The proceedings of the ordinary shareholders’ meeting of TELECOM ITALIA S.p.A. commenced at 10:00 am on 12 April 2011, at Via Toscana no. 3, Rozzano.

Mr Gabriele Galateri di Genola Chairman of the Board of Directors, declared the meeting open and, with the unanimous agreement of those present, called upon Mr Carlo Marchetti to perform the functions of secretary to the meeting, and thanked him.

The Chairman then first of all read out the Agenda, containing the following items:

**Ordinary session**
- Financial statements for the year ended 31 December 2010 - related and consequent resolutions
- Appointment of the Board of Directors - related and consequent resolutions
- Adjustment of the fees due to external auditors for the period 2011-2018 - related and consequent resolutions
- Authorisation for buy-back and disposal of treasury shares
- 2011 Long Term Incentive Plan - related and consequent resolutions
- Amendment to the Regulations governing Shareholders’ Meetings - related and consequent resolutions

**Extraordinary session**

(Omissis)

The Chairman then announced that:
- the notice convening the Shareholders’ Meeting had been published on 28 February 2011 in the daily newspapers Il Sole 24 Ore and the Financial Times;

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- on 9 and 11 April 2011 the Shareholders’ Meeting (which had been called respectively on first call - ordinary and extraordinary part, and on second call - extraordinary part) was not quorate, as recorded in the official notarised minutes of the events;
- the share capital was Euro 10,688,746,056.45, divided into 19,434,083,739 shares with a par value of Euro 0.55 per share, of which 13,407,963,078 were ordinary shares and 6,026,120,661 were savings shares;
- as of today’s date, the Company holds 37,672,014 treasury shares. In addition, 124,544,373 Telecom Italia ordinary shares are held by its subsidiary Telecom Italia Finance S.A..

In relation to the possibility of exercising the right to vote by correspondence, as provided in the Bylaws, the Chairman announced that a single ballot card had been received, for a total of 12,250 ordinary shares;

The Chairman therefore declared at 10:02 am that the ordinary shares participating in the Meeting for the purposes of its being validly constituted numbered a total of 6,557,007,237, including the votes by correspondence. The capital represented at the Meeting was therefore 48.90% of the total of the ordinary shares.

After this preamble, the Chairman determined and gave notice that the Meeting was regularly constituted and could discuss and vote on the items on the Agenda.

The Chairman then announced that:
- the documentation relating to the various matters on the agenda had been published in accordance with the applicable regulations;
- the following, among other things, had been distributed at the entrance:
  - the printed document containing the financial statements for 2010 (including the proposed resolutions and the associated explanatory reports, and an errata sheet);
  - the report on corporate governance and share ownership;
  - a document containing the slates of the candidates for the office of Director, and the curriculum vitae of each one;
  - the information document regarding the “2011 Long Term Incentive Plan”;

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- according to the figures in the possession of the Company, the following held shares with voting rights amounting to more than 2% of the ordinary capital:
  - Telco S.p.A., with a direct holding, by way of ownership, corresponding to 22.402% of the capital with voting rights;
  - Findim Group S.A., with a direct holding, by way of ownership, corresponding to 4.989% of the capital with voting rights;
  - Brandes Investment Partners LP, with a holding in the capacity of asset manager corresponding to 4.015% of the capital with voting rights;
  - Blackrock Inc, with a holding in the capacity of asset manager corresponding to 2.887% of the capital with voting rights;
  - AllianceBernstein LP, with a holding in the capacity of asset manager corresponding to 2.065% of the capital with voting rights;
- BNP Paribas SA had given notice that it had a total holding of 2.531% of the capital with voting rights, made up as follows:
  - 1.311% with voting rights in the Shareholders’ Meeting, including
    - 0.298% by direct and indirect holding, by way of ownership,
    - 1.013% through indirect holding in the capacity of contango broker/stock borrower;
  - 1.220% without voting rights at the Shareholders’ Meeting, through direct and indirect holding in the capacity of contango payer/stock lender;
- as regards shareholders’ agreements with significance for Telecom Italia for the purposes of article 122 of Legislative Decree no. 58/1998, the extract of the agreement existing between the shareholders of the relative majority shareholder Telco S.p.A. (Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A., companies belonging to the Generali and Telefónica S.A. Group) had been published in the national press on 15 December 2010;
- the description of the essential elements of the above-mentioned agreements was contained in the report on corporate governance and share ownership in the Company, distributed at the entrance to the hall;
- the following were present at the meeting, besides the Chairman and the Chief Executive Officer, Franco Bernabè,
  - the Directors Catania, Fitoussi (who arrived after the proceedings had begun), Minucci, Sentinelli and Zingales;

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- the Auditors Enrico Maria Bignami (Chairman of the Board of Auditors), Pozza, Spiniello (who arrived after the proceedings had begun) and Superti Furga;
- Mr Emanuele Rimini, common representative of the holders of savings shares;
- Mr Francesco Pensato, common representative of the holders of bonds relating to the following loans: “Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019”;
- Mr Enrico Cotta Ramusino, common representative of the holders of bonds relating to the loan “Telecom Italia 2002-2022 Floating Rate bonds, Open Special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired”;
- the Auditor Ponzellini, who did not attend the meeting, had justified his absence;
- finally, representatives were present of the firm of external auditors, as well as staff engaged in the proceedings of the meeting;
- with a view to the day’s Shareholders’ Meeting, the Company designated Mr Dario Trevisan as a person on whom people with legally authorised voting rights could confer proxy free of charge, under Article 135 undecies of Legislative Decree no. 58/1998. Mr Trevisan informed the meeting that he had not received any voting proxies in his capacity as designated representative.

The Chairman then announced:
- as per the Regulations for the Shareholders’ Meeting, 15 minutes was set as the maximum length of speeches during the course of the discussion; as usual, a single debate would be held on all the items on the agenda for the ordinary session, and then in the second part of the meeting, for all the items for the extraordinary session;
- he stated that voting would later take place separately on the various agenda items;
- he stated that the operations of recording attendances and counting the votes would be performed with the aid of a remote unit known as a “televoter”, which was linked to individual voters’ identification data. The televoter was therefore a device for strictly personal use, which shareholders were asked to carry throughout the duration of the meeting; it was accompanied by an instruction leaflet;
- he stated that shareholders who intended to address the meeting should book; when they were called upon to speak, they should go to the podium set up for the purpose, and avoid making speeches from the floor;
- he then informed the meeting that recording equipment was being used in order to facilitate minute-taking, and that there was also a simultaneous translation service from Italian to English and vice versa (headphones were available at the entrance to the hall). The personal data collected would be handled for the purposes of the proper conduct of the meeting and for minute-taking. All data would be treated in accordance with the regulations on privacy;
- he reminded the meeting that audio and video recording of the meeting by shareholders is not permitted.

Since the documentation for all the items on the Agenda had been made available on paper and via the internet, and also distributed at the entrance to the hall, the Chairman announced, and no one objected, that the reading of the Agenda would be omitted.

The Chairman then read out the text of the speech reproduced below.

Shareholders,

Today’s Shareholders’ Meeting marks the close of the three-year mandate of this Board of Directors and therefore of mine as its Chairman.

First of all I would like to address a warm farewell and my thanks to all the shareholders. I can honestly say that there has been an open and frank collaborative relationship between us, always attentive to the needs and requirement of each of you, regardless of whether you are a large or a small shareholder.

Allow me, before I make my introductory remarks, to dedicate a special memory to Berardino Libonati, chairman of Telecom Italia Media and a director of our Company until his unexpected death last November.

A man of culture, a skilled jurist and great professional, Mr Libonati was one of our greatest experts on company law and a leading figure in Italian finance. At Telecom Italia, too, where among other things he had been Chairman for a short while from 1997 to 1998, he contributed his intelligence and his experience. This has been a great loss for all of us.

I ask everyone present to dedicate a moment of silence to the memory of Berardino Libonati.

* * *
Three years ago, on taking office, we expressed the reasons for our confidence in Telecom Italia’s possibilities for development.

We had a very clear idea of where the problems were which were weighing it down or indeed obstructing its path. We guessed that the incipient serious global economic crisis would cause additional difficulties.

But we relied on a realistic economic plan, supported by a strict financial discipline, which did not admit of short cuts in time or methods.

We knew that the Company’s wealth of skills, the stability of its shareholder structure and the strategic role of telecommunications in the economy represented a solid base from which to move in order to set the Company on the path of development. As I said to you at the time, this path needed to be healthy, balanced and “normal”, and this word “normal” had also to include correct behaviour in the management of the Company.

The Company which will face the next three-year cycle is very different from the one which was entrusted to us: not only in its organisation, centred on the customer, in the balance between domestic business and foreign business, in its decidedly-improved asset structure, in the levels of efficiency and competitiveness which it has achieved, but also in its rooting in a culture of responsibility and transparency, and therefore in the degree of reliability and credibility which we have been able to achieve.

The Telecom Italia which stands before the shareholders, the investors, the customers and the country is a healthier, more balanced, more normal company from all points of view.

Goals of this kind would not have been achieved in what was, all in all, a brief timespan, if the management and workforce at Telecom Italia had not been supported – even and especially in times of difficulty – by a stable, strong and effective corporate governance.

All the Directors deserve recognition for this. They have done a fine job – in Board meetings and on the Committees – and their personal and professional input has been exceptional.

In recent years the Boardroom of Telecom Italia has been a place of rigorous and shared debate and assessment. The latest proof of this has been the discussion which took place about the results of the so-called Greenfield Project which we set up to provide a radical
analysis of the reasons for critical situations which had emerged both from the investigations by the Magistrates and from our own control procedures.

In all the areas we identified, as the critical problems emerged, we intervened with prompt investigations and immediate corrections. Audits were conducted, work groups were set up and consultants were brought in. Wherever possible, this is being followed by the action necessary to repair the damage suffered.

We could not, however, be content with purely ‘reactive’ management, responding to emergencies and based on partial and incomplete knowledge. We therefore chose to look at the various critical areas from an integrated viewpoint, combining analytical investigation with a systematic approach, and to move from this to reinforcing the structure of our internal control.

Taking an initiative that was absolutely voluntary and fairly rare in the world, we appointed leading law offices and a forensic accounting company, Deloitte Financial Advisory Services, to conduct a broad-spectrum enquiry. I repeat: it was a matter of understanding what had happened and why, starting on a path of examining our processes and improving our control mechanisms. In this perspective, the profile of the possible liabilities of the previous senior management was - and I emphasise this - one of the aspects considered and not the primary subject of the analysis.

On the basis of the Deloitte report and the legal opinions which we received, the Board of Directors engaged in a wide-ranging and closely-argued internal debate. The decision which emerged (signed by all the Directors, with the exception of Mr Zingales) was not to submit to this Shareholders’ Meeting – in the absence of new facts – a proposal for liability proceedings against the former executive directors of the Company.

This is for various reasons, as is clearly stated in the documentation which has been put at your disposal on the Greenfield project:

a. the lack of legal precedents;

b. the difficulty of identifying a nexus of legal causality between the costs sustained or that could be sustained, and the conduct of the former executive directors of the Company;

c. the uncertainty of exactly identifying the costs qualifying as recoverable damages;

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d. the uncertainty of the result and the possible negative effects (both in economic terms and in terms of reputation) which the Company might suffer as a consequence of prolonged media scrutiny of events in its past.

It is obvious that the decisions made and the reasons which dictated them have validity at the time those decisions are made and therefore in the light of available knowledge.

On the basis of these considerations, I believe that the decision taken by the Board follows the principle of balanced and realistic evaluation of the situation.

The yardstick of the popularity or unpopularity of its decisions is not part of the remit of a Board of Directors. Its responsibility is to pursue the interests of the Company to the best of its ability, taking account of the past to the extent that this is useful for creating the conditions for a better future.

In this specific case, the Board of Telecom Italia was concerned and will be concerned with the past – dedicating to it all necessary time and resources – in order to learn from any errors and give practical effect (where this is realistic) to opportunities for making reparation for damages suffered. So, viewing the matter from an ‘operational’ perspective and only that perspective:

we are firmly convinced that anyone who truly has the interests of the Company at heart cannot but share this position, rather than being wedded to the idea of keeping these questions open for an indefinitely long period and with results that cannot be predicted.

Moreover, every effort will continue to be made – thanks also to the results of the Greenfield Project – to ensure that damaging behaviour and events are not reproduced in the future.

The Group can today rely on a control system suitable for reducing risk profiles to an acceptable natural level to allow the correct operation of Company processes.

Certainly, the control culture is by definition in development and cannot be said to have been acquired once for all.

But there is no comparison between the will to compliance in Telecom Italia today and in the past: the procedures are more effective, the commitment of the Company’s top management is extraordinary, and there is a widespread awareness among our workforce – thanks partly to a continuous training programme – that control is not a cost but an
investment, and that resorting to shortcuts in the short term is a serious false economy in
the medium to long term.

Our confidence in the Company’s capacity to prevent future unlawful acts has been much
strengthened.

I can repeat even more strongly what I said last year: the management of Telecom Italia is
absolutely determined not to accept deviations of any kind from compliance with the
highest ethical standards of behaviour.

We are proud that this determination is matched by a sharply improved reputation: improved
not only on the market in relation to the results which the Company demonstrates that it can
achieve by keeping faith with its commitments, but also improved – as independent surveys have confirmed – in public estimation, in the business and professional world, and among opinion leaders. And this applies particularly as regards the correctness, the reliability, in a word the seriousness of the Group.

