

Telecom Italia S.p.A.

Shareholders' Meeting
20 december 2013
Explanatory Reports

Motions for resolutions

Agenda

Ordinary session

- Proposal of the shareholder Findim Group S.A. to remove from office the Directors Aldo Minucci, Marco Patuano, Cesar Alierta Isuel, Tarak Ben Ammar, Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri, Julio Linares Lopez, Gaetano Miccichè, Renato Pagliaro, Mauro Sentinelli, Angelo Provasoli
- In the case of approval of the proposal for removal specified in item 1 – Appointment of the Board of Directors – related and consequent resolutions
- In the case of non-approval of the proposal for removal specified in item 1 – Appointment of two Directors, to supplement the Board of Directors in office

Extraordinary session

- Elimination of the nominal value of the ordinary shares and savings shares. Amendment to the Company's Bylaws - related and consequent resolutions
- Increase in share capital and disapplication of preferential subscription rights through the issue of ordinary shares servicing conversion of bonds issued by the subsidiary Telecom Italia Finance S.A. for an overall amount of EUR 1.3 billion - related and consequent resolutions

FINDIM GROUP S.A. REPORT PREPARED IN CONNECTION WITH THE REQUEST TO CALL THE TELECOM ITALIA'S SHAREHOLDERS MEETING PURSUANT TO ART. 2367 OF ITALIAN CIVIL CODE

It is proposed that the mandates of the Telco S.p.A. nominated Directors Aldo Minucci, Marco Patuano, Cèsar Alierta Izuel, Tarak Ben Ammar, Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri, Julio Linares Lòpez, Gaetano Micciché, Renato Pagliaro, Mauro Sentinelli, Angelo Provasoli, appointed by the Company shareholders' meeting on 12 April 2011, or co-opted at a later date, be revoked.

This proposal is motivated by the announcement to the market by Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca on 24 September 2013 of the agreement, made with Telefònica S.A., modifying the shareholders' agreement regarding Telco S.p.A., holder of 22.44% of the share capital of the Company. Based on the announcement, in particular:

- a) on the date of the announcement, Telefònica S.A. subscribed a 324 million euros increase in the share capital of Telco S.p.A., against which only Class C shares without voting rights were issued, convertible by Telefònica S.A. - when the conditions indicated in the aforementioned communication have been fulfilled - into voting shares of the same class that Telefònica S.A. already holds (Class B shares). After subscription of the entire increase in share capital referred to above Telefònica S.A. will become holder of 66% of the total share capital and 46.2% of the voting shares of Telco S.p.A..
- b) Telefònica S.A. has undertaken to subscribe a further increase in share capital totalling 117 million euros, again with the issue of shares without voting rights (Class C shares) and at the same terms and conditions as the first increase in share capital referred to above. After the execution of the second increase in capital, which will depend on Telefònica S.A. having obtained all the regulatory and antitrust authorisations necessary, Telefònica S.A.'s holding will rise to 70% of the total share capital of Telco S.p.A. (with no change in governance rights);
- c) as from 1 January 2014, subject to obtaining all the regulatory and antitrust authorisations (including those in Brazil and Argentina), Telefònica S.A. will be entitled to convert, also in several tranches, its Class C shares, without voting rights, into Class B shares with voting rights up to a maximum of 64.9% of voting shares;
- d) furthermore, and again as from 1 January 2014, Telefònica S.A. will have a call option on all the shares of Telco S.p.A. held by the other shareholders, which when exercised (subject to obtaining all the regulatory and antitrust authorisations), would consolidate 100% of the share capital of Telco S.p.A. in the ownership of Telefònica S.A..

While the operation announced to the market on 24 September 2013 and already partially executed on that date does not have any immediate effects on the subdivision of the share capital with voting rights, it is - given its entity and possible future developments - capable of producing immediate influences on the management of Telco S.p.A. with inevitable repercussions, particularly on the ways in which the shareholding in the Company is managed and on the definition of the strategic policies of the Company itself.

Following the increase in its shareholding in Telco S.p.A., the industrial shareholder Telefónica S.A. appears, in fact, to be destined to become the holder of an absolute majority of the Telco S.p.A. share capital with voting shares - subject to the fulfilment of the conditions set for the conversion of the Class C shares into Class B shares with voting rights - and to assume a de facto preponderant weight in the management of the Telco S.p.A. relative majority shareholding in the Company, beyond the rebalancing of the appointments to the boards of directors of Telco S.p.A. and of the Company outlined in the agreement announced to the market on 24 September 2013. This weight would become absolute if Telefónica S.A. exercises the call option and consequently consolidates its ownership of the entire share capital of Telco S.p.A.

This is the unanimous interpretation of the operation announced on 24 September 2013 by press commentators: the immediate effect produced at governance level, with the resignation of the Executive Chairman of the Company Franco Bernabè, is coherent with this interpretation.

So although the various phases of the operation described above have not yet been executed, the ownership structure and context in which the current Board of Directors of the Company was appointed has already changed profoundly, and, in particular, the representativeness conditions of all the directors nominated by Telco S.p.A. or subsequently co-opted, have changed radically.

The conditioning that the new ownership structure of Telco S.p.A. might exert on the determinations made by the directors nominated by Telco S.p.A. on the management of the Company's holdings in those markets (Brazil and Argentina) in which there is a strong Telefónica S.A. presence is particularly sensitive for the interests of the Company, also in relation to the need to overcome the antitrust issues that limit the execution of the operation announced on 24 September 2013.

It appears to us that the above justifies the proposal to submit to the shareholders' meeting the evaluation of the suitability of the directors nominated by Telco S.p.A. (or subsequently co-opted) to maintain their office under the changed circumstances and therefore to decide on whether or not their mandates should be revoked.

After revocation of the aforementioned directors, article 9.10 of the Company bylaws would apply. This provides that if a majority of the seats on the Board of Directors should become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board of Directors has been reconstituted by persons appointed by the Shareholders' Meeting.

If the shareholders' meeting should resolve to undertake the proposed revocation, the same meeting of shareholders may then proceed, as indicated in the call notice, to undertake the consequent renewal of the entire Board of Directors at the same time, with the procedures set out in article 9 of the Company bylaws, based on slates to be submitted by those shareholders entitled to do so in anticipation of (any) need to proceed to renew the Board of Directors.

REPORT OF THE BOARD OF DIRECTORS FOR THE SHAREHOLDERS MEETING - ORDINARY SESSION OF THE COMPANY CALLED FOR 20 DECEMBER 2013

Dear Shareholders,

you have been called to this ordinary shareholders' meeting at the request of shareholder Findim Group S.A. (Findim Group), a company registered in Luxembourg that holds 671,431,444 ordinary shares corresponding to 5.004% of the capital with voting rights issued by Telecom Italia S.p.A. (Telecom Italia or the Company).

1. The request formulated by Findim Group

As stated in the press release issued on the same day, on 16 October 2013 the Findim Group submitted a request for a shareholders' meeting to be called, pursuant to article 2367 of the Italian Civil Code, with the following agenda:

- *revocation of the mandates of directors Aldo Minucci, Marco Patuano, César Alierta Izuel, Tarak Ben Ammar, Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri, Julio Linares López, Gaetano Miccichè, Renato Pagliaro, Mauro Sentinelli, Angelo Provasoli;*
- *consequent renewal of the whole Board of Directors, subject to determination of the number of members thereof, due to the loss of a majority of the directors pursuant to article 9.10 of the Company by-laws;*
- *related and consequent resolutions.*

The law specifies that the Company must proceed to call a shareholders' meeting without delay where the request is formulated by shareholders holding at least one twentieth of the share capital. Pursuant to art. 125-ter of legislative decree 58/1998, those requesting the meeting are responsible for preparing an explanatory report on the matters to be discussed, which Findim Group filed at the same time as the request to call the meeting, which accompanies this document.

The Board of Directors, in turn, intends to formulate its evaluation of the proposed revocation submitted by Findim Group, subject, however, to a suitable explanation of the overall procedural framework into which this proposal fits.

