

Report of the Board of Auditors to the Meeting of the Shareholders of Telecom Italia S.p.A.

pursuant to Article 153 Legislative Decree no.
58/1998

Dear Shareholders,

This report is made up of two separate sections: the First Section explains the activities performed by the Board of Statutory Auditors during the course of the 2012 financial year and up to today's date, as required by Consob Notice no. DEM/1025564 of 6 April 2001 and subsequent amendments and additions; the Second Section provides an update on the principal developments, relevant to activities performed by the Board of Statutory Auditors during 2012 in the issues arising from the internal review known as Greenfield Project

First Section

During the 2012 financial year the Board of Statutory Auditors performed the supervisory activities required by the applicable legislation, taking account of the principles of conduct recommended by CNDCEC (the Italian board of chartered accountants and accounting consultants) and the Consob notices on company controls and the activities of the Board of Statutory Auditors.

The Control Body has acquired the information necessary for the performance of the tasks of general supervision assigned to it by attending the meetings of the Board of Directors and board Committees (i.e. the Executive Committee, the Control and Risk Committee – previously the Committee for Internal Control and Corporate Governance, the Nominations and Remuneration Committee), meetings with Executive Directors and by interviewing Company management, as well as by special analyses conducted directly or in joint meetings with the Control and Risk Committee.

1. On the basis of the information received and as a result of the analyses conducted by the Board of Statutory Auditors, it has become clear that the transactions carried out by the Company which have major impact on revenues, finances and assets, including transactions performed through companies in which the Company has a direct or indirect stake, are essentially made up as follows:
 - Merger of TI Audit and Compliance Services S.c.a r.l. into Telecom Italia: the merger by incorporation of TI Audit and Compliance Services S.c.a r.l. into Telecom Italia came into effect on 1 January 2012. This operation, which is in accordance with the policy of reviewing the control governance structures of the Telecom Italia Group, concentrating activities and expertise in the matter of internal controls in the Parent company, carried out based on a merger plan drawn up taking account of the reference financial position as at 30 June 2011. At the date the merger became effective, Telecom Italia held 100% of the entire share capital of TI Audit, having purchased the nominal 500,000.00 euro share held by Telecom Italia Media S.p.A. by notarised deed on 20 December 2011.
 - Transfer of the “Information Technology” branch of business of Telecom Italia to SSC, subsequently renamed TI Information Technology: the transfer of the “Information Technology” branch of business of Telecom Italia to SSC S.r.l., which changed its name to TI Information Technology, became effective on 1 November 2012. The transfer took place on the basis of the financial position at 30 June 2012 of the branch of business, subject to a sworn valuation report by the appointed consultant. The operation involved the transfer – with the related specialized software, hardware, equipment, and contracts with suppliers of professional services – of the Information Technology branch of business, composed of the Information Technology (IT governance and security, planning, IT system design services) and Human Resources and Organisation Information Technology Functions. After the operation – which involved the transfer of 1,177 members of staff to the transferee company – Telecom Italia Information Technology will supply to Telecom Italia the services previously provided by the branch of business, based on specific contracts.
 - Assignment of Matrix S.p.A.: the company was sold to Libero, a Weather Investment II S.à.r.l. company, on 31 October 2012, and is consequently no longer included within the consolidation perimeter.
 - Assignment of La7 S.r.l.: on 4 March 2013, the Board of Directors of Telecom Italia Media S.p.A., a company controlled by Telecom Italia S.p.A. resolved to delegate powers for the finalisation of the agreement to assign its entire shareholding in La7 S.r.l. to Cairo Communication S.p.A., excluding the 51% holding in MTV Italia S.r.l. The related agreement was signed on 6 March 2013. Completion of the operation is subject to the authorisations prescribed in the applicable regulations.

In 2012 the following notes were issued:

- on 15 June 2012 Telecom Italia S.p.A. issued a note for the amount of 750 million euros, with coupon rate 4.625% and maturity on 15 June 2015, and a note for the amount of 750 million euros, with coupon rate 6.125% and maturity on 14 December 2018;
- on 20 September 2012 Telecom Italia issued a note for the amount of one billion euros, with coupon rate 4.500% and maturity on 20 September 2017.
- on 21 December 2012 Telecom Italia issued a note for the amount of one billion euros, with coupon rate 4.000% and maturity on 21 January 2020.

All the transactions indicated above are listed in the notes to the consolidated financial statements of the Telecom Italia Group and the notes to the separate balance sheet of Telecom Italia S.p.A., as well as in the report on operations for the year 2012.

The Board of Statutory Auditors has verified that the above transactions comply with the law, the Company bylaws and the principles of correct administration, and has made sure that they were not manifestly imprudent or hazardous, in potential conflict of interest, or contrary to the resolutions adopted by the Shareholders' Meeting or likely to compromise the integrity of the corporate assets.

2. During the course of 2012 the Board of Statutory Auditors did not encounter atypical and/or unusual corporate transactions with third parties or related parties (including the companies within the Group).

The information relating to the principal infragroup transactions and with other related parties executed in the financial year 2012, and the description of their characteristics and economic effects is contained in the notes to the separate financial statements of Telecom Italia S.p.A. and to the consolidated financial statements of the Telecom Italia Group.

