

**Report of the Board of Statutory Auditors to the Meeting of the Shareholders
of Telecom Italia S.p.A. pursuant to Article 153 of Legislative Decree no. 58/1998**

Dear Shareholders,

This report explains the activities performed by the Board of Statutory Auditors during the 2014 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 Board of Statutory Auditors has performed the supervisory activities required by the applicable legislation, taking account of the principles of conduct recommended by the National 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 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 Control and Risk Committee, the Nomination and Remuneration Committee, the Board Committee pursuant to the procedure for the execution of transactions with related parties and the Committee of Independent Directors pursuant to the Brazil Transactions Procedure), meetings with Executive Directors and by interviewing Company management, meetings with the external auditor and control bodies of Group companies, analysis of information flows from the competent company structures, as well as by further inspection and control activities. Where deemed necessary, the Control Body was assisted by its own legal advisors.

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:

- In November 2013, the Telecom Italia Group accepted the purchase offer made by the Fintech Group, of the entire controlling shareholding held in the Sofora - Telecom Argentina group, by Telecom Italia S.p.A. and its subsidiaries Telecom Italia International and Tierra Argentea.
In December 2013, the shareholding held by Tierra Argentea was sold.
In October 2014, whilst pending clearance by the sector regulatory authority, Telecom Italia signed the agreements amending the contract for the sale of the shareholding in the Sofora - Telecom Argentina Group to Fintech. Specifically:
 - the first closing took place on 29 October 2014 and, consequently, 17% of the shareholding of TI International in Sofora. In exchange for this closing, a price was collected for a total amount of 215.7 million dollars;
 - the sale of the controlling stake of 51% of the capital of Sofora (32.50% held by Telecom Italia and 18.50% by Telecom Italia International) is envisaged during the next two and a half years, subject to approval by the Argentinian regulatory authorities;
 - Telecom Italia International has issued, and Fintech has fully subscribed a note for a consideration of 600 million dollars, constituting it as a pledge in favour of Telecom Italia.

Starting with the 2013 consolidated financial statements, the investment was classified as Discontinued operations.

- In February 2014, Telecom Italia acquired the shareholdings of Trentino NGN S.r.l. held by the Autonomous Province of Trento and minority shareholders, with an outlay of approximately 17 million euros, acquiring the control of the company with 97.4% of the

share capital. Thereafter, by virtue of a further purchase of shares from the minority shareholders and a voluntary reduction of the share capital, the controlling stake of Telecom Italia rose to 99.33% of the share capital of the specified company.

- On 30 June 2014 Telecom Italia Media and Gruppo Editoriale L'Espresso completed the integration of the digital terrestrial network operator activities respectively owned by Persidera S.p.A. (the new name of Telecom Italia Media Broadcasting S.r.l.) and Rete A S.p.A.. The operation was implemented through the transfer of 100% of Rete A shares owned by Gruppo Editoriale L'Espresso to Persidera, by way of the subscription of a capital increase reserved to it. As a result of the transfer, TI Media and the Gruppo Editoriale L'Espresso respectively hold 70% and 30% of the shares of Persidera, which incorporated Rete A on 1 December 2014.
- On 4 August 2014, the threshold of major importance of the equivalent value ratio, established as 3.5% of the consolidated shareholders' equity of Telecom Italia was exceeded with regards to the Intesa Sanpaolo Group, a related party of Telecom Italia in accordance with the procedure adopted by the Company, following the 2014 implementation of a series of operations of advance factoring. As a consequence of the exceeding of the major importance threshold on 12 August 2014, in accordance with Article 5 of Consob Regulation no. 17221/2010, an information document was published, available for consultation on the website www.telecomitalia.com, under the section The Group - General Archives channel, Year 2014 "Governance".

In 2014 the following bonds were also issued:

- On 23 January 2014 Telecom Italia issued bonds for the amount of one billion euros, with coupon rate 4.5% and maturity on 25 January 2021;
- on 30 May 2014 Telecom Italia issued bonds for the amount of 1.5 billion dollars, with coupon rate 5.303% and maturity on 30 May 2024.

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 2014.

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; the transactions with Directors' interests or with other related parties, were subjected to the transparency procedure set out in the applicable regulations.