2. Explanation of the procedural technical aspects of the choices that the shareholders are required to make

Starting with an analysis of the procedural technical aspects, it should be noted that the Board of Directors has called this meeting to discuss and resolve on the proposal to revoke the mandates of the Directors indicated above (apart from Director Provasoli, whose mandate lapses *ope legis* with this shareholders' meeting, since he was co-opted pursuant to article 2386 of the Italian Civil Code), and therefore:

- if the revocation proposal is approved (with the consequent cessation of the mandates of most of the serving Directors and the related activation of the mechanism to renew the whole Board of Directors, pursuant to art. 9.10 of the Company's By-laws) to proceed to appoint the new Board of Directors by voting on slates, after the number of members (between seven and nineteen, as set out in art. 9.1 of the Company's By-laws), duration (for a maximum of three financial years, pursuant to art. 2383 of the Italian Civil Code), remuneration of the board members (excluding remuneration to be paid to those Directors called on to serve in special categories: cf. art. 2389 of the Italian Civil Code) have been established;

- if the revocation proposal is not approved, to appoint two directors to replace Elio Cosimo Catania and Franco Bernabè, appointed by the Shareholders' Meeting of 12 April 2011, who resigned on 13 September and 3 October 2013 respectively. In this case, the two replacements appointed would serve until the current Board of Directors ceases to hold office, and thus until the approval of the financial statements at 31 December 2013.

Again, in the eventuality that the whole Board has to be reconstituted, in accordance with usual practice, the Board of Directors shall refrain from formulating proposals and presenting a slate of candidates, and invites the Shareholders to do so. In this regard, you are reminded that – under the current regulations – renewal takes place on the basis of slates filed at the Company's offices at least twenty-five days before the date fixed for the Shareholders' Meeting, submitted by holders of voting rights who own a total of at least 0.5% of the ordinary share capital, or such other proportion required by Consob. By Resolution no. 18452 of 30 January 2013, Consob fixed this percentage for Telecom Italia at 1%.

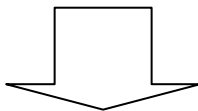
For completeness, it should be noted that the renewal would be subject to the regulations on gender balance, contained in subsection 1-ter of article 147-ter, legislative decree no. 58/1998. When first applied, the quota to be reserved to the less represented gender is equal to at least one fifth of the total number of Directors to be elected, rounding up if necessary. For this purpose, the "basic" selection mechanism based on slates (by which candidates are elected based on their order of listing on the slate) may be modified by the majority slate, if in fact the composition of the board as a whole does not satisfy the gender balance requirements (referenced above: 1:5), pursuant to art. 9.9 of the Company's By-laws a sufficient number of the last candidates elected from the majority slate shall forfeit their post to re-establish said balance 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 a sufficient number of candidates with these characteristics in the majority slate, the Shareholders' Meeting shall supplement the Board with the legally required majorities (without application of the slate vote), thus ensuring that the requisite is complied with.

If there is a need to proceed to appoint two Directors to bring their number back to fifteen (pursuant to the resolution of the Shareholders' Meeting of 12 April 2011), the Board shall propose Angelo Provasoli as candidate to replace Mr. Catania, who qualified as an independent director. The *curriculum vitae* of Mr. Provasoli is attached, and he fulfils the requirements for independence pursuant to art. 148 of legislative decree 58/1998 and to the December 2011 edition of the Borsa Italiana Corporate Governance Code drawn up by the Committee for the Corporate Governance of Listed Companies, to which the Company adheres (cf. point 1 of the Corporate Governance Principles of the Company, which may be consulted at www.telecomitalia.com). Since at the time of issue of the call notice the Board of Directors had not co-opted a second Director, in reserving the right to subsequently supplement the proposal, it invites you to propose a candidate, specifying that there are no minimum shareholding requirements for the submission of a candidate.

To summarise, the two possible procedures to be followed are described below:

Scenario no. 1

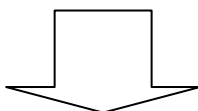
The shareholders' meeting VOTES AGAINST the proposal to revoke the mandates of the serving directors



The shareholders' meeting is called on to replace only the two directors who have resigned.

Scenario no. 2

The shareholders' meeting VOTES FOR the proposal to revoke the mandates of the serving directors



The shareholders' meeting is called on to appoint a new Board of Directors with voting slates

3. The revocation proposal: the arguments put forward by the Findim Group

Having concluded this preliminary technical-procedural digression, the Board of Directors now intends to formulate its opinion on the contents of the explanatory report submitted by Findim Group and in particular on the revocation proposal contained therein.

The Findim Group report starts with a description of the evolution of the ownership of the relative majority shareholder Telco S.p.A. (Telco), resulting from the amendment of the agreements between its shareholders Assicurazioni Generali S.p.A., Generali Italia S.p.A., Generali Lebensversicherung A.G., Generali Vie S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. and Telefónica S.A. made on 24 September 2013, published in summary on 30 September 2013. Findim Group considers the new ownership structure of Telco, to date only partially implemented by the subscription of class C non-voting Telco shares by Telefónica S.A., to be “due to its entity and possible future ramifications” “likely to produce immediate effects on the management of Telco S.p.A., with inevitable repercussions on, in particular, the arrangements for managing its shareholding in the Company and on the definition of the strategic policies of the latter”, The Findim Group report goes on to state that industrial shareholder Telefónica S.A. “appears, in fact, to be destined [...] to become holder of an absolute majority of the voting shares of Telco S.p.A. and to assume, de facto, a preponderant weight in the management of the relative majority holding in the Company held by Telco S.p.A., beyond the balanced allocation of appointments to the Boards of Directors of Telco S.p.A. and of the Company set out in the agreement announced to the market on 24 September 2013”.

Findim Group opines that “the representativeness conditions of all the directors nominated by Telco S.p.A. or subsequently co-opted have changed radically” , and dreads “the conditioning that the new share ownership structure of Telco S.p.A. will be able to exert on the determinations of the directors nominated by Telco S.p.A. in the management of the Company's shareholdings in those markets (Brazil and Argentina) in which there is a strong Telefónica S.A. presence”.

In brief, to Findim Group “it appears that the above justifies the proposal to submit to the shareholders' meeting the decision regarding the suitability of the directors nominated by Telco S.p.A. (or subsequently co-opted) to continue in office in the changed circumstances, and hence to decide on their possible revocation”.

The Board of Directors of Telecom Italia, while fully respecting the free determination of the shareholders in the choice and maintenance of the administrative body, observes that the arguments put forward by Findim Group are at the end of the day based on the alleged conditioning to which the serving Directors would be exposed to because of the known corporate events that have involved shareholder Telco S.p.A. However, the Board of Directors of Telecom Italia has always operated in full respect of the principles that govern correct management.

4. The correct configuration, and proper respect of the positions and rights of the directors

The considerations formulated by Findim Group do not consider the correct configuration of the positions and rights of members of Boards of Directors in general, and of the members of the Board of Directors of Telecom Italia in particular.

More specifically, the arguments put forward to support the revocation proposal do not recognise:

- the duties and responsibilities of all the Directors of the Board (whether or not they qualify as independent pursuant to the law and/or the Borsa Italiana Corporate Governance Code drawn up by the Committee for the Corporate Governance of Listed Companies), and that all the Directors have always observed;
- the principle, self-evident in Italian law and the immediate corollary of said duties and responsibilities, that Directors are not bound by any orders or instructions of the shareholder that nominated and/or appointed them (whether majority or minority shareholders) and equally,
- the circumstance that the rules of the Telco shareholders' agreement regarding Telecom Italia (i) move from the statement that the Telecom Italia group and the Telefónica group will be managed autonomously and independently; (ii) deal in a totally transparent way with the exercise of the administrative voting rights in meetings of the shareholders' of Telecom Italia and of the submission of a slate of candidates for the appointment of its Board of Directors, and not the management acts that are the competence of said Board; (iii) and in relation to this specific topic, will only be modified in the eventuality that a series of future and uncertain events that depend on external circumstances (the obtaining of all the necessary regulatory and antitrust authorisations, specifically including those of Argentina and Brazil) take place, and on the will of the parties.

Essentially, Findim Group assumes that Telco exerts or will exert a single control that does not actually exist, not only over Telecom Italia, but also over the individual Directors appointed with the vote of Telco, and it does not take into account that some of the directors appointed with the vote of Telco are: i) independent directors, who have been nominated by Telco; ii) independent directors, who have been nominated by institutional investors.