The Board of Statutory Auditors would emphasise that the procedure for undertaking transactions with related parties, drawn up in compliance with Consob Regulation no. 17221 of 12 March 2010 and adopted in November 2010, was updated in June 2012, introducing some clarifying amendments based on the experience accrued, without, however, changing the authorisation system and investigative responsibilities in force. For a thorough illustration of the company procedure, see the Telecom Italia S.p.A. Report on corporate governance and share ownership for the 2012 financial year

The Board of Statutory Auditors has overseen the conformity of the procedure adopted by the Company with the principles indicated by Consob, as well their observance.

3. Taking account of the size and structure of the Company and of the Telecom Italia Group, given that there were no atypical and/or unusual transactions, the Board of Statutory Auditors believes that the report on the Company's transactions with related and infragroup parties, given in the notes to the separate financial statements of Telecom Italia S.p.A. and in the notes to the consolidated financial statements of the Telecom Italia Group, should be considered adequate.
4. On 25 March 2013, Independent Auditor PricewaterhouseCoopers issued the reports pursuant to Article 14 of Legislative Decree no. 39 of 27 January 2010, in which it states that the separate financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group at 31 December 2012 comply with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as with the provisions issued in implementation of Article 9 of Legislative Decree no. 38 of 2005, that they are drafted with clarity and that they represent truthfully and correctly the finances and assets of the company, the profit and loss results, and the cash flows of the Company and the Group.

Furthermore, the Independent Auditor also considers that the report on operations and the information in subsection 1, letters c), d), f), l) and m) and subsection 2, letter b) of Article 123-bis of Legislative Decree no. 58 of 1998 (the Consolidated Finance Law, also referred to as "CFL"), presented in the report on corporate governance and share ownership, are consistent with the Company's separate financial statements and the consolidated financial statements for the Group at 31 December 2012.

5. In the period from 30 March 2012 to 7 March 2013, three complaints under Article 2408 of the Italian Civil Code were made to the Board of Statutory Auditors. The in-depth analyses carried out by the Board of Statutory Auditors and its assessments, are illustrated briefly below.

During the Shareholders' Meeting on 15 May 2012, a shareholder submitted a complaint, pursuant to article 2408 of the Italian Civil Code, that the responses given to the questions formulated in this meeting of the Shareholders, and in the three preceding meetings, had been insufficiently exhaustive. The shareholder also complained about the non-dissemination of the Deloitte report on the internal review known as the Greenfield Project.

After appropriate in-depth analyses, the Board of Statutory Auditors found no omissions or irregularities to report to the Meeting of the Shareholders of the Company.

On 7 June 2012 a shareholder submitted a complaint, describing as misconduct, the request to supply his IBAN code to Telecom Italia to permit the Company to credit the amount of the invoices issued payable to him into his bank account. The Board of Statutory Auditors, invited to “take action to ascertain said situation” by the shareholder, made provision for the appropriate in-depth analyses from which it emerged that there was no irregularity to report to the Meeting of the shareholders of the Company. In this context, the Board of Statutory Auditors also ascertained that the processing of customer IBAN codes by the Company complied with the privacy regulations.

On 3 October 2012, a shareholder, also a lawyer who had previously undertaken assignments on behalf of the Company, who had become a counterparty in disputes with the Company, submitted a complaint concerning some practices which he described, in detail, as “violation of the criteria of good management and the principles of correct administration and good organisation” specified in legislative decree no. 231/200`, due to an “unreasonable dilatory, if not obstructionist, policy adopted to date by Telecom regarding payments”.

The outcome of the investigations ordered by the Board of Statutory Auditors into the competent company functions was that there were no irregularities to report to the Meeting of the shareholders of the Company.

6. Telecom Italia is registered with the US Securities and Exchange Commission as a foreign issuer and listed on the New York Stock Exchange, and is thus also subject to United States legislation. To this end it is confirmed that the Board of Statutory Auditors carries out the tasks required of an “Audit Committee” by the above mentioned US legislation.

In particular, in implementation of the obligations that derive from its role as Audit Committee of the Company, the Board of Statutory Auditors adopted in due course a specific procedure for handling reports received by the control body. These reports may consist of:

- “complaints” from shareholders concerning what is considered to be improper behaviour;
- complaints or notifications, from anyone, shareholders or otherwise, concerning alleged anomalies, irregularities, misconduct or, more generally, any problem or issue which is thought to merit investigation by the Control Body;
- “complaints”, from anyone, concerning “accounting, internal accounting controls or auditing matters”;
- ‘concerns’, which may be submitted anonymously, from employees of the Company or the Group, concerning “questionable accounting or auditing matters”.

There are instructions on the Governance section of the Company’s website (Governance System – Procedures), for sending such reports - in paper or electronic format - to the Board of Statutory Auditors/Audit Committee of the Company.

Between 30 March 2012 and 7 March 2013 the Board of Statutory Auditors received fifteen “reports” (or groups of reports, treated as units in the case of several communications from a single individual, even if at separate times), which complained, for the most part, of technical service issues and failures of a commercial, accounting and administrative nature.

The Board of Statutory Auditors investigated these complaints appropriately, with the support of the Group Compliance Officer and the competent Company departments, but no irregularities to be reported to the Shareholders’ Meeting have emerged.