2. During the course of 2014 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 intragroup transactions and with other related parties executed in the financial year 2014, 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 reports that the company procedure for the execution of transactions with related party, prepared in compliance with Consob Regulation no. 17221 of 12 March 2010 and adopted in November 2010, was updated in June 2012 and thereafter in December 2014, introducing some clarifying amendments based on the experience accrued and making some updates and simplifications, such as, in particular, the exclusion of the application of the Consob Regulation on intragroup transactions (i.e. transactions with or

between subsidiaries and transactions with associated companies), as permitted by the latter. For a thorough illustration of the procedure, see the Telecom Italia S.p.A. Report on corporate governance and share ownership for the 2014 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 its actual 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 intragroup 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 30 March 2015, Independent Auditor PricewaterhouseCoopers issued the reports pursuant to articles 14 and 16 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 2014 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 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 2014.

5. In January 2015, a shareholder submitted a report in accordance with Art. 2408 of the Italian Civil Code, censuring the work implemented by Telecom Italia for which the Antitrust Authority has assigned a pecuniary administrative fine of Euro 1,750,000. The Authority in fact declared that the business practices concerning the supply to the Company's mobile telephone users of premium services, not requested and/or requested unknowingly and the charging of the relevant amounts to the telephone bill of consumers to be unfair. The Company has challenged the order before the Administrative Court (TAR) of Lazio, asking that it be cancelled.

The same shareholder thereafter sent the Board of Statutory Auditors the report of a Telecom Italia customer on the undesired activation of premium services for which payment was required.

In view of the report and declaration received, the Board of Statutory Auditors acquired information from the Company's management. These have provided suitable reassurance on the correctness of the conduct of the Company, both with reference to the sector regulations and with regards to the diligence obligations set forth in the Consumer Code. The Board of Statutory Auditors has also ascertained that, with a view to ensuring maximum attention paid to its customers, the Company is spontaneously implementing some of the measures concerned by the proposed commitments of August 2014, such as, for example, the introduction of a new service activation mechanism set on two separate, consequential actions (double click) or the reimbursement of charges as a consequence of the activation of premium services not required and/or required unknowingly.

In any case, the Board of Statutory Auditors has sent the mentioned report to the Audit Department for the appropriate assessments, which will also continue in 2015 with follow-up activities.

In November 2014, a shareholder submitted a report concerning the assignment of consultancy to a foreign company for the verification of managerial capacity and the

correctness of the positions reporting directly to the Chairman and Chief Executive Officer. Following the request made by the Board of Statutory Auditors to run a specific audit, the Audit Department analysed the consultancy activated in 2014 without coming across any appointment relating to the report.

In December 2014, a shareholder sent the Board of Statutory Auditors a report signalling a "possible defect in the Company's audit systems", given the lack of assessment of previous reports sent to the Company about a fraud perpetrated to its detriment and reported to the competent authority, with a request to reimburse the amounts improperly invoiced in its regard, in the amount of approximately 1,000 euros.

Through the Audit Department, the Board of Statutory Auditors arranged for suitable assessments that enabled the claim to be settled with the return of the amount charged. The Audit Department is currently carrying out an in-depth analysis of the causes of the improper charge.

6. Telecom Italia is registered with the US Securities and Exchange Commission as a foreign issuer and listed on the New York Stock Exchange, is also subject to United States legislation and 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 About Us section of the Company's website (Corporate Bodies – Board of Statutory Auditors - Role, tasks and responsibilities), for sending such reports - in paper or electronic format - to the Board of Statutory Auditors/Audit Committee of the Company.

During the last financial year and until 18 March 2015 the Board of Statutory Auditors received 21 reports (or groups of "reports", treated as units in the case of several communications from a single individual, even if at separate times), of which 5 were anonymous, complaining, 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, the Audit Department and the competent Company departments, but no irregularities to be reported to the Shareholders' Meeting have emerged.

