Dissemination of Information pursuant to article 114, subsection 5, of italian legislative decree no. 58/1998

TIM | Telecom Italia

DISSEMINATION OF INFORMATION PURSUANT TO ARTICLE 114, SUBSECTION 5 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998

In preparation for the Shareholders' Meeting called for 25 May 2016, Consob has asked the Company to disseminate some information regarding:

- the consolidated financial statements at 31 December 2015 (hereinafter the "Consolidated Financial Statements", published on 8 April 2016).
- the information document on the compensation plan with the allocation of financial instruments, with reference to the plan for a special award for the years 2016-2019 (hereinafter, the "Special Award" and the "Information Document", published on 12 April 2016).;
- the remuneration for 2015 (hereinafter, the "Remuneration Report", published on 3 May 2016).

The elements of information are provided below.

Consolidated financial statements at 31 December 2015

With reference to the controls for the impairment of goodwill posted in the statement of financial position in the Consolidated Financial Statements of the Telecom Italia Group for the year to 31 December 2015, to supplement the information contained in Note 4 ("Goodwill") of the Consolidated Financial Statements, the following clarification is provided.

- The forecast data used to estimate the value in use of the assets of the Core Domestic CGU, relating to the investments inherent to the plan to create the new fibre network consider a scenario of infrastructure competition between telecoms operators. The acceleration of the investments in the fibre network by the Group is functional to the achievement of the objectives of cash generation and financial sustainability.

  The effects of the recent announcements about possible future scenarios of competition also from new entrants to the market from adjacent sectors, and the imminent precise definition of the Infratel invitations to tender will be considered, also taking account of their state of delivery, in the subsequent cycles of long term planning.

  Furthermore, to date the conditions do not appear to exist for which the assumptions of TIM's long term 2016-2018 business plan might be less valid, or might have been superseded, in light of both the acceleration of the investments in fibre already envisaged in the business plan, and the likely delivery times for competing infrastructure, and the subsequent marketing of said infrastructure.

- As for the methods used to estimate the recoverable amount for the purposes of the impairment test, they were identified in accordance with the Group procedure, approved by the Board of Directors, which prescribes the application, in full, of a number of valuation criteria.

  For the International Wholesale and Core Domestic CGUs, the recoverable amounts at 31 December 2015 were obtained from estimates of the value in use made in line with the approach used for the 2014 Financial Statements.

  For the Brazil and Persidera (previouslyMedia) CGUs, the configuration of the recoverable amount used at 31 December 2015 is the value in use, while at 31 December 2014 it was the fair value deduced from the market prices of TIM Participaçoes S.A. and Telecom Italia Media S.p.A shares.

  For signalling purposes, the table below shows, for the Brazil CGU, the fair value deduced from the market price of TIM Participaçoes S.A. shares at 31 December 2015 and 31 March 2016, comparing the net carrying amount on the date, and, for the end of 2015 datum, after the posting of the impairment loss.

COMPARISON OF FAIR VALUE AND NET CARRYING AMOUNT BRAZIL CGU

Millions of R$	31 December 2015	31 March 2016

Fair value	17,264	21,652
Net carrying amount	20,981	23,114

(the values indicated refer to 100%)

Finally, it should be noted that, for the purpose of the Interim Report on Operations to 31 March 2016, no events of an exogenous or endogenous nature have been identified that might necessitate another impairment test, and the Goodwill values attributed to the individual Cash Generating Units are therefore confirmed.

- In the impairment test process, to attribute adequate weight to the findings from external sources in the estimation of value in use, the information contained in the most up to date equity reports, available on the date the Financial Statements were drawn up, were taken into account.

  In particular, the forecast data from analysts assumed particular importance for the estimate of the value in use of the assets of the Brazil CGU, while they were substantially in line with the plan projections for the Domestic CGUs.

- Regarding the relevant parameters for the purpose of the estimates of the value in use of the assets of the Core Domestic and International Wholesale CGUs, some supplementary information is provided below on the discount rates after taxes (WACCs after taxes) and growth rates beyond the explicit period (g), which make the value in use equal to the carrying amount.