7. During the 2012 financial year Telecom Italia S.p.A. appointed PricewaterhouseCoopers S.p.A. to undertake various tasks other than audits of financial statements, the fees for which, before VAT, are summarised below:

PricewaterhouseCoopers S.p.A.	(in euros)
Agreed supplementary procedures for “financial due diligence” connected with the sale of a shareholding	60,000.00
Activities connected with updating the €20,000,000,000 Euro Medium Term Note Programme	40,000.00
Execution of agreed audit procedures on data used to draw up the profit and loss account and balance sheet of the so-called “Telecom Italia S.p.A. single perimeter” for “fixed network services” and “mobile network services”	55,000.00

Agreed procedures connected with the issue of the comfort letter in relation to the issue of notes that are part of the € 20,000,000,000 Euro Medium Term Note Programme	90,000.00
Accounts auditing of the summary of costs for the staff engaged in research and development for Telecom Italia S.p.A. for the financial year 2011 allowed as deductible for the purposes of IRAP [Regional Tax], in accordance with Article 11, subsection 1, letter A) no. 5) of Legislative Decree no. 446/97 and subsequent amendments	20,000.00
Accounting advice and consultation activities carried out in financial year 2012.	170,000.00
Total	435,000.00

8. In the course of the 2012 financial year, Telecom Italia S.p.A. conferred, also through its Branch Office in Argentina, a number of tasks on parties connected by continuing relationships with PricewaterhouseCoopers S.p.A. and/or on companies belonging to the latter's international network (i.e. Price Waterhouse & Co. Asesores de Empresas S.R.L.) for which the fees, excluding VAT, are summarised below:

Price Waterhouse & Co. Asesores de Empresas S.R.L. (ARGENTINA)	(in euros)
Auditing the financial statements as at 31.12.2012 of "Sucursal Argentina" (Argentina Branch Office). Equivalent of 36,600 Argentinian Pesos (ARS) at the average exchange rate for financial year 2012: 1 euro = 5.84408 ARS	6,263.00
Declaration in documentation and accounts records of funds provided by Telecom Italia S.p.A. in favour of "Sucursal Argentina" (Argentina Branch Office), as required by the local authorities. Equivalent of 7,000 Argentinian Pesos (ARS) at the average exchange rate for financial year 2012: 1 euro = 5.84408 ARS	1,198.00
Total	7,461.00

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

The external auditor appointed by the Parent company Shareholders' Meeting is the main external auditor for the entire Telecom Italia Group. To protect the independence of the appointed auditor, the Company has adopted special Guidelines for the appointment of the independent auditor to undertake assignments. These establish the principle under which the appointment of further assignments (when allowed by the reference regulations) is limited to the services and activities closely related to the audit of the financial statements. Conferment of a single further appointment is subject to the prior approval of the Board of Statutory Auditors of the Parent company; for some types of appointment ("preapproved appointments"), approval is given in advance. In any event, the Board of Statutory Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of external auditors, valid for the entire Group, which it did by requiring the introduction, from 1 January 2012, of an operative procedure which provides for prior examination by the Board of Statutory Auditors, even for pre-approved appointments, when certain qualitative conditions occur or when specific quantitative thresholds are exceeded.

The Board of Statutory Auditors would also make clear that, with an adequate flow of information, it will adopt the corresponding determinations made by the audit committees of the SEC registered subsidiary companies (i.e. TIM Participações S.A., Nortel Inversora S.A. and Telecom Argentina S.A.) provided they are taken based on rules that comply with the applicable law - including U.S. law - and the Group Guidelines on this subject.

The Board of Statutory Auditors has taken note of the request made by PricewaterhouseCoopers S.p.A. to supplement their fee on a final account basis for auditing the 2012 separate financial statements of Telecom Italia S.p.A. relating to additional auditing procedures carried out following the implementation of the new Telecom Italia S.p.A. administrative-accounting system called SAP P1E.

9. The Board of Statutory Auditors issued a favourable opinion on the confirmation of Mr. Piergiorgio Peluso as the manager responsible for preparing the corporate accounting documents, pursuant to article 154-bis, subsection 1 of Legislative Decree no. 58/1998.

Pursuant to article 2389, subsection 3 of the Italian Civil Code, the Board of Statutory Auditors issued its favourable opinion on the scorecards regarding the short-term incentive targets for the Chairman and Chief Operating Officer.

It also expressed its favourable opinion of the amendments made to the Code of Ethics and Conduct of Telecom Italia Group, pursuant to the provisions of said Code.

Finally, in January 2013, the Board of Statutory Auditors formulated a favourable opinion of the appointment of Mr. Valerio Cavallo as Group Compliance Officer reporting directly to the Board of Directors of the Company.

10. Over the course of financial year 2012, the Company's Board of Directors and Executive Committee held twelve and two meetings, respectively, at which the Board of Statutory Auditors was always present.

The Control and Risk Committee met twenty times (of which ten jointly with the Board of Statutory Auditors, due to the topics dealt with). The nomination and remuneration committee met ten times.

During 2012, there were thirty-nine meetings of the Board of Statutory Auditors (including the ten meetings held jointly with the Control and Risk Committee).

It should also be noted that the Board of Statutory Auditors attended all meetings of the of the Control and Risk Committee and of the Nomination and Remuneration Committee, by the attendance of its Chairman or another Statutory Auditor designated by the Chairman.

The Board of Statutory Auditors took part in the Shareholders' Meetings, held on 15 May 2012 and 18 October 2012, respectively.

11. In accordance with its obligations, the Board of Statutory Auditors obtained information and supervised compliance with the principles of correct administration, by constant attendance at the meetings of the Board of Directors, via interviews, direct observation, investigations, the receipt of information from the management of the Company, and meetings with the Head of the internal audit function, the manager responsible for preparing the corporate accounting documents, the Head of the IT & Security Compliance function and the Company Group Compliance Officer.