Without reviewing in depth the professional and ethical qualities of the individual members of the Board of Directors, it should be noted that, in addition to the precise application of the legal provisions (first and foremost the provision concerning the adequate motivation of resolutions, regarding any interests of a Director

outside the company: art. 2391 of the Italian Civil Code), the corporate governance rules that the Board of Directors adopted contemplate specific precautionary measures against real or hypothetical possibilities of abuse of the reference shareholder (and its shareholders) to the detriment of the interests of the Company.

In particular, the procedure for carrying out transactions with related parties voluntarily treats, as related parties, the participants in the relevant shareholder agreements pursuant to art. 122 of the Consolidated Finance Law that disciplines nominations to the Board of Directors of the Company, when the slate submitted results in being the Majority Slate pursuant to art. 9 of the Company's By-laws, regardless of the criteria on this topic set out in the accounting principles. More specifically, in relation to South America, the Cade and Anatel CNDIC Procedures (which may be consulted at the website address: www.telecomitalia.com) provide for precise precautionary measures to ensure separation between the activities of the Telecom Italia Group and those of the Telefónica Group in the Argentine and Brazilian markets, by dealing with the corresponding issues in separate meetings, without calling or involving the Directors nominated by Telefónica S.A., who have also personally given specific commitments to abstain from discussing or voting on proposals or topics related to activities of the Company and/or its subsidiaries in the Brazilian or Argentine telecommunications markets and, in general, in every case in which there may be a possible prejudice to the Telecom Italia Group - when first appointed and irrespective of (any) authorisation by the shareholders' meeting to undertake activities in competition, pursuant to art. 2390 of the Italian Civil Code - as also reported in the Report on corporate governance and share ownership (which may be consulted at the website address: www.telecomitalia.com). In addition, the Control and Risk Committee appointed an independent advisor in order to monitor the developments of the possible effects on the Company of the agreements entered into by Telco's shareholders on 24 September 2013.

For all the reasons explained above, the Board of Directors reaffirms that it does not accept the arguments put forward by the Findim Group in support of the proposal to revoke the mandates of the directors.

The Board of Directors therefore submits for your approval the following resolution.

The Shareholders' Meeting of Telecom Italia S.p.A.,

- having considered the explanatory report by shareholder Findim Group S.A., requesting that a shareholders' meeting be called, as provided by law,
- having acknowledged the opinions of the Board of Directors, set out in this report,

votes on the proposal to revoke the mandates of directors Aldo Minucci, Marco Patuano, César Alierta Izuel, Tarak Ben Ammar, Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri, Julio Linares López, Gaetano Miccichè, Renato Pagliaro, Mauro Sentinelli, Angelo Provasoli;

and therefore

- if the revocation proposal set out above is approved, as a result of the cessation of the mandate of the majority of the Directors, with the consequent need to renew the whole Board of Directors at the same time, the Meeting will take the appropriate actions for the renewal of the Board, in compliance with law

and the Company's By-laws, resolving on the number of directors, the duration of their mandate and their remuneration, as well as appointing its members by voting on a slate, with four separate votes on the proposals and the slates that the shareholders are invited to submit, within the period of time set out in the applicable regulations;

or, alternatively,

- if the revocation proposal is not approved,
 - given the cessation of the service of Elio Cosimo Catania and Franco Bernabè as Directors, (and the forfeiture of mandate of the replacement of the former, Angelo Provasoli, previously co-opted by the Board of Directors pursuant to art. 2386 of the Italian Civil Code);
 - taking account of the fact that the mandate of the current Board of Directors will expire with approval of the financial statements for the year at 31 December 2013 (as resolved by the Shareholders' Meeting of 12 April 2011),

resolves to appoint Angelo Provasoli and another candidate to be established (whom the Board of Directors reserves the right to eventually indicate at a later date, without prejudice to the possibility for shareholders to formulate their own proposals) as Directors of the Company, with mandates to expire with those of the serving Directors and hence until the approval of the financial statements at 31 December 2013.

It remains understood that the resolutions on the appointments (by voting on slates for the renewal of the entire Board of Directors, after revocation of the current Board, or by simple addition to the serving Board of Directors) shall also mean that they are authorised to undertake activities in competition, on their own behalf and on behalf of third parties, in relation to the information contained in the *curricula vitae* of the candidates available for the Shareholders' Meeting.

**ADDENDUM APPROVED BY TELECOM ITALIA BOARD OF DIRECTORS
ON DECEMBER 5 2013**

The Board of Directors, taking into account the presence in the slates of candidates of people who actually perform activities in competition with those of Telecom Italia, such slates having been filed according to law and the Company's Bylaws in view of the Shareholders' Meeting of 20 December 2013, announces that - in the event of their appointment - the Shareholders' Meeting will be asked for specific authorization on the matter pursuant to art. 2390, paragraph 1 of the Italian civil code.

Annex: CV Professor Provasoli

CURRICULUM VITAE

Angelo Provasoli

Born in Milan on June 7th 1942, degree in Business Administration granted by the Università Commerciale Luigi Bocconi. Final grade: 110 / 110 summa cum laude.

In 1967 he joined the faculty of Business Administration at the Università L. Bocconi as Assistant Professor. In 1976 he was appointed full Professor of Business Administration. He taught at the Università degli Studi of Catania and at the Università degli Studi of Bergamo. Since 1983 he has been full Professor of Accounting at the Università L. Bocconi, Milan.

He is Professor Emeritus at Università L. Bocconi.

He has been Rector of Università L. Bocconi from 2004 to 2008.

He is currently Chairman of the Board of Directors of RCS Media Group, Member of the Board of Directors of Bracco S.p.A. and Chairman of the Board of Statutory Auditors of Cassa Depositi e Prestiti and of Fondo Strategico Italiano. He has been President of the Board of Statutory Auditors of Bank of Italy, member of the Supervisory Board of EFRAG and Chairman of the Executive Committee of OIC - Organismo Italiano di Contabilità -, the Italian Accounting Standard Setter.

He is Certified Public Accountant and member of the Italian Business Administration Society.

He has been awarded with the Gold Medal of the City of Milan and with the Order of Merit of the Italian Republic.

He is author of several publications on accounting and business administration.

He has no past or present business (or otherwise) relationships with Telecom Italia, and / or with entities related to Telecom Italia, such to influence his independence of judgment, according to art. 3 of Codice di Autodisciplina issued by Borsa Italiana and to D. Lgs. 58/1998 (TUF).

REPORT OF THE BOARD OF DIRECTORS ON THE ELIMINATION OF THE INDICATION OF PAR VALUE OF THE ORDINARY SHARES AND THE SAVINGS SHARES AND AMENDMENTS TO THE BYLAWS

Dear Shareholders,

This report is intended to provide an explanation of the reasons for and content of the proposal to eliminate the indication of the par value of the shares, referred to in point 1 on the Agenda - extraordinary session.

The Italian Civil Code envisages the possibility that the share capital of a limited company may be divided into shares without par value, in such case the shares maintain a figurative or implicit book value, resulting from the division of the total share capital by the number of shares issued ("accounting par value").

The notion of shares without par value represents, first of all, a tool for organisational simplification. Not setting the par value of the shares in fact permits the amount of share capital to be changed without necessitating any operation to be carried out on the shares. In fact, in the absence of a par value, a change in the total share capital may simply result in a corresponding change in the accounting par value of the existing shares.

A further advantage is the possibility of issuing new shares, at the time of an increase in share capital, which may have an "implied" book value that is less than the pre-existing accounting par value. In our view in fact, in the absence of a par value, the issuer may freely determine the number of new shares into which the increase in share capital may be fractioned, determining their unit price (including any share premium) with only the limit imposed by the Italian Civil Code, the value conferred may, therefore, in no case be less than the total amount of the share capital (or increase in share capital). In this way, a different accounting par value is established for every increase in capital approved, which may therefore be the same, more or less than the historic accounting par value.

In consideration of the above, the elimination of the par value is in accordance with the interest of the company, allowing the greatest flexibility in defining operations to increase capital or collect funds, also through the issue of financial instruments that give the right to subscribe or receive new shares in the Company.

