Telecom Italia S.p.A.

Shareholders' Meeting
20 december 2013

Independent Auditors' Report on the issue price of the shares for the increase in capital with disapplication of the preferential subscription right pursuant to art. 2441, subsections 5 and 6 of the Italian civil code, and art. 158, subsection 1 of legislative decree 58/98

INDEPENDENT AUDITORS' REPORT ON THE ISSUE PRICE OF THE SHARES FOR THE INCREASE IN CAPITAL WITH DISAPPLICATION OF THE PREFERENTIAL SUBSCRIPTION RIGHT PURSUANT TO ART. 2441, SUBSECTIONS 5 AND 6 OF THE ITALIAN CIVIL CODE, AND ART. 158, SUBSECTION 1 OF LEGISLATIVE DECREE 58/98

To the Shareholders of

Telecom Italia SpA

1. REASON FOR AND PURPOSE OF THE APPOINTMENT

Regarding the proposed increase in share capital with disapplication of the preferential subscription right pursuant to article 2441, subsection 5, of the Italian Civil Code, we have received from the company Telecom Italia SpA ("Telecom Italia" or the "Company") the report of the Board of Directors drawn up pursuant to article 2441, subsection 6, of the Italian Civil Code, and of art. 72 of Consob Regulation 11971/1999 (the "Directors' Report"), which explains and motivates the proposed increase in share capital with disapplication of the preferential subscription right, indicating the criteria adopted by the Board of Directors to determine the price of the new issue shares. The Directors' Report, finalised by the Chief Executive Officer after a resolution of the Board of Directors on 7 November 2013, was communicated to the market on 26 November 2013.

The proposal of the Board of Directors, as described in the Directors' Report, regards the 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 (the “Conversion Shares”) solely to enable the conversion of the bonds issued by the subsidiary Telecom Italia Finance SA within the framework of the bond issue guaranteed by Telecom Italia called "Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A". (the "Bonds” or the “Bond Issue”).

The aforementioned capital increase proposal will be submitted for approval to the Extraordinary meeting of the Shareholders of the Company scheduled, in single call, for 20 December 2013.

Pursuant to the terms of our appointment by the Company, we have been asked to express our opinion on the adequacy of the criteria proposed by the Directors for the determination of the issue price of the new Telecom Italia shares, pursuant to the combined provisions of art. 2441, subsections 5 and 6, of the Italian Civil Code, and of art. 158, subsection 1, of the CFL.

2. SUMMARY OF THE OPERATION

2.1 Introduction

The proposed operation to increase the share capital in the terms described in the Directors' Report is part of the guaranteed subordinated fixed rate 1,300,000,000 euro Bond Issue, for mandatory conversion into ordinary Telecom Italia shares, with maturity November 2016, issued by Telecom Italia Finance SA (the “Issuer”) and guaranteed by Telecom Italia, reserved for qualified Italian and international investors.

The Directors' Report states that the Bond Issue was approved by the Board of Directors of the Company, for those matters within its competence, together with the granting of the guarantee by the Company, in its meeting on 7 November 2013.

The terms and characteristics of the Bond Issue are described in the document called the Trust Deed, dated 15 November 2013, which contains the Bond Issue Regulations, in English (the "Regulations") and published on the Company website.

As reported by the Directors, Bond placement with qualified investors started and was concluded immediately after the Board Meeting of 7 November 2013, and, more specifically, using an "overnight execution" model, on 8 November 2013, with pricing defined on the same day.

The increase in capital (including the premium) may therefore occur for a total maximum amount of 1,300,000,000 euros (plus any interests to be settled in shares, for a maximum sum of 238,875,000 euros), 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 according to the criteria determined in the related Regulations.

As described in the Directors' Report, the issue price of the Conversion Shares for the increase in capital will be determined based on the provisions of the Regulations (as illustrated in the "Main features of the Bond Issue" section below), and will in any event be between a minimum of 0.6801 euros (equal to the official market price on 8 November 2013: the "Minimum Conversion Price"), and a maximum of 0.8331 euros (equal to the Minimum Conversion Price plus a premium of 22.5%: the "Maximum Conversion Price") , excepting adjustments and without prejudice to the other criteria envisaged in the event of settlement of the deferred interest of the Bond Issue in shares in case of accelerated conversion, as prescribed in the Regulations.

The Regulations prescribe that, at the proposal of the Board of Directors, Telecom Italia shall call an extraordinary shareholders' meeting to be held no later than 28 February 2014, currently scheduled for 20 December 2013, to seek its approval of the increase in capital with disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code solely to enable the issue of ordinary shares to service the conversion of the Bonds.
The Bonds will be subject to mandatory conversion into ordinary Telecom Italia shares at maturity, except in the cases of earlier conversion at the option of bondholders or Telecom Italia Finance SA or upon the occurrence of special events in accordance with the terms and conditions of the Regulations.