7. During the 2014 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 procedures and declarations regarding tender bids	60,100.00
Agreed procedures connected with the issue of comfort letters in relation to the issue of notes	137,000.00

Activities connected with updating the 20,000,000,000 euros Euro Medium Term Note Programme	39,000.00
Limited auditing of the abbreviated interim consolidated financial statements at 31 March 2014.	217,000.00
Agreed audit procedures on regulatory accounting areas	124,000.00
Accounting advice and consultation in relation to the Securities and Exchange Commission review of the Telecom Italia S.p.A. 20-F 2012 Form.	28,000.00
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 2013 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
Agreed audit procedures in relation to the portfolio of trade receivables sold by Telecom Italia S.p.A.	225,000.00
Audit procedures connected with the signing of the tax declaration "Modello Unico SC 2014"	6,000.00
Accounting advice and consultation activities carried out in financial year 2013.	180,000.00
Total	1,036,100.00

The Board of Statutory Auditors acknowledged the request made by PricewaterhouseCoopers S.p.A. to supplement the final fees relating to FY 2014 for the additional audit procedures connected with the adoption of the new standard relating to the recognition of the revenues "IFRS 15 - Revenues from contracts with customers" issued by the IASB in May 2014.

8. In the course of the 2014 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 network for which the fees, excluding VAT, are summarised below:

Price Waterhouse & Co. S.R.L. (Argentina)	(in euros)
Auditing the financial statements as at 31.12.2014 of "Sucursal Argentina" (Argentina Branch Office) Equivalent of 60,277 Argentinian Pesos (ARS) at the average exchange rate for financial year 2014: 1 euro = 10.76605 ARS	5,599.00
Total	5,599.00

PricewaterhouseCoopers Advisory S.p.A.	(in euros)
Supplementary auditing activities with respect to the appointment relative to the examination of the sustainability reports for the financial years from 2010 to 2018: <ul style="list-style-type: none"> • 2014 • Period 2015-2018 (for each year, variable amounts from 17,000 euros to 21,000 euros) 	52,276.00
Total	52,276.00

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.

9. Pursuant to article 2389, subsection 3 of the Italian Civil Code, the Board of Statutory Auditors issued its favourable opinion on the compensation package of the Chairman and of the Chief Executive Officer, including the scorecards regarding the short-term incentives (MBO 2014).

In accordance with Art. 154-bis, subsection 1 of Italian Legislative Decree no. 58/1998, the Control body has issued a favourable opinion on the confirmation of Piergiorgio Peluso, Head of the Administration, Finance and Control Department, in the role of Executive responsible for preparing the corporate accounting documents.

Pursuant to the Corporate Governance Principles adopted by the Company in December 2012, the Board of Statutory Auditors expressed its favourable opinion of the functional objectives scorecards for the short term incentive scheme (2014 MBO) for the Heads of the control departments who report directly to the Board (Audit Department, Compliance Department and IT & Security Compliance Function).

10. Over the course of financial year 2014, the Company's Board of Directors held fifteen meetings, at which the Board of Statutory Auditors was always present.

The Control and Risk Committee met twenty times (of which thirteen jointly with the Board of Statutory Auditors, due to the topics dealt with). The Nomination and Remuneration Committee met twelve times.

During 2014, there were fifty-six meetings of the Board of Statutory Auditors (including the thirteen 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 (not held jointly with its meetings) and of the Nomination and Remuneration Committee, by the attendance of its Chairman or another Statutory Auditor designated by the Chairman.

In accordance with the Brazil Transactions Procedure, in August 2014, the Board of Statutory Auditors attended four meetings of the Independent Directors' Committee under the scope of the proposed partnership with the Vivendi Group for the integration of the respective Brazilian activities and on another four occasions, again on matters relating to possible developments of the Brazilian investments.

The Control body attended the Company's Shareholders' meeting held on 16 April 2014 and, through its Chairman, attended the Meeting of the bondholders relating to the loan "Telecom Italia 2002-2022 Floating Rate bonds, Open Special series, reserved for subscription to employees of the Telecom Italia Group, in service or retired", held on 18 March 2014.

11. In accordance with its obligations, the Board of Statutory Auditors obtained information and supervised compliance with the principles of correct administration, by attendance at the meetings of the Board of Directors, meetings with the executive responsible for preparing the corporate accounting documents, the Head of the Internal Audit Department, the Group

Compliance Office, the Head of the IT & Security Compliance function and by means of interviews with the management and the acquisition of information.