One factor which has certainly contributed to consolidating this perception is our total
willingness to collaborate – while fully respecting mutual rights – with all the stakeholders
to promote a model of company and development centred on digital communication, an
area where Italy is objectively behind.

Our dealings, on this matter, with national and international institutions have been
particularly intense, as well as with the National Regulatory Authority for Communications and the other independent authorities.

It has to be said that the national policy for the development of broadband and the
digitisation of the country has suffered, at least to some extent, from budget restrictions,
but the growing involvement of the Regions and local authorities has compensated for this.

Under pressure from the public and business, local administrators are increasingly
sensitive to the potential benefits of digital innovation and are therefore prepared to
finance projects which make it possible, first and foremost, to overcome the digital divide
in areas where private investment is not sustainable.

The number of Regions with which we are collaborating to extend broadband coverage
and deliver advanced services is continually growing. From Trentino to Campania, from
Lombardy to Puglia, from Tuscany to Sicily, from Piedmont to Sardinia, there are projects
in progress for developing infrastructures, starting with industrial districts, and the digital modernisation of services such as health, schools, infomobility and smart grids.

We are engaged in close and concrete cooperation with the Union of Italian Provinces and the National Association of Italian Municipalities (ANCI) about the adoption of non-invasive technology for laying fibre optic cable, and again with ANCI for the creation of a “Smart City” solutions incubator.

We are also in always lively and constructive dialogue with consumer associations, with whom we are working, in a climate of transparency and mutual listening, to achieve the common objective of continuous improvement to the quality of services.

But if there is one area where the Company’s seriousness has had the clearest response in the last year it is, in my opinion, the field of industrial relations, where as a result of dialogue within the Company we have successfully met the Company’s need for efficiencies while minimising the repercussions on our people.

This, too, is an important stage in the structural transformation of the Group. Franco Bernabè will shortly be talking to you about the impact of this transformation on the Company’s accounts.

For my part, I would just like to comment briefly on how the Company’s evolution has affected the performance of the shares on the stock exchange.

Obviously, we need to put the performance of the share price into context in the more general picture of the economy and the investment choices of operators.

From this point of view, the way 2010 developed was remarkably complicated. The year began with signs of recovery in the world economy, but then came the worsening of the Greek crisis (with the associated fears about the country risk and the effects of the most heavily indebted shares on credit default swaps) and, at the end of the year, the spread of fears about the contagion of the Euro crisis affecting Spain and Portugal.

These events brought about a difference in performance between northern and southern Europe: investors preferred the markets with good economic prospects, healthy fiscal policies and low sovereign risk; countries in the “Club Med”, on the other hand, were perceived as riskier, and their share prices were negatively impacted by the Euro crisis.

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Finally, 2010 was characterised by a preference for global operators (in other words for the technology, raw materials and car manufacturing sectors), compared with more locally-rooted operators (such as utilities, banks and telecommunications).

The telecommunications sector, in particular, was undervalued in investors’ portfolios. Compared with the behaviour of the DJ Stoxx 600 index, which showed an increase of 9% in 2010, growth in telecoms shares was barely 3.3%.

In Italy, again last year, the FTSEmib index (which includes many banks and insurance companies) lost 13%. The capitalisation of Telecom Italia shares fell by only 7% notwithstanding fears connected with the possible difficulties and higher cost of refinancing the Group’s debt, considering its stock, which was larger than that of other operators in the sector.

In the first few months of 2011, the market was influenced by other fears, connected with the social ferment and political instability of the North African and Middle Eastern areas, and rewarded local shares preferentially. Our Stock Exchange has shown an increase of 7.7% since the start of the year.

In this context, Telecom Italia ordinary shares have recorded an improvement of 11% since the beginning of 2011 (and 17.5% in the case of savings shares), with a stock market capitalisation showing noticeably more improvement than the Italian index (10.9%), and distinctly better than the European sector (4.2%). This performance is principally attributable to the release to the financial market of the guiding principles of the 2011-2013 industrial plan, which was launched about a month ago and positively received by the market: at the end of the road show which toured major European and American cities, our capitalisation had grown by 4.4% in a few days.

Today, 42% of the verdicts of leading financial brokers on Telecom Italia shares consist of a recommendation to buy, compared with 33% positive verdicts for the telecoms sector as a whole.

Shareholders,

My conclusion is very simple:
In the last few years the corporate bodies, the management and the workforce at Telecom Italia have done great work, with intensity and very often a considerable spirit of sacrifice.

The Company’s prospects are today very different and much better than they were three years ago.

The hardest part of the climb in terms of a return to financial health and competitive repositioning is behind us.

The process is not yet fully complete.

It is certain, however, that the pace of development will be able to gradually accelerate and with it will come greater satisfaction for those who have believed and invested in the Company.

The Chairman then handed over to the Chief Executive Officer, who read out the text of the speech reproduced below.

Shareholders,

The results which we achieved in 2010 and which are set out in the Financial Statements which we are submitting for your approval are the crowning reward for the effort, the dedication and the professionalism shown by the women and men of the Telecom Italia Group over the last three years.

Since 2008 we have worked with passion and determination to make the most of our technological assets and in support of the industrial relaunch of our Group, through five principal lines of intervention:

1) Enhancement of our industrial presence; 2) Reduction of costs; 3) Recovery of our competitiveness in the domestic market; 4) Financial discipline and 5) Relaunch of the image of Telecom Italia.

The results which we have achieved in the international sphere certainly represent the most important objective which we have attained in the last three years.

In Brazil we intervened with force and determination in a critical situation, changing the management, relaunching our brand, introducing innovative offering solutions and expanding into market segments that are typically the province of fixed network services.

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In addition to the relaunch of activities in Brazil there was the consolidation in 2010 of our shareholding in Telecom Argentina, which was reached at the end of a long and troubled dispute with the shareholders of the holding company Sofora Comunicaciones.

The fact that we have acquired control of Sofora Comunicaciones means that we can now have a greater influence on the development of Telecom Argentina, setting it on a path to growth and relaunching in line with the results achieved on the Brazilian front.

The international component now accounts for almost a third of our total revenues and forms an important pillar in the Group’s strategy for growth, which will enable us to compensate for the trend of a falling domestic market characterised by increasing levels of saturation.

We achieved the second important result at the level of improving our operating efficiency, where we intervened in terms of slimming down the organisation and processes, improving our procurement policies and reducing our fixed costs. Last year alone the level of costs fell by about 1.7 billion Euros, while if we consider the progress we have made over the three years 2008-2010, the reduction in the cost base amounts in total to almost 4 billion Euros.

These efforts have taken us to being today one of the best telecommunications operators in Europe in terms of profitability and productivity.

The significant reductions in the cost structure have allowed us to reduce the level of prices, especially as regards mobile phone services. Bear in mind that the average cost of a minute of a mobile call in 2010 fell by about 26 percentage points.

The return to competitiveness was not restricted to the reduction in prices but affected many aspects. We have intervened to improve the quality of services and customer assistance, but above all we have worked to redesign our processes to match our customers’ needs.

This renewed attention to the customer, together with a better quality of service, has led to a net improvement in the performance of sales of fixed network services. As regards mobile network services, we have achieved a significant inversion of the trend compared with the dynamics of the past. Already from the second quarter of 2010 onwards the number of TIM customers in fact returned to growth, and has continued to increase in the subsequent quarters as well. In particular, a very positive performance was recorded in the fourth quarter, when the number of customers increased by 386,000 units. The churn rate, too,
has significantly reduced, moving from 29.4% in 2009 to 22% in 2010.

Although in terms of customer numbers, therefore, TIM has returned to growth, the dynamic of revenues, in a year-on-year comparison, has been affected by the sharp reduction in prices which has allowed us to improve the competitiveness of our offers. Even on this front, however, the stabilisation of these indicators makes us optimistic for the future.

The industrial results described have been achieved without ever losing sight of the financial constraints. The ambitious objectives which we had set ourselves in terms of financial discipline have in fact been fully respected. In 2010 alone, the total net debt was reduced by Euro 2.5 billion, while, if we expand our view to take in the whole three years, the reduction has been nearly 4.5 billion.

The severe resizing of the level of debt and the simultaneous increase in the consolidated gross operating margin has brought the ratio between these two figures to values close to 2.8, in other words to a multiple which, although high, now tends to approach those of the leading international telecommunications operators.

In these last three years we have achieved another result which is less tangible but certainly no less important: we have become promoters of a series of initiatives aimed at improving dialogue and promoting a positive climate around Telecom Italia. Thanks to these initiatives we have succeeded in improving the attitude of the principal stakeholders towards us, an essential condition for obtaining a rebalancing of the asymmetrical regulatory measures that limit Telecom Italia’s commercial freedom in a market which reached high levels of competitiveness some time ago.

The most important result, however, is that we have brought clarity to the subject of the network, firmly emphasising the fundamental role that Telecom Italia plays in the development of the Italian telecommunications network, to the benefit also of the other operators.

These three years have also served to outline and define the principles which will guide our future investments in the new generation networks, which will follow a logic deeply imbued with the values of the market, of competition and of adequate remuneration of capital. We do not, in fact, intend to give up our central role as entrepreneur of the network infrastructures.

This does not mean that we are not open to collaboration initiatives with other parties. It
simply means that, where we intervene directly, we intend to maintain operational management of the activities in order to ensure uniformity of architecture, cost effectiveness of investment and quality of service offered.

In this regard, we deserve recognition for having started projects at local level for setting up mixed public-private capital companies in order to create “passive” infrastructures (for example cable ducts and dark fibre) for the new network.

Work has continued fruitfully, too, on the front of the so-called “Romani Round Table”\(^1\). With the signing of the protocol of intent of December 2010, an agreement was reached on the reference perimeter of the new company, which will be charged with developing “passive” infrastructures on the basis of the so-called subsidiarity principle, in other words setting out to invest in areas where there are no plans for investment by the operators.

All in all, in these last three years we have reversed the retreat, removing many obstacles of an industrial, economic, financial and commercial nature which were slowing and obstructing the development of our Group.

We must still work to improve our commercial delivery of mobile phone services, which has been penalised in the past by insufficiently competitive price positioning and also by organisational and managerial problems consequent on the merger between Tim and Telecom Italia and by the negative influence of court proceedings inherited from previous managements.

In relation to these last events, we wanted to undertake a plurality of initiatives aimed at bringing clarity, at evaluating the solutions necessary for protecting the Group and, especially, for identifying the appropriate corrective measures for avoiding the repetition of acts and episodes from the past for whose consequences we have had to accept liability.

To improve and strengthen the internal control system, various action was taken: suffice it to mention the mass of work done from 2008 onwards on the organisational front and in terms of reclamation activities to deal with and correct the serious problems connected with the episode of the prepaid cards with irregular registration.

Among the initiatives undertaken, the most systematic and structured is the so-called “Greenfield Project” which started with a special work-group being set up in March 2010. The Chairman has already spoken on the subject, but a few further words seem to me

\(^1\) on inter-operator collaboration on New Generation Networks
appropriate.

The principal purpose of the Greenfield Project was to enable a systematic reconstruction of allegedly unlawful acts committed to the detriment of the Company and the Group, which had emerged following criminal investigations or internal control activities.

The Greenfield Project focused on four areas of investigation:

- Sparkle, with reference to the traffic flows between Sparkle’s North America, San Marino and Singapore subsidiaries and third-party telecommunications operators and/or the parent company Sparkle itself;
- Security, with the aim of verifying the impact on the Company and the economic effects of the criminal proceedings in progress;
- Prepaid cards with irregular registration;
- Specific acts to the detriment of the Company committed through (i) Premium Services (Non-geographical numbers), (ii) sales of products through San Marino, (iii) personalised sales to Top and Enterprise customers (including sales of ICT services/products/projects).

While the first three lines of enquiry were a matter of in-depth investigation of matters that were in large part already known, in some cases in the light of judicial proceedings in progress, the fourth was focused on irregular aspects regarding ordinary operational activities. The purpose of this was to verify whether there existed sufficiently serious problems as to suggest interventions of an organisational/procedural nature or the adoption of other measures.

The statement just made also represents the reason why the decision was made not to include in the project other investigations on property matters which have already been the subject in the past of various investigations and checks.

It was a matter of making choices, choices which, however, I consider well justified and absolutely reasonable. It was necessary to set limits, and we wanted to do it by limiting the field of examination to the areas in which evidence and serious technical-legal problems had emerged that were recognised and clearly identifiable.

The in-depth investigations carried out by the Deloitte consultancy company led to the emergence of areas for improvement, and indeed real “irregularity indicators” were detected and deficiencies were identified in the internal control system, which undoubtedly entailed negative economic effects for our Group. Work was done on these areas starting
straight away and introducing incisive measures which were able to apply immediate remedies to the deficiencies which had been discovered.

Within the scope of the Greenfield Project we also worked to find useful information for identifying responsibilities for what had occurred. Specific legal opinions were sought, which technically would have enabled us to start liability proceedings against the directors in office at the time of the matters which were examined.

The reasons for not making the possibility of starting these actions an item on the agenda of this Shareholders’ Meeting have already been recalled by the Chairman. It was a matter of a responsible and transparent operational and business decision taken by a Board of Directors which needs to channel its available energies into working in the present in order to build the future of this Group, and not pursue initiatives with an uncertain outcome, all directed at the past, and which are themselves capable of bringing about negative effects, in economic and image terms.

It is worth remembering that the decision of the Board of Directors concerns only corporate liability proceedings, and does not at all exclude other possible measures, which have already been initiated or may still be taken to protect the interests of the Company.