2.2. Main features of the Bond Issue

The Directors' Report states that the Bond Issue has the following main features:

- nature: a bond issue with mandatory conversion into existing or newly issued ordinary shares of Telecom Italia at maturity, subject to the approval by an Extraordinary Shareholders' Meeting of an increase in capital to enable the conversion with disapplication of the preferential subscription right;
- amount: 1,300 million euros;
- opening date of the Bond Issue : 15 November 2013;

- duration: three years, with automatic conversion into Conversion Shares at maturity on 15 November 2016, unless the Bonds have been previously redeemed and/or converted pursuant to the Regulations;
- currency: euro;
- unit value of the Bonds: 100,000 euros;
- target: qualified Italian and foreign investors;
- Bond issue price: 100% of par value;
- market price of Telecom Italia ordinary shares at maturity: calculated as the average price in the 20 trading days preceding the third trading day before expiry, as set out in art. 3 of the Bond Issue Regulations ("the Market Price");
- conversion price: the issue of the Conversion Shares will generally take place at a price equal to:

(i) the Minimum Conversion Price initially 0.6801 euros (equal to the official market price of Telecom Italia ordinary shares on 8 November 2013);

(ii) the Maximum Conversion Price fixed initially at 0.8331 euros (equal to 122.5% of theMinimum Conversion Price);

(iii) the Market Price, where the Market Price falls between the Minimum Conversion Price and the Maximum Conversion Price.

Assuming that the Bonds reach natural maturity, and net of any adjustments, the number of Conversion Shares will be calculated as follows:

- if the Market Price of Telecom Italia ordinary shares at maturity is less than 0.6801 euros, the number of Conversion Shares will be equal to 1,911,483,605, equivalent to 0.6801 euros per share.
- if the Market Price is between 0.6801 euros and 0.8331 euros the number of Conversion Shares will be 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 number of Conversion Shares will be 1,560,436,922, equivalent to 0.8331 euros per share.

As highlighted in the Directors' report, in accordance with market practice, the conversion ratio indicated above will be adjusted as operations or events occur on the capital of the Company, including payment of dividends or distribution of reserves to the ordinary shares, identified in art. 7 of the Regulations.

- interest: fixed annual rate equal to 6.125% of the par value of the Bond Issue;
- payment of interest: annually. The first coupon will be payable on 15 November 2014;
- repayment of the capital share of the Bond Issue:

- If the Shareholders' Meeting of Telecom Italia should not approve the increase in capital by 28 February 2014, the Issuer will, within the following ten days, be entitled to announce the early repayment of the Bonds within the following 60 days. 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, only if positive, between the current market value of the Telecom Italia ordinary shares and the Minimum conversion Price (equal to 0.6801 euros, as reported above), calculated as set out in the Regulations.

- If the Shareholders' Meeting should resolve to increase the capital to enable the conversion of the Bonds, 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 single Bond, calculated based on the Minimum Conversion Price of 0.6801 euros per ordinary share) and the Minimum Conversion Ratio (initially equal to 120,033.6094 Conversion Shares per single Bond, calculated based on the Maximum Conversion Price of 0.8331 euros per ordinary share). The Maximum Conversion Ratio and the Minimum Conversion Ratio are subject to adjustment according to the provisions of the Regulations.

• hypothesis of early conversion with respect to the maturity of the Bond Issue

- Accelerated conversion: if an accelerated 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; BB- for Standard & Poor's and Fitch), the Bonds will be converted early based on the Maximum Conversion Ratio (with the issue of Conversion Shares at the Minimum Conversion Price), with payment of a cash amount 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"), plus accrued interest and any deferred coupons. In case of accelerated conversion, it is also specified that deferred coupons may be settled, at the choice of Telecom Italia Finance SA, in cash or in Conversion Shares (to be delivered by Telecom Italia and issued based on a formula indicated in the Regulations based on a mean of the market value of the ordinary shares for a certain period of time).

- Early conversion at the Issuer's discretion: Telecom Italia Finance SA may request early conversion of the Bonds, based on the Maximum Conversion Ratio (with issue of Conversion Shares at the Minimum Conversion Price). In this eventuality, it is specified that payment of the "Make Whole Amount" (calculated as indicated in the Regulations), as well as any accrued interest and any deferred coupons, will be in cash.