The Board of Statutory Auditors – occasionally through its Chairman – met the Chairman of the Board of Directors, the Chief Executive 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 CLFI) and attended the meetings of the board's internal 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 and audit – also involving consultation with the board committees and external professionals, when necessary. Continuing on from FY 2013 and also considering the significant increase in the volume of investments envisaged by the 2015-2017 industrial plan, monitoring continued by the Board of Statutory Auditors on the Company's equity and financial position, stimulating the Board of Directors and the management to evaluate strengthening initiatives, as considered appropriate and suitable.

12. Pursuant to the Corporate Governance Principles of Telecom Italia, the role of providing strategic supervision and direction for the Company in order to pursue 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.

The Shareholders' Meeting on 16 April 2014 appointed Mr. Giuseppe Recchi Chairman of the Board of Directors.

On 18 April 2014, the Board of Directors appointed Marco Patuano Chief Executive Officer, assigning him the relevant powers without appointing an Executive Committee.

On this same date, the Board of Directors assigned the Chairman, who at the time of application had declared that he met the requirements of independence as per the Corporate Governance Code prepared by the Corporate Governance Committee of Borsa Italiana (the "Corporate Governance Code"), delegations and powers relating to the activities listed below, in addition to the powers assigned to him by the law as Chairman of the Company:

- a role providing guidance and supervision of the development and implementation of the strategic, industrial and financial plans of the Company and the Group, and guidelines for development, as well as supervising the definition of organisational arrangement and economic and financial progress;
- representation of the Company and the Group in external relations with the Authorities, Institutions and Investors;
- organisational responsibility for the Legal Affairs, Press Office & Opinion Makers Relations, Public & Regulatory Affairs and Corporate Social Responsibility functions, and supervision of the Audit function.

On 26 June 2014, the Board of Directors acknowledged the in-depth analysis carried out regarding the qualification of the Chairman as executive director pursuant to the Corporate Governance Code for listed companies, in light of the powers assigned to him. In particular, having noted that the application criterion in the aforementioned Corporate Governance Code establishes that, for chairmen, the executive nature of their role would derive "from the attribution of a specific role in the development of the company's strategies", the Board agreed with the Chairman in considering his office an executive one, with the consequence that the Chairman no longer qualified as independent and renounced to the task of acting as link between the Board of Directors and the managers responsible for Internal Audit and compliance, in application of the corporate governance principles of the Company, attributing this role to Ms. Calvosa, already Chairperson of the Control and Risk Committee. On its part, the Board of Statutory Auditors had investigated appropriately, with the support of its legal advisor, monitoring to ensure that the Board of Directors took the relevant resolutions and duly informed the market.

In addition to legal representation of the Company and all powers, to be exercised with a single signature, responsibility for the overall running of the Company and the Group (including responsibility for defining and proposing to the Board of Directors, and then implementing and developing, the strategic, industrial and financial plans) was attributed to the Chief Executive Officer, as were all organisational responsibilities to guarantee the management and development of the business in Italy and South America. The Chief Executive Officer is also responsible for the components of the Public & Regulatory Affairs function that manage relations with AGCOM and AGCM and the corresponding foreign authorities, in coordination with the Chairman.

As from 16 April 2014, the new Group Committees System was defined, focused on the governance and operational integration of the activities of the Group. The Group Committees System fulfils the aim of (i) monitoring the implementation of strategies and the development of plans; (ii) guaranteeing that the overall operations of the Group and specific businesses are monitored; (iii) strengthening the operational synergies needed between the different departments involved in technological, business and support processes.

The Board of Statutory Auditors carefully monitored the main changes of the organisation and the organisational method and supervised the adequacy of the organisational structure with respect to the strategic objectives of the Company, by meetings with the Chief Executive Officer, the Head of People Value and the individual company departments.

Given the complexity of the organisational structure of the Company and the Telecom Italia Group, having noted the changes made to the Executive Directors of the Company, the 2015-2017 industrial plan and, finally, having taken into account that in a complex enterprise the organisational structure is 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 Corporate Governance 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.

In exercising its responsibilities regarding the internal control and risk management system, the Board of Directors resolved that the Head of the Audit Department, the Group Compliance Officer and the Head of the IT & Security Compliance Department report directly to the Board.

The Head of the Audit Department has an adequate level of independence and means suitable for the execution of this function. The Head of the Audit Department is responsible for supporting the management and control boards in assessing the adequacy, full functioning and effectiveness of the control and risk management system and for proposing corrective measures in case of anomalies and/or deficiencies. Under the scope of its powers of inspection and control, the Board of Statutory Auditors ordinarily assigns duties on specific matters to the Audit Department and the Compliance Department.