In fact, leaving aside the position of the former executive directors of the Group, actions have already been instigated aimed at undoing, at least partially, the negative economic effects connected with the unlawful acts committed to the detriment of Telecom Italia:

- in relation to the irregularities which have been discovered, where it was thought necessary and urgent for preventing the repetition of similar unlawful acts, Telecom Italia has taken disciplinary proceedings against the staff involved;
- as shareholder of Telecom Italia Sparkle, Telecom Italia has passed a resolution for liability proceedings in relation to the then chief executive of its subsidiary;
- 17 actions have been filed with various Italian Prosecutors’ offices citing a sizeable number of resellers for the affair of the irregular SIM cards;
- finally, Telecom Italia has brought a civil action in the proceedings against the defendants in the trial involving, among other things, the unlawful activities of certain staff members of the Company’s Security department.

Furthermore, in the light among other things of the results of the Greenfield Project, actions have been decided upon and undertaken both against the defendants and against third parties, through which the Company is seeking compensation for the damages
suffered and repayment of sums unduly paid in the course of the events under examination. In this latter regard, a request has been made to the actual beneficiaries of certain transactions improperly invoiced to Telecom Italia, that the Company should be reimbursed the costs which it had suffered for transactions which did not concern it: this was the case with a number of transactions which prove to have been performed in the exclusive interest of Pirelli. These are all important and indeed right and proper initiatives. What count more in a forward-looking perspective are actions undertaken in terms of operational and procedural mechanisms. On these aspects we intend to continue to intervene, and to remain engaged in the future, in a logic of continuous improvement of the efficacy of the internal control system aimed at avoiding repetitions of similar incidents in the future. All in all, as regards these events, these embarrassing pages from our past, we have done everything that needed to be done.

Now, however we have reached the moment for turning the page, for leaving behind us what I want to think of as a pathological phase, and to concentrate all our strength and energies on looking after Telecom Italia and its industrial and technological future. I have already said it, but I insist on repeating it: in the last three years we have settled a whole series of questions (separation of the network, uncompetitive prices, inefficiencies, high level of debt) which represented a brake on the Company and its future. These questions have, some of them partly, some of them completely, reached their final conclusion.

We are at a turning-point. We are going through a decisive moment, a moment which will enable us to restore to our country a stronger Telecom Italia. We must, however, shake off any kind of backward thinking, we must look with conviction to the future, to the future of our Group and our sector. The watchwords that must guide us are “pride” and “passion”. “Pride” in the fact that in the telecommunications sector we are and must continue to be the best in terms of professional skills, quality standards, innovation of services and operative and managerial efficiency. “Passion” that must spur us on to give a new thrust to our sales activity and become ever more competitive, transforming our customers into real supporters of Telecom Italia. All this will translate into strong growth in value for all our stakeholders.
In the last three years, as the Chairman has recalled, the market value of our Company has moved substantially in line with the performance of the Italian list, influenced by the crisis and by the pressure on sovereign debt, and by the level of debt which Telecom Italia has to sustain.

With the increase in the dividend for 2010 and the definition of a policy of growing dividends, sustainable and more in line with those of the reference sector, I am sure that our indicators, too, on the financial market will return to assuming values consistent with those of the industry, correcting the penalisation which we have undergone.

Telecom Italia is a company with enormous professional, technological and market potential; it is now a healthy company from the industrial, financial and ethical point of view. Telecom Italia can therefore look to the future with confidence and optimism and can go back once more to being one of the principal motors of technological and industrial development in our country.

The Chairman then announced that with a provision dated 31 March 2011, protocol no. 11026447, Consob had invited Telecom Italia to provide the following information in the course of the Shareholders’ Meeting:

1. the assessments made […] of the possible action to be taken against Mr Riccardo Ruggiero and Mr Luca Luciani, following the recent measures adopted by the Milan prosecutors in connection with the proceedings relating to illegally registered prepaid SIM cards;

2. the views of the directors, bearing in mind the guidance contained in Document no. 4 issued by the Bank of Italy/Consob/ISVAP on 3 March 2010, concerning the difference between the book value of the consolidated net equity of Telecom Italia as reported in the financial statements at 31 December 2010, and the value of the Company as expressed by stock exchange listings and by financial analysts, in the light of the impairment test of goodwill, which indicated that there was no need for writedowns.”

At the Chairman’s request, the Secretary read out the information required by Consob, reproduced below:

With reference to “the assessments made […] of the possible action to be taken against Riccardo Ruggiero and Luca Luciani, following the measures recently adopted by the Milan prosecutors in connection with the proceedings concerning illegally registered

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prepaid SIM cards”, the Board of Directors met on 31 March 2011 to discuss newspaper reports on the investigations regarding Luca Luciani and Riccardo Ruggiero and made the following observations.

At the board meeting of 16 December 2010, the Company’s advisor Deloitte Financial Advisory Services outlined, among other things, the main results of Stream 3 of the Greenfield Project concerning prepaid cards. Deloitte's report was made available in its entirety to the members of the Board of Directors. As already summarised in the appendix to the report on corporate governance and share ownership, the advisor's report went on to:

1. quantify the number of illegally registered SIM cards activated over the period 2005-2009 as 6.8 million (peaking in the years 2005-2007), of which around 92% were registered by dealers;
2. estimate the economic impact of the illegal registration/activation of prepaid cards at between Euro 19.9 and 27.1 million;
3. indicate the grounds for identifying the profile of possible liabilities and indicators of awareness;
4. put forward a number of considerations regarding the weaknesses of the internal control system.

With reference to Riccardo Ruggiero, as is well-known, the Board of Directors, based on the available information, taking into account the presentation made by Deloitte and the legal advisors and in the light of the discussion which took place, decided not to put on the agenda of the Shareholders’ Meeting a proposal to take liability proceedings against the directors who were in office at the time of the facts examined (the Board Member Luigi Zingales expressed his “total opposition” to this solution). It was however stressed that the Board could change its decision if new information and/or facts came to light.

Following its presentation at the Board meeting the Deloitte Report was seized by the Milan prosecutor, who, suspecting at the time a case of aggravated fraud against persons unknown issued a search warrant against Telecom Italia on 3 February 2011. On 14 March 2011 indirect sources revealed that the former CEO, Riccardo Ruggiero, and former Head of Domestic Mobile Services, Luca Luciani, had also had their premises searched as part of the same criminal proceedings and were currently under investigation for aggravated fraud and obstructing the public supervisory authorities in the exercise of
their functions (this last predicate offence, at least theoretically, for the purposes of liability under Legislative Decree 231/2001).

The current management of Telecom Italia is making every effort to eliminate the false SIM cards and is collaborating fully with the judiciary authorities, at the same time carrying out such internal enquiries as are necessary for understanding the incidents which are the subject of the investigation. As it has always done, the Company will follow the progress of the investigations closely and will take all necessary steps to protect itself against possible charges of individual liability of third parties or employees.

As regards Mr Luciani's specific position in relation to the irregular SIM card affair, the Board of Directors took the following points into account:

1. the embryonic state of the legal proceedings against him, of which the Company has knowledge only through indirect sources;
2. the Company’s need to wait for a full and formal account of the investigations which are in progress, at which point it will be able to base its assessment on more detailed trial papers (currently the content of most of the legal papers is not accessible, because the investigations are ongoing), and will then be able to ascertain whether new evidence has emerged beyond what is already known from the Deloitte audit and internal investigations;
3. the fact that since there seems to be no danger of similar events reoccurring, there is no need to take urgent or summary action.

On this basis, the Board of Directors (with Directors Alierta, Baratta, Berger, Ben Ammar and Linares absent) decided not to take action against Mr Luciani. Similarly, it also decided to examine closely the case papers concerning Mr Ruggiero, once these are available, observing - among other things - that the time-limit for possible liability proceedings against him does not expire until December 2012.

This position was not shared by Director Zingales.

Regarding the second point of the Consob request, it should be remembered that the results of the valuation of the goodwill, performed by Telecom Italia in accordance with IAS 36 with the support of Mauro Bini, Professor of Corporate Finance at Bocconi University, Milan, are described in detail in note 4 – “Goodwill in the consolidated Financial Statements of the Telecom Italia Group” and in note 4 – “Goodwill in the Separate Financial Statements of Telecom Italia S.p.A.” With reference to the impairment
test procedure, Document no. 4 issued on 3 March 2010 by the Bank of Italy/Consob/ISVAP states that “in general and especially in the absence of suitable company plans, it is considered necessary for the compliance of the impairment test procedure with IAS 36 to be formally and explicitly approved by the administrative body, which is responsible for drawing up the company’s financial statements. The approval of the impairment procedure by the Directors must be made independently and prior to approval of the financial reports themselves.”

As regards Telecom Italia, this procedure was approved by the Board of Directors on 25 March 2010, prior to the approval of the financial statements as at 31 December 2009, and the same procedure was used in the preparation of the financial statements as at 31 December 2010.

The aforementioned document also requires “that the directors pay appropriate attention to the existence of exogenous indications of loss of value, for example in the financial markets, such as a market capitalisation significantly lower than the book value of the net equity. In such an event the board should look for the reasons for any differences which may emerge between the “external” valuations and the outcome of the impairment test. This analysis - required by IAS 36, para. 12, letter (d) – must be fully documented within the procedure itself.”

IAS 36 para. 12 requires companies to check prior to testing whether there are any indications (from external or internal sources) that the cash generating units or groups of cash generating units may have suffered a loss of value.

The main factor pointing to impairment is external in nature and concerns the market capitalization of the parent Telecom Italia, which at 31 December 2010 was below the book value of the Group net equity by Euro 11,007 million and by Euro 9,475 million on 11 February 2011 (reference date taken for the Board meeting which took place on 24 February 2011). To line up with the book value of the net equity, the stock market listing of the share would have had to record an increase of 49%.

In this connection it should be noted that since the last interim impairment test (on 30 June 2010) until 11 February 2010 the stock price rose by more than 15%, a dynamic which also affected the entire European telecommunications sector. In this favourable financial market background British Telecom, for example, saw its market cap rise by 42% over the same period. This is clear evidence that price volatility of company shares in the
sector is such that even a 49% gap between stock market capitalisation and the book value of the net equity can be closed in a fairly short time period.

It should be pointed out that between 11 February 2011 and yesterday (11 April) the Telecom Italia share price rose a further 4.2%.

As regards the target prices indicated in the equity reports issued by the various investment houses following the announcement of third quarter 2010 earnings, at the date of the board meeting which approved the financial statements they varied from Euro 0.85 per ordinary share (minimum value = Chevreux equity report of 5 November 2011) to Euro 1.46 per ordinary share (maximum value = Deutsche Bank equity report of 16 January 2011).

Such a wide spread points to the simultaneous presence of two factors:
- huge uncertainties about the future, and
- the very differing methods used to calculate the target price (some analysts use relative valuations, others use absolute valuation criteria sometimes with significant discounts, others still adopt an average of absolute and relative valuations).

When calculating their target prices, analysts:
- often give greater weight to multiples, rather than flows;
- valuations based on flows generally produce higher prices than those estimated on the basis of multiples.

The Board of Directors of Telecom Italia therefore examined the evidence on each of these points and took this into account when reaching its valuation of Goodwill in the financial statements at 31 December 2010.

At the end, the Chairman indicated that the Chairman of the Board of Auditors had stated that a request for information had been sent by Consob to the control body. He therefore handed over to the Chairman of the Board of Auditors Mr Bignami, who first of all informed the meeting that in a communication dated 31 March 2011, in relation to the news regarding action recently taken against Mr Riccardo Ruggiero and Mr Luca Luciani by the Milan Public Prosecutors during proceedings relating to illegally registered prepaid SIM cards, Consob had invited the Board of Auditors to provide its own assessments with regard to 1) any effects of the news of the legal proceedings on the assessments made
regarding the liabilities of the previous executive directors and employees in the matter of the prepaid SIM cards, and 2) the possibility of requesting an order suspending the time-limit for the liability proceedings in question and the timescale on which this might be effected.

With reference to Consob’s first request, Mr Bignami stated by way of introduction that the Board of Auditors did not have any entitlement to require any documentary evidence of the action taken by the Public Prosecutor against the individuals just mentioned; if details of such actions were made available to the Company, the Board of Auditors would take due account of them. Since the control body was not currently in possession of definite information from the judiciary authorities, there were no facts which could have an effect on the assessments already made regarding the profile of any possible liabilities. Therefore, as had already been stated in its report to the Shareholders’ Meeting, the Board could only confirm that it would continue to watch the evolving situation with the maximum care and attention, particularly in order to take account of developments in the judicial enquiry in progress.

With reference to Consob’s second request, Mr Bignami observed by way of introduction that neither the Shareholders’ Meeting nor the minority shareholders holding at least 2.5% of the share capital had so far, in the exercise of their respective powers, taken initiatives against the previous senior executives. The time-limit for the instruction for liability proceedings against the executive directors in office at the time, in the matter of the prepaid SIM cards affair, expires on 3 December 2012. In the event that the matter is not finally concluded within this time-limit, thus giving the Board of Auditors the possibility of carrying out in advance a definitive assessment of its own, the Board itself reserves the right to evaluate the need for suspending the time-limit, as the expiry date approaches, taking account of the technical time necessary, by means of a special suspension order.

Mr Bignami confirmed, however, that the Board of Auditors did not have in its possession any new information other than what was indicated in its Report to the Shareholders’ Meeting.