The Board of Statutory Auditors – occasionally through its Chairman – met the Chief Executive Officer, the Chief Operating Officer and external auditor PriceWaterhouseCoopers S.p.A for the reciprocal exchange of relevant information and data pursuant to article 150, subsection three of the CFL, and attended the meetings of the Committees.

The Board of Statutory Auditors believes that the governance arrangements and tools adopted by the Company constitute a valid supervisory framework to ensure that the principles of correct administration are respected in operational practice. In particular, in relation to the decision-making processes of the Board of Directors, the Control Body has supervised, including by attendance at board meetings, that the management decisions made by the Directors be substantially legitimate and in the interests of the Company, and checked that the Board resolutions were adequately supported by information, analysis, audit and discussion – also involving consultation with the board committees and external professionals, when necessary.

12. Pursuant to the Corporate Governance Principles of Telecom Italia, the role of providing strategic supervision and direction for the Company pursuing the primary objective of creating value for the shareholders, with a medium-long term perspective, also taking the legitimate interests of the remaining stakeholders into account, is reserved to the Board of Directors.

For the execution of its resolutions and the management of the company, the Board of Directors may, in accordance with the legal limits, delegate the appropriate powers to one or more Directors who report to the Board of Directors and Board of Statutory Auditors on the activities carried out, the general trend of operations and on the transactions of greatest economic and financial significance concluded by the Company or its subsidiaries.

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

In addition to the power to legally represent the Company, as laid down in the Bylaws and all the powers necessary for performing actions pertinent to the activity of the company in its various manifestations, to be exercised with a single signature, the following powers were conferred on the Chairman and CEO,

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

In addition to the power to legally represent the Company and to exercise, with a single signature, all powers required to perform actions pertinent to the activity of the company in its various manifestations, the Chief Operating Officer was made responsible for the overall governance of operations in Italy.

The powers conferred on the Vice Chairman were as follows: representing the Company, as laid down in the Bylaws, in the event that the Chairman is absent or unable to act, and - initially - a proxy relating to the functioning of the internal control system, this to be taken to mean representing the Board of Directors as a whole, by means of this proxy, in relation to the internal control functions. In the Board meeting on 1 August 2012, the Vice Chairman renounced this proxy; the Board therefore resolved to maintain unchanged the organisational and governance choices regarding internal audit and the structures in charge of "high" and "transverse" compliance, confirming, in relation to the Head of Internal Audit, and laying down, in relation to the Group Compliance Officer and the Head of IT & Security Compliance, that they report directly to the full Board and therefore, to ensure that this reporting be effective, to attribute the role of link between the Board of Directors and said control structures to a non-executive Director. This role was assigned to Director Gabriele Galeteri di Genola in the meeting of the Board of Directors on 8 November 2012.

Within the company there is a system of management committees, focused on the governance and operational integration of the activities of the Group. The Board of Statutory Auditors would point out that the Group Committees System is an important element of the organisational structure, and, in particular, fulfils the aim of (i) monitoring the implementation of strategies and the development of plans; (ii) monitoring the overall operations of the Group and specific businesses; (iii) strengthening the operational synergies needed between the functions involved in the different innovation, technological, business and support processes.

The Board of Statutory Auditors has supervised the adequacy of the organisational structure of the Company with respect to the strategic objectives of the Company, by collecting information from the appropriate structures, interviews with the heads of the various company functions, and meetings with those responsible for internal and external audit.

The Board of Statutory Auditors monitored closely the principal organisational developments that occurred during 2012 in addition to those described above, namely

- establishment of the General Administration for South America, whose aim is to ensure strategic and operational coordination and business development in the South American continent;
- bringing within the new *Business* function the commercial oversight of the small, medium and large private companies in industry, the services and the banking sector, and also in the public and health sectors, thus merging the two previous functions *Top Clients and Public Sector* and *Business*;
- establishment of the *Business Support Officer* function, into which the *Supply Chain & Real Estate*, *Quality* and *Compliance* departments were merged.
- the creation of the *Caring Services Division*, intended to improve the focus of activities by supervising the competitive positioning of the company, also in terms of the quality/cost ratio of the services managed.

Following the organisational changes mentioned above, the meeting of the Board of Directors of 17 January 2013 approved the redefinition of the scope of the strategic executives - not only for the Executive Directors (Chairman and Chief Operating Officer) - but also for the pro tempore holders of the following organizational positions:

- General Administration for South America;
- Administration Finance & Control;
- Human Resources and Organization;
- Legal Affairs;
- National Wholesale Services;
- Public & Regulatory Affairs;
- Business Support Officer;
- Technology;
- Consumer;
- Business;
- Tim Brasil;
- Telecom Argentina.

Given the objectives, the complexity of the organisational structure of the Company and the Group, and having noted the decision to focus resources in the main business and geographic areas, taking into account that in a complex enterprise the organisational systems are subject to a substantially permanent evolution process, the Board of Statutory Auditors considers the organisational structure of the Company and the Group to be adequate.

13. The internal control and risk management system consists of the set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the principal risks, allows the sound, fair and consistent operation of the company in line with the pre-established objectives.