The Head of the Audit Department reports on his work to the Directors in charge of the internal control and risk management system, i.e. the Chairman and the Chief Executive Officer, each with respect to the area delegated, to 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 of the capacity of the internal control and risk management system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the qualitative/quantitative risk factors present and the probability of their affecting the achievement of those objectives. This oversight is assured through:

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

The Board of Statutory Auditors has acknowledged the overall assessment of the internal control and risk management system by the Audit Department, which is set forth below: "*With reference to the specific operating contexts analysed in 2014 on the Italian context, given the weaknesses of varying intensity of the internal control and risk management system found in the audits and having assessed the process of implementation of the improvement actions undertaken by the owner functions to quickly overcome these weaknesses, it considered that the system should be capable of reducing the risk profiles to a level acceptable for the correct operation of the business processes.*"

The Board of Statutory Auditors shares the assessment of overall adequacy of the internal control and risk management system as formulated by the Audit Department. The Control body, on its part, constantly monitored its effectiveness and monitored the work of the main players in the internal control and risk management system and, in particular, the implementation of risk improvement and mitigation 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 executive 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 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 *Comité de Auditoria Estatutário* 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.

The functions of the Supervisory Body are assigned (since 2012) to the Board of Statutory Auditors, which uses a dedicated company structure (Compliance 231) as part of Compliance Department.

The Organisational Model 231 has 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 achieve 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 the managerial committee called Steering Committee 231, briefed by the Supervisory Board and approved by the Board of Directors of the Company when of a significant nature.

The Organisational Model incorporates, in terms of application, the predicate offences provided for in Legislative Decree no. 231/2001, excluding those deemed to not be directly pertinent for the Telecom Italia Group.

The Organisational Model represents an integral part of the reference compliance program for the application of foreign anti-corruption legislation such as the US Foreign Corrupt Practices Act and the UK Bribery Act. In this context, a foreign version of the Organisational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level. In this respect, Tim Participações Organisational Model, implementing the provisions of the recently-introduced Brazilian anti-corruption law was adopted during the course of 2014.

The Board of Statutory Auditors oversees the operation and observance of the 231 Organisational Model and reports to the Board of Directors on the oversight and verification activities which it has performed and the corresponding outcomes. For FY 2014, the Board of Statutory Auditors has expressed an opinion of compliance with the reference legal framework of the Organisational Model 231 adopted by the Company.

In the course of 2014 the Telecom Italia Group defined a new process of Enterprise Risk Management (ERM) by which the Board of Directors defines the nature and level of risk (Risk Appetite) consistent with the strategic objectives of the Group within the framework of the industrial plan.

The model adopted makes it possible to identify and manage risks in a homogeneous way within the Group companies, emphasising potential synergies between the players involved in the assessment of the internal control and risk management system. The ERM process is designed to identify potential events that may impact on business activity, to manage the risk within acceptable limits and to provide reasonable assurance of the achievement of the objectives.

The process is governed by the ERM Steering Committee, chaired and coordinated by the Head of the Administration, Finance and Control department. The ERM Steering Committee meets at three-monthly intervals (or in response to specific needs), and has the object of ensuring governance of the process of managing the Group's risks, aimed at ensuring the operational continuity of the company's business by monitoring the efficacy of the counter-measures adopted.

The process adopted is cyclical and consist of the following stages:

- defining Risk Appetite, identifying the Risk Exposure Threshold and Risk Tolerance with respect to the predefined objectives;
- identifying and fine-tuning the Risk Universe of Telecom Italia. The Risk Universe is the document which contains the description of the principal characteristics of all the risks identified; it is reviewed annually with the aim of confirming/supplementing/amending the list of corporate risks;
- Risk Assessment. The risks of the Risk Universe are submitted, by means of an interview, to the risk owners, who assess their gravity and document the controls for the purpose of positioning them on the Risk and Control Panel (R&CP), which guides the intervention priorities;
- Identifying Relevant Risks and defining the Corporate Risk Profile. Relevant Risks are risks assessed as high on the R&CP, and the totality of them constitutes the Corporate Risk Profile (CRP);
- activation of mitigation actions on the Relevant Risks and monitoring them over time;
- processing the reporting flows to the Executive Directors and the company boards responsible for risk management.