The elimination of the par value also assumes specific relevance in the context of the statutory regulations of the savings shares. In Telecom Italia these are:

- privileged in the distribution of profits, in that they (i) have preferential rights over ordinary shareholders in the payment of dividends out of the net profit shown in the duly approved financial statements, less the amount to be allocated to the legal reserve, up to 5% of the par value of the share and in any event (ii) are entitled to a total dividend that is 2% of the par value higher than the dividend payable to the ordinary shares (articles 6.2 and 6.3 of the Bylaws);
- deferred as regards the participation in losses, in that they participate in any reduction in the share capital due to losses only for that part that exceeds the total par value of the other shares (art. 6.6 of the Bylaws);
- privileged upon dissolution of the Company, with priority in the repayment of capital up to the entire par value of each share (art. 6.7 of the Bylaws).

Therefore, in order not to modify the financial privileges of the category, it is proposed that the parameter of par value be replaced by a value expressed in an absolute number, corresponding to the current par value (0.55

euros), establishing that any losses shall have no effect on the savings shares beyond that part of the losses that is not covered by the fraction of capital represented by the other shares.

The elimination of the par value requires amendment of articles 5 and 6 of the Bylaws, removing any mention of the par value and making a series of formal amendments to take into account the new situation. As regards the aforementioned proposed changes shareholders who do not approve these proposals do not have the right of withdrawal, nor is the approval of a special Meeting of the savings shareholders required, since the amendments do not cause any detriment to the rights of the category.

The proposed resolution of the Shareholders' Meeting is reproduced below, with a comparison of the relevant articles 5 and 6 of the Bylaws in their current form and after incorporation of the proposed amendments.

* * *

In view of all this, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A., having examined the explanatory report of the Board of Directors,

resolves

1. to eliminate the indication of the par value of the ordinary shares and savings shares of the Company, pursuant to articles 2328 and 2346 of the Italian Civil Code;
2. to amend article 5 and 6 of the Company Bylaws as follows:

Current text	Proposed text
Article 5	Article 5
5.1 - The subscribed and fully paid-up share capital shall be equal to 10,693,740,302.30 euros, divided into 13,417,043,525 ordinary shares with a par value of 0.55 euros each and 6,026,120,661 savings shares with a par value of 0.55 euros each.	5.1 - The subscribed and fully paid-up share capital shall be equal to 10,693,740,302.30 euros, divided into 13,417,043,525 ordinary shares with a par value of 0.55 euros each and 6,026,120,661 savings shares with a , <u>all without</u> par value of 0.55 euros each.
5.2 - In resolutions to increase the share capital by issuing shares for cash, the preferential subscription right may be disappplied for up to a maximum of ten per cent of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the firm appointed as external auditor.	Unchanged.
5.3 - The allocation of profits to employees of the Company or subsidiaries shall be allowed, in the legal terms and manner, by means of the issue of shares pursuant to subsection 1 of Art. 2349 of the Italian Civil Code.	Unchanged.
5.4 - For five years starting from 29 April 2010 the Directors may increase the share capital to service	5.4 - For five years starting from 29 April 2010 the Directors may increase the share capital to service

<p>the “2010-2015 Long Term Incentive Plan”, as approved by the Company Shareholders’ Meeting of 29 April 2010, up to a maximum amount of 5,000,000 euros by the allocation of the corresponding maximum amount of profits pursuant to Art. 2349 of the Italian Civil Code, by the issue of new ordinary shares with a par value of 0.55 euros each, with regular dividend entitlement, in the number necessary for the allocation of one free share for each share subscribed for cash by employee beneficiaries of the “2010-2015 Long Term Incentive Plan”, within the time periods and under the terms and conditions provided for therein.</p>	<p>the “2010-2015 Long Term Incentive Plan”, as approved by the Company Shareholders’ Meeting of 29 April 2010, up to a maximum amount of 5,000,000 euros by the allocation of the corresponding maximum amount of profits pursuant to Art. 2349 of the Italian Civil Code, by the issue of new ordinary shares with a par value of and <u>imputation to capital of the sum of</u> 0.55 euros <u>for</u> each <u>share issued</u>, with regular dividend entitlement, in the number necessary for the allocation of one free share for each share subscribed for cash by employee beneficiaries of the “2010-2015 Long Term Incentive Plan”, within the time periods and under the terms and conditions provided for therein.</p>
<p>5.5 - For five years starting from 12 April 2011 the Directors may increase the share capital to service the “2011 Long Term Incentive Plan” as follows, as approved by the Meeting of the Shareholders’ of the Company of that date:</p> <ul style="list-style-type: none"> - (i) for cash, by the issue of new ordinary shares of 0.55 euros par value each, with regular dividend entitlement, up to a maximum amount of 5,000,000 euros, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the "2011 Long Term Incentive Plan" as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of 5,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the "2011 Long Term Incentive Plan"; - up to a maximum amount of Euro 5,500,000 by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, 	<p>5.5 - For five years starting from 12 April 2011 the Directors may increase the share capital to service the “2011 Long Term Incentive Plan” as follows, as approved by the Meeting of the Shareholders’ of the Company of that date:</p> <ul style="list-style-type: none"> - (i) for cash, by the issue of new ordinary shares of 0.55 euros par value each with regular dividend entitlement, up to a maximum amount of 5,000,000 euros <u>(with imputation to capital of the sum of 0.55 euros for each share issued)</u>, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the “2011 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of 5,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of ordinary shares <u>and imputation to capital of the sum of 0.55 euros for each share issued</u> in a sufficient number for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the “2011 Long Term Incentive Plan”; - by a maximum amount of 5,500,000 euros by

<p>with the issue of ordinary shares reserved for some of the employees who are beneficiaries of the “Long Term Incentive Plan 2011” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “Long Term Incentive Plan 2011”.</p> <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2011 Long Term Incentive Plan,” and it shall also set suitable time limits for its subscription, providing 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.</p>	<p>allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by issuing ordinary shares <u>(with imputation to capital of the sum of 0.55 euros for each share issued)</u> reserved for a part of the employees who are beneficiaries of the “2011 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “2011 Long Term Incentive Plan”.</p> <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2011 Long Term Incentive Plan,” and it shall also set suitable time limits for its subscription, providing 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.</p>
<p>5.6 - For five years starting from 15 May 2012 the Directors may increase the share capital to service the “2012 Long Term Incentive Plan” as follows, as approved by the Meeting of the Shareholders’ of the Company of that date:</p> <ul style="list-style-type: none"> - (i) for cash, by the issue of new ordinary shares of 0.55 euros par value each, with regular dividend entitlement, up to a maximum amount of 5,500,000 euros, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the “2012 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum further amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms 	<p>5.6 - For five years starting from 15 May 2012 the Directors may increase the share capital to service the “2012 Long Term Incentive Plan” as follows, as approved by the Meeting of the Shareholders’ of the Company of that date:</p> <ul style="list-style-type: none"> - (i) for cash, by the issue of new ordinary shares of 0.55 euros par value each with regular dividend entitlement, up to a maximum amount of 5,500,000 euros <u>(with imputation to capital of the sum of 0.55 euros for each share issued)</u>, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the “2012 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum further amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of ordinary shares <u>and imputation to capital of the sum of 0.55 euros for each share issued</u> in a