It is organized and operates according to the principles and criteria of the Borsa Italiana Code, to which the Company adheres, and involves several components that act in a coordinated way according to their respective responsibilities – the responsibility of the Board of Directors to direct and provide strategic supervision, the responsibility of the Executive Directors and management to control and manage, the responsibility of the control and risk Committee and the Head of the Audit Department to monitor and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

Pursuant to the Corporate Governance Principles that the Company has adopted, in exercising its responsibility on the internal control and risk management system, the Board of Directors also refers to the Head of the Audit Department, a manager with an adequate level of independence and means suitable to perform this duty. The Head of the Audit Department is responsible for supporting the management and control boards in assessing the adequacy, operation and effectiveness of the control and risk management system and for proposing corrective measures in case of anomalies and/or deficiencies.

The Head of the Audit Department reports on his work to the Director delegated for this purpose, the Control and Risk Committee and, through the latter, to the Board of Directors, as well as to the Board of Statutory Auditors. The oversight role of the head of the Audit Department is directed, in particular, towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control and risk management system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the qualitative/quantitative risk factors present and the probability of their affecting the achievement of those objectives. This oversight is assured through:

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

The Board of Statutory Auditors has noted the overall assessment of the internal control system expressed by the Head of the Audit Department that, with reference to the specific operational contexts analysed and considering the system weaknesses of various intensity identified by the audits on the one hand, and the implementation of the defined improvement actions on the other, considered the current internal control system, as a whole, capable of reducing risk profiles to a level that is physiologically acceptable for the correct functioning of the processes.

The Board of Statutory Auditors closely supervised the internal control and risk management system adopted by the Company, evaluating its adequacy. In particular, it has constantly monitored the activities carried out by the principal components of the control system, taking note of the implementation of the improvement actions identified and, in some cases, prompting further specific interventions to strengthen the controls.

In this context, the Board of Statutory Auditors has held periodic meetings with the Head of the Audit Department, the Group Compliance Officer, the Head of the IT & Security Compliance Function, the manager responsible for preparing the corporate accounting documents, the Head of Enterprise Risk Management, the management and the external auditor. It also had contact and exchanged information with the corresponding control bodies of the major Italian subsidiary companies.

The Board of Statutory Auditors promoted some initiatives undertaken towards the Comité de Auditoria of Telecom Argentina S.A. (a Board subcommittee that is legally responsible for supervising the internal control system) that enabled a relationship to be established for collaboration and coordination on the functioning of the internal control system of the Argentinian subsidiary.

The Board of Statutory Auditors of the Parent Company took note of the assessment of overall adequacy of the internal control system of Telecom Argentina and of Tim Participações expressed by the Comité de Auditoria of the Argentinian subsidiary and the Conselho Fiscal of the Brazilian subsidiary, respectively. The Board of Statutory Auditors also noted the positive opinion formulated by these control bodies on the functioning of internal audit in both South American subsidiaries, and on the independence of the internal audit work carried out.

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

In its meeting on 29 March 2012, the Board of Directors of Telecom Italia, availing itself of the opportunities introduced by the legislation (the Stability Law, law no. 183 of 12 November 2011), and having noted the positive results of the investigation undertaken by the control Body, approved (for application on principle to the whole Group) the devolution of the Supervisory Board functions pursuant to legislative decree no. 231/2001 to the Board of Statutory Auditors, with the consequent obsolescence of the Supervisory Board itself. These functions were assigned to the Board of Statutory Auditors on 28 May 2012.

The Organisational Model 231 has also been adopted by domestic subsidiaries of the Group as well as by Telecom Italia, and consists of:

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

The Organizational Model 231 is a dynamic instrument, which affects the corporate operation and must, therefore, be constantly checked and updated in the light of the elements that emerged from experience of its application and of the evolution of the regulatory framework. The amendments were drafted by a managerial committee called Steering Committee 231, briefed by the Board of Statutory Auditors in the exercise of its function as supervisory board, and approved by the Board of Directors of the Company.

During 2012 the Organisational Model 231 was subject to an update required by the introduction of the predicate offence of "employment of illegally staying third country nationals", pursuant to legislative decree no. 109 of 16 July 2012. In January 2013, a new version of the Model was adopted that incorporated the new offences of corruption between private subjects and unlawful inducement to promise or give profit to a public official/public service employee, introduced by Law 190 of 6/11/12.

In exercising its functions as supervisory board, supported in this activity by the Group Compliance Officer and specific Company offices, also taking account of the results of the activities of the Internal Audit function, the Board of Statutory Auditors supervised the operation and observance of the Organisational Model 231, issuing an assessment of the overall conformity of the Model with the reference regulatory framework.

In order to ensure a global approach to the management of risks, the Telecom Italia Group implemented some time ago, and is perfecting an integrated process inspired by Enterprise Risk Management (ERM), which requires a top-down approach through which the identification, evaluation and management of risks are performed.

The process of managing risks (defined as "potential events whose occurrence could compromise the achievement of strategic objectives") is governed by the Group managerial Committee (the Group Risk Management Committee), chaired and coordinated by the Head of the Administration, Finance and Control Function. This Committee reports to the Board of Directors and periodically informs the control and risk Committee and the Board of Statutory Auditors on the results of its activities.

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

- the mapping of risks, assessed by level of impact and probability of occurrence, with a specific focus on the most significant risks (Top Risks).
- the degree of maturity of the management process at Entity level and at Top Risks level. A maturity index, traceable over time, is identified for each Top Risk and for the Risk Management system at Entity level;
- treatment of risk, performed by risk owner company structures by identifying and implementing specific action plans, aimed at both reducing the level of residual risk and increasing the maturity index.