Having thus completed dealing with the information requested by Consob, Mr Bignami further indicated that three communications had recently reached the Board from the
association ASATI (the last of which also bore the signature of a law office) in which were expressed, inter alia, in addition to repeated invitations to intervene to safeguard the Company’s assets, including through liability proceedings against the previous executive directors, critical comments about the assessments by the control body on some of the lines of enquiry pursued in the Greenfield Project, on Telecom Italia Sparkle, and also on the Security and prepaid SIM cards affairs. The Board of Auditors, Mr Bignami stated, on the basis of the available documentary evidence as well as its own current knowledge, could do nothing other than refer to the statements it had made in its Report to the Shareholders’ Meeting (in particular in the second section).

ASATI furthermore, Mr Bignami continued, reiterated its demand to know whether transactions had been carried out in potential conflict of interest, with particular reference to the disposal of properties, which had caused damage to the Group’s assets. The control body had already expressed itself on this matter, most recently in its Report to the Shareholders’ Meeting for the financial year 2007.

Finally, with reference to the request for access to the entire contents of the Greenfield report drafted by the company Deloitte, the Board considered that the information on the point conveyed by the Company to the shareholders in the appendix to the Report on Corporate Governance and share ownership, together with the exposition by the Board of Auditors in the second section of its report, was adequate.

Lastly, with reference to the actions which the Company has brought against third parties for the restoration of damages caused by activities extraneous to the interests of the Company, i.e. for repayment of sums unduly paid, Mr Bignami indicated that the Board of Auditors concurred with actions taken on its own initiative by the Company, as described by the Chief Executive Officer a short while previously, and would watch their development carefully.

At the end the Chairman:

- recalled the items on the Agenda of the Ordinary Meeting, consisting of:
  - Financial statements for the year ended 31 December 2010 - related and consequent resolutions
  - Appointment of the Board of Directors - related and consequent resolutions
  - Adjustment of the fees due to external auditors for the period 2011-2018 - related and consequent resolutions

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• Authorisation for buy-back and disposal of treasury shares
• 2011 Long Term Incentive Plan - related and consequent resolutions
• Amendment to the Regulations governing Shareholders’ Meetings - related and consequent resolutions;

- with regard to the first point on the agenda, he announced that the fees of the auditing firm PricewaterhouseCoopers S.p.A. had been as follows:
  • for auditing the Financial Statements of Telecom Italia S.p.A. for the year 2010: 762,100 Euros for a total of 15,977 hours;
  • for auditing the 2010 consolidated financial statements of the Telecom Italia Group: Euro 402,516 for a total of 4,631 hours;

- he indicated that the fees for auditing the consolidated financial statements include – in accordance with the criteria fixed at the time by the Shareholders’ Meeting for the adjustment of the fees during the course of the appointment – additional costs, compared with the original proposal, of Euro 290,416, corresponding to 2,708 hours, relating to additional auditing procedures carried out following the acquisition of control of the Sofora Telecomunicaciones S.A. Group (which includes Nortel Inversora and the Telecom Argentina Group);

- he also stated, for completeness, that the fees for revising the internal controls to comply with the applicable United States regulations were Euro 915,530 for a total of 17,320 hours. The said fees include additional costs, compared with the original proposal, of Euro 257,430 (corresponding to 2,850 additional hours), in relation to activities consequent on the identification of a material weakness in the internal controls over financial reporting in the 2009 Annual Report, as set out in the “2010 Report on corporate governance and share ownership of Telecom Italia S.p.A.”;

- he stated that the amounts indicated did not include direct expenses and secretarial expenses, which must be added to the cost, and VAT;

- with regard to the second item on the agenda, he recalled that – as per press releases and publications effected in compliance with the applicable legislation – three slates had been presented within the time-limits and following the procedures required by the Bylaws. Proposers of the slates are listed in the document distributed to attendees;

he recalled that, as notified by the Company with the same forms of publicity as were used for the slates, the shareholder Telco had additionally proposed:
that the number of members of the Board of Directors that was to be appointed should be set at 15;

that the term of their mandate should be set at three financial years, and should therefore run until the Shareholders’ Meeting called to approve the financial statements for the year ending 31 December 2013.

that the maximum total annual remuneration of the Board of Directors under Article 2389, sub-section 1, of the Civil Code should be set at Euro 2,200,000, this amount to be divided among its members in accordance with resolutions on the matter adopted by the Board itself;

that candidates for the office of Director should be authorised to continue the activities indicated in their respective curriculum vitae, and at all events be unfettered by the prohibition on competition, so far as is permitted by Article 2390 of the Civil Code;

Having said this by way of preamble, the Chairman repeated the request to participants who intended to speak on the items on the agenda for the ordinary session to book, and announced that requests had been received from two shareholders before the meeting and within the time-limit indicated in the notice convening the meeting. He then recalled that the said time-limit (4 April 2011) had been chosen to allow the Company a safe reserve of time, seeing that this was the first application of the new procedure, in order to ensure orderly conduct of the pre-meeting process. In the light of the questions that had been put down, no "Question-and-answer” section had been set up on the Telecom Italia website: replies would therefore be given to the questions which had been received after the discussion on the items for the ordinary session.

The Chairman again urged shareholders to keep their speeches relevant to the subjects on the agenda, and reminded them that the maximum time available to each speaker was limited to fifteen minutes. He then declared the discussion open.

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Borlenghi, after conveying his good wishes to the Chairman for his new appointment at Assicurazioni Generali, observed that the profit for the year was double that of last year, with a consequent increase also in the dividend. The results of the buy-back plan were equally positive, as was the increase in revenues and the reduction in financial debt: the Group appeared solid and in a condition to regard its future with peace of mind.
In relation to mobile revenues in Latin America, he asked what were the prospects in those countries. He expressed appreciation for the proposed transaction to buy back treasury savings shares, hoping that it could align the values of the two categories of shares, hopefully in view of a conversion of savings shares into ordinary shares. He concluded by pointing out that in the area where he lived, the Brera area of Milan, many telephone boxes were broken.

Antolini recalled the recent crisis situations which had struck the world economy, emphasising how the crisis had in fact hit small shareholders particularly hard. He then expressed his disagreement over the amount of the dividend distributed, and in particular over the fact that this amount was expressed to many decimal places, recalling that the law on the Euro on the contrary prescribes the use of only two decimal places.

The shareholder continued with an overview of the recent behaviour on the stock exchange of many important shares, observing that all of them, Telecom Italia included, had fallen significantly: he then exhorted the Chairman to put pressure on the competent authorities for this situation to end, and for the total capitalisation of the Italian Borsa to go back to being comparable to that of other countries. For his part, he complained about having invested many of his savings in shares and seeing that today they had lost 70% of their original value.

Referring to the introductory remarks by the Chairman and the CEO, he disagreed over the positive judgement expressed in them over the results that had been obtained, pointing out that it should be the shareholders and not the directors expressing judgements on what had been done during their term of office. He dwelt in particular on the incentive plan for employees, asking why there was a proposal for allocating shares at Euro 0.84, when he, as a shareholder, had to spend nearly three times that amount at the time to make his investment in the Company. He warned them therefore not to go ahead with what the shareholder believed to be really gratuities in favour of certain executives.

Continuing again, he complained about the performance of the subsidiary Telecom Italia Media, recalling that there had really been only two occasions when its shareholders had been able to receive remuneration for their investment: the rest of the time, he stressed, it is a company that records on average a loss of 100 million a year. He believed that all this was due to the way that it was run: not altogether absent-minded, but not shrewd either,
ignoring the very concept at the root of a company, which requires the achievement of revenues exceeding costs.

He recalled finally that many of the critical aspects that now weighed on Telecom Italia were the result of the excessive distribution of profits which characterised the previous management, conduct which he had several times had occasion to stigmatise at shareholders’ meetings.

De Septis, offered his best wishes to Mr Galateri for his new appointment at Generali, and greeted Mr Bernabè, whom he held in high regard and always had done. He finally thanked Mr Zingales for what he had done and continued to do, not least the proposal to suspend the current CEO of Tim Brasil, Luca Luciani, which was unanimously rejected by the Board of Directors for lack of grounds. In this connection he asked:

- how it was that as soon as the Milan Public Prosecutors had read the Deloitte Report, they opened a criminal investigation against Ruggiero and Luciani, while the Board of Directors, on the basis of the same papers, had considered that there were no indictable liabilities;
- why the Deloitte Report had been ordered in March 2010 when the facts about the false SIM cards had been known since 2000 and the Security/interception affair since as early as 2006;
- why Luciani had not been removed, whereas other, lower-level Telecom employees had been suspended, again for actions connected with the illegal SIM cards.

Colleagues in the Ethnic channel, the shareholder stated, would later be suspended for activities going back to 2007/2008 in connection with SIM cards. How was it, he therefore asked, that those who carried on the same activity (TimWelcomeHome) in 2006, operating with greater commercial unscrupulousness and generating much larger volumes of sales, suffered no consequences of any kind?

In this connection, in order to put the directors in a position to be able to verify the existence of grounds for suspension also against these individuals, the shareholder asked:

- whether the names of the companies Miroma s.r.l. and Contact System s.r.l. suggest anything (these being companies operating in the Ethnic channel);
- what was the number of SIM cards activated by the aforementioned companies in 2006 as a percentage of the total activations by the Ethnic minority channel;
finally, what positions are currently occupied in the Group by the person responsible for the TimWelcomeHome offer (Mustaro) and the hierarchical superior of this person (De Angelis), and whether by chance they are abroad “to make up the numbers”;
- if so, whether anyone has thought of starting an audit in Brazil.

As for the rest, the shareholder thought it necessary to go down other roads.

As he had had occasion to say to many people, he remarked, he had always and only acted in the interests of the Company, but this behaviour was not appreciated by some people. And since a picture is worth a thousand words, he wanted to show where he had ended up after he had pointed out certain irregularities in the matter of false SIM cards and the related case, to the “Internal Control Officer”, at that time Mr Federico Maurizio d’Andrea, who perhaps had better accreditation than he himself did with the Milan Public Prosecutor’s office.

The shareholder then projected two slides with images, explaining that he had given these slides the title "The Rebibbia Quiz". He invited his audience to guess which of the two images projected was the Telecom Italia centre in which he had been “locked up” and which was Rebibbia prison. His workplace, the shareholder observed, was the one with the smaller windows.

Now, the shareholder remarked, seeing that on the “Green Mile”, as it could be called, there is certainly no lack of time for reflection, he asked himself: “Why does the Internal Control Officer, who has a lot of cards to put in order (in the sense that he has a lot to do), first receive you and then send you into exile?”: this was precisely what he was trying to understand.

In the meantime, he continued, he would not speak today about the videophone, about the international traffic from Phone Center or the Prepaid Phonecards branded TISM (Tlc San Marino). He would speak instead about SIM cards, and to go faster he would not use first names but only surnames.

Beginning therefore with the Internal Control Officer, he described himself as one of those who had had occasion to meet him after having used, perhaps inaugurated, the “complaints handling procedure”.

He had tried to be one of those antibodies of which Mr Bernabè spoke in one of his interventions, except that (the shareholder said) it was not the viruses which were isolated but he himself. This approach had not proved successful because merit, which he often
heard spoken of, assumed profoundly different meanings depending on the context in which it was used and applied, so that truth and silence could both be considered gifts; the former in a civil society, the latter in a mafioso society.

Returning to the Internal Control Officer, before speaking to d’Andrea, the shareholder reported, he had made known what at the time he defined as “procedural perplexities”, but which he now defined with the more appropriate term – he exclaimed – as “dirty tricks”, to the following personages:

- to his direct manager, Mrs Macchioni;
- to this lady’s hierarchical superior, Mr Della Vedova;
- to the Human Resources manager of his department, Mr Moraldi, to whom he tried to explain the perplexities involved in the process, without success; this great orator hypnotised him, and when he awoke from his torpor he no longer knew where he was or why he was there;
- to a middle-ranking Human Resources manager at Corso d'Italia;
- to the sales manager who took Mr Golinelli’s place, Mr Pellegrini, who came to see him in his room, strangely interested in his story;
- and then going higher and higher, to lots and lots more people;
- and finally, even to the Internal Control Officer.

Now, continued the shareholder, if he had a chance to read the article “The secret network” by Paolo Biondani from 24 March 2007 (Corriere della Sera), he probably would have hesitated and never have gone to the Internal Control Officer. He quoted a cutting from the article:

“«Goliath», «Eagle», «Delta», «Elias», «Cat», «David», «Francesco», «Emanuel», «Pizza», (Milanese potentates): these are names noted in the diaries of the former journalist Guglielmo Sasinini alongside numbers, dates and objectives such as «approach Colonel d’Andrea, but without attracting attention»”. A thing which aroused great curiosity in him which, if he wanted, could be satisfied. He wondered, therefore why Sasinini, who was collaborating with Tavaroli, who was employed by Tronchetti, had to approach d’Andrea.

The shareholder again quoted a brief extract of the email sent in 2008 to d’Andrea which, he stated, earned him the “41 bis regime”2: “I inform you that I have urged my managers to request directly from the Advalso company or through Purchases, a copy of the contract

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2 (super-harsh prison conditions)
with the company CO.FI.R., without receiving a reply. I have tried pressing Purchases directly, receiving replies such as: "mind your own business". A consequence of my insistence was, at an early stage, an admission that the price paid to CO.FI.R was lower than was stated in the contract (as if it was a normal thing) and subsequently, the insertion of supplements to make the classic patchwork quilt. The following people were fully aware of the situation: my managers, Purchases, Internal Auditing (and that means d’Andrea himself) who I must say have been very “gentle” with us, all in perfect triangulation between the people who keep the budget (Domestic Mobile Services), at the time Mr Golinelli who later "resigned", the people who draw up the contracts (Purchases), at the time Mr Spreafico of whom I have lost all trace, and the people who ought to be exercising control (Telecom Italia Audit S.c.a.r.l) in other words Colonel d’Andrea, the sole survivor and still running Audit.”