<p>and conditions and by the methods specified in the “2012 Long Term Incentive Plan”;</p> <ul style="list-style-type: none"> - by a maximum amount of 4,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by issuing ordinary shares reserved for a part of the employees who are beneficiaries of the “2012 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “2012 Long Term Incentive Plan”. <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2012 Long Term Incentive Plan,” and it shall also set suitable time limits for its subscription, providing 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.</p>	<p>sufficient number for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the “2012 Long Term Incentive Plan”;</p> <ul style="list-style-type: none"> - by a maximum amount of 4,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by issuing ordinary shares <u>(with imputation to capital of the sum of 0.55 euros for each share issued)</u> reserved for a part of the employees who are beneficiaries of the “2012 Long Term Incentive Plan” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “2012 Long Term Incentive Plan”. <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2012 Long Term Incentive Plan,” and it shall also set suitable time limits for its subscription, providing 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.</p>
<p>5.7 - For five years starting from 17 April 2013 the Directors may increase the share capital as follows:</p> <ul style="list-style-type: none"> - to service the “2013 Employee Share Ownership Plan,” as approved by the Shareholders’ Meeting on 17 April 2013, (i) by issuing for cash a maximum of 54,000,000 new ordinary shares with a par value of 0.55 euros each, and thus for a nominal amount no greater than 29,700,000 euros, with regular dividend entitlement, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, to be offered for subscription to employees who are beneficiaries of the "2013 Employee Share Ownership Plan", and subsequently (ii) for a maximum amount of 9,900,000 euros by the allocation of the corresponding maximum amount of profits pursuant to article 2349 of the 	<p>5.7 - For five years starting from 17 April 2013 the Directors may increase the share capital as follows:</p> <ul style="list-style-type: none"> - to service the “2013 Employee Share Ownership Plan,” as approved by the Shareholders’ Meeting on 17 April 2013, (i) by issuing for cash a maximum of 54,000,000 new ordinary shares with a par value of 0.55 euros each, and thus for a nominal amount no greater than 29,700,000 euros <u>(with imputation to capital of the sum of 0.55 euros for each share issued)</u>, with regular dividend entitlement, with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, to be offered for subscription to employees who are beneficiaries of the "2013 Employee Share Ownership Plan", and subsequently (ii) for a maximum amount of 9,900,000 euros by the allocation of the corresponding maximum amount

<p>Italian Civil Code, by issuing a sufficient number of new ordinary shares with a par value of 0.55 euros each, with regular dividend entitlement, for the allocation of one free share for every three shares subscribed for cash, as above, by employees who are beneficiaries of the “2013 Employee Share Ownership Plan,” subject to the terms and conditions and by the methods specified therein.</p> <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2013 Employee Share Ownership Plan”, and it shall also set suitable time limits for its subscription, providing 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.</p>	<p>of profits pursuant to article 2349 of the Italian Civil Code, by issuing new ordinary shares with a par value (with imputation to capital of the sum of 0.55 euros for each share issued), with regular dividend entitlement, in a sufficient number for the allocation of one free share for every three shares subscribed for cash, as above, by employees who are beneficiaries of the “2013 Employee Share Ownership Plan,” subject to the terms and conditions and by the methods specified therein.</p> <p>With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the “2013 Employee Share Ownership Plan”, and it shall also set suitable time limits for its subscription, providing 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.</p>
<p>5.8 - For five years starting from 8 April 2009 the Directors may increase the share capital for cash in one or more tranches by up to a maximum total amount of 880,000,000 euros by the issue, with or without a share premium, of up to a maximum of 1,600,000,000 ordinary shares with a par value of 0.55 euros each</p> <p>(i) to be offered with preferential subscription rights to persons having entitlement; including just a part thereof,</p> <p>(ii) to be offered for subscription to employees of Telecom Italia S.p.A. and its subsidiaries with disapplication of preferential subscription rights pursuant to the combined effects of the last subsection of Article 2441 of the Italian Civil Code and Article 134, subsection 2, of Legislative Decree 58/1998.</p>	<p>5.8 - For five years starting from 8 April 2009 the Directors may increase the share capital for cash in one or more tranches by up to a maximum total amount of 880,000,000 euros by the issue, with or without a share premium, of up to a maximum of 1,600,000,000 ordinary shares with a par value of 0.55 euros each.</p> <p>(i) to be offered with preferential subscription rights to persons having entitlement; including just a part thereof,</p> <p>(ii) to be offered for subscription to employees of Telecom Italia S.p.A. and its subsidiaries with disapplication of preferential subscription rights pursuant to the combined effects of the last subsection of Article 2441 of the Italian Civil Code and Article 134, subsection 2, of Legislative Decree 58/1998.</p>
<p>5.9 - Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each</p>	<p>Unchanged.</p>

issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.	
5.10 - The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from 8 April 2009, bonds convertible into ordinary shares to be offered with preferential subscription rights to persons having entitlement up to a maximum nominal amount of 1,000,000,000 euros.	Unchanged.

Current text	Proposed text
Article 6	Article 6
6.1 - Savings shares shall have the preferential rights set forth in this Article.	Unchanged.
6.2 - The net profit shown in the duly approved financial statements, less the amount to be allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.	6.2 - The net profit shown in the duly approved financial statements, less the amount to be allocated to the legal reserve, must be distributed to the savings shares up to five per cent of the par value of <u>the 0.55 euros per</u> share.
6.3 - The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in subsection 2, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.	6.3 - The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in subsection 2, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of the par value of the <u>of 0.55 euros per</u> share.
6.4 - When the dividend paid on savings shares in a financial year is less than that indicated in subsection 2, the difference shall be added to the preferred dividend in the next two financial years.	Unchanged.
6.5 - In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the financial privileges referred to in the preceding subsections, the Shareholders' Meeting called to approve the financial statements may resolve to satisfy the right referred to in subsection 2 and/or the right to the premium referred to in subsection 3 by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over the right to preferred dividends not received through the distribution of profits referred to in subsection 4 to the two following financial years.	Unchanged.

<p>6.6 - A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares.</p>	<p>6.6 - A reduction of the share capital due to losses shall not entail a reduction of the par value of <u>have effect on</u> the savings shares, except for the amount of the loss that exceeds the total par value of the <u>is not covered by the fraction of capital represented by</u> the other shares.</p>
<p>6.7 - Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value.</p>	<p>6.7 - Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to the entire par value <u>up to a total equivalent to 0.55 euros per share.</u></p>
<p>6.8 - If the Company's ordinary or savings shares are delisted, holders of savings shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an ad hoc Extraordinary Shareholders' Meeting called within two months of the delisting.</p>	<p style="text-align: center;">Unchanged.</p>
<p>6.9 - The organization of savings shareholders shall be governed by law and these Bylaws. The costs associated with organizing special meetings of savings shareholders and remunerating the common representative shall be borne by the Company.</p>	<p style="text-align: center;">Unchanged.</p>

3. to confer on the Board of Directors - and on behalf thereof on the legal representatives *pro tempore* of the Company, jointly or severally, - all the powers necessary to complete all the necessary formalities for the adopted resolutions to be entered in the Business Register, accepting and introducing into said resolutions the amendments, additions or deletions of non-substantial parts that might be requested by the competent authorities, as well as all the powers necessary for legal and regulatory compliance deriving from the resolutions adopted."

INCREASE IN SHARE CAPITAL WITH DISAPPLICATION OF THE PREFERENTIAL SUBSCRIPTION RIGHT THROUGH THE ISSUE OF ORDINARY SHARES, TO ENABLE THE CONVERSION OF THE CONVERTIBLE BONDS ISSUED BY THE SUBSIDIARY TELECOM ITALIA FINANCE S.A. AMOUNTING TO 1.3 BILLION EUROS - RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

The Board of Directors of Telecom Italia S.p.A. ("Telecom Italia" or "the Company") has called this Extraordinary Shareholders' Meeting to discuss and resolve on, among other matters, the proposed increase in the share capital for cash, in tranches, and with disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, to be carried out in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement solely to enable the conversion of the bonds issued by subsidiary company Telecom Italia Finance S.A. ("the Bonds") as part of a fixed rate subordinate mandatory convertible bond issue guaranteed by Telecom Italia called Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. for an amount equal to 1.3 billion euros ("the Bond Issue")

This report is aimed at illustrating the proposed increase in capital pursuant to art. 2441, subsection 6, of the Italian Civil Code and art. 72 of the Regulations adopted by Consob with Resolution no. 11971 of 14 May 1999, as amended.

Reasons, purpose and method of execution of the increase in capital

On 7 November 2013, the Board of Directors of the Company approved, insofar as pertains to it, the Bond Issue by Telecom Italia Finance S.A. and the granting of the related guarantee by the Company. The procedure to place the Bond Issue with qualified Italian and international investors (as defined in Directive 2003/71/EC, subsequently amended by Directive 2010/73/EU and in compliance with the respective laws of each country in which the Bonds were offered) began on the same date and ended on 8 November 2013, with pricing defined the same day, as described below.

In deciding to proceed with the Bond Issue - with the consequent proposal, at this meeting, to approve, pursuant to art. 2441, subsection 5 of the Italian Civil Code, the increase in capital, with disapplication of the preferential subscription right, to enable the operation - the Board of Directors has taken account of the following elements.