The Board of Statutory Auditors promoted and monitored the evolution of the ERM process particularly closely, to promote a more incisive approach in harmony with the internal control and risk management system. The Control Body has acknowledged that in its meeting of 19 February 2015, the Board of Directors approved the definition of risk appetite in the Telecom Italia Group, in line with the provisions of the Corporate Governance Code.

During the second half of 2014, the Company launched an independent analysis process of the company control model, with specific reference to the audit and compliance departments. The Board of Statutory Auditors has met with the consultant appointed to carry out the assessment, under the scope of its meetings and joint meetings with the Control and Risks Committee, acquiring the results of the analyses performed, currently being assessed by the company boards with a view to any initiatives to improve the existing organisational solutions. On its part, the Control body has addressed some recommendations to both the consultant during the course of its mandate and the Board of Directors, in the sense of keeping a strong commitment and high level of attention to the internal controls system.

14. Telecom Italia has adopted the Internal Control - Integrated Framework model (2013) 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, with particular reference to the internal controls for the preparation of the financial statements.

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, also by collecting information from Company management, examining company documents and analysing the results of the activities undertaken by the External Auditor.

The Board of Statutory Auditors acknowledged the statements issued by the Chairman, Chief Executive 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 2014 of the administrative and accounting procedures for the preparation of the financial statements and the consolidated financial statements.

On the question of goodwill impairment test, the Board of Statutory Auditors observed that in Telecom Italia it is applied in a consolidated and structured way, coordinated by the Administration, Finance and Control Department, with the intervention of an independent external expert of acknowledged professional expertise. The implementation of the process is also analysed and discussed in special joint meetings of the Control and Risk Committee and Board of Statutory Auditors, that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied.

The Board of Statutory Auditors checked that the impairment test process was carried out on the 2014 financial statements in terms coherent with the procedure approved (in continuity with the previous year) by the Board of Directors on 5 February 2015. The Board of Statutory Auditors acknowledged that the results of this assessment did not require the impairment loss on goodwill attributed to the individual Cash Generating units of the Group. For a more detailed analysis, the Board of Statutory Auditors refers to the explanations given in the "Goodwill" note to the consolidated financial statements as of 31 December 2014 of the Telecom Italia Group.

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.

Finally, the Board of Statutory Auditors monitored the financial disclosure process including through the collection of information from the Company's management.

15. The Board of Statutory Auditors has acknowledged the instructions imparted by the Company to its subsidiaries, pursuant to art. 114, section 2 of the CLFI, 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.

Following a project for verifying and updating the procedure for managing sensitive information, launched in 2013, in its meeting of 5 August 2014, the Board of Directors approved the new version of the "Procedure for the internal management and disclosure to the public of sensitive information". This regulates the methods by which information and documents relating to Telecom Italia are communicated externally, with specific reference to sensitive information. The procedure 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.

The Board of Statutory Auditors monitored, by means of specific meetings with the management, the process by which the procedure for managing sensitive information and updating the supporting computer application, is revised.

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 April 2014 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 2013.

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 recently amended in July 2014, to which the Company adheres. Furthermore, the Board of Directors adopted its Corporate Governance Principles in force in its meeting of 6 December 2012.

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. In its first meeting after the Shareholders' Meeting that appointed it (18 April 2014), before the attribution of powers, the Board of Directors provided to ascertain that its members possessed the requirements, including those regarding independence. In particular, in addition to the Chairman, and pursuant to the Corporate Governance Code, it considered the following directors to be independent: Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Kingsmill, Marzotto and Valerio; it recognised that these Directors, and Mr. Fitoussi, fulfilled the criteria for independence pursuant to the Consolidated Law on Financial Intermediation. As already stated in this Report, on 26 June 2014 a rectification was made regarding the powers attributed to the person of the Chairman, after the qualification of his role as an executive one, which also determined that he no longer qualified as independent, according to the Corporate Governance Code.