The Board of Statutory Auditors is monitoring the evolution of Enterprise Risk Management particularly closely, to promote a more incisive approach in harmony with the internal control and risk management system.

14. With particular reference to the internal controls for the preparation of the financial statements, the Board of Statutory Auditors notes that Telecom Italia has adopted the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission as its reference framework for the definition and assessment of its internal control system.

The Board of Statutory Auditors evaluated and supervised the adequacy of the administrative and accounting system of the Company and its reliability to fairly represent operations, by direct observation, obtaining information from Company management, examining company documents and analysing the results of the activities undertaken by PricewaterhouseCoopers S.p.A..

The Board of Statutory Auditors acknowledged the statements issued by the Chairman of the Board-CEO, the Domestic Managing Director-Chief Operating Officer and the Manager responsible for preparing the corporate accounting documents of Telecom Italia S.p.A. concerning the adequacy – in relation to the characteristics of the company – and the actual application during 2012 of the administrative and accounting procedures for the preparation of the financial statements and the consolidated financial statements.

On the question of the impairment test, the Board of Statutory Auditors reports that in Telecom Italia it is applied in a consolidated and structured way, coordinated by the Administration, Finance and Control & International Development Function, with the intervention of an independent external expert of acknowledged professional expertise. The implementation of the process is also analysed and discussed in special meetings of the Risk Committee that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied. These meetings are held jointly with the Board of Statutory Auditors. The Board of Statutory Auditors confirms that the impairment test procedure was applied to the 2012 financial statements in terms coherent with the procedure approved by the Board of Directors on 18 February 2013.

Finally, the Board of Statutory Auditors would clarify that the process followed to determine if the goodwill value has been reduced in value, to determine if this value can be recovered, and the assumptions used for this purpose are described in detail in the notes to the financial statements, as requested by the reference accounting principles. In particular, “the differences between the values in use and the carrying amounts at 31 December 2012” and the “values of the key variables for estimating the value in use”, and the “changes in key variables needed to render the recoverable amount equal the carrying amount” are indicated in the report on the consolidated financial statements (Note 4 – Goodwill).

Regarding the provisions of article 36, subsection 1, letter c, ii) of the Market Regulations (conditions for the listing of shares of controlling companies and of companies registered in and regulated by the laws of States that are not members of the European Union), the Board of Statutory Auditors has not ascertained facts and circumstances that would indicate that the administrative-accounting system of the controlled companies is not adequate to ensure that the data on the revenues, finances and assets of the companies needed for the preparation of the consolidated financial statements regularly reaches the management and auditor of the controlling company.

The Board of Statutory Auditors has supervised the financial reporting process, verifying the adequacy and efficacy of the procedure through which financial information is produced and disseminated to the public, also by obtaining information from the Company management.

15. The Board of Statutory Auditors has been made aware of the instructions imparted by the Company to its subsidiaries, pursuant to art. 114, section 2 of the CFL, and considers them adequate to comply with the obligations regarding communication established by the law. In this respect it should be noted that the Company regulates the flow of information it receives from its subsidiary companies on transactions of particular impact, with specific procedures.

The Company has adopted the “Procedure for the handling and communication to the public of sensitive information”, which disciplines the handling of sensitive information about Telecom Italia, its unlisted subsidiaries and the listed financial instruments of the Group. This is directed at all members of corporate bodies, employees and external collaborators who have access to information that might evolve into sensitive information (“market sensitive information”). It also applies as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfilment of the public disclosure obligations. This Procedure also disciplines the maintenance of the register of people with access to sensitive information.

16. The Board of Statutory Auditors has ascertained, from information obtained from Independent Auditor PricewaterhouseCoopers and from the management of the Company, that the IAS/IFRS principles, and the other legal and regulatory provisions that apply to the preparation and presentation of the separate financial statements, the consolidated financial statements and the accompanying report on operations are complied with.

The Board of Statutory Auditors acknowledges that, from the report issued by PricewaterhouseCoopers S.p.A. on 14 May 2012 pursuant to article 19, subsection 3 of Legislative Decree no. 39 of 27 January 2010, no "fundamental issues" or "significant shortcomings" in the internal control system on the financial reporting of Telecom Italia S.p.A. emerged for the financial year that ended on 31 December 2011.

17. The Board of Statutory Auditors has supervised the arrangements for the concrete implementation of the rules of corporate governance required by the Corporate Governance Code drawn up by the Committee for the Corporate Governance of Borsa Italiana 2011, to which the Company adheres. Furthermore, the Board of Directors adopted the new Corporate Governance Principles in its meeting of 6 December 2012.

As for the Board of Directors of Telecom Italia (currently composed of fifteen directors), there are thirteen non-executive directors, six of whom (Lucia Calvosa, Elio Cosimo Catania, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales) qualify as independent Directors. In this respect, it should be noted that Telecom Italia has adopted the criteria established by the Corporate Governance Code of Borsa Italiana for qualifying Directors as independent. Based on the information provided by the Directors themselves, the Board of Directors carried out the check that they still meet the requirements for independence in its meeting on 7 March 2013, and then announced this to the market.

The Board of Statutory Auditors monitored the ascertainment of the requirements and the correct application of the criteria of independence (presence of at least two independent Directors according to the legal criteria for Statutory Auditors).

The Board of Statutory Auditors also verified that its members possess the independence requirements pursuant to article 148, subsection three of the CFL.