PARAMETERS THAT MAKE THE VALUE IN USE EQUAL TO THE carrying amount

	Core Domestic	International Wholesale
WACC after taxes	7.2%	6.8%
Growth rate beyond the explicit period (g)	(0.2%)	0.3%

Opinion of the Nomination and Remuneration Committee

Considering that the Nomination and Remuneration Committee is required to express its motivated opinion of the compensation package awarded to the Chief Executive Officer (in that it may be considered a transaction with a relevant related party) regarding Telecom Italia's interest in the accomplishment of the transaction, as well as of the advantageousness and substantial correctness of its conditions, Consob asked the Committee to express its opinion "on the components of the remuneration that are not in line with the Remuneration Policy approved in 2015".

Regarding this, it should be noted that the issue is expressly dealt with in the paragraph of the remuneration report entitled "Board of Statutory Auditors' considerations on the Chief Executive Officer's compensation package" which - inter alia - on the arguments used to support the overall compensation package proposal (inclusive of all its elements) states that the Committee, in the person of its various members, and with the assistance of experts, had focussed, in the Committee meeting on 29 March 2016 and subsequently in the board meeting on 30 March 2016, on "the Company's interest in its completion, the advantages and the substantial correctness of the relative conditions, which are the three evaluation profiles identified in Consob Regulation no. 17221 of 12 March 2010." In short, the rationale of the proposal can be summarized as follows:

- Telecom Italia urgently needs change and a turnaround and Mr Cattaneo has been identified as the right person to achieve this (as also confirmed by an independent executive search company especially chosen by the Committee itself to support its evaluations: Korn Ferry);
- the congruity of the structure and of the economic terms of the transaction (the remuneration package negotiated to meet the requests made by Mr Cattaneo as a condition for acceptance of the appointment) was verified on the basis of a benchmark analysis (performed by another independent advisor: Mercer), combined with an estimate of the indirect benefit on the stock market (the multiples being equal) which affect the planned bonuses;
- the financial conditions of the transaction, which was defined in full compliance with the applicable procedures (procedural correctness profile), are therefore correct".

Information Document - Supplement

The opening statement of the Information Document states that "The Special Award provides an extraordinary bonus for over-performance against the 2016/2018 Business Plan (using for 2019 the same targets as the plan for the 2018 year) with reference to three parameters (EBITDA, reduction in Opex, Net Financial Position) considered priorities for the company turnaround. If the shareholders' meeting should, pursuant to art. 1140-bis of Legislative Decree 58/1998 (the "CLF") approves, at the end of the incentive period, the bonus, which accrues annually based on the results achieved in the year of reference, will be paid all at once, 80% by the free allocation of ordinary shares and 20% in cash".

As requested by Consob, and reporting verbatim what the Remuneration Report states about this, it should be noted that "The equity component of the Special Award represents a compensation plan with the allocation of financial instruments, subject to the approval of the Shareholders' Meeting - with limited and exclusive reference to the possibility of payment of said component in the form of shares: if recourse to shares is not authorised, the bonus will be paid entirely in cash. The Shareholders' Meeting will also be called on to resolve on section I of this Remuneration Report.

Remuneration Report - supplementation

In the Remuneration Report, it is stated that, upon appointment, the Chief Executive Officer was assigned options under the 2014-2016 Stock Options Plan (described in the same Remuneration Report) to be exercised for the third year of the incentive plan. It is also stated that "His participation in the Stock Option Plan for the 2017-2019 three year period (or other long term incentive plan, at conditions no less favourable than those envisaged in the current plan), or other monetary incentive of equal economic content.

As requested by Consob, and reproducing verbatim what is indicated on this topic in the contract regulating the relations between the Company and the Chief Executive Officer (hereinafter, the "Contract"), it should be noted that "in the case of renewal of the appointment and the Powers at the end of the current mandate", the Chief Executive Officer will be entitled to participate, as variable long term compensation, " in the Stock Option Plan for the 2017-2019 three year period (or other long term incentive plan, at conditions overall and substantially no less favourable than those envisaged in the current plan) under which he may accrue a bonus the target value of which is equal to 100% of the Fixed Remuneration (and up to a maximum of 150% of the Fixed Remuneration) for each year of the three year period of reference, it remaining understood that, if said plan should not be approved, this treatment would be replaced by another monetary incentive of equal economic content".

Again, the Remuneration report states that, for the purpose of the agreed package owed to the Chief Executive Officer in case of termination, amongst others, the following are considered early termination of employment as a good leaver the "resignation for just cause or for revocation or reduction of the Powers, or their extension also to other directors, or caused by a change in control and in any operation that produces the same substantial effect".