In its meeting on 19 March 2015, the Board of Directors checked that its members continued to meet the requirements for independence, based on the declarations made by said members, and acknowledged (i) that Directors Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Kingsmill, Marzotto and Valerio possessed the requirements of independence, pursuant to the Corporate Governance Code, and (ii) the same Directors, plus Mr Fitoussi possessed the requirements of independence pursuant to the Consolidated Law on Financial Intermediation. The market was informed of the outcome of this verification.

In its meeting of 23 March 2015, the Board of Statutory Auditors audited the correct application of the independence requirements and the procedures for assessing the requirements adopted by the Board of Directors.

In its meeting of 10 March 2015, the Board of Statutory Auditors checked that its members continued to meet the requirements for independence pursuant to article 148, subsection 3 of the CLFI, as well as the Corporate Governance Code. Regarding the latter, the Board of Statutory Auditors took account of the circumstance that two of its members (Salvatore Spiniello and Ferdinando Superti Furga) had acted as Standing Auditors for more than three terms of office, without the emergence of elements that might be construed as a decrease in the independence of the two members.

The Board of Statutory Auditors checked 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 a Control and Risk Committee and a Nomination and Remuneration Committee. Both committees are regulated by their respective regulations approved by the Board of Directors in the meeting held on 5 August

2014 (documents available for consultation on the website www.telecomitalia.com section The Group - Governance System/Regulations channel).

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. At least one member of the Control and Risk Committee shall possess adequate expertise in accounting and finance or risk management. Without prejudice to the tasks attributed to it by the Corporate Governance 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 on the transactions with related parties (i) entrusted to the board pursuant to the law, Bylaws or Corporate Governance Code; (ii) on ordinary standard or market conditions, according to terms not predetermined or defined after a tender worth over 10 million euros; (iii) non ordinary transactions worth more than 2 million euros;
- performs other duties assigned to it by the Board of Directors.

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 the Nomination and Remuneration Committee possesses adequate expertise in financial matters or remuneration policies. Without prejudice to the tasks assigned by the Corporate Governance Code to the remuneration committee and to the nomination committee, the Nomination and Remuneration 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;
- performs other duties assigned to it by the Board of Directors.

The Board of Statutory Auditors monitored the activities performed by the Control and Risks Committee during 2014 in joint meetings or by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings. The Board of Statutory Auditors also monitored the activities performed by the Nomination and Remuneration Committee 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 Francesca Cornelli, is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. She 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.

The Board of Statutory Auditors shared the initiative launched by the Board of Directors appointed by the Shareholders meeting of 16 April 2014, aimed at the overall revision of the corporate governance tools of the Company with a view to aligning them with the best practices and the public company model.

See the Report on the corporate governance and share ownership of Telecom Italia S.p.A. for the 2014 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 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.), and of Telecom Italia Sparkle S.p.A. pursuant to and for the purposes of article 153 of the CLFI, article 2429, second subsection, of the Italian Civil Code and article 14 of legislative decree no. 39 of 27 January 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. Having acknowledged the 2014 financial statements of Telecom Italia S.p.A., the Board of Statutory Auditors had no objections to formulate on the proposed resolutions presented by the Board of Directors on the allocation of the Company's profits for the year and, in particular, on the recognition to savings Shareholders of the privileged dividend in the amount of 0.0275 euros per savings share, gross of legal withholdings.

The mandate conferred on the Board of Statutory Auditors by the Shareholders' Meeting of 15 May 2012 expires with the Shareholders' Meeting called to approve the financial statements as at 31 December 2014. The Board of Statutory Auditors therefore invites the Shareholders to make the resolutions reserved to them for the renewal of the Control Body.

As regards the proposed resolution to amend Articles 9, 11 and 17 of the Bylaws submitted to the Shareholders' meeting, the Board of Statutory Auditors particularly shares the proposed amendment that regards the clarification on the entitlement to submit slates for the renewal of the Board of Directors and the Board of Statutory Auditors (0.5% of the ordinary capital or less), in line with the assessment already expressed (at the request of Consob) in its report to the Shareholders' meeting on 16 April 2014.

The Board of Statutory Auditors also shares the other proposals to amend the bylaws and, in particular, the majority premium, when renewing the administrative body, to 2/3 of the Directors to be elected, thereby increasingly bringing the Bylaws of Telecom Italia into line with the best practices in terms of corporate governance.

Milan, 30 March 2015

For the Board of Statutory Auditors

The Chairman

Enrico Maria Bignami