With reference to these facts, the shareholder asked to know:
- whether the Internal Control Officer had taken measures at the time to inform the Board of Auditors of the complaints that had been made (and here only barely hinted at);
- how much Telecom Italia had paid CO.FI.R. through the company Advalso-Comdata for pulping 1 kilo of paper (excluding VAT);
- whether, at the time of the events, the company Comdata was, through some trustee which controlled it, traceable back to the old ownership (Pirelli).

Following the email, the shareholder who was speaking continued, on 15 January 2009, he was summoned by d’Andrea who started by saying to him: "How dared you say that we are not controlling?" His first response, the shareholder observed, it would not be fair to report; the second was that the “Complaints Handling Procedure” provides that complaints can even be sent by fax and therefore anonymously. The reason that he had acted openly was because he had nothing to fear.

On 25 June 2009, the shareholder continued his story, he wrote another email to Mr d’Andrea, and with a speed – he affirmed – to make the new GPON fibre optic network envious, he was summoned by a "Company commission of enquiry". In these circumstances, the senior official said: "Mr De Septis, the Company is reorganising and there is therefore an opportunity..."; it was at this point that he completed the sentence by saying: "which I can’t refuse, right?" However, in the end he understood why he had been sent to the “Rebibbia centre”. The reply, as the shareholder put it, was provided by Antonio
Albanese, or rather, the Calabrian politician Cetto La Qualunque as played by Albanese in his latest film, who says to his political adversary De Santis, but in this case it might be more appropriate to say De Septis: “...De Septis..., mind your own business”.

The shareholder then asked his listeners to kindly focus their attention on the following declarations:

- «As well as me, my superiors knew about the SIM cards» (Luciani);
- «The phenomenon was known in the Company from 2000 onwards» (Golinelli),

and invited the participants to compare them with the ANSA (press agency) announcement which ran like this: “Luciani, who was on the verge of becoming the new general manager of Telecom, is being investigated for fraud, false company communications and obstructing the activities of the supervisory bodies in the enquiry into false SIM cards”. It would seem, he added, that the only people in the dark about everything were the control bodies: Internal Control Officer and Board of Auditors.

And then, continued the shareholder, if he thinks about his story, there is something not right, and that is why, taking his inspiration from Mr Luciani, he asks: "Why do I look pissed off? ":

- because he read in the papers that it was thanks to the internal investigation carried out by d’Andrea that the phenomenon of the false SIM cards emerged in all its fullness, whereas the truth is that it was only after the article in "La Stampa" in Turin that the reality emerged: up until that moment it was a well-kept secret. And so, said the shareholder, let us render unto Caesar what is Caesar’s, and unto the Internal Control Officer what is his;
- because, and this is the most serious thing, the message which has reached those who know the story is that silence pays more than honesty.

Finally, still on the subject of the SIM affair he asked:

- whether it is possible to know the percentage of SIM cards without documentation with reference to the year 2008;
- and whether we can be sure that from 2007 onwards some other “imaginative manager” has not continued to artificially swell the numbers for SIM cards sold.

Parisciani thanked the Company for the support which it has offered for years to his social solidarity cooperative “Il Ponte di Milano”. Advertising, he observed, is a very important aspect of the activity of Telecom Italia, and assigning work orders to social cooperatives is fundamentally a means of improving the Company’s image without any increase in costs.

This translation is merely for the purposes of comprehension by non-Italian readers, in the event of dispute the Italian text shall prevail.
Cooperatives, he reminded shareholders, give an opportunity to work to people with disabilities, who otherwise would have little possibility of employment: the results are encouraging, not only from the social point of view, but also from the economic standpoint. The network which has been organised consists of 34 cooperatives, and there are many and various moments of exposure on the mass media, during which they never fail to mention and thank the businesses which offer their support. Cooperatives, continued the shareholder, have planned initiatives in advance, such as those on Social Advertising, and today are engaged in a series of projects on telemedicine, projects which have the potential to help a very large number of people in difficulty.

The shareholder then went back to thanking people not only for the support which Telecom Italia had provided by allocating work orders to the cooperatives but also for the hearing which he had been able to have within the Company from people of great intelligence, sensitivity and creativity.

Lombardi, Chairman of ASATI formulated and commented on the report which formed the text of his speech, and which was later delivered to the Chairman’s table and reproduced below at his request.

In spite of the progress which had been made in the last three years to heal the heavy inheritance from the previous Pirelli management, Telecom Italia was not yet at the point of reversing the decline in revenues in the domestic and especially the mobile market. A strategy had been adopted of defending tariffs and market share, without aiming at effective and perceived leadership in quality of service.

After the sale of nearly all the important subsidiaries of TIM on three continents, the decline in mobile accelerated in 2005 with the senseless merger/takeover of TIM, which cost Euro 12 billion, with the sole object of bringing more dividends into the coffers of the controlling shareholder. The merger at the same time obscured a brand of great value and especially destroyed the resources of TIM, the younger and more dynamic component, which had grown with the enthusiasm of success and the competition culture (Mr Sentinelli, Lombardi noted, was opposed to the transaction at the time).

Advertising, the ASATI chairman’s speech continued, is certainly a critical aspect. Episodic and unconvincing advertising campaigns are to be avoided, on products and services that fail to make an impact or are merely niche products, as the Cube and the Tablet have so far turned out to be. And even in the case of the offer of fast connection at
100 Mbit/s, communication with the market and with AGCOM needs to be better managed, avoiding a succession of alternating starts and stops without a significant launch on national territory. It is necessary to rebuild new communications to be not just institutional and generalist, but consistent with our market objectives, connecting the image of the service, the tariffs and the advantages for the customer.

There is – the report continued – a lack of a finer and more effective segmentation of the customer base; instead, such a segmentation must be the starting-point for recovering the market shares lost during the last few years, going beyond the traditional division into Consumer, Business and Public Administration areas; we have not in fact been aiming at certain important market segments, such as for example the categories of professionals, non-Europeans, the young and the elderly. For example in the mobile sector there are no specific commercial offers for the young, and the ones for the ethnic segment are not supported by advertising. We note the lack of a network of competitive shops with high visibility.

With regard to personnel policy, bear in mind that the average age is 45 years. This is absurd – in the opinion of ASATI – for a technological company in a competitive market.

Moving on to governance, in spite of insistent and continuous pressure from ASATI and other stakeholders, the Board of Directors and the Board of Auditors continue to avoid a clear pronouncement on the huge economic and reputational damage caused to the Company, its shareholders and its employees by the previous Pirelli management. The Company continues to hesitate, confusing the action of the magistrates on the criminal side with the civil liabilities of the managers in the period 2001-2007.

Later on, continued the shareholder, there will be a reading of the letter which ASATI sent to the Board of Auditors, the Board of Directors and Consob on 21 March last, following the publication of the report of the Board of Auditors on the 2010 Financial Statements. Chairman Galateri and CEO Bernabè, it is emphasised in the report, must certainly be credited with the following positive results:

- making the Company secure, cleaning up the Company accounts, starting the recovery from the serious level of debt;
- the low level of conflict with union representatives, which has allowed management of the restructuring process and solidarity contracts;3
- the improved climate of relations with the sector institutions and Authorities;
- the start of the improvement in levels of quality of service and customer satisfaction, a very important factor, and optimisation of costs;
- the positive solution to the dispute about Telecom Argentina, obtaining control and consolidation of the shareholding;
- the drafting of a report on broadband in the country and also on the international scene;
- the equity plan for employees, proposed by ASATI back in 2008, should form more than 0.2% of the capital, and should utilise part of the employee severance indemnity.

Mr Lombardi’s report then proceeded with an explanation of the principal objectives proposed by ASATI for the three-year Plan available from ASATI itself with details and quantitative data.

On the international level, the objective is the launch in the next few months of a new policy of expansion abroad, compatible with the debt situation, by means of consultancies and technological partnerships, or even outsourcing of services and delivery activities, concentrating especially on opportunities in North Africa, but also in the Middle East and some countries in Asia, such as Indonesia, the Philippines and Vietnam.

On the domestic market, there must be no procrastination on the reversal of the negative trends, and there is an urgent need for structured medium and long term initiatives to move from a simple defensive situation on tariffs and market shares to a strong presence in the market, through better and finer segmentation of the customer base (e.g. young people, elderly people, ethnic groups, professionals etc.) with more targeted commercial offers, supported by more incisive marketing and advertising actions. There needs to be more concentration on the IT sector (cloud computing, data centres, etc.), where there is clearly substantial room for market growth.

On personnel, in the light of the current high average age of the human resources and the lack of policies for making the best possible use of the most valuable of these, a plan

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3 Solidarity contracts are plant-level collective agreements to reduce working hours and pay from the standard agreed figures for a maximum of two years. The Italian government provides support for both employers (in the form of discounted NI contributions) and employees, in the form of benefits.
should be launched over the next three years for recruiting at least a thousand young people with new skills suitable for developing the technologies and the market, and with a suitable training path, with a view to eliminating useless consultancies and external support services in the most strategic sectors of the Company. Reducing the workforce and widespread outsourcing constitute, in our view, a worn-out slogan which in the long run impoverishes know-how in critical sectors. Indeed a plan needs to be put in place for training talent, re-establishing the interrupted tradition of specialist and managerial courses (see Reiss Romoli School, Fontainebleau, etc.), exploiting internal resources instead of incoherent alternating patterns of recruitment from outside, as has happened especially in the commercial area (after six months, Bona’s position as head of mobile is still vacant).

As for the rewards system, no incentives can be delivered as long as solidarity contracts remain. Bonuses and incentives can however be defined and delivered (as totals or as maximums) only at the end of the three year period, and including among the objectives driving up the share price on the stock exchange to over 2 Euros per share. We also need to reinforce the policy of employee participation in the profits and the share capital.

With regard to relations with the regulatory Authorities, we need to remember that Telecom Italia remains the operator with an enormous infrastructural asset base to operate and is the principal motor of investment for the entire telecommunications industry in Italy, as well as in terms of skills and know-how. It is therefore necessary that the national system should recognise the guide role of Telecom Italia and that this role should be promoted instead of being obstructed by competitive rules and initiatives by government authorities (particularly on the NGN).

As regards relations with shareholders, ASATI is in favour of overcoming Telco, launching a new path as a public company, 500,000 shareholders strong – private individuals, employees, pension funds, Italian and foreign institutional investors – interested solely in the growth of the Company through cohesive management motivated by industrial objectives.

Moving on to certain specific requirements, on the subject of the domestic market, the shareholder asked what short term operative Plan and what concrete initiatives had been put in place for stopping the progressive haemorrhaging of mobile revenues in Italy over the last five quarters and more (at the rate of –8/9% per year); what concrete initiatives had been put in place and with what precise measurable objectives, quarter by quarter?
On the subject of property assets, before continuing with the speech setting out ASATI’s position, Lombardi referred first of all to something he himself had said recently on the subject on television, which was followed, without his knowledge, by an interview with Mr Tronchetti Provera on the same subject. In any event (he stated in his speech), it was reported on page 199 of the Financial Statements which were being submitted for approval at this Shareholders’ Meeting that the value of Telecom Italia’s holding in the two companies Tiglio I and II was respectively Euro 23 million and Euro 1 million. The disposal of 1,650 properties, with a total area of 3.2 million square metres, which occurred in the period 2001-2007, took place through two fundamental operations:

a) about 330 properties, for office use, situated in the principal Italian cities, were put into Tiglio I and II (formerly Fintheta, Pirelli shell companies before July 2002), a total of 1.5 million square metres, at a carrying amount of Euro 1.6 billion, with a price of about Euro 1,000 per square metre. In 2004-2005, 68% of these properties passed to the Tecla, Cloe, Olimpia, Clarice and Berenice funds. Telecom Italia received Euro 500 million from this transaction and a 46% and 49% holding in in Tiglio I and II respectively. As an example of the contribution to Tiglio II, there is the case of the property of about 26,000 square metres, the historic headquarters of Stet, located on Corso d'Italia in Rome. The carrying amount of this property was about Euro 75 million, with a price per square metre of about Euro 3000, the value being aligned to the market according to the valuation which appeared to have been made by Richard Ellis. According to a countervaluation commissioned by ASATI and performed by RE/MAX (one of the largest property consultants in the world with 10,000 offices and 100,000 staff), this property at the time with office use category A/10 was worth Euro 130 million. The property today is improperly categorised as type D8 commercial;

b) through the Magnum project: disposal of about 1,380 properties the sites of telephone exchanges, a total of 1.7 million square metres, sold by Telecom Italia under the 2001-2007 management, in 2005-2006 to the Raissa and Spazio Immobile funds, subsidiaries of Pirelli RE. Telecom Italia received about Euro 1 billion from the sale, thus getting a price of Euro 590 per square metre. In this case, too, it looked as if Richard Ellis had made a valuation aligned to the market, while according to ASATI’s consultants this was not the case. In fact, the majority of the leaseback contracts to Telecom Italia are of the net lease type (i.e. with ordinary and extraordinary maintenance the responsibility of the tenant), and
for this reason the average yields of the annual rents would be 7% for the properties sold to Tiglio I and II and about 9% for those sold to the Magnum project. This second disposal and the rents according to Richard Ellis were aligned to the market, while according to ASATI's consultants the rental values at the time indicated a yield of 4.5% maximum.