As requested by Consob and reproducing verbatim what is indicated on this topic in the Contract, it is specified that "resignation within sixty days of the acquisition of control pursuant to art. 93 of the CLF by a subject other than the current relative majority shareholder (and parties related to it), or another operation that produces the same substantial effect with respect to the current share ownership structure, including a transfer of business pursuant to art. 2112 of the Italian Civil Code, irrespective of the methods by which this occurs" is considered resignation due to change of control.

Information Document and Remuneration Report - supplementation

Regarding the early termination of the employment contract between the Company and the Chief Executive Officer, the documentation already made available to the market states, inter alia, that: "Should Mr Cattaneo cease to hold the office of Chief Executive Officer (also after non-appointment as a member of the Board of Directors when the board is renewed), as a good leaver before payment of any bonus, he will be paid (i) the annual bonuses already accrued, and (ii) the Special Award he would have been entitled to, according to a linear projection to the end of the incentive period of the mean results already obtained, or, in the first year of his mandate and in the absence of historical data, taking as reference the results attested in the latest approved quarterly report".

Consob asked for a detailed description of the corresponding clauses of the Contract.

It provides, therein, that in case of early termination as a good leaver (cf. above):

- Mr. Cattaneo shall receive, at the time of termination, as compensation, “a sum equal to the sum of annual provisions already made and the mean annual amount of said provisions, multiplied by the number of years (or fractions of a year) remaining until 31 December 2019, referred to a quota of the 4%” overperformance used as the basis for the calculation of the award;
- if the termination occurs during 2016, Mr. Cattaneo shall receive, at the time of termination, as compensation “a sum determined (with reference to the 4% share) according to the methods used to calculate the Special Award, using the parameters obtained based on the results achieved in the last quarter that were approved or are being approved, reproportioned on an annual basis and multiplied by 4”.

For the calculation of the Special Award, the Contract refers to a sample scheme that the Company has reproduced in its entirety at the end of the paragraph describing the Special Award, in the Remuneration Report, adding the column relating to the share of the award dedicated to management other than the Chief Executive Officer.

Consob also pointed out that, in the introductory part of the section of the Remuneration Report entitled ”2016 Remuneration Policy tools and guidelines", it is stated - inter alia - that as a rule in the Company, comparisons are made with the external market to better define the remuneration policies. It therefore invited the Company to clarify if comparable cases of the attribution of measures similar to the Special Award had been reviewed.

In this regard, it should be noted that the exceptional nature of the latter award is clearly indicated in the letter to the Shareholders by the Chairman of the Nomination and Remuneration Committee (reproduced at the start of the booklet containing the Remuneration Report), where the Special Award is defined as an “extraordinary remuneration tool, of four years’ duration, to incentivise pursuit of the total turnaround of the business, deemed a priority for most of Telecom Italia’s stakeholders”. Just as the need for a turnaround is exceptional, the Special Award is equally exceptional, and is indeed configured as an add-on to:

- a compensation package for the serving Chief Executive Officer that has otherwise been constructed in full continuity with the general contractual approach and amounts previously awarded to his predecessor;
- the reward for the management, which the Chief Executive Officer will identify (with broad powers of discretion, that also extend to the amount awarded), considered strategic for the achievement of the aforementioned turnaround objective.

So in designing the initiative, no recourse was made to a specific benchmark. This, however, did not exclude confirmation, by the Committee’s independent consultant and by the Company’s advisors, that there existed previous cases of recognising a range of extraordinary awards and bonus mechanisms to top executives, in the case of particularly difficult challenges, often after the events, the measure of which would be comparable to the Special Award. In particular, its structure refers principally as reference to the extraordinary equity bonuses offered by private equity funds, but the details of these instruments that can only be considered partially qualifiable as comparable precedents, were not considered.

Finally, regarding the reasons why the Special Award is considered functional to the achievement of the objective of business turnaround, see the attached analysis by Credit Suisse.

Telecom Italia
Discussion materials

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May 2016

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CS will receive a fee for its services in preparing this illustrative analysis. In addition, Telecom Italia has agreed to indemnify us for certain liabilities and other items arising out of our engagement. From time to time, we and our affiliates have in the past provided, are currently providing and in the future may provide investment banking and other financial services to Telecom Italia and its direct or indirect shareholders and affiliates, for which we have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates' own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Telecom Italia and its direct or indirect shareholders and affiliates, as well as provide investment banking and other financial services to such companies.

