGES SINCE THE END OF THE REFERENCE YEAR

After the end of the financial year, the two existing compliance oversight units, already assigned to the Group Compliance Officer (Valerio Cavallo), but

- one directly reporting to the Board of Directors (definition of the compliance policies and models, and the activities stemming from the financial market regulations and legislative Decree 231/2001);
- the other inserted in the Business Support Office, within the area pertaining to the CEO (responsible for the regulatory and technical compliance activities relating to commercial and technical processes in the context of the Domestic BU,

were reorganised into a single Compliance Department, reporting directly to the Board of Directors, to reinforce the unity and recognisability of the oversight unit, to serve all the company operational processes and in compliance with the regulatory framework of reference, besides providing methodological support to subsidiaries.



On 17 March 2016, the Board of Directors, furthermore:

- updated the Procedure for performing transactions with related parties (see paragraph 12);
- acknowledged the obsolescence of the Group's procedure aimed at ensuring separation between Telefónica and Telecom Italia groups in the business carried out in Argentina (see paragraph 4);
- revised the text of the Corporate Governance Principles (principle of adherence to the Borsa Code in accordance with up-to-date version; elimination of the references to the corporate procedure intended to comply with the undertakings given in the past, that no longer apply, to the Brazilian and Argentine authorities; elimination of the regulations of the Executive Committee, which the Company has not had since 2003; simplification of the provisions on the organisation and operation of the internal board committees with reference to the relevant regulations).

TABLE1 – INFORMATION ON SHARE OWNERSHIP

Share capital structure up to 31 December 2015				
	No. shares	% of share capital	Listed (indicate markets) / non listed	Rights and obligations
Ordinary shares	13,499,911,711	69.13%	Listed on Borsa Italiana S.p.A.	Voting rights at the Company Ordinary and Extraordinary Meetings
Savings shares	6,027,791,699	30.87%	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/subscription	Number of shares available for conversion/subscription
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 service the bonds issued by subsidiary Telecom Italia Finance S.A., an increase in share capital for payment 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 reduced to a maximum of 79,625,000 euros following the payment of interest in November 2014 and November 2015 entirely in cash) was approved. The maximum number of conversion shares that may be issued shall be determined by the issue price of the shares. Each instrument in circulation is worth 100,000 euros.

Significant shareholdings

Declarant	Direct shareholder	% on ordinary capital	% on voting capital
Vivendi S.A.	Vivendi S.A.(*)	13.169%	13.169%

Vivendi S.A.	Societe' d'Investissements et Gestion 108 – SIG 108	8.222%	8.222%
JPMorgan Chase & Co.	JP Morgan Securities Plc (**)	2.649%	2.649%
People's Bank of China	People's Bank of China	2.068%	2.068%

(*) shareholding deduced after receipt of communications from Vivendi S.A. pursuant to art. 152 octies, subsection 7, of the Consob Issuers' Regulation.

(**) as well as a further 1.866% of the ordinary share capital without voting rights, also held through subsidiary company JP Morgan Securities Plc.

Furthermore, BlackRock Inc. informed Consob that at 12 March 2014 it controlled indirectly, as asset management company, a quantity of ordinary shares equal to 4.784% of the total ordinary shares of Telecom Italia at 31 December 2015.

Finally, it should be noted that:

- following receipt of further communications from Vivendi S.A. pursuant to art. 152 octies, subsection 7 of the Consob Issuer's Regulation, its direct shareholding, most recently as at 9 March, was equal to 16.678%.
- following receipt of several communications from JP Morgan Chase & Co. through form 120B, pursuant to the Consob Issuer's Regulation, the share of the voting capital held indirectly, most recently as at 16 March 2016, was 2.138%, plus a further 2.694% without voting rights.

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

Board of Directors														Control and Risk Committee		Nomination and Remuneration Committee		
Position	Members	Year of Birth	Date of first appointment	Serving since	Serving until	Slate (M/m) (*)	Exec.	Non exec.	Indep. Code	Indep. The CLF (Consolidated Law on Finance)	(**)	Number of other appointments (***)	(****)	(**)	(****)	(**)		
Chairman	Giuseppe Recchi	1964	16/04/2014	16/04/2014	31/12/2016	TS	X				13/13	1						
CEO	Marco Patuano ⁽¹⁾⁽²⁾	1964	12/04/2011	16/04/2014	31/12/2016	TS	X				13/13	=						
Director	Tarak Ben Ammar	1949	14/04/2008	16/04/2014	31/12/2016	T		X			12/13	2						
Director	Davide Benello	1954	16/04/2014	16/04/2014	31/12/2016	SGRS		X	X	X	12/13	1			C	7/7		
Director	Lucia Calvosa	1961	04/08/2011	16/04/2014	31/12/2016	SGRS		X	X	X	13/13	1	C	16/16				
Director	Flavio Cattaneo ⁽³⁾	1963	16/04/2014	16/04/2014	31/12/2016	T		X	X	X	11/13	1			M	2/2		
Director	Laura Cioli	1963	16/04/2014	16/04/2014	31/12/2016	T		X	X	X	11/13	2	M	12/16				
Director	Francesca Cornelli	1962	16/04/2014	16/04/2014	31/12/2016	SGRS		X	X	X	13/13	1	M	13/16				
Director	Jean Paul Fitoussi	1942	06/05/2004	16/04/2014	31/12/2016	T		X		X	12/13	1			M	7/7		
Director	Giorgina Gallo	1960	16/04/2014	16/04/2014	31/12/2016	T		X	X	X	13/13	1	M	16/16				
Director	Félicité Herzog	1968	15/12/2015	15/12/2015	31/12/2016	V		X	X	X	1/1	=						
Director	Denise Patricia Kingsmill	1947	16/04/2014	16/04/2014	31/12/2016	TS		X	X	X	8/13	2			M	4/7		
Director	Luca Marzotto ⁽⁴⁾	1971	16/04/2014	16/04/2014	31/12/2016	T		X	X	X	13/13	1			M	5/5		
Director	Hervé Philippe	1958	15/12/2015	15/12/2015	31/12/2016	V		X			1/1	1						
Director	Stephané Roussel	1961	15/12/2015	15/12/2015	31/12/2016	V		X			1/1	1						
Director	Arnaud Roy De Puyfontaine	1964	15/12/2015	15/12/2015	31/12/2016	V		X			1/1	1						
Director	Giorgio Giannino Valerio ⁽⁵⁾	1966	16/04/2014	16/04/2014	31/12/2016	T		X	X	X	13/13	=	M	16/16				
Number of meetings held during the reference year:												BOD: 13	CRC: 16		NRC: 7			
Quorum required to submit slates by the minorities for the election of one or more members (for the purposes of art. 147-ter of the CLF): 0.5%																		

NOTES:

* In this column (i) for those Directors appointed/confirmed by the Shareholders' Meeting of 16 April 2014, LSGR means that they were appointed with slate voting and were candidates on the SGR and Institutional Investors' Slate, LT means that they were appointed with slate voting and were candidates on the Telco Slate, T means they were originally candidates on the Telco Slate but were appointed by the Shareholders' Meeting by ordinary voting (see Paragraph 5.2), V means that they were candidates proposed by shareholder Vivendi SA during the Shareholders' Meeting of 15 December 2015.

** This column shows the attendance of the directors respectively at the Board of Directors and Committee meetings (the number of meetings the Director attended is indicated with respect to the total number of meetings he/she could have attended, 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. For further information on offices held, see the curricula vitae available on the website www.telecomitalia.com, About Us section, Corporate Bodies/Board of Directors channel.

**** This column shows the status of the Director within the Committee "P" chairman, "M" member.

(1) Director in charge of the Internal control and risk management system

(2) Person responsible for managing the Issuer

(3) Member of the Nomination and Remuneration Committee until 26 March 2015

(4) Member of the Nomination and Remuneration Committee from 26 March 2015

(5) Lead Independent Director (LID)

At the date of this document, the composition of the board committees is (i) Control and Risk Committee: Lucia Calvosa (Chairwoman), Laura Cioli, Francesca Cornelli, Giorgia Gallo, Félicité Herzog (from 15/2/2016) and Giorgio Valerio; (ii) Nomination and Remuneration Committee: Davide Benello (Chairman), Luca Marzotto, Denise Kingsmill, Stéphane Roussel (from 15/2/2016) and Arnaud Roy de Puyfontaine (from 15/2/2016).

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.

Giuseppe Recchi	Member of the Board of Directors of Unipol Sai Assicurazioni S.p.A.
Marco Emilio Angelo Patuano	---
Tarak Ben Ammar	Member of the Board of Directors of Mediobanca S.p.A.
Davide Benello	---
Lucia Calvosa	Member of the Board of Directors of Banca Monte dei Paschi di Siena S.p.A.
Flavio Cattaneo	Member of the Board of Directors of Assicurazioni Generali S.p.A.
Laura Cioli	---
Francesca Cornelli	---
Arnaud Roy de Puyfontaine	---
Jean Paul Fitoussi	Member of the Supervisory Board of Intesa Sanpaolo S.p.A.
Giorgina Gallo	Member of the Board of Directors of Autogrill S.p.A.
Félicité Herzog	---
Denise Patricia Kingsmill	---
Luca Marzotto	---
Hervé Philippe	---
Stephane Roussel	---
Giorgio Giannino Valerio	---

TABLE 3 – STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Members	Year of Birth	Date of first appointment *	Serving since	Serving until	Slate **	Independence as per Civil Code	Attendance at Board meetings ***	Number of other offices ****
Chairman	Roberto Capone	1955	16/09/2012	20/05/2015	31/12/2017	m	X	42/42	19
Standing auditor	Vincenzo Cariello	1965	20/05/2015	20/05/2015	31/12/2017	M	X	19/19	=
Standing auditor	Paola Maria Maiorana	1965	20/05/2015	20/05/2015	31/12/2017	m	X	16/19	1
Standing auditor	Gianluca Ponzellini	1947	08/04/2009	25/05/2015	31/12/2017	M	X	38/42	17
Standing auditor	Ugo Rock	1950	08/04/2009	20/05/2015	31/12/2017	M	X	12/19	14
Alternate auditor	Piera Vitali	1949	20/05/2015	20/05/2015	31/12/2017	m	X	=	=
Alternate auditor	Francesco Di Carlo	1969	20/05/2015	20/05/2015	31/12/2017	M	X	=	=
Alternate auditor	Gabriella Chersica	1962	20/05/2015	20/05/2015	31/12/2017	M	X	=	=
Alternate auditor	Riccardo Schioppo	1950	20/05/2015	20/05/2015	31/12/2017	m	X	=	=
STATUTORY AUDITORS WHO RESIGNED DURING THE REFERENCE FINANCIAL YEAR (2015)									
Chairman	Enrico Maria Bignami	1957	13/04/2006	=	20/05/2015	m	X	23/23	=
Standing auditor	Salvatore Spiniello	1951	24/05/2003	=	20/05/2015	M	X	19/23	=
Standing auditor	Ferdinando Superti Furga	1932	24/05/2003	=	20/05/2015	M	X	22/23	=
Alternate auditor	Vittorio Giacomo Mariani	1938	08/04/2009	=	20/05/2015	M	X	=	=
Alternate auditor	Franco Patti	1957	15/05/2012	=	20/05/2015	m	X	=	=
Alternate auditor	Fabrizio Riccardo Di Giusto	1966	17/04/2013	=	20/05/2015	m	X	=	=
Number of meetings held during the relevant year: 42									
Quorum required to submit slates by the minorities for the election of one or more members (for the purposes of art. 148 of the CLF): 0.5%									

NOTES

* Date of first appointment of each statutory auditor means the date on which the statutory auditor was appointed for the first time (overall) to the Board of Statutory Auditors of Telecom Italia.

** This column indicates the slate from which each statutory auditor was chosen ("M": majority slate; "m": minority slate).

*** This column shows the attendance of the statutory auditors at the Board of Statutory Auditors meetings (the number of meetings the statutory auditor attended is indicated with respect to the total number of meetings he/she could have attended, 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 CLF and the relative implementing provisions contained in the Consob Issuers' Regulation. The complete list of offices held is published by Consob on its website, pursuant to article 144 quinquiesdecies of the Consob Issuers' Regulation.

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