Bondholders may convert early in some cases, reported below:

- Voluntary conversion: bondholders may exercise their conversion rights at Minimum Conversion Ratio (with the issue of Conversion Shares at the Maximum Conversion Price) 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, or 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, their majority shareholder, the parties to the "Telco agreement" published pursuant to art. 122 of Legislative Decree 58/1998 dated 29 February 2012 and recently amended on 7 November 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. In their Report, the Directors state that the aforementioned formula ensures that the maximum number of Conversion Shares may in no case exceed the number of shares calculated on the basis of the Maximum Conversion Ratio, excepting adjustments as set out in the Regulations.

2.3 Aims of the operation and reasons for disapplication of the preferential subscription right

It is specified in the Directors' Report that the operation, together with other measures presented with the 2014-2016 Industrial Plan, is to guarantee immediate certainty that the asset structure will be strengthened.

In this respect, the Directors explain that, as part of the measures to strengthen the asset structure previously studied by the Company when the 2013-2015 Industrial Plan was approved, measures which were also intended to defend the Company's rating, the Board of Directors, on 18 February 2013, 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 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 to the Board of Directors that continuing with the programme of hybrid issues would not achieve its objective.

In this context, the Directors state that they focussed on structuring an instrument that enabled them to:

- 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 (downgrading of the Company by Moody's to sub-investment grade Ba1) with the necessary prudence, limiting the downgrade to a single rating level;
- guarantee that the options to further reduce indebtedness can be considered more calmly, also in relation to the progress of the business.

The Directors state that they then focussed their attention on instruments with an actual share content, and of these, the most efficient instrument seemed to be the issue of mandatory convertible bonds, for the following reasons:

- it has a reference market, in terms of potential investors, that is compatible with the sum to be raised;
- 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, and they considered that this choice best meets the needs of the shareholders, since it allows the Company to issue a relatively small number of new shares at the best possible price. In the configuration adopted by the Directors, placement immediately after Board approval mitigates the risk of speculative manoeuvres on the shares involved which could have a negative effect on the final issue price;

- it is possible to place capital at a premium with respect to the 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.

Moreover, in their Report the Directors highlight that, while offering the above advantages, the instrument involves a high degree of complexity and sophistication, with a minimum investment of 100,000 euros, in line with comparable operations, and this makes it hardly compatible with an offer on the retail market (and therefore, in preferential subscription), requiring placement with qualified investors instead.

The capital increase operation is therefore related to the Bond Issue, and according to the explanation contained in the Directors' Report, this justifies the Company's interest in disapplication of the preferential subscription right.

3. NATURE AND SCOPE OF THIS OPINION

Given the nature and purpose of this opinion, the proposed increase in capital referred to in paragraph 2 above is governed by the provisions of art. 2441, subsection 5, of the Italian Civil Code, and thus is a case of an increase in capital with disapplication of the preferential subscription right.

The purpose of this fairness opinion, issued pursuant to art. 2441, subsection 6, of the Italian Civil Code, and art. 158, subsection 1, of Legislative Decree 58/98, is to strengthen the information available to the Shareholders, pursuant to art. 2441, subsection 5, of the Italian Civil Code, regarding the methods used by the Directors to determine the issue price of the shares for the planned Increase in Capital.

More precisely, this fairness opinion explains the method used by the Directors to determine the issue price of the shares, and any valuation difficulties they may have encountered, and it consists of our considerations regarding the adequacy of this method, in terms of reasonableness and non-arbitrariness, in the circumstances, as well as its correct application.

Our opinion is not intended to express, nor does it express, a view on the economic or strategic reasons that underlie the operation.

4. DOCUMENTATION USED

In carrying out our work we obtained the documents considered useful in the case in question directly from the Company, and interviewed its Senior Management. In particular, we obtained and analysed the following documentation:

- the report of the Board of Directors prepared pursuant to art. 2441, subsection 6 of the Italian Civil Code and of art. 72 of Consob Regulation 11971/99;
- the draft minutes of the Board of Directors' meeting on 7 November 2013;
- the "Pricing Term Sheet" of the Bond Issue, dated 8 November 2013;
- the Bond Issue Regulations dated 15 November 2013;
- the Company press releases regarding the operation;

- the financial statements and consolidated accounts of the Company at 31 December 2012, for which we acted as external auditor;

- the half-yearly report of the Company at 30 June 2013, on which we carried out a limited audit;
- the interim report on operations of the Company at 30 September 2013, on which we carried out a limited audit;
- the changes recorded in the prices of Telecom Italia SpA ordinary shares on 8 November 2013 and in the 6 month period preceding that date;
- accounting data, non-accounting data and statistical data, and other information deemed useful for the purpose of carrying out our appointed task.

We also obtained a specific and express declaration, in a letter issued by the Company dated 29 November 2013, that, so far as the Company is aware, no relevant changes of fact or circumstance have occurred that might necessitate significant amendment of the data and information considered in carrying out our analyses, and/or that might have a significant impact on our assessments.