Our understanding of the 2016-2019 Special Award remuneration package

Summary overview	■ Aim of the 2016-2019 Special Award remuneration package is to further incentivise Telecom Italia ("TI" or "the Company") top management (and give CEO the levers) to accelerate the turnaround of the Company, aligning executive remuneration to value creation for shareholders ■ Pay-out is linked to outperformance by the Company of selected financial targets set in the business plan ("BP") approved by the Board of TI on February 15, 2016
Key features	■ 2016-2019 reference period. Outperformance will be measured on a yearly basis and potential remuneration will be accrued accordingly. Pay-out for relevant employees will occur only at the end of the reference period (i.e. at the time of the approval of the TI 2019 accounts by the Board of TI) ■ Relevant targets against which outperformance is measured have been identified in EBITDA, Opex reduction and Net Financial Position. Remuneration will be calculated attributing different weights to the outperformance achieved vs. relevant targets (50% for EBITDA outperformance; 25% each for Opex reduction and Net Financial Position outperformance) ■ Pay-out equal to up to 5.5% of the outperformance achieved on the parameters described above (weighted as per above) – 4% to the benefit of TI CEO, the remaining amount (up to 1.5%) to the benefit of selected top executives to be identified by TI CEO – Total cumulated maximum gross pay-out for all the eligible employees over the period 2016-2019 capped at €55m. As an illustrative example, TI would need to outperform targets (with outperformance contributions being weighted by relevant weights as described above) in aggregate by at least €1bn over the period 2016-2019 in order for management team to be eligible to receive the maximum pay-out – Pay-out will be 20% in cash / 80% in TI stock[(1)]
Approvals	■ Board of TI is seeking shareholder approval at the AGM on May 25, to include TI stock in the remuneration package linked to the 2016-2019 Special Award. If approval is not obtained, the remuneration package will be in cash only (amount will remain unchanged)

Source: Company filings.

(1) The number of shares to be determined by dividing 80% of the bonus accrued in the financial year by a value of the shares calculated in a specified manner on the date the performance is ascertained.

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Scope of our analysis and underlying assumptions

- Credit Suisse ("CS" or "we") have performed an analysis utilising selected trading multiples to illustrate the possible incremental equity value accretion versus the Business Plan approved by the Board of TI on February 15, 2016 (the "BP") that could be generated by TI outperforming selected financial targets set out in the BP
  - With TI's consent, we looked only at a range of selected current and historical trading multiples (EV/EBITDA and EV/(EBITDA-Capex)) of the Company and other selected telecom companies; there is no certainty that such multiples will in the future remain consistent with current and historical trading levels or that such trading multiples are or will be methodologies utilised by investors when assessing the performance of TI
  - Such illustrative analysis has been conducted solely based upon 3 financial parameters - reduction in Opex, increase in EBITDA and reduction in Net Financial Position (which are the parameters used in the Special Award 2016-2019)
  - The analysis is illustrative only and there is no guarantee that the potential incremental equity value accretion will be achieved even if TI outperforms the financial targets in the BP
- In the context of the analysis described above, CS has illustrated the possible impact of an outperformance of each of the 3 financial parameters on a standalone basis (i.e. all other parameters being unchanged)
- CS is not expressing any views and / or judgments as to the achievability of the financial targets set in the BP, TI's ability to outperform such targets, the actual future performance of the share price of TI or whether TI is fairly valued today or has been fairly valued in the past

Illustrative outperformance scenarios

- The tables below show the incremental potential equity value accretion which could be generated by TI, both as an absolute amount in €m and, for reference purposes, as % of TI current equity value (market capitalization), based on the following illustrative ranges of outperformance results vs. BP:
  - EBITDA or Opex outperformance of €250m - €1bn
  - Net Financial Position outperformance of €500m - €2bn
- As a reference point, the maximum pay-out associated to the 2016-2019 Special Award would be triggered in the following scenarios (considering for simplicity only outperformance in connection with each single metric) all other things being equal:
  - €2bn outperformance at EBITDA level
  - €4bn outperformance at Opex level
  - €4bn outperformance at Net Financial Position level
  - Outperformance in relation to some of the metrics could also have an impact on other metrics (e.g. a decrease in Opex could result in an increase in EBITDA and a decrease in Net Financial Position)
- An illustrative range of valuation multiples has been considered for TI, taking into account both current and historic trading multiples of TI and selected telecom companies
  - We have focused on EV/EBITDA and EV/(EBITDA-Capex) multiples, which the market generally considers to be two of the most relevant valuation metrics for the telecoms sector
  - In practice investors take into account these and other parameters in different measures for the purpose of their valuation analysis
- The analysis assumes that an outperformance at EBITDA, Opex, and Net Financial Position level translates into a permanent benefit for TI
- To calculate the potential value accretion, the assumed outperformance in EBITDA (or Opex) terms is multiplied by the selected EBITDA multiple range