The Board of Statutory Auditors supervised the independence of External Auditor PricewaterhouseCoopers, in accordance with the provisions of article 19, subsection 1, lett. d) of legislative decree no. 39 of 27 January 2010, also acquiring from the External Auditor the declaration specified in article 17, subsection 9, lett. a) of said decree.

The Board of Directors also has subcommittees comprising an Executive Committee, a Control and Risk Committee (previously called the Committee for Internal Control and Corporate Governance) and a Nomination and Remuneration Committee.

The Executive Committee is composed of the executive Directors (who shall ensure coordination with the Group's management) and some non-executive Directors. As provided for by the Corporate Governance Principles of the Company, the Committee does not have executive responsibilities in the true sense, and has the task of monitoring the performance of the Company and the Group, approving, upon the proposal of the executive Directors, the organisational macro-structures, formulating opinions to the Board of Directors on the budget and on the strategic, industrial and financial plans of the Company and the Group as well as on operations that, according to their nature, strategic importance, size or commitments, may have a significant impact on the activity of the Company and the Group and carrying out any other duties assigned by the Board of Directors relating to matters that can be delegated.

In accordance with the recommendations of the Corporate Governance Code of Borsa Italiana, the Board of Directors, in adopting the new Corporate Governance Principles, identified the pre-existing Committee for Internal Control and Corporate Governance as Control and Risk Committee.

The Control and Risk Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. Furthermore, at least one member of this Committee possess adequate expertise in accounting and finance or risk management. Without prejudice to the tasks attributed to it by the Borsa Italiana Code, the Committee:

- provides high-level supervision related to corporate social responsibility, monitoring the consistency of the actions performed with the principles laid down by the Code of Ethics of the Group;
- monitors observance of the Company's corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;

- expresses a prior opinion (i) on the transactions with related parties entrusted to the board; (ii) on ordinary standard or market transactions not predetermined or defined after a tender worth over 10 million euros; (iii) on non ordinary transactions worth more than 2 million euros.

The Nomination and Remuneration Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. At least one member of this Committee possesses adequate expertise in financial matters or remuneration policies. Without prejudice to the tasks assigned by the Borsa Italiana Code to the Nominations Committee and the Remuneration Committee, the Committee:

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

The Board of Statutory Auditors monitored the activities of the Control and Risks Committee and the Nomination and Remuneration Committee during 2012 in joint sessions or by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings.

The Lead Independent Director, a role currently held by Director Luigi Zingales, is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. He also has the right to convene special meetings of the Independent Directors only (Independent Directors' Executive Sessions) to discuss issues affecting the functioning of the Board of Directors or the management of the business.

See the Report on the corporate governance and share ownership of Telecom Italia S.p.A. for the 2012 financial year for further detailed information on the corporate governance of the Company, which the Board of Statutory Auditors evaluates positively.

18. No significant facts that should be mentioned in its Report to the Shareholders' Meeting, or that should be reported to the other supervisory and control bodies have emerged from the supervision and control activities carried out by the Board of Statutory Auditors, as described above.

The Board of Statutory Auditors also reports that no observations or problems have emerged from its analysis of the information flows received in relation to the activity carried out by the control bodies of the subsidiary companies or the representations the external auditor has made in its reports on said subsidiaries.

Equally, no problems have emerged from the review of the reports of the external auditor and the Boards of Statutory Auditors of Telecom Italia Media S.p.A. (a subsidiary company with shares listed on the market organised and managed by Borsa Italiana S.p.A.), of Telecom Italia Sparkle and Olivetti S.p.A. pursuant to and for the purposes of article 153 of the CFL, article 2429, second subsection, of the Italian Civil Code and article 14 of legislative decree no. 39/2010.

Finally, the Board of Statutory Auditors examined the external auditor's reports on Tim Participações S.A. and Telecom Argentina S.A., which also contained no observations or remarks.

19. The Board of Statutory Auditors, having acknowledged the financial statements at 31 December 2012, has no objections to formulate on the proposed resolutions presented by the Board of Directors on the coverage of the operating losses of Telecom Italia S.p.A. and on the size of the dividend to be paid to Shareholders.

The Control Body invites the Shareholders' Meeting to resolve to supplement the composition of the Board of Statutory Auditors pursuant to article 2401 of the Italian Civil Code, appointing one standing auditor and one alternate auditor.

The Board of Statutory Auditors has no comments to make regarding the "Employee Share Ownership Plan 2013", which the Shareholders' Meeting of 17 April 2013 will be called on to resolve.

Section Two

In its 2011 Report to the Meeting of the Shareholders of Telecom Italia S.p.A. (the "2011 Report"), the Board of Statutory Auditors dedicated a special section to reporting the specific supervision and monitoring activities it carried out in relation to the internal review, known as the Greenfield Project, which analysed

some allegedly unlawful acts committed to the detriment of the Company and the Group that emerged after criminal investigations or internal control activities.

On this subject reference is made to the 2011 Report, to the Board's own report to the Shareholders' Meeting of the Company dated 15 May 2012 following the request for the dissemination of information formulated by Consob, as well as to the note 24 in the consolidated financial statements of the Telecom Italia Group as at 31 December 2012. An update is provided below, confined to the new developments during 2012 in the Security and Prepaid Cards cases which were relevant to the activities of the Board of Statutory Auditors.

The Security case

The Board of Statutory Auditors monitored the initiatives undertaken by the Company against third parties to restore the damages caused by activities unrelated to the interests of the company.