5. VALUATION METHOD ADOPTED BY THE BOARD OF DIRECTORS TO DETERMINE THE ISSUE PRICE OF THE SHARES

As stated, as part of the proposed operation which, as repeatedly noted, must be legally considered to be an increase in capital with disapplication of preferential subscription rights, pursuant to art. 2441, subsection 5, of the Italian Civil Code, the Directors have indicated in their Report the methods used to determine the issue price of the Conversion Shares.

As stated in their Report, the Directors consider, given that the shares of the Company are listed on the stock exchange 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, coherent with the nature and characteristics of the financial instrument, will satisfy the regulatory requirement. In particular, the issue of the Conversion Shares will generally occur at a price between (i) the Minimum Conversion Price, fixed initially at 0.6801 euros, and (ii) the Maximum Conversion Price, fixed initially at 0.8331 euros (equal to 122.5% of the Minimum Conversion Price). Within this interval, the subscription price of the Conversion Shares at maturity will be equal to:

– the Minimum Conversion Price, if the Market Price is lower than this;
– the Maximum Conversion Price, if the Market Price is higher than this;
– the Market Price, where the Market Price falls between the Minimum Conversion Price and the Maximum Conversion Price.

The Directors report that the issue price of the Conversion Share was determined:

- with reference to the Minimum Conversion Price, taking the official market price on 8 November 2013 as reference. The Directors' Report states that 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 Bonds, as the point of equilibrium between the issuer target, estimated also on the basis of previous comparable operations, and the expressions of interest from investors.

According to the Directors, the presence of a premium over the current share prices is a circumstance that further shows their fairness in relation to the position of current shareholders.

The Directors point out that 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 take advantage of possible prospects for growth, not reflected in current share prices.

Furthermore, with reference to the provisions of art. 2441, subsection 6, of the Italian Civil Code, the Directors report that they have observed the progress of the market price of Telecom Italia ordinary shares over the last six months. In this respect, as pointed out in the Report, the Minimum Conversion Price and the Maximum Conversion Price represent approximately 116% and 142%, respectively, 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 this average price.

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 of the applicable conversion ratio in the event of mandatory conversion at Bond maturity, net of any adjustments.

In the opinion of the Board of Directors and taking into account the features of the above mentioned operation (which consists in the collection 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.

6. VALUATION DIFFICULTIES ENCOUNTERED BY THE BOARD OF DIRECTORS

The Report does not highlight any particular difficulties encountered by the Directors in the valuations mentioned in the previous point.

7. WORK CARRIED OUT

To carry out the task assigned to us, we have:

- carried out a critical review of the Directors' Report and the documentation received from the Company;
- analysed, through discussions with the Directors and the Company management, the work undertaken by them to identify the criteria used for the determination of the issue price of the Conversion Shares to check that they were adequate insofar as reasonable, justified, and not arbitrary, in the circumstances.
- checked that the reasons given by the Board of Directors regarding the valuation method they adopted to set the issue price of the Conversion Shares were complete and indisputable;

- considered the elements needed to ascertain that said method was technically suitable to determine the issue price of the Conversion Shares, in the specific circumstances;
- checked the market price of ordinary Telecom Italia shares over different time periods of one month, three months, six months and one year prior to 8 November 2013, and checked the accuracy of the counts carried out by the Directors to identify the Minimum Conversion Price and the Maximum Conversion Price;
- checked the coherence of the data used as reference sources by the Directors, and the mathematical correctness of the calculations made by the Board of Directors;
- collected information on the events that occurred after the launch of the operation, through conversations with the Senior Management of the Company regarding any facts or circumstances that might have had a significant effect on the data and information considered in carrying out our analyses, as well as on the results of the valuations;
- analysed the documentation on the Telecom Italia group and its shares that is publicly available;
- received formal statement from the legal representatives of the Company on the valuation elements made available, and on the fact that, so far as they were aware, at the date of our opinion, no significant amendments need be made to the reference data of the operation and the other elements considered.

8. COMMENTS AND DETAILS ON THE ADEQUACY OF THE VALUATION METHOD ADOPTED BY THE DIRECTORS FOR THE DETERMINATION OF THE ISSUE PRICE OF THE SHARES

Preliminarily, it should again be recalled that the scope of this report is to assess the adequacy of the valuation method adopted by the directors for the determination of the issue price of the shares for the increase in capital to enable the Bond Issue. As suitably explained in the Report, the adoption of this instrument is justified by the primary interest of the Company, given its current financial structure, to obtain resources to strengthen its asset structure from the capital markets.
The Directors' Report describes the underlying motivations for the choice of Mandatory Convertible Bonds rather than an increase in capital with preferential subscription right, emphasising the advantages in terms of execution times and issue price, and the rationale followed by the Directors to identify the terms and conditions of the Bonds and the underlying increase in capital.
It is evident from the Directors' Report that in this context the underlying reasons for the methodological choices they made for the determination of the issue price of the shares deriving from the proposed increase in capital, and the logical process followed, are a direct consequence of the characteristics of the chosen instrument. So the considerations here regarding the reasonableness and non-arbitrariness, in the circumstances, of the methodological approach adopted by the Directors for the determination of the issue price, take account of the specific characteristics of the overall structure of the operation, as well as the expressions of interest from investors.