Incremental potential equity value accretion

(in €m unless otherwise stated)

EBITDA or Opex out-performance	Illustrative outperformance vs. target (€m)	implied % of 2015		EV/NTM EBITDA		
		Opex	EBITDA	5.5x	6.0x	6.5x
	250	2.0%	3.6%	1,375	1,500	1,625
	500	3.9%	7.1%	2,750	3,000	3,250
	750	5.9%	10.7%	4,125	4,500	4,875
	1,000	7.9%	14.3%	5,500	6,000	6,500

Incremental potential equity value accretion (as % of current equity value)

(in €m unless otherwise stated)

Illustrative outperformance vs. target (€m)	implied % of 2015		EV/NTM EBITDA		
	Opex	EBITDA	5.5x	6.0x	6.5x
250	2.0%	3.6%	8.1%	8.8%	9.6%
500	3.9%	7.1%	16.2%	17.7%	19.2%
750	5.9%	10.7%	24.3%	26.5%	28.7%
1,000	7.9%	14.3%	32.4%	35.4%	38.3%

Source: CS IBCM analysis.

Illustrative outperformance scenarios (cont'd)

- All other things being equal, any outperformance in EBITDA (whether resulting from Opex outperformance or otherwise) would also result in an equivalent amount of outperformance at the EBITDA – capex level. Therefore, the same amounts are also multiplied by the selected range of EBITDA – capex multiples, as an alternative methodology

EBITDA or Opex out-performance

Incremental potential equity value accretion

(in €m unless otherwise stated)

Illustrative outperformance vs. target (€m)	implied % of 2015 Opex	implied % of 2015 EBITDA	EV/(NTM EBITDA-capex) 13.0x	EV/(NTM EBITDA-capex) 14.0x	EV/(NTM EBITDA-capex) 15.0x
250	2.0%	3.6%	3,250	3,500	3,750
500	3.9%	7.1%	6,500	7,000	7,500
750	5.9%	10.7%	9,750	10,500	11,250
1,000	7.9%	14.3%	13,000	14,000	15,000

Incremental potential equity value accretion (as % of current equity value)

(in €m unless otherwise stated)

Illustrative outperformance vs. target (€m)	implied % of 2015 Opex	implied % of 2015 EBITDA	EV/(NTM EBITDA-capex) 13.0x	EV/(NTM EBITDA-capex) 14.0x	EV/(NTM EBITDA-capex) 15.0x
250	2.0%	3.6%	19.2%	20.6%	22.1%
500	3.9%	7.1%	38.3%	41.2%	44.2%
750	5.9%	10.7%	57.5%	61.9%	66.3%
1,000	7.9%	14.3%	76.6%	82.5%	88.4%

- Finally it is assumed that, all other things being equal, any outperformance of the Net Financial Position target could result in a potential equity value accretion equal to such Net Financial Position outperformance

Net Financial Position out-performance

Illustrative outperformance vs. target (in €m)	500	1,000	1,500	2,000
As % of current equity value	2.9%	5.9%	8.8%	11.8%

Source: CS IBCM analysis.

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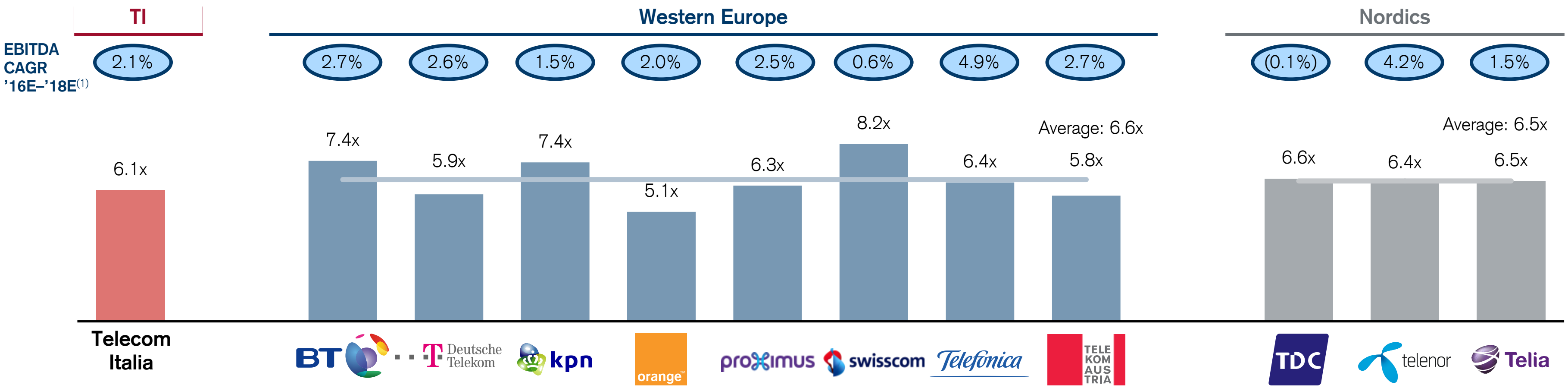
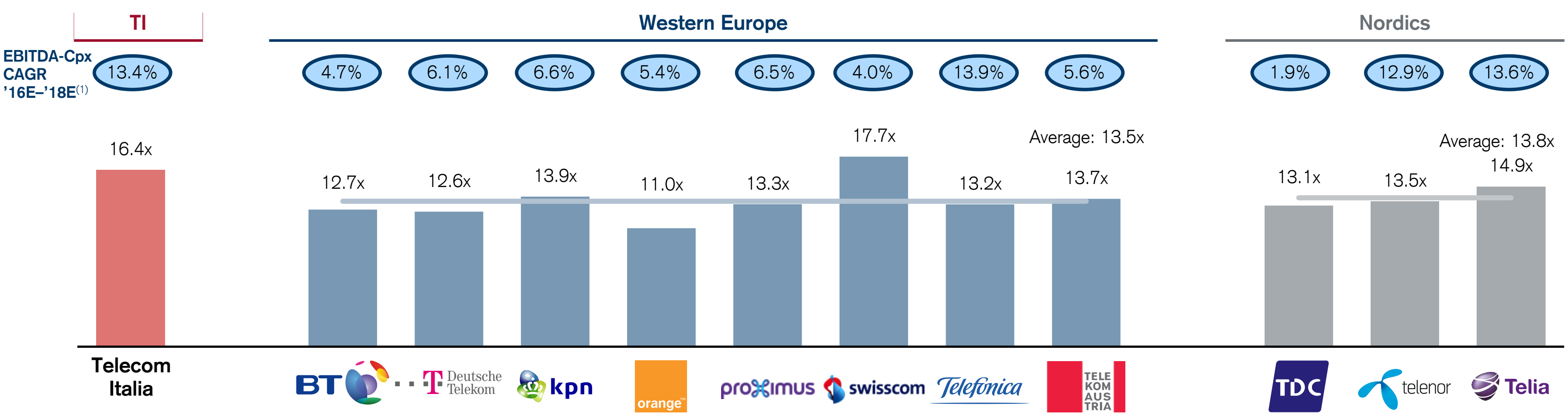
Appendix

Selected telecom companies trading multiples

EV / NTM EBITDA



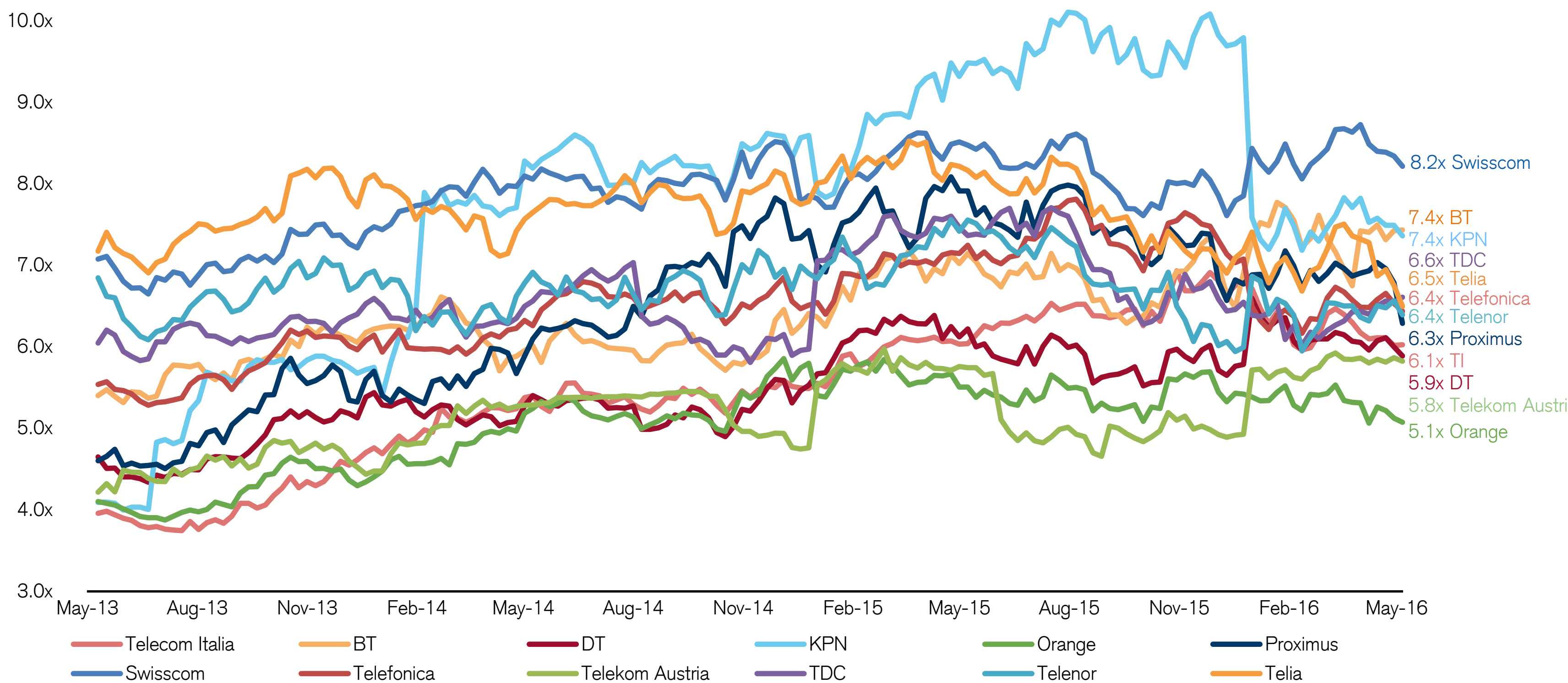
EV / (NTM EBITDA – capex)



Source: Company information, FactSet as of 6 May 2016.
Note: NTM multiples reflect the respective operating metrics on a next-twelve-months basis, i.e. for the year ending May 6, 2017. Next-twelve-months operating metrics are calculated by calendarizing the respective 2016 and 2017 estimates.
(1) CAGR is calculated based on CYE operating metrics.

Selected telecom companies historic trading multiple evolution

EV/NTM EBITDA (last 3 years)

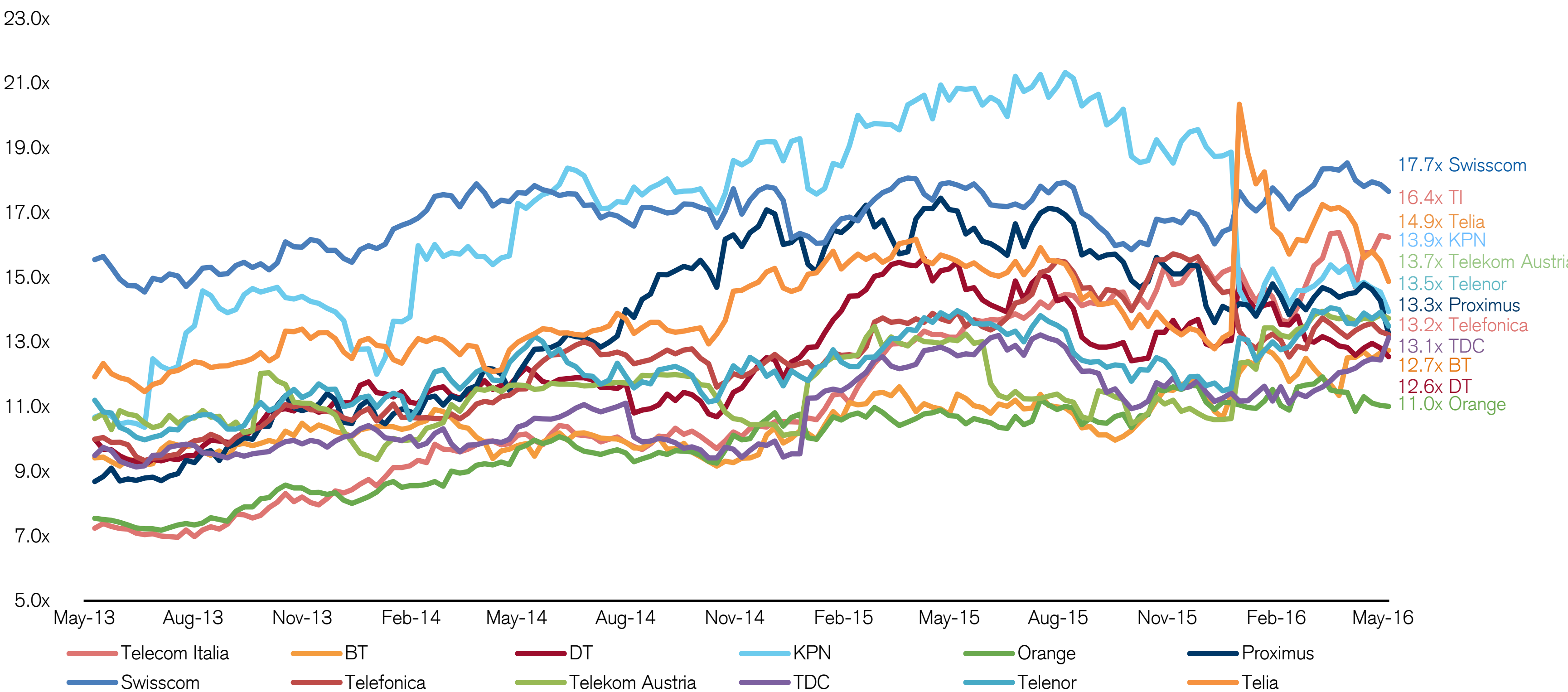


	Telecom Italia	BT	DT	KPN	Orange	Proximus	Swisscom	Telefonica	Telekom Austria	TDC	Telenor	Telia	Average
Current	6.1x	7.4x	5.9x	7.4x	5.1x	6.3x	8.2x	6.4x	5.8x	6.6x	6.4x	6.5x	6.5x
3-month	6.2x	7.3x	6.1x	7.5x	5.3x	6.9x	8.4x	6.5x	5.8x	6.3x	6.4x	7.1x	6.6x
6-month	6.4x	7.3x	6.0x	8.2x	5.4x	6.9x	8.2x	6.7x	5.5x	6.4x	6.4x	7.1x	6.7x
1 Year	6.4x	7.0x	5.9x	8.9x	5.4x	7.2x	8.2x	7.0x	5.3x	6.8x	6.7x	7.4x	6.9x
3 Years	5.5x	6.4x	5.5x	7.8x	5.1x	6.5x	7.9x	6.5x	5.1x	6.6x	6.7x	7.7x	6.4x

Source: Company information, FactSet as of 6 May 2016.

Selected telecom companies historic trading multiple evolution

EV/NTM EBITDA-capex (last 3 years)



	Telecom Italia	BT	DT	KPN	Orange	Proximus	Swisscom	Telefonica	Telekom Austria	TDC	Telenor	Telia	Average
Current	16.4x	12.7x	12.6x	13.9x	11.0x	13.3x	17.7x	13.2x	13.7x	13.1x	13.5x	14.9x	13.8x
3-month	15.5x	12.2x	13.0x	14.8x	11.3x	14.3x	17.9x	13.3x	13.6x	11.9x	13.6x	16.3x	14.0x
6-month	15.2x	12.0x	13.3x	16.0x	11.3x	14.4x	17.4x	13.8x	12.6x	11.7x	12.9x	15.8x	13.9x
1 Year	14.7x	11.4x	13.6x	18.1x	11.0x	15.2x	17.3x	14.1x	12.1x	12.0x	12.9x	15.3x	14.0x
3 Years	11.3x	10.5x	12.3x	16.8x	9.8x	13.6x	16.8x	12.4x	11.5x	10.9x	12.1x	14.1x	12.7x

Source: Company information, FactSet as of 6 May 2016.

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Tax Code/VAT Registration Number and Milan Business Register Number 00488410010