This having been said, taking account of the clear potential damage inflicted on the assets of the Company and the shareholders, Lombardi asked whether it had been decided by the Company to hold an immediate audit on the disposal of the property assets, an aspect inexplicably missing in the Deloitte report.

In the event of a positive reply, he pointed out that this all-purpose audit could be assigned to anyone with the exception of Deloitte: the latter had in fact been external auditor to Tiglio I and II until 16 December 2010, the day of the famous Board Meeting where the famous report was discussed, and at which Deloitte itself had resigned from the appointment of external auditor to Tiglio I and II.

As for the Deloitte report itself, it was described in Mr Lombardi’s report for ASATI as being like “Pulcinella’s secret” – in fact an open secret. Turning at this point to the Chairman of the Board of Auditors, Mr Lombardi asked whether or not it was true that the Deloitte report explicitly states in writing that its contents could not be made public at the Shareholders’ Meeting: what were the secrets that could not be revealed although the report had been paid for with shareholders’ money? Why, in a word, had the report not been published at the meeting?

Continuing, the speaker asked for a declaration whether it was true that the directors in the course of their meeting of 16 December 2010 had decided that there were no grounds for starting liability proceedings (as declared by Tarak Ben Ammar, who had left during the meeting), without even having had time to consult the over 400 pages of the Deloitte report, and relying only on oral summaries; and whether the Company intended or did not intend, in order to avoid a source of direct liability also for the present Board of Directors as well as for the Board of Auditors, at least to ensure that the time-limits for liability proceedings against Tronchetti Provera were suspended. He asked for a yes or no answer.

While on the subject, he specifically asked Mr Bignami when the first time-limit expires.

It had been maintained, continued the ASATI report, that there was no certain causal relationship between violation of duties of control and the damage to the Company. Well, both Deloitte and the external legal advisers seemed to have documented that Tronchetti
Provera and the other executive directors had violated their duties of good organisation of the Company both by ignoring procedures and by neglecting the internal control system. One did not therefore need to be a Cicero to respond that, if the executive directors had exercised control and put appropriate tools in place, they would have prevented or at least reduced the vast losses which were unfortunately suffered, running into millions and including reputational damage.

And now, seeing that, as the Deloitte report would reveal, Telecom Italia has suffered losses of millions of Euros, the question arises, who will compensate the Company for these losses when the Company is even forced to engage in plea-bargaining? He asked his listeners not to reply that the Company had brought a civil action in the proceedings against the accused, because that, in ASATI’s opinion, would be a ridiculous answer: what capacity to pay could defendants like Tavaroli, Iannone, Cipriani and the rest possibly have? One ought to be consistent.

The arguments used to justify evasive action – Lombardi’s reiterated in his speech – appeared very weak and confected by lavishly-paid legal advisers. The Board seemed to have abdicated its powers, since it appears that at the Board meeting on 16 December 2010 the assessments of the likelihood of success of liability proceedings were being made by legal advisors, specifically by Mr Bonelli, as was even reported in the press. It is hard for shareholders to have confidence in directors who do not set themselves the objective of recovering the vast financial resources misappropriated from the Company’s funds for illegal purposes, to the detriment of the employees, the shareholders and the image of Telecom Italia itself.

The report reproduced above, illustrated by Lombardi and delivered directly to the Chairman, ends with a transcript of the following section of the letter to the directors and auditors of the company:

“Subject: CORPORATE GOVERNANCE AND MONITORING OF THE OPERATIONS OF TELECOM ITALIA S.P.A. - - invitation to safeguard the assets of the company

Dear Sirs,

we write this on behalf of AS.A.T.I, the association of Telecom Italia shareholders, and, personally, on behalf of Franco Lombardi, as Chairman of this association and a Telecom Italia shareholder. In previous correspondence, as yet unanswered, we raised a series of facts (i.e. the unlawful act Telecom Italia is alleged to have committed pursuant to
Legislative Decree no. 231/01, the costs reported in the 2008 and 2009 financial statements for security activities, the SIM card affair with the fake registrations, the Telecom Italia Sparkle issue and the disposal of the Telecom property portfolio), described in greater detail in the Deloitte report commissioned by the Company and brought to your attention. Deloitte confirmed and partially quantified the damages resulting from this unlawful behaviour of the company bodies serving at the time of these events. Notwithstanding this, you have so far decided not to take any action to protect the assets of the company. Given your position as the administration and control bodies of a listed company, we believe it is your specific duty:
- to make the Deloitte report available to the Telecom shareholders and to the market, or to at least provide them with a proper account of the contents of this report, of the illegalities found, and of the damage suffered by the Company;
- to undertake all useful or suitable actions to protect the interests of the Company and its shareholders and to preserve the integrity of the assets of the company;
- so far as the Board of Directors is concerned, to start liability proceedings in relation to the unlawful facts that have been ascertained, ensuring that the period of limitation, and therefore the possibility of defining the damage, does not expire; and for the Board of Auditors, to take, without delay, those initiatives indicated in article 149 of the CFA, within its own sphere of competence.

We therefore expect you to act rapidly in order to avoid compounding the damage and prejudice that even the simple passage of time will cause to the case of the Company of which you are officers. We also ask that these facts be properly communicated to the next meeting of the shareholders on 12 April next.

Cordially,

Pietro Caliceti, Attorney
Emilio Battaglia, Attorney
Countersigned
on behalf of ASATI
Mr Franco Lombardi
Mr Franco Lombardi, as a shareholder”.

Mr Modafferi stated that he spoke as a small shareholder and as Chairman of APE, an association that is concerned with recognition of the value of work and the real protection
of workers as people, in addition to its interest in the results of the business as a whole. He announced that he wanted to focus his comments on two important aspects of business life: work and the moral issue.

To start with work-related issues, he observed that Mr Bernabè had managed to present good financial results, had increased the dividend and attempted to throw some light on the four obscure chapters of Telecom Italia history. But on the question of work he had not been able to stop the haemorrhage. To put it into numbers: over a three year period, approximately 9,000 jobs had been lost, and a further 7,000 job losses were announced by Mr Migliardi in July 2010. To which the as yet unquantifiable number of jobs in related industries must be added. These figures were alarming, in the shareholder’s opinion.

In 2010, two phenomena new to Telecom Italia occurred, with serious implications for employment: the outsourcing of 2,200 IT Operation workers and the recourse to employment reduction measures involving 30,000 solidarity contracts plus 3,900 on redeployment allowances. These events not only continue to deplete the expertise within the company, they also create tension among workers and their families, which inevitably affects the working atmosphere and productivity. He wondered if it was moral to present constantly increasing profits and to create hardship for employees, if is true that the solidarity contracts save only euro 90 million per year, if it seemed logical to produce so much tension, given profits of billions of euros. The shareholder therefore asked that these incorrect and damaging outsourcing and solidarity contract policies be reviewed, and different solutions constructed that are not damaging for the worker and hence for the company. The association he chairs is, with its lawyers, seeking to determine if the requisites for formulating an allegation of aggregated fraud against the State pursuant to article 640 bis of the Penal Code exist, and if action can be taken as a result.

As for the moral question, he recalled that the previous year a commitment was given, a promise, a hope for small shareholders, workers and all honest people who care about the future of Telecom Italia: the liability proceedings. It had to be acknowledged that Mr Bernabè had made some moves in this direction, and everyone believed in it. Then, the shareholder recalled, there was the cold shower of 16 December, with the No of the Board of Directors. The Corporate Governance report clearly states that this decision was taken with the “total opposition” of independent director Luigi Zingales, who is to be congratulated. The shareholder stated that he and his association did not approve of this
inexplicable decision, and hoped that progress starts soon along the obligatory road to transparency. Regarding the Greenfield project, he noted the great emphasis placed on the false SIM business, with consequent damages estimated at euro 20 million by Deloitte: he asked how come there was no examination of the videotelephone phenomenon, with estimated damages of euro 400 million. Equally, he asked why there was no desire to identify the principals and the true beneficiaries, and why Colonel D’Andrea, head of auditing, was not activated. Honesty should be up there with Pride and Passion as a key value, the shareholder exclaimed.

As for the future, he went on, the names of candidates for offices of great responsibility were being discussed: the moral and professional profile for such roles must be crystal clear, and considering their importance, Telecom Italia cannot afford to make any more mistakes in its choices. So forgetting the past cannot be accepted. For the last few days there had been worrying rumours that raise doubts about the suitability of the people proposed, that would be best clarified then and there, to avoid unpleasant surprises. So he asked if it really was the case that, during the Tavaroli/Iannone regime, Mr Patuano had signed Security contracts in Brazil with payments from one overseas account to another for services that were not clearly defined, what the total of the payments was and what they bought. He also asked if it was true that the TIM Brazil Data Center in Santo Andrea, Sao Paolo, had been built by TIM Brazil in 2003-3004 on a site jointly owned by Pirelli and TIM, in an operation that had not been approved by the Board of Directors as provided in the governance policy. On this matter, he asked if the documentation shows that the Patuano was responsible for negotiations and the contract. It would seem, he went on, that among the documents of the Security trial before the Milan Court of Assizes there are many references to behaviour by Mr Patuano and Mr Dal Pino that is distinctly murky; in the same documents, Mr Iannone appears to have made serious accusations, once again against Mr Patuano and Mr Dal Pino, some even substantiated with recordings; to date neither Mr Patuano nor Mr Dal Pino had officially denied these accusations. Although not yet investigated, the accusations made against them appeared to be serious. He asked if the Company had taken any formal action to obtain their account of the alleged events from the persons involved, and to verify whether or not the accusations made were or were not well-founded. For his part, he and his association

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wondered if it was appropriate for Mr Patuano and Mr Dal Pino to become members of the Board of Directors of Telecom Italia before their possible involvement in very serious criminal matters had been clarified.

If the appointment of Mr Patuano and Mr Dal Pino to the Board should be confirmed today, he asked that the Board itself, in its first meeting, obtain the file with the court papers containing the information about them and formally request that they give their version of the facts, so that, from the start, there is the transparency that Telecom Italia must have in everyone’s eyes, avoiding the danger of damage to the reputation of the Company.

From the documentation filed with the Court of Assizes, the shareholder continued, it appears that Mr Iannone, a man close to Tavaroli charged with criminal conspiracy and unlawful espionage, accuses Mr Patuano, declaring that he had received an order from the latter to spy on the computers of Daniel Dantas, chairman of Opportunity, Telecom Italia’s opponent in Brazil. Mr Patuano could be investigated about this matter in the near future. He asked if the Company had a copy of this statement.

So far as Mr Luciani is concerned, the shareholder considered it risky to appoint him Director General for South America, since he is being investigated about the false SIM cards, another aspect that should be considered is that Mr Luciani himself admitted he has been aware of the phenomenon in an interview published in “La Repubblica” in February, in which he declared: “As well as myself and the structure I headed, my superiors also knew about the SIMs”. Golinelli and other managers and staff were sacked, no action was taken against Mr Luciani: he asked out this imbalance could be reconciled with the principles declared in the code of ethics, which should apply to everyone.

However, over and above the outcomes of the judicial proceedings, the shareholder observed, someone who deliberately falsified company results cannot be kept in a key position; the attempt by Prof. Zingales to propose suspension until these matters have been clarified is laudable, while the solidarity of the Board in defending a morally indefensible position was – in the shareholder’s opinion - undermining and worrying.

Again, he asked if it was true that, in 2010, Mr Luciani, circumventing the instructions of the Board of Directors of TIM Brazil, provided 650,000 dollars in sponsorship for a film that has never been made.
And, he continued, it would seem that in October 2010, Mr Bimonte was arrested in Brazil. He asked if this was true, and if it was true that TIM paid the legal costs for his release. He also asked if the arrest was because of his professional activities, what the costs actually amounted to, and who authorised them.

He recalled that in the 2009 shareholders’ meeting he had asked for legal action to recover the variable compensation paid for the production of false SIM cards to be considered. Mr Bernabè had stated that if responsibilities were established, action would be taken to recover any unwarranted bonuses received. He asked if to date any action had been taken to recover unwarranted bonuses and incentives paid out, from the Chief Executive Officer to the lowliest salesman.

Finally, he wanted to highlight a case of human solidarity. On 15 September two colleagues from the Florence switching office were involved in a serious accident while travelling on business in a company car. 9 months after the accident our colleague Claudio Ciai is hospitalised in a neurovegetative coma in the Volterra specialist centre. His clinical records have been reviewed by one of the most expert neurologists in the world, Professor Leopold Saltuari, who gave his wife and son some hope. Claudio can be admitted to the LKH Neurorehabilitation Centre in Hochzirl, Austria, but the costs would exceed euro 50,000. Claudio needs help. The shareholder asked if the company is aware of this human drama, and what it thinks it could do. A collection of funds has been started by a colleague.

Finally, he stated that some signals seemed to indicate that the current Board is more interested in the interests of the “establishment”, which most of them represent, than in those of Telecom Italia; everyone involved – shareholders, trade unionists, workers, manager, politicians… must make every effort to clarify the errors of the previous regime, to recover the damages caused and to start working towards a true resurrection. Identifying the responsibilities is solely a question of will; when Judge Falcone decided to fight the mafia seriously – the shareholder stated – he followed the money. Seeing where the financial flows lead would lead to an understanding of who, in the past and perhaps also in the present, are the real beneficiaries of Telecom Italia’s cash.