As mentioned in paragraph 5, above, the issue price of the ordinary shares of Telecom Italia in the increase in capital to enable the Bond Issue may vary according to the specific conversion hypotheses, which are disciplined by the Regulations.

For greater clarity, and with the aim of supplying the most extensive explanation to the shareholders, the recipients of this opinion, a table summarising the criteria identified by the Directors for the determination of the issue price upon occurrence of the different conversion hypotheses, as defined in the Directors' Report and disciplined by the Bond Issue Regulations, is reproduced below.

In art. 7 ("Adjustment of conversion price"), the Regulations set out the adjustments applicable to all conversion hypotheses when operations or events occur that affect the ordinary shares of the Company, including, by way of example, the payment of dividends or the distribution of reserves.

CONVERSION HYPOTHESIS	CRITERIA IDENTIFIED BY THE DIRECTORS FOR THE DETERMINATION OF THE ISSUE PRICE			
	Criterion	*Reference period*	*Issue price*	*Corrective mechanismsif any*
Mandatory Conversion on Maturity *Art. 6.1 Reg.*	Average of the official prices of a Telecom Italia ordinary share in the reference period	20 trading days preceding the third trading day before maturity date (15 November 2016)	In any event within the interval between the Minimum Conversion Price (initially equal to € 0.6801 = official market price on 8 November 2013) and the Maximum Conversion Price (initially equal to € 0.8331, equal to 122.5% of the Minimum Conversion Price)	-
Accelerated Conversion *Art. 6.5 Reg.*	Minimum Conversion Price (initially equal to € 0.6801)	1 day (08 November 2013)	Lower limit of the interval	-
Early Conversion at the Option of the Issuer *Art. 6.2 Reg.*	Minimum Conversion Price (initially equal to € 0.6801)	1 day (08 November 2013)	Lower limit of the interval	-
Voluntary Conversion at the Request of Bondholders *Art. 6.3 Reg.*	Maximum Conversion Price (initially € 0.8331, equal to 122.5% of the Minimum Conversion Price)	1 day (08 November 2013)	Upper limit of the interval	-
Voluntary conversion following Special Events indicated in the Regulations *Art. 6.4 Reg.*	Average of official prices of Telecom Italia ordinary share in the reference period	20 trading days from the day after the conversion notice	In any event within the interval between the Minimum Conversion Price (initially equal to € 0.6801 = official market price on 8 November 2013) and the Maximum Conversion Price (initially equal to € 0.8331, equal to 122.5% of the Minimum Conversion Price)	Corrective mechanism for the criterion dependant on the days remaining to maturity of the bond issue, as disciplined by the Regulations.

The issue price of the Conversion Shares, and consequently the number of Conversion Shares that will be assigned to the Bondholders at the time of conversion will therefore actually be determined according to the specific situation set out in the Regulations, summarised in the table above, which will be applicable upon conversion.

All provided that, in the various conversion hypotheses, the issue price may be no less than the Minimum Conversion Price, identified by reference to the official market price of Telecom Italia ordinary shares on the Friday 8 November 2013 (the date immediately following that on which the Board of Directors approved the Bond Issue), and may not be more than the Maximum Conversion Price, determined from the Minimum Conversion Price plus a 22.5% premium.

In substance, the issue price of the Telecom Italia ordinary shares to enable the Bond Issue will in any event be between a minimum of 0.6801 euros (Minimum Conversion Price) and a maximum of 0.8331 euros (Maximum Conversion Price), (the "Interval"), without prejudice to adjustments pursuant to the Regulations as previously mentioned.

The mechanism indicated above makes it possible to determine the definitive issue price within a predefined price interval, and, as stated by the Directors in their Report, allows any growth prospects of the Company not currently reflected in share prices to be taken into account.

Hence the Directors' Report, that explains and justifies the operation to increase the share capital with disapplication of the preferential subscription right, does not indicate the final issue price of the shares, but (i) the Minimum Conversion Price and the Maximum Conversion Price, the minimum and maximum limits of the Interval that result from the application of the valuation method identified by the Board of Directors and in any event applicable in cases of, firstly, accelerated conversion and early conversion at the option of the Issuer, and, secondly, voluntary conversion at the request of the bondholder; as well as (ii) the criteria for the determination of the final issue price within the aforementioned Interval, depending on the future price of Telecom Italia shares, in the specific eventuality of mandatory conversion upon maturity and voluntary conversion following special events.