As part of the measures to strengthen the asset structure already studied by the Company when the 2013-2015 Industrial Plan was approved, measures which were also intended to defend the Company's rating, on 18 February 2013 the Board of Directors approved a programme of hybrid bond issues capable of obtaining a determined equity content from the ratings agencies, for a maximum total of 3 billion euros, under which a 750 million euro issue was completed on 20 March 2013. Following the downward revision of the 2013 EBITDA guidance, and the downgrading of the Company by Moody's Investors Service Limited to sub-investment grade Ba1 (and also due to a change made in the meantime to the method used by Moody's, which resulted in the de facto zeroing of the equity content of hybrid bonds issued by sub-investment grade companies), it was clear that continuing with the programme of hybrid issues would not achieve its objective.

In the meantime, after the board meeting of 3 October 2013, the other ratings agencies had highlighted the risk factors of the credit rating (Fitch Ratings Limited), and indicated that downgrading was possible (Standard &

Poor's Rating Services Inc.), if Telecom Italia did not take action to strengthen its positioning on the markets it operates in, with particular focus on Italy, and to strengthen its financial structure by further reducing its financial indebtedness.

In this context, the Company concentrated on structuring an instrument that, together with the sale of the Argentine assets, the cash flows of which are not fully valued in the ratings analyses, could guarantee immediate certainty that the asset base would be strengthened and, alongside the other measures presented with the 2014-2016 Industrial Plan, would:

- increase the financial flexibility of the Group, and at the same time reduce the need for and risks of refinancing;
- allow the company to face the changed rating situation and passage to sub-investment grade with the necessary prudence, limiting the downgrade to a single rating level per agency;
- guarantee that the options to further reduce indebtedness can be considered more calmly, also in relation to the progress of the business.

So attention was focussed on instruments with an actual share content, and of these, given that the requirement was estimated to be between 1 and 1.5 billion euros the most efficient instrument seemed to us to be a mandatory convertible bond issue, since:

1. it has a reference market, in terms of potential investors, that is compatible with the sum to be raised;
2. it is extremely fast to execute (one day, immediately after approval), allowing the market risk for the Company to be minimised, compared to alternative instruments, such as, for example, an increase in capital with preferential subscription rights. In the trade-off between certainty about the issue conditions on the one hand, and acknowledging preferential subscription rights on the other, the Company opted for the former, since it considered that this option was better suited to the needs of the shareholders, as it allows the Company to issue a relatively small number of new shares at the best possible price (see the section entitled "Effects on the unit value of the shares of any dilution in said value", below). At the same time, placement immediately after Board approval, which represents a fairly common method ("overnight execution") in the case of equity or equity-linked financial instruments such as the mandatory convertible bond issue, mitigates the risk that the announcement may be followed by speculation on the shares involved, which could negatively affect the final issue price;
3. makes it possible to place capital at a premium instead of at market price at the time of issue (a premium that varies according to the future progress of the share price), where an increase in capital with preferential subscription rights - the market practice - would have had to be carried out at a possibly substantial discount. The issue price of the ordinary shares that enable the conversion of the Bonds (which - as is shown below - will be between 0.6801 and 0.8331 euros per share) compares with a net worth per share (considering as denominator for the calculation the arithmetic sum of the total number of ordinary shares and savings shares, including treasury shares) equal to 0.887 euros at a consolidated level and 0.837 euros per share at Telecom Italia S.p.A. level, at 30 September 2013. Moreover, the Minimum Conversion Price and Maximum Conversion Price (as defined below) represent approximately 116% and 142%, respectively, of the average price of the ordinary shares of the Company in the last six month period, based on the official prices registered on Borsa Italiana (see the section "Criteria for the determination of the issue price of the Conversion Shares");

4. on the other hand, although it offers the aforementioned advantages of fast placement, maximised price and minimised market risk, the instrument involves a high degree of complexity and sophistication - with a minimum investment of 100,000 euros, in line with comparable operations. This is not likely to be compatible with an offer on a retail market (i.e. in option), but requires placement with qualified investors.

As described in detail, the Bond Issue is thus to be used to strengthen the asset structure of the Group controlled by Telecom Italia, with a view to acquiring long-lasting financial assets that, in the medium term, will be transformed into Company risk capital. The capital increase operation that the Board of Directors submits to the Shareholders' Meeting for approval therefore comes within the context of the Bond Issue, and the latter justifies the Company's interest in disapplication of the preferential subscription right. Furthermore, Bond purchase orders from qualified investors that are also shareholders of Telecom Italia S.p.A. have obtained priority treatment in the allocation process.

The Bond Issue regulations ("the Regulations", which may be consulted at www.telecomitalia.com) specify that, following approval of the increase in capital, Telecom Italia Finance S.A. shall send a notice, after which all the conversions of Bonds shall be settled in ordinary shares of the Company ("the Conversion Shares"), including conversions for interest (in those cases permitted by the Regulations) and without prejudice to adjustment payments in cash envisaged in the Regulations. If the increase in capital to enable the conversions should not be approved by the end of February 2014, the Bonds may not be converted into Conversion Shares and Telecom Italia Finance S.A. shall be entitled to proceed to early repayment of the Bond Issue in the ways described below (see paragraph entitled "Early repayment" in the "Main features of the Bond Issue" section), or settle the amounts due in cash only, at the given deadline.

Main features of the Bond Issue

Categorisation and valuation of the financial instrument

The Bond represents a capital security to be reimbursed in Conversion Shares. The financial instrument may be broken down into several fundamental components:

- a sale of shares at term (i.e. on maturity of the instrument), that may be represented as the sale of a "European" call option by the issuer, with exercise price of 0 euros (i.e. always in-the-money for the investor), on a notional 1,911,483,605 Conversion Shares (i.e. the par value of the Bond Issue divided by the Minimum Conversion Price of 0.6801 euros);
- the purchase by the issuer of a European call option at an exercise price of 0.6801 euros per share, always on a notional 1,911,483,605 Conversion Shares;
- the sale by the issuer of a European call option at an exercise price of 0.8331 euros per share, on a notional 1,560,436,922 Conversion Shares (i.e. the par value of the Bond Issue divided by the Maximum Conversion Price of 0.8331 euros).

Supposing that the security reaches its natural maturity date and net of any adjustments, the combination of the options described produces for Telecom Italia the right to sell ordinary shares in the ways described below

- if the market price of Telecom Italia ordinary shares on maturity (calculated as the average price in the 20 trading days preceding the third trading day before expiry, as set out in the Bond Issue Regulations: "the Market Price") is less than 0.6801 euros, a sale of 1,911,483,605 Conversion Shares at 0.6801 euros per share;

- if the Market Price is between 0.6801 euros and 0.8331 euros, a sale, at Market Price, of the number of Conversion Shares equal to the par value of the Bond Issue divided by the Market Price;
- if the Market Price of the ordinary shares at maturity is more than 0.8331 euros, the sale of 1,560,436,922 Conversion Shares at 0.8331 euros per share.

Issuer, guarantor and total amount

The Bond Issue, for a total of 1.3 billion euros, divided into Bonds of unit par value of 100,000 euros, are issued by Telecom Italia Finance S.A., a subsidiary of Telecom Italia, with registered offices in 12, rue Eugène Ruppert, L-2453, Grand Duchy of Luxembourg. The Bond Issue is supported by a personal guarantee given by the Company, which undertakes to make payment in those cases envisaged in the Regulations and, subject to approval of the increase in capital by the Shareholders' Meeting, to issue and deliver the Conversion Shares.

In particular, pursuant to the Regulations, the Conversion Shares shall be issued on payment of their subscription price by Telecom Italia Finance S.A., as subject delegated to make payment by the bondholders. Alternatively, in the case of activation of the Telecom Italia guarantee the shares will be issued for the difference between (i) the sums due from the Company pursuant to the guarantee and (ii) the subscription debt of the Conversion Shares.

Ranking

The Bond Issue is subordinate to all other present or future Telecom Italia Finance S.A. bonds, whether subordinate or non-subordinate, without prejudice to rules that are binding/of necessary application, and rank equally with securities expressly indicated as such. The guarantee given by the Company with reference to the Bond Issue is subordinate to all present and future Telecom Italia bonds, senior to securities representing capital or equivalent securities or instruments and ranks equally with securities and/or bonds expressly indicated as such, including securities issued pursuant to the "hybrid bond issue called "€750,000,000 Capital Securities due 2073".