With reference to the position of Mr. Carlo Orazio Buora, in the light of the reasoning in Supreme Court judgement no. 1265 of 20 September 2011, the Board of Statutory Auditors shared the decision of the Board of Directors to apply for an order suspending the time-limit for proceedings against him (due to expire on 3 December 2012).

In July 2012 the Company sent Mr. Buora a letter setting out a charge of breach of his obligations as a director of Telecom Italia in relation to the Security case, reserving the right to institute proceedings against him pursuant to article 2393 of the Italian Civil Code (corporate liability action) to obtain compensation for the damages suffered.

After a sequence of exchanges, the Company received a settlement proposal from Mr. Buora, offering payment of the sum of one million euros in exchange for waiving its right to start liability proceedings.

On 1 August 2012, the Board of Directors resolved to call a Shareholders' meeting, the agenda of which was to include, among other matters, the "Proposed dispute settlement pursuant to article 1965 of the Italian Civil Code with the former Executive Director of the Company, Carlo Orazio Buora or, subordinately and solely in the case of non-approval, proposal for the company to start corporate liability action".

The Board of Statutory Auditors shared the favourable opinion of the settlement with Mr. Carlo Orazio Buora expressed by the Board of Directors for several reasons, all outlined in its report on the items on the agenda of the Shareholders' meeting of 18 October 2012, to which reference should be made.

The Shareholders' Meeting approved the proposed amicable settlement pursuant to article 1965 of the Italian Civil Code with former Executive Director of the Company, Carlo Orazio Buora.

With reference to the position of Mr. Marco Tronchetti Provera, the Board of Statutory Auditors has noted that in November 2012 the Milan Public Prosecutor's Office served him notice that the preliminary investigations into the offence of handling stolen goods had concluded and that, subsequently, the Public Prosecutor started criminal proceedings, summoning the former Chairman of the Board of Directors to a hearing on 18 February 2013.

Having been asked to approve the Company's application to join the criminal proceedings against Mr. Tronchetti Provera as a civil party, the Board of Statutory Auditors, supported by its legal advisors, resolved to approve the institution of civil proceedings against the former Chairman of the company as part of the criminal proceedings, in coherence with its previous opinions.

The Board of Statutory Auditors also deemed it appropriate to strengthen the Company's application to join the proceedings as civil party, formulating a subordinate and precautionary claim for compensation pursuant to its legal prerogatives, to prevent the risk of the unjust exclusion of Telecom Italia as civil party from the criminal proceedings.

The Board of Statutory Auditors will monitor the evolution of the ongoing criminal proceedings.

The Prepaid Cards Affair

Regarding the prepaid cards case, the Board of Statutory Auditors continued to monitor the evolution of the criminal proceedings before the Milan Public Prosecutor's Office.

In April 2012 the Milan Public Prosecutor's Office served notice of the conclusion of its investigations on the former Executive Director of the Company, Riccardo Ruggiero, other former employees (Massimo Castelli and Luca Luciani), and Telecom Italia, relating to the offence of "obstructing the public supervisory

authorities in the exercise of their functions”, relative, in the statement of charges, to the communication to the National Regulatory Authority for Communications of an allegedly altered customer base.

In June 2012 the Milan Public Prosecutor’s Office committed Telecom Italia for trial pursuant to legislative decree no. 231/2001. The latter however, during the preliminary hearing, formulated a plea bargaining motion and joined the proceedings as a civil party against the persons charged. The Milan Public Prosecutor’s Office approved the plea bargaining motion of Telecom Italia, acknowledging that from 2008 the Company had adopted an organizational model suitable to prevent the commission of acts similar to those committed. In the meantime it committed the former managers, including Riccardo Ruggiero, for trial.

In July 2012 Telecom Italia sent to Mr. Ruggiero a letter setting out a charge of breach of his obligations as a director of the Company in relation to the SIM card case, and reserving the right to institute proceedings against him pursuant to article 2393 of the Italian Civil Code (corporate liability action) to obtain compensation for the damages suffered.

On 1 August 2012 the Board of Directors resolved to call a Shareholders’ Meeting the agenda of which was to include, among other matters, the “Proposal for the Company to start corporate liability action against its former Executive Director, Riccardo Ruggiero”.

Shortly before the Board meeting on 13 September 2012, called to approve the report on the items on the agenda for the Shareholders’ Meeting, a settlement proposal was also received from Mr. Riccardo Ruggiero for the sum of 1.5 million euros.

In light of this, the Board of Directors changed the agenda for the Shareholders’ Meeting, formulating a proposal for settlement of the dispute pursuant to article 1965 of the Italian Civil Code also for Mr. Riccardo Ruggiero.

The Board of Statutory Auditors shared the favourable opinion of the settlement with Mr. Riccardo Ruggiero expressed by the Board of Directors for several reasons, all outlined in its Report on the items on the agenda for the Shareholders’ Meeting on 18 October 2012, to which reference should be made.

The Shareholders’ Meeting approved the proposed amicable settlement of the dispute pursuant to article 1965 of the Italian Civil Code with former Executive Director and General Manager of the Company Riccardo Ruggiero.

After execution of the settlement, the Company therefore waived its right to join the proceedings against the former Executive Director as civil party, while the civil action against the former managers charged in the current criminal proceedings continues.

Milan, 26 March 2013

For the Board of Statutory Auditors

The Chairman

Enrico Maria Bignami