So, given the characteristics of the operation and the purpose of this opinion, this report is concerned with the fairness, in terms of reasonableness and non-arbitrariness, on this date, of the overall methodological approach adopted by the Directors for the pricing of the Conversion Shares and, in particular, in the present circumstances, the criterion identified by the Directors for the determination of the Minimum Conversion Price of the new shares, including its correct application.

In effect, pursuant to the Bond Issue Regulations, the Minimum Conversion Price is used for the determination of the Maximum Conversion Ratio (initially 147,037.2004 Conversion Shares per Bond), meaning the conversion ratio that determines the maximum dilution for the current shareholders of Telecom Italia which are subject to disapplication of the preferential subscription rights, net of adjustments pursuant to said Regulations.

Pursuant to art. 2441, subsection 6 of the Italian Civil Code, the issue price of the shares should, in the event of disapplication of the preferential subscription right, be determined “based on the net equity value, also taking account of the price of the shares over the last six months, for shares listed on regulated markets”. Regarding the expression “net equity value”, it is considered that this value must be understood not as the equity value in the narrow sense of the term, but as the current value of the company, identified on the basis of the valuation criteria developed by economic science and considered adequate in the specific circumstances in which the increase in share capital operation is taking place. And regarding the reference to the'"price of the shares over the last six months", theory and practice agree that reference need not necessarily be made to an average of the prices over the six month period, but that use may be made of more limited periods of observations, depending on the circumstances and the specific characteristics of the share, always for the purpose of identifying the current value of the issuing company.

The reference to the share prices identified by the Directors is commonly accepted and used both nationally and internationally, and is in line with the constant approach used in professional practice, since the company has shares listed on regulated markets. In effect, market prices represent an essential parameter for the valuation of listed companies. In fact, as a rule, market prices express the value attributed by the market to the shares traded, and consequently supply major indications on the value of the company to which the shares refer, since they reflect the information available to analysts and investors, including their expectations of the economic and financial performance of the company.

As widely recognised by valuation practice, and by theory, market value constitutes a reference point of greater or lesser importance, also in consideration of the specific characteristics of the shares. In efficient financial markets, the prices that progressively form for shares, especially those with excellent cash levels and ample free float, as is the case for Telecom Italia, tend to reflect the current value that may be attributed to the company. In fact, the aforementioned characteristics of Telecom Italia shares are confirmed by our detailed analysis.

Moreover, the Directors emphasize that the scope of the operation is to raise new risk capital which, in the current financial market context, has to take account of the conditions expressed by the stock market. As recalled at the start of this paragraph, the adoption of the share price method is also supported by the provisions of subsection 6 of art. 2441 of the Italian Civil Code.

In consequence, given all of the above, the adoption of the share market price method appears justified and, in the circumstance, reasonable and non-arbitrary.

In this case in question, the Directors of the Company have proceeded to identify the Minimum Conversion Price based on the office price of Telecom Italia shares on a single trading day, and specifically, on 8 November 2013, the day immediately following the meeting of the Board of Directors that approved the Bond Issue.

The Directors' choice to adopt a criterion based on the identification of an official price current on the exact date immediately following the Bond Issue for the determination of the issue price of the shares is supported by market practice used in similar types of operations, in the arrangements set out for the placement of the Bonds and in the nature of the investors to which the placement is directed, although in other types of operations to increase capital with disapplication of preferential subscription rights, criteria that refer to average values measured over longer periods of time are usually adopted.

The use by the Directors of the official share price, meaning the average of the weighted prices for the volumes traded on the day immediately following approval of the operation by the Board of Directors finds confirmation in other recent market operations to issue equity or equity-linked financial instruments such as the Mandatory Convertible Bonds considered here.

The Directors also emphasize that the Minimum Conversion Price and the Maximum Conversion Price represent approximately 116% and 142%, respectively, of the average price of the ordinary shares of the Company in the preceding six months, a period of time in line with the regulatory indications of art. 2441, subsection 6, of the Italian Civil Code. Our further investigations of the different time periods prior to the date of 8 November 2013 determined the following values per share:

Arithmetic mean of official market prices of Telecom Italia ordinary share	Euros per share
1 month	0.7067
3 months	0.6145
6 months	0.5855
12 months	0.6095

So if a time period of one month before the date of the Bond Issue had been used, it would have led to the identification of a Minimum Conversion Price broadly in line with that adopted by the Directors based on the official price of the ordinary shares of the Company on 8 November 2013. If, vice versa, the Board of Directors had opted to use averages determined over longer periods of time, this would have led to the determination of a Minimum Conversion Price lower than that actually adopted, and therefore to the issue of a higher number of shares, less favourable for the shareholders which are subject to disapplication of the preferential subscription rights due to the greater dilution effect.