Maturity:

Unless previously repaid and/or converted pursuant to the Regulations, the Bonds will be converted into Conversion Shares automatically on 15 November 2016.

Coupons and deferment

The Bonds pay an annual coupon at a fixed annual rate of 6.125%. Pursuant to the Regulations, Telecom Italia Finance S.A. shall be entitled to defer all or part of the payment of the coupon due without accruing interest on the unpaid coupon.

The Regulations also envisage some eventualities in which deferred interest must be paid including, as an example, the case in which the related interest is paid on the following payment date if the Bonds are converted, in case of repayment after an event of default, if dividends are paid on ordinary Telecom Italia shares or, at certain conditions, if the Company purchases its own shares.

Early repayment

Telecom Italia Finance S.A. will be entitled proceed to early repayment of the Bonds if the Shareholders' Meeting should not resolve to increase the capital by 28 February 2014. In such a situation, the repayment value will be

equal to 102% of the par value, plus accrued interest, as well as an amount equal to 85% of the difference, if positive, between the current value and the initial conversion value, calculated as set out in the Regulations.

Early repayment is also envisaged if certain events of default should occur.

Mandatory Bond conversion upon maturity

If the Shareholders' Meeting should resolve to increase the capital to enable the conversion of the Bond Issue, the Bonds not converted by the twenty-fifth trading day before 15 November 2016 will be converted into Conversion Shares based on a conversion ratio detailed in the Regulations that varies with the Market Price and in any event between the Maximum Conversion Ratio (initially equal to 147,037.2004 Conversion Shares per Bond, calculated based on a subscription price of 0.6801 euros per ordinary share) and the Minimum Conversion Ratio (initially equal to 120,033.6094 Conversion Shares per Bond, calculated based on a subscription price of 0.8331 euros per share).

Moreover, the Maximum Conversion Ratio and the Minimum Conversion Ratio are subject to adjustment according to the provisions of the Regulations.

Accelerated conversion

If an early conversion event should occur, as set out in the Regulations (including downgrading of the Telecom Italia credit rating below certain thresholds: B1 for Moody's Investors Service Limited; BB- for Standard & Poor's Rating Services Inc. and Fitch Ratings Limited), the Bonds will be converted early based on the Maximum Conversion Ratio, with payment of:

- a sum of money calculated from the value of the option underlying the instrument at the time of the Bond Issue, according to a specific formula contained in the Regulations (the "Make Whole Amount"),
- any accrued interest and
- any deferred coupons (see above, paragraph entitled "Coupons and deferment").

In case of accelerated conversion, it is also specified that any deferred interest may be settled, at the choice of Telecom Italia Finance S.A., in cash or in Conversion Shares (to be delivered by Telecom Italia and issued on the basis of a formula indicated in the Regulations based on an average of the market value of the ordinary shares for a certain period of time).

Early conversion at the Issuer's discretion

Telecom Italia Finance S.A. may request early conversion of the Bonds, based on the Maximum Conversion Ratio. In this eventuality, it is specified that payment of the "Make Whole Amount" (calculated as indicated above), as well as any accrued interest and any deferred coupons, will be in cash.

Voluntary conversion

Bondholders may exercise their conversion rights at Minimum Conversion Ratio at any time from the fortieth day after issue of the Bonds to the fortieth day of trading before their maturity, apart from specific periods, including those connected to the calling of Shareholders' Meetings.

Before approval of the increase in capital, conversion of the Bonds will be settled in cash according to a mathematical formula detailed in the Regulations.

Voluntary conversion following special events

After special events have occurred (briefly, the fall of the Company free float below a certain level and acquisition of control of the Company by subjects other than its shareholders who at the date of issue already

hold, directly or indirectly, over 13% of the ordinary share capital of Telecom Italia, by their majority shareholder, by the parties to the "Telco agreement" published pursuant to art. 122 of Legislative Decree 58/1998 dated 29 February 2012 and recently amended on 24 September 2013), each bondholder may request conversion of their Bonds into Conversion Shares on the basis of a specific formula indicated in the Regulations, based on an average of the market value of the ordinary shares for a period of 20 trading days, starting from the day after the conversion notice is given.

The aforementioned formula guarantees that the maximum number of Conversion Shares, to be delivered to the bondholders who request conversion, may not in any case exceed the number of shares calculated based on the Maximum Conversion Ratio, excepting adjustments according to the provisions of the Regulations.

Governing law

The Bond Issue is governed by English law, apart from the provisions on subordination, which, for those regarding the Telecom Italia Finance S.A., are governed by Luxembourg law and, for those regarding the Telecom Italia, by Italian law.

Listing

The Bonds are destined to be listed on a regulated market or multilateral trading system recognised internationally within March 2014.

Short- and long-term composition of net financial debt

A table summarising the net financial debt of the Telecom Italia Group at 30 September 2013 and at 31 December 2012, extracted from the Interim Report on Operations at 30 September 2013 is provided below.

(millions of euros)	30.9.2013	31.12.2012
Non-current financial liabilities	30,210	34,091
Current financial liabilities	7,691	6,150
Financial liabilities directly associated with Discontinued operations/Non current assets held for sale	-	-
Total gross financial debt (a)	37,901	40,241
Non-current financial assets (°)		
Non-current financial receivables for lease contracts	(75)	(110)
Non-current hedging derivatives	(1,200)	(2,291)
(b)	(1,275)	(2,401)
Current financial assets		
Securities other than investments	(1,297)	(754)
Financial receivables and other current financial assets	(576)	(502)
Cash and cash equivalents	(5,456)	(7,436)
Financial liabilities included in Discontinued operations/Non current assets held for sale	-	-
(c)	(7,329)	(8,692)
Net financial debt as per Consob notice DEM/6064293/2006 (d=a+b+c)	29,297	29,148
Non-current financial assets(°)		
Securities other than investments	(20)	(22)
Other financial receivables and other financial assets	(90)	(73)
(e)	(110)	(95)
Net financial debt (f=d+e)	29,187	29,053
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(958)	(779)
Adjusted net financial debt (f+g)	28,229	28,274

(°) At 30 September 2013 and at 31 December 2012, "Non-current financial assets" (b+e) amount to 1,385 million euros and 2,496 million euros, respectively

Guarantee and/or issuance consortia

Since the increase in capital is solely to enable the conversions specified in the Bond Issue Regulations, no issuance and/or guarantee consortium is envisaged.

Criteria for the determination of the issue price of the Conversion Shares

Considering the conversion ratios detailed above, the issue of Conversion Shares will generally occur at a price between (i) a minimum conversion price of the Bonds, initially set at 0.6801 euros (equal to the official stock market price of Telecom Italia ordinary shares on Friday 8 November 2013: "the Minimum Conversion Price") and (ii) a maximum conversion price set initially at 0.8331 euros (equal to 122.5% of the Minimum Conversion price: "the Maximum Conversion Price"). In particular the subscription price of the Conversion Shares will be equal to:

- the Minimum Conversion Price, if the Market Price of ordinary Telecom Italia shares on maturity is lower than this;

- the Maximum Conversion Price, if the Market Price of ordinary Telecom Italia shares on maturity is higher than this;
- the Market Price at maturity, where the Market Price falls between the Minimum Conversion Price and the Maximum Conversion Price.

As per normal market practice the above mentioned conversion price will be subject to adjustments upon the occurrence of events or operations that affect the Company's ordinary shares, including the payment of dividends or the distribution of reserves to ordinary shares.

In the event of disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, the issue price of the shares shall be calculated, in accordance with subsection 6 below, based on the net equity value, also taking into account, for shares listed on regulated markets, the price of shares over the last six months. With regards to the relation between the two criteria for determining the price, it should be noted that the law does not indicate which one should be preferred, but merely expresses the principle that anyone subscribing for shares not offered with preferential subscription rights to existing shareholders is required to pay a "fair price"

The Board of Directors considers, given that the shares of the Company are listed on the market regulated and managed by Borsa Italiana and are habitually traded with excellent liquidity levels, that adopting a method of determining the issue price based on a market criterion will best satisfy the regulatory requirement. In particular the issue price of the Conversion Share was determined:

- with reference to the Minimum Conversion Price, taking the official stock market price for the Friday 8 November session. Adopting the official market price of the first day of trading following the announcement of the operation is in line with placement practice for this type of financial instruments;
- with reference to the Maximum Conversion Price, applying a premium of 22.5% to the Minimum Conversion Price. The premium was determined at placement of the Bond Issue, as point of equilibrium between the issuer target, estimated also on the basis of previous comparable operations, and the expressions of interest from investors. The presence of a premium over the current share prices is a circumstance that further shows their adequacy in relation to the position of current shareholders.