Finally, he recommended that in any answers it should decide to give, the management should not hide behind legal niceties: the unlawful facts, their origins and their development were well known. He closed with an invitation that is a quote from Mazzini, to remain in Risorgimento mode: “In the war that is being fought between Good and Evil,

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you should lend your name to the flag of the Good, and combat Evil ceaselessly, rejecting all doubtful insignia, all craven transactions, all hypocrisies by leaders who seek a way to reconcile both; on the right side, I will support you, companion, for as long as I live”.

Francolino emphasised that it is the workforce that is the most important part of the business, and therefore he hoped that their aspirations would be acknowledged in various forms of incentive, including the allocation of shares. He expressed his opposition to the fact that the recent share allocation plan did not extend to employees who had retired, despite their having contributed to the growth of the Company for so many years.

He asked that more attention be paid to services, which have a cost for those people who intend to use them; services such as those provided by Assilt and Cralt, and mentioned a series of faults in the telephone service made available by the former, and also reported that he had encountered problems even in obtaining bank data to subscribe to the latter.

Moreover, he emphasised that Telecom Italia does not seem to collaborate with local authorities in the development of the digital government code, or CAD (Codice di Amministrazione Digitale), and cited Catanzaro as an example.

More generally, he invited the company to invest more in personnel and research – elements that are essential if the business wants to grow, improving the services supplied.

For his part, he recalled his long history of his own and his family’s militancy while a Telecom Italia employee, and concluded by recommending that redundancies be limited, with the company focusing instead on the continuous professional development of its human resources.

He consigned a document to be filed among the Company documents to the Chairman.

Rimbotti, after pointing out that he had previously sent to the Company the detailed questions he intended to pose, spoke first about the operations of the Domestic Business Unit, observing how the consumer sector had lost euro 1,260,000,000 of revenue (-11.56%), the business sector euro 221,000,000 (-5.6%) and the top sector euro 117,000,000 (-4.8%). So overall the business unit in question had lost 7.4%, a figure that was particularly worrying considering the viscous nature of the customers.

Analysing these figures, the shareholder observed that in the consumer sector it was probable that a large slice of the commercial activity was assigned to external partners, a choice that involves a series of risks deriving from the fact that the partner is paid on results, irrespective of the ways in which these are achieved. The fall in the top and

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business ranges, he went on, was probably due to the fact that internal bureaucracy hinders every initiative involving creativity and innovation. So he asked how the Board of Directors intended developing the Domestic BU for the future, and, in particular, what it predicts in terms of its revenues.

He also asked what the strategy is for Telecom Italia Media, considering the euro 162 million writedown in the 2010 financial statements, and then spoke about some specific items in the Auditors’ Report. In particular, the report mentions a series of “other assignments” to Reconta Ernst & Young, as well as further assignments to PriceWaterhouseCoopers. The total of these expenses is approximately euro 3 million. He asked why, and in particular why PriceWaterhouseCoopers appeared to have some sort of monopoly.

Finally, he pointed out the percentage absences of Alierta from Board meetings and the absences of Berger from meetings of the committee for internal control, recommending that those directors and members who have many commitments should participate in Telecom Italia meetings, by videoconference call at least.

Gola mentioned the financial results, declaring himself fully satisfied, and pre-announced his vote in favour.

He observed that the pay-out distributed, approximately 38% of the profits, could perhaps, with a little effort, have been increased to 6 cents for the ordinary shares and 7.1 for the savings shares, but he understood the dividend policy adopted by the Board, which had to take the high net indebtedness of 31.5 billion into account.

He noted with pleasure that the long-standing dispute with Argentina’s Werthein family had finally been resolved, allowing the company to purchase a further 8% of the capital of Telecom Argentina, and hence to include this company in the consolidation of the financial statements. For the current year he expected the turnover of this investment to exceed 3 billion, while EBITDA should reach euro 1 billion. If his forecasts were wrong, he invited the management to correct them.

During 2010, the shareholder reminded the meeting, German subsidiary Hansanet had been sold to reduce indebtedness. In his opinion, however, this sale had been concluded at an overly low price. More could have been received, given the sums obtained by competitors for companies that operate in mobile telephony. He cited for comparison the recent sale of its American subsidiary by Deutsche Telekom, which involved an “enormous” sum in
dollars, increasing the value of the parent company on the stock exchange by around 10% within a day of the announcement of the transaction. Vodafone, too, sold its non-controlling 44% stake in SFR to France’s Vivendi, for euro 8 billion. So he asked if Mr Bernabè considered the sum received from the sale of Hansenet to have been sufficient.

He then raised the question of the non-current assets reported at a hefty 51 billion in the financial statements, of which 8 billion alone for goodwill. In his view this represented an enormous weight that the Company has been carrying for some time, mainly formed in previous changes of ownership and sales of equity investments at values below the carrying values. He asked if the plans of the Board included any initiatives to lower this value.

And as for TI Sparkle, for which the Company had had to post writedowns for more than 500 million in the income statement in the 2009 financial report, he asked for details of the reason why legal proceedings had not been started against those directors and managers who had contributed to create this “disaster”.

Finally, he spoke about TI Media: this was an investment that had required significant sacrifice in the financial statements for years. Now, however, the situation was finally changing. Audience share was increasing rapidly, and programmes such as Mentana’s news bulletin and politics and current affairs programmes such as L'Infedele, Exit, Omnibus, Otto e mezzo and In Onda, all with excellent presenters with little political bias, had resulted in a notable increase in interest in the Company. The 2010 EBITDA was positive, and in 2011 advertising revenue collected through Cairo Communication was 35% higher: break-even point will presumably be reached this year.

So TI Media, the shareholder observed, was becoming a real star, and if sold within two or three years would comfortably repay all the financial support given to the company in recent years to maintain its business. So he asked what was planned for this equity investment.

To close, he asked for up to date forecasts of the likely development of company business during 2011.

Rencurosi, firstly wanted to make some further comments on behalf of the Asati association chaired by Franco Lombardi.

Asati wonders, in particular, if the Telecom Italia Board of Auditors carried out its duty as an independent body. In its report dated 18 March 2011, written for today’s meeting of the
shareholders of Telecom Italia, the auditors state that as yet the senior management did not appear to be “aware of the unlawful acts underlying the organisational shortcomings”. So from the auditors’ perspective, it has not been demonstrated that the executive directors of Telecom Italia did not fulfil their duty of good administration of the Company, and nor has the existence of significant damage consequent on the well known criminal acts committed in the period 2001-20078 been proven.

Asati commented that the Board of Auditors considered the fact that an association of individuals took control of Telecom Sparkle and defrauded the Italian tax authorities of hundreds of millions of euros, creating fake invoices for almost 30% of the total turnover of the company, was not relevant, and, furthermore, did not consider the fact that the executive directors of parent company Telecom Italia did not bat an eyelid, but, year after year, actually approved the financial reports containing the fake turnover which boosted the profits distributed to shareholders (as is evident in the restated financial statements prepared last year) to be relevant either.

One has to conclude, Asati observed, that, for the Board of Auditors, these directors did their duty well, despite all of this.

In addition, the Board of Auditors did not consider relevant the fact that over the same period of time, 2001-2007, another association of individuals established itself around the Telecom Italia Security division and committed several hundred, possibly thousands of crimes including corruption, the illegal compilation of dossiers and espionage, including against ex-senior managers of Telecom Italia itself, hacking, disclosure of company and government confidential information, violating the privacy of thousands of citizens, all or almost all guilty merely of being disliked by the reference shareholder at the time and, that above all it did not consider relevant the fact that the executive directors of Telecom Italia itself allowed all this to happen without making the slightest effort to exercise even minimal control and a true reaction, not even after the start of the judicial investigations (many of the payments made to foreign companies of the “spies” have been found to have been made after May 2005, the date of the searches ordered by the Judiciary).

One has to conclude, Asati again observed, that, for the Board of Auditors, these directors did their duty well, despite all of this.

Nor did the Board of Auditors consider relevant the fact that a third association of individuals was created in Telecom Italia, again in the same period of time, and promoted
or at least permitted the manufacture of millions and millions of illegal SIM cards, up to 20% of the total number of SIM cards, so as to deceive the control authorities and market analysts about the decline in Telecom Italia’s market share and hence disguise the impotence of the management of the time and stem the flight of customers to the competition, despite repeated audits and alarms expressed by the company’s own legal staff.

One has to conclude, Asati again insisted, that, for the Board of Auditors, these directors did their duty well, despite all of this.

Otherwise, it is more than legitimate to ask oneself, and ask the members of the Board of Auditors of Telecom Italia, how it is possible:

- to reconcile the “terrifying” combination of crimes of the most varied kind, committing using a listed company like Telecom Italia, with the conclusion that those who had the duty of preventing criminal and prejudicial facts had managed and organised the Company properly and were not in any way responsible;

- to sustain that the senior directors had done their duty – and are not therefore liable even in civil law – if, while they were in office, a whole series of situations of an evidently illegal nature developed inside Telecom Italia;

- in which case, according to the Board of Auditors, it will never be possible for any executive directors to be held to have not done their duty to ensure good and healthy organisation and to prevent crimes, if they are unwilling to hold that the executive directors of Telecom Italia did not do so.

In this context, to hold that in the current state of affairs there is no proof means that that the Board of Auditors believes it necessary to wait until the conclusion of the three stages of the criminal justice process, because proof may only be held to subsist at the outcome of this process.

However, in the opinion of Asati, the absurdity of such a way of thinking is evident to all, and if it applies to criminal matters, leads nowhere in terms of the civil proceedings, particularly when the damage has already been confirmed, and only the exact attribution of “authorship” remains to be clarified. This assumption is evidently obvious to those who do not have any direct and/or indirect interest in the affair, and who merely weigh up the facts as an external observer. However, holding a different opinion would leave unanswered the question about the reasons why Telecom Italia, if it was so sure about the absence of
liability, negotiated a compromise pursuant to Legislative Decree 231/01 which, it should be recalled, requires, among other things, a proven fault by the organisation.

The error in which we are asking the Board of Auditors not to fall is that of keeping separate the two levels of liability: criminal liability, which primarily requires criminal intent, and civil liability, which only requires negligence.

The Board of Auditors, and before them the Board of Directors of Telecom Italia, with the exception of some members, should stop hiding behind excuses that do not stand up, and answer the following question: if those who had the responsibility, that is, the executive directors of Telecom Italia, really did do their duty.

Finally, Asati must point out that once again the Board of Auditors have not replied to Asati’s repeated requests for information, and particularly its request to be told if there had been transactions in conflict of interests – especially for the sale of property – that damaged the assets of Telecom Italia and its shareholders, as reported by Asati during the shareholders’ meeting in April 2008.

Finally, he repeated the request, which will also be submitted to auditor Ernst & Young, Consob, the U.S. Securities and Exchange Commission and the office of the Milan Public Prosecutor, to make public – during the next shareholders’ meeting, at least – the full Greenfield report prepared by Deloitte, taking account of the fact that – as the Board of Auditors itself has declared – the representatives of the majority shareholders on the governing bodies of Telecom Italia know the details of this report.

He wondered how it was possible that once again there is a determination to hide the truth from the small shareholders, with the consequent possibility that they might make independent requests for more information and civil recourse. And it also wonders if it might not be opportune, given these serious shortcomings in reporting, to ask that an extraordinary Board meeting be called.

Having finished the comments made on behalf of the Asati association, the shareholder continued to speak, formulating some considerations of a more personal nature.

He recalled how, over the years, there have been Chairmen of Telecom Italia who evidently pursued their personal interests rather than those of the company. The responsibilities of the previous management in relation to the TIM Sparkle affair, the fake SIM cards and the illegal dossiers have been analysed in the Deloitte report. It is now the responsibility of the competent public prosecutor to ascertain all the responsibilities for
these facts, and to check if some directors reported incorrect data in the financial reports solely for the purpose of obtaining the agreed stock options, for example. However, in his opinion, the Galateri-Bernabè management is synonymous with responsibility and seriousness, and is, above all, honest: he therefore welcomed the confirmation of Mr Bernabè, also in consideration of the necessary stability that the company must have, and expressed his best wishes to the outgoing Chairman in his new appointment.

Under the current management debt was reduced by euro 4.5 billion, thanks to the combined efforts of everyone, including workers and shareholders.

If, then, these are the positive figures to emphasise, the shareholder commented that there are also many negative aspects and expressed himself amazed, in this respect, at the silence of the common funds, and invited Prof. Zingales to continue to press his initiatives. He believed that the basic problem was the fact that the asset management companies belong to major banking groups, with little incentive to damage their relationships with the world of business, also because they are aware than any losses incurred by the investment funds they manage will mainly impact on the individual savers. So he expressed the hope that these investment funds would in future be more active, also by collaborating with associations such as Asati.

He again pointed out that this year a stock option plan for senior executives has again been proposed, at a cost of some euro 15 million. He believed that a sum of this size could be more profitably used to fund grants for young people, following the example of other companies such as Nokia and Google.

The turnover of the domestic market, he went on, is falling, mainly because of strong competition from Wind and Vodafone, and analysts predict a further fall for the first quarter. Finally, he emphasised that the price of both ordinary and savings shares has fallen since Mr Bernabè arrived, and the amounts paid out in dividends are also very different: the reduction in debt, the shareholder then observed, was, in the end, paid by the shareholders.