The sensitivity analysis we conducted to evaluate the possible impact of changes in the different hypotheses and different time periods, in the market price valuation method adopted, as well as our analysis of the accuracy, including the mathematical accuracy, of the method used, confirm the reasonableness of the result obtained by the Directors.
The choice of the Directors to determine the Maximum Conversion Price by applying to the Minimum Conversion Price a 22.5% premium, which in the Directors' view represents a point of equilibrium between the issuer's expectations and the expressions of interest from investors, is in line with what may be inferred from practice in analogous operations. In particular, the sample of similar operations we examined indicated that premiums between 20% and 25% of the minimum conversion price identified had been applied in the identification of the maximum conversion prices. The choice made by the Directors is therefore reasonable and non-arbitrary.

As mentioned, in the specific hypotheses of (i) mandatory conversion at maturity and (ii) early conversion following special events, the actual issue price of the Conversion Shares will be determined based on the average of the official prices of Telecom Italia ordinary shares in a reference period composed of the 20 trading days before, in case (i), the date of maturity of the Bonds, and in case (ii), the conversion notice (in this latter case, with the application of a corrective mechanism dependant on the days remaining to maturity of the Bonds, set out in art. 6.5 of the Regulations). As noted in the Directors' Report, the use of these additional criteria, it being always understood that the conversion price will in any event remain within the Interval, allows any increases in the value of the shares to be taken into account (up to the Maximum Conversion Price), and hence to take advantage of the possible prospects for growth that are currently not reflected in the share prices of a Telecom Italia ordinary share. This methodological approach appears adequate from the perspective of the shareholders which are subject to disapplication of the preferential subscription rights, since it allows them to benefit from the effects of future increases in share prices, with the identification of an effective issue price higher than the minimum identified today, and the consequent issue of a lower number of Conversion Shares and less dilution.

In case of accelerated conversion, any accrued interest may, at the option of the Issuer, be settled in cash or in Conversion Shares. If the Issuer exercises its right to settle accrued interest in Conversion Shares, these will be issued by Telecom Italia based on an average of the market value of the ordinary shares over a certain period, in application of the formula set out in art.

6.5 b) of the Regulations, without applying the limits of the Interval. The choice made by the Directors must above all be made in the context of the special events, mentioned in art. 6.5 (a) of the Regulations, that give rise to the accelerated conversion. Given that Conversion Shares that replace payment of the accrued interest in cash, are attributed a substantial cash equivalent function, the exclusion of the application of the limits of the Interval in this specific case is reasonable and non-arbitrary, also taking account of the fact that the issue price of the shares will be identified based on their market value over a period of time close to the time the accelerated conversion event occurred .

The Directors decided not to use valuation methodologies other than the market price method, whether as principal methods or for control purposes. The Directors' Report clarifies that the reasons for this choice are attributable to the characteristics of the operation, which is to raise new risk capital that it would be difficult to raise in conditions other than those that the market itself expresses.
From this latter perspective, also in consideration of the specific purpose of the increase in capital aimed atmaking available the Conversion Shares needed for the conversion of the Bonds, it is not unreasonable, overall, for the Directors to choose to refer only to a "direct"market method, which is not affected by subjective factors related to the selection, by the Board, of basic assumptions and parameters (such as rates, comparables, development forecasts) that are more typically attributable to other valuation methods, in coherence with other types of operations and based on fundamental analysis criteria. In the case in question, taking account of the objective to raise resources on the market to strengthen the asset structure of the Company, we therefore consider that the criterion preselected by the Directors enables a share issue price to be identified, always in the specific circumstances, that expresses a current value of the Company updated at a moment extremely close to 7 November 2013, the date of first placement of the Mandatory Convertible Bonds.

The choice made by the Board of Directors of Telecom Italia is also in line with the approach followed in a number of similar operations, in which the market price was the only criterion used for the determination of the issue price of new shares to service mandatory convertible bonds. In light of the above, the decision of the Directors to refer solely to the market price method, while only briefly explained and not in line with an abstractly preferable approach that also takes account of multiple methods, appears acceptable, as a whole, in the circumstances.