The method of assessment used is therefore closely connected to the nature and features of the instrument, which is also structured in such a way as to seize possible prospects for growth, not reflected in current share prices.

If we look at share prices over the last six months, as mentioned above, it can also be noted that the Minimum Conversion Price and the Maximum Conversion Price are respectively about 116% and 142% of the average price of the ordinary shares of the Company, based on the official prices recorded by Borsa Italiana, showing that they include a premium component, compared to the recent historic valuation.

The Minimum Conversion Price is used to calculate the Maximum Conversion Ratio, which is relevant in case of accelerated conversion and early conversion at the request of the Issuer. The Maximum Conversion Price, on the other hand, is used to calculate the Minimum Conversion Ratio, which is relevant in case of early conversion at the request of bondholders. Moreover, the Minimum Conversion Ratio and the Maximum Conversion Ratio are, respectively, the minimum and maximum limit to the applicable conversion ratio in the event of mandatory conversion at Bond maturity, net of any adjustments.

Lastly, as regards to the issue of shares (i) in the case of settlement of interests in Conversion Shares in the event of accelerated conversion and/or (ii) in the other conversion cases identified above, these are special

events that, according to the Board of Directors, justify once more the price determination procedure indicated in the Regulations, which are essentially based on the market valuation of the shares, over the period of time in which the events taken into account occur.

Therefore, in the opinion of the Board of Directors and taking into account the features of the above mentioned operation (which consists in the recovery of new risk capital, which it would be difficult to find if not at market conditions), the issue price of the Conversion Shares is congruent and compliant with the provisions of art. 2441, subsection 6 of the Italian Civil Code.

Shareholders who have expressed willingness to subscribe to the Capital Increase

The capital increase is intended solely to enable the conversions deriving from the Bond Issue Regulations, as well as the right of the Bond issuer, in the cases summarized above, to settle unpaid interests in Conversion Shares, thus consequently disapplying shareholders' preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code.

Period specified for execution of the increase in capital

After approval of the capital increase, Telecom Italia Finance S.A. will send a notice, following which the conversions specified in the Regulations will be settled in Conversion Shares.

In any case, if the capital increase referred to in the proposal should not be fully subscribed on 15 November 2016, the share capital of the Company will have increased by the amount deriving from the subscriptions carried out by that date, and the directors are expressly authorised to issue the new shares as they are subscribed.

Date of dividend entitlement of the newly issued shares

The Conversion Shares shall have regular dividend entitlement and shall, therefore, attribute to their possessors the same rights as the ordinary shares of the Company that are already in circulation at the time of issue of the former.

Pro-forma effects on capital and financial position

For the purposes of estimating the *pro forma* capital and financial effects of the Bond Issue on the consolidated financial statements and the separate financial statements of Telecom Italia, it is assumed that the Bond Issue be converted into ordinary shares of the Company at maturity (15 November 2016).

- *Consolidated financial statements*

On the basis of the aforementioned assumptions, the Bond Issue determines: (i) a 1,300 million euro reduction in the net financial debt of the Telecom Italia Group; (ii) a corresponding increase in "net equity attributable to Shareholders of the Parent Company" and (iii) a reduction in the net equity attributable to Shareholders of the Parent Company for the interests that will be paid over the duration of the Bond Issue, net of the fiscal effect.

- *Separate financial statements*

On the basis of the aforementioned assumptions, the Bond Issue determines (i) a 1,300 million euro reduction in the net financial debt of Telecom Italia, consequent on the cash equivalents transferred to it by

subsidiary company Telecom Italia Finance S.A., against the conversion of the Bond Issue and (ii) an equivalent increase in the net equity of Telecom Italia.

Effects on the unit value of the shares of any dilution of said value

Given the characteristics of the Bonds Issue, the dilution-related effects of the issue of Conversion Shares cannot be determined beforehand.

Compared to a hypothetical initial quota of 1% of the ordinary share capital (corresponding to 0.690% of the total share capital), in the event of full conversion of Bonds at maturity, net of any adjustments, the shareholder will have a quota equal to:

- 0.88% of the ordinary capital (corresponding to 0.628% of the total capital), if the Maximum Conversion Ratio is applied;
- 0.90% of the ordinary capital (corresponding to 0.639% of the total capital), if the Minimum Conversion Ratio is applied.

Amendments to the Bylaws and right of withdrawal

Approval of the proposed capital increase requires the insertion of a new last subsection into art. 5 of the Company Bylaws.

As regards the aforementioned proposed change, shareholders who do not approve this proposal do not have the right of withdrawal, nor is the approval of a special Meeting of the savings shareholders required, since the amendments do not cause any detriment to the rights of the category.

* * *

In view of all this, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

- having examined the explanatory report of the Board of Directors;
- given the statement by the Board of Statutory Auditors that the current share capital has been fully paid in
- taking into account the changes concerning the elimination of the par value of the shares, submitted to the Meeting for approval;

resolves

4. to increase the share capital for cash, in tranches, and with disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, for a total maximum amount, including any premium, of 1.3 billion euros, (in addition to the value of the interest on the Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A., cited herein, which may also be settled in shares for a maximum sum of 238,875,000) to be carried out in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement solely to enable the bond issue called Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. issued by subsidiary company Telecom Italia Finance S.A., in compliance with the criteria determined by the related Regulations;

5. to establish that the issue price of the Conversion shares of the capital increase (i) is determined on the basis of provisions of the Bond Issue Regulations under point 1 above and is to be between a minimum of 0.6801 euros and a maximum of 0.8331 euros, excepting adjustments and without prejudice to the other criteria envisaged in the event of voluntary conversion of Bonds following special events and the settlement of Bond Issue interest in shares, where permitted, and (ii) is allocated to capital for the amount of 0.55 euros (or for the lowest conversion price) and, with regards to any residual amount, to the share premium;
6. to authorize the Board of Directors and, on its behalf its legal representatives, to carry out the above mentioned capital increase determining, inter alia, in compliance with the provisions of the Regulations (i) the exact issue price of the shares, and, as a consequence of the determination of the issue price, (ii) the exact number of shares to be issued, where this is necessary for the timely application of the provisions and criteria of the Regulations; it being understood that, should the capital increase referred to above not be fully subscribed on 15 November 2016, the share capital will be deemed to be increased by an amount equal to the subscriptions received;
7. to introduce a new subsection at the end of Art. 5 of the Company Bylaws which shall read as follows:

The Extraordinary Shareholders' Meeting of 20 December 2013, resolved to increase the share capital for cash, in tranches, with disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, for a total maximum amount, including any share premium, of 1.3 billion euros (in addition to the value of the interest on the Bonds issued by the subsidiary company Telecom Italia Finance S.A , cited herein, which may also be settled in shares for a maximum sum of 238,875,000), to be carried out in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement solely to enable the conversion of the bond issue called Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. issued by subsidiary company Telecom Italia Finance S.A., in compliance with the criteria determined by the related Regulations, it being understood that, should the capital increase referred to above not be fully subscribed on 15 November 2016, the share capital will be deemed to be increased by an amount equal to the subscriptions received.

8. to confer upon the Board of Directors – and on behalf thereof on the *pro tempore* legal representatives of the company, jointly or severally – all powers to put into effect the aforementioned increase of capital and to make the consequent changes on a case by case basis to article 5 of the Company Bylaws, and to that end meet all the obligations and publish all information required by the regulations to complete all the necessary formalities for the approved resolutions to be entered in the Business Register, accepting and making thereto any amendments, additions or deletions of a non-substantial nature that may be required by the competent authorities, as well as all the powers necessary for legal and regulatory compliance deriving from the resolutions adopted.

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