He concluded by emphasising that, at the end of these three years, the shareholders now expect results that are not merely stable and continuative, but are once again “resounding” from the renewed Bernabè management.

Toffoletto, representing shareholder Findim, stated that:
- pursuant to article 2359, subsection 1(2) of the Civil Code “subsidiary companies are those companies in which another company controls a sufficient number of votes to exercise a dominant influence in the ordinary shareholders’ meeting”;
- based on the unanimously agreed interpretation of this provision, de facto control is held by the company that, due to circumstances that are actually linked to the structure and characteristics of the shareholders, as well as to the normal and usual percentages of shareholders who attend shareholder meetings, owns a minority share that allows it to control regularly, and with a degree of continuity, a sufficient number of votes to obtain the approval of the principal resolutions of the shareholders’ meeting, such as, in particular, the approval of the financial statements and the appointment of directors;
- the role of Telco S.p.A. as controlling entity that undertakes direction and control of Telecom Italia S.p.A. is a well known fact unanimously acknowledged by the business community, as demonstrated by the repeated references to this role of Telco S.p.A. as the entity that controls and directs Telecom Italia S.p.A. in the specialised press and in the mass media, and never contradicted by the senior management of either of the companies mentioned;
- in order to ascertain the existence of de facto control, Consob indicated the following criteria in its Communication dated 13 November 2003:
  (i) the shareholders meetings to be taken as reference are ordinary shareholders’ meetings of particular significance (appointment of directors, approval of the financial statements);
  on this point, he observed that since Telco S.p.A. acquired its holding in Telecom Italia S.p.A. to date, an absolute majority of members of the Board of Directors of Telecom Italia S.p.A. have been appointed from the slate submitted by Telco S.p.A. and the financial statements have always been approved with the dominating vote of Telco;
  the share of ownership that is suitable to ensure dominant influence depends on the actual situation in which the company finds itself and in particular on the degree to which company ownership is fractioned, and the usual level of absenteeism among owners of smaller shareholdings;
  on this point he observed that, ever since it acquired its holding in Telecom Italia S.p.A., Telco S.p.A. has always controlled an absolute majority of the votes in all the ordinary meetings of the shareholders of Telecom Italia S.p.A. (always more than 60% of the capital present at the meeting at the time of voting);

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(iii) the control must not be occasional, but must be a relatively stable legal situation, to be ascertained by an analysis of the proceedings of the meetings of the shareholders of the subsidiary over a reasonably significant period of time, which need not necessarily be subsequent to the moment in which the current controlling interest acquired its holding, but may also refer to past shareholders’ meetings to analyse the percentage of votes necessary, on average, to reach a quorum for resolutions;

on this point he pointed out that the shareholding held by Telco S.p.A. since its appearance in the list of shareholders of Telecom Italia S.p.A., over three years ago, is the same holding that allowed its predecessor (Olimpia S.p.A.) to control the company;

(iv) this analysis of the past will only be significant if, in addition to the acquisition of the major shareholding, there were no other substantial changes in share ownership;

on this question he pointed out that the structure of the ownership of Telecom Italia S.p.A. has not changed for years, and has certainly remained exactly the same in the three financial years prior to the current one, as is also shown in the proceedings of the annual shareholders’ meetings for those years, and hence for a period of time sufficient to enable the control of Telecom Italia S.p.A. by Telco S.p.A to be considered established.

(v) finally, regarding listed companies, if shareholders with holdings of more than 2% have remained substantially the same, and hence if the so-called floating stock has remained essentially the same also needs to be verified;

on this point it should be noted that in that period the major shareholdings, that is, holdings of more than 2%, remained substantially unchanged in the share capital of Telecom Italia S.p.A., the changes made had no effect on the so-called floating stock;

- it therefore follows that Telco S.p.A. is the company that, from the date of purchase of its holding in Telecom Italia S.p.A to date, has stably exercised and still continues to exercise de facto control of Telecom Italia S.p.A. pursuant to article 2359, subsection 1(2) of the Civil Code.

The shareholder then also stated that:

- pursuant to article 2497 sexies of the Civil Code it may also be presumed that Telco S.p.A., as the company that controls Telecom Italia S.p.A., undertakes the direction and coordination of the latter;

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- without prejudice to the legal presumption mentioned above, the actual exercising of control, and the direction and coordination of Telecom Italia S.p.A. carried out by Telco S.p.A. is unequivocally established by the following circumstances:
1) that some of the directors and top management of the shareholders of Telco S.p.A. are permanent members of the Board of Directors of Telecom Italia S.p.A, and specifically those of shareholder Telefonica SA, which owns more than 40% of Telco S.p.A. and whose Chairman and General Manager are by no coincidence members of the Board of Directors of Telecom Italia S.p.A., p
2) in December 2009, Telecom Italia S.p.A. sold its holding in German subsidiary Hansenet to Telefonica SA for a price that was well below its true value, and also below the carrying value, without clarifying the reasons for the sale of the controlling share of a business with high goodwill and excellent sales volumes;
3) because of the presence of Telefonica SA among the shareholders of Telco S.p.A., Telecom Italia S.p.A. found itself involved in a long and complex legal dispute with the Argentinian antitrust authority, which opposed the possible acquisition of control of an Argentinian operator by Telecom Italia S.p.A. because it feared a lack of competition in the telecommunications market. To settle this dispute and be allowed to acquire control of the Argentinian operator, Telecom Italia S.p.A. was forced to desist from acquiring 50% of the share capital of the holding company of the Argentinian operator, a purchase which it could have made by exercising the call option previously stipulated at highly advantageous conditions. In fact, although positive in industrial terms, this operation evidently prejudiced the interest of Telecom Italia S.p.A. in terms of both revenues and assets. Finally, it should be noted that recently Telecom Italia announced its acquisition of an incremental investment in the capital of the holding company of the Argentinian operator at a price approximately three times the original price agreed in the call option;
4) considering that the decisions taken by the management of Telecom Italia S.p.A. in the affairs mentioned above evidently had the effect of favouring Telefonica SA in its initiatives to expand into promising or emerging markets, to the detriment of Telecom Italia S.p.A. itself, in terms of both an immediate loss of assets and in terms of revenues, due to its decision not to consolidate and expand its own activities in the same markets, one may legitimately conclude that these decisions were taken under the influence of Telco S.p.A. and in the interests of its major shareholder Telefonica SA.

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The shareholder further stated, that:
- it is in the irrevocable interest of the shareholders and creditors of the controlled company, as well as of investors and third parties in general, to understand the degree to which the company is subject to the control and/or direction and coordination of others, and to know the relationships between companies linked by a control and direction relationship;
- this interest is even more relevant when, as in our case, it needs to be determined whether or not the direction and coordination of Telecom Italia S.p.A. has been exercised by Telco S.p.A. in a way that complies with the principles of proper company operations and business management of the company subject to it, and without damaging the interests of the shareholders of the latter in terms of the profitability and value of their holdings, as required by article 2497 of the Civil Code;
- it is a specific obligation of the directors of the company subject to the control and/or direction and coordination of others to provide this information, primarily in the report on operations, pursuant to article 2428, subsection 3(2) of the Civil Code, which requires “relationships with controlling enterprises” to be indicated in the Report on Operations, and to article 2497 bis, subsection 5 of the Civil Code, which requires “relationships with those who exercise direction and coordination” and “the effect this activity has had on the operations and results of the company enterprise” to be indicated in the same document; the information on subjection to the control and/or direction and coordination of others must also be supplied in the documents that make up the financial reports of the subject company, and specifically:
1) pursuant to article 2497 bis ,subsection (4) of the Civil Code, the company must include a summary statement of the essential data from the last financial statement of the company that exercises direction and coordination of the former in a specific section of the Notes to the Financial Statements; in financial statements drawn up according to international accounting standards, this information must in any event be supplied in the explanatory notes to the financial statements;
2) according to international accounting standards the enterprise must indicate “the company name of the controlling entity and the ultimate parent entity” in its financial reports (IAS 1, paragraph 138, letter c), as well as “relationships between controlled and
controlling entities …. irrespective of whether or not transactions between these subjects has been carried out” IAS 24, paragraph 12).

And finally, he stated that:

- in a letter dated 23 February 2011, shareholder Findim SA requested the directors, members of the board of auditors and the external auditors of Telecom Italia S.p.A., for the purpose of the correct compilation of the 2010 draft financial statements, to make suitable provision regarding the relations between Telecom Italia S.p.A. and Telco S.p.A., indicating the circumstances to which this declaration refers as serious evidence that Telco S.p.A. occupies a control position and exercises direction and coordination of Telecom Italia S.p.A., also indicating the major consequences that might derive from this condition for the subject company and its shareholders, and the consequent duty of its administration and control bodies to account for this in the company information and draft financial statements submitted for approval to the meeting of the shareholders of Telecom Italia S.p.A.;

- in the response of Telecom Italia S.p.A., signed by its Chairman, received by Findim SA on 7 April 2011, taking a position on the exercise of control over Telecom Italia S.p.A. by Telco S.p.A. is wholly omitted, while the content of the letter is limited to denying that the former is subject to the direction and coordination of Telco S.p.A. without substantiating this in any way;

- in the draft financial statements of Telecom Italia S.p.A., that the shareholders’ meeting is called on to approve today, there is none of the aforementioned information on the position of Telco S.p.A. as the company that controls Telecom Italia S.p.A., and which directs and coordinates the latter;

- although the obligatory content of the financial statements cannot be validly supplemented by the information provided in documents other than the financial statements themselves, the information on the control position of Telco S.p.A. over Telecom Italia S.p.A. is also not included in the Report on operations that accompanies the draft financial statements.

Having stated all of the above, the shareholder therefore declared that he would vote against approving the draft financial statements of Telecom Italia S.p.A. for the 2010 financial year, submitted to today’s meeting, since said draft statements do not contain the obligatory information required by the Civil Code and the international accounting

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standards so as to allow shareholders and third parties to properly understand the control and group relationships of which Telecom Italia S.p.A. is part, and how this is against imperative regulations.

Finally, he asked that a specific resolution concerning the exemption of the directors from the competition prohibition be put to the vote.

Regarding this last matter, the secretary, at the invitation of the Chairman, immediately clarified that a proposal to exempt all the directors from the competition prohibition contained in article 2390 of the Civil Code had been included in the letter accompanying the Telco slate.

Fogliati, also using a presentation of slide, subsequently left at the chairman’s table and included in the company records, first of all observed that, contrary to his expectations, the discussions in the shareholders’ meeting did not indicate that the atmosphere was one of greater trust in the Company, or that the overall image of Telecom Italia had improved.

He then formulated some considerations of his own, firstly observing that any conversion of savings shares would be a challenge, and that any increase in capital would impose costs that were too high. He did not approve the composition of the Board of Directors, and believed that a change in the bylaws was required to permit other shareholders, such as employees, to become directors.

As for the individual rights of the shareholders, he pointed out that the postal ballot did not seem to work very well, as had also been the case for other practices introduced recently due to the implementation of EU directives. For his part, he would like a committee of independent shareholders to be instituted, open to all employees, to forge a link with the Company: at present, in reality, the panorama of shareholder employees of the Group did not appear to be particularly united, and the fact that no new allocation of shares was being promoted was cause for regret.

There would be much more to say about the past, to understand who subtracted over euro 60 billion from the company, but associations such as his – meaning Adas – and Asati now had to focus on the future and spur the company towards ambitious goals.

Looking at the data in the financial statements, he expressed his concern about the amount of intangible assets, a particularly high amount, albeit subject to impairment tests, especially when compared with the value of the fixed assets. He expressed similar concern about the amount of debt, considering the net equity and the amount of working capital. He
again drew attention to the fall in EBITDA, which makes necessary the contribution of other items such as dividends from subsidiaries to be included to report adequate profits.

As for the employees, the shareholder pointed out that at Parent company level the number of employees has fallen from 76,000 in 2004 to 50,000 in 2010: it seems that it is precisely the employees who have paid for the lack of loyalty, incompetence and unethical behaviour of a few people. Policies have also played their part, in his opinion, from reckless privatisation to the accommodating attitude first to Olivetti and then to Pirelli, as well as uncertain market regulation.

But, the shareholder emphasised, if the Group as a whole is examined, and in particular its evolution from 2007 to date, there has been a fall of up to 27.6 billion in revenues, as well as a drastic fall on international markets, in contrast to the fortunes of its competitors. He formulated some considerations for comparison with the major European operators, and observed that he believed that in Italy liberalisation had been implemented far too broadly.

At the end of the first mandate of the Bernabè management, the shareholder stated, the terrain may be considered to have been cleaned (of “poisonous plants”) and made fertile (by the results), safer (control and surveillance) and more stable, in terms of its ownership: in this respect, he made clear that he looked favourably on the presence of Telco, although he continued to hope that the company would move further towards being a public company. The climate of trust may in any event be considered to be improving, with an industrial plan that, while not terribly exciting, appears within the capacity of the management. He expressed the hope that the development that awaits Telecom Italia is healthy development, bearing in mind that it inevitably depends on people, who he today would ask to maintain ethically correct behaviour, with no more arrogance: wisdom must prevail, and merit must be rewarded.

Most of the employees, he went on, have faith in Mr Bernabè, and in the presence of Mr Galateri throughout the chain of ownership. Finally he hoped Mr Patuano’s work would go well, expressing his displeasure that Patuano had been the object of critical remarks by some of the day’s speakers.

Ferrari, declared that he spoke in the dual role of shareholder and employee, and