9 SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITOR AND ANY OTHER IMPORTANT ASPECTS THAT EMERGED DURING THE EXECUTION OF THIS TASK

i) As for the limits and difficulties we encountered in performing our work, we would raise the following issues:

- valuations based on market prices are subject to the fluctuations of the financial market itself. The financial markets and stock exchanges, both in Italy and abroad, have shown a tendency to fluctuate considerably over time, primarily in relation to the uncertainty of the broader economic scenario. Speculative pressures in one direction or another which are not linked to the economic and financial perspectives of the individual companies or related to external events that are wholly unpredictable, can influence the market prices of shares. The application of the market price method as the only method chosen by the Directors may therefore identify values that vary more or less significantly depending on the moment at which the valuation is carried out;

- in this specific case, the Directors considered that methods other than the market price method were not applicable, given the special characteristics and purposes of the operation indicated in their Report. We have already commented on the reasons on which this methodological choice is based in paragraph 8, above. The non-application of alternative methods, principally or as controls, to the results obtained with the market price method, constitutes an objective difficulty in performing our work.

ii) Attention should also be paid to the following aspects, which we believe to be important:

- as disciplined by the Regulations, if an accelerated conversion event occurs (including downgrading of the Telecom Italia credit rating below certain threshold values) or in the eventuality of early conversion at the Issuer's option, the Bonds will be converted early based on the Maximum Conversion Ratio, and thus with the issue of Conversion Shares at the Minimum Conversion Price . The Regulations also specify, in the two hypotheses of early conversion mentioned above, that the Issuer shall pay: (i) a pre-determined cash amount, which decreases linearly as time passes until the Maturity Date of the Bonds, representing the value of the options underlying the instrument at the time of the Bond Issue, according to a specific formula contained in the Regulations (the "Make Whole Amount"); (ii) any accrued interest; (iii) any deferred coupons. Payment of the Make Whole Amount would, in the circumstances, upon the conversion of the Bonds into capital, determine the payment, in cash, of a sum that could also be significant, by the Issuer to Bondholders;

- the Regulations also specify that, in case of accelerated conversion, any accrued interest may, at the Issuer's option, be settled in cash or in Conversion Shares. In this case the Conversion Shares would be issued by Telecom Italia based on a specific formula set out in art. 6.5 (b) of the Regulations, based on an average of the market value of the ordinary shares over a certain period of time, without application of the limits of the Interval;

- in the specific hypothesis of early conversion after special events, the Bond Issue Regulations specify that, without prejudice to the application of the limits of the Interval, the actual issue price of the Conversion Shares will be determined based on the average of the official prices of Telecom Italia ordinary shares in a reference period consisting of 20 trading days following the conversion notice. However, in this specific case, the Regulations also specify the application of a corrective mechanism, dependant on the days remaining to maturity of the Bonds, the impact of which reduces as time passes. Therefore the closer the occurrence of the hypothetical "special event", that constitutes the cause of early conversion, to the date of the Bond Issue, the more the corrective mechanism will operate to bring the actual issue price close to the Minimum Conversion Price (with the consequent issue of a greater number of Conversion Shares destined for Bondholders than the number that would have been issued if the corrective mechanism did not operate). Vice versa, the closer the occurrence of the "special event" to the maturity date of the Bond Issue, the greater the impact of the mechanism in question would reduce. For completeness, we would point out that, as mentioned by the Directors in their Report (art. 6.4 of the Regulations), the "special events" that allow the Bondholder to request early conversion (with the operation of the corrective mechanism mentioned above) include the hypothesis of "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, their majority shareholder, the parties to the Telco agreement, published pursuant to art. 122 of Legislative Decree 58/1998 dated 29 February 2012 and recently amended on 7 November 2013";

- it is outside the scope of our work to comment on the determinations of the Directors regarding the structure of the operation in the context of the objectives to strengthen the asset structure of the Company, the corresponding compliances, the timing of the start and execution of the operation itself and the methods for allocation of the Bonds;

- from the Directors' Report it appears that there are no time-limited restrictions on the new issue shares, and Bondholders are fully entitled, after delivery of the Conversion Shares by the Company, to trade these shares on the market.

10. CONCLUSIONS

Based on the documentation examined and the procedures described above, and taking account of the nature and scope of our work, as set out in this fairness opinion, without prejudice to the matters raised in paragraph 9 above, we consider that the valuation approach adopted by the Directors for the determination of the issue price of the Telecom Italia Conversion Shares for the increase in capital with disapplication of the preferential subscription right to enable the conversion of the Bond Issue, characterised by the identification of an Interval between the Minimum Conversion Price and the Maximum Conversion Price, is adequate, in that it is reasonable and non-arbitrary, in the circumstances and, in particular, that it has been correctly applied to determine the Minimum Conversion Price of 0.6802 euros.

Milan, 29 November 2013

PricewaterhouseCoopers SpA

Paolo Caccini
(External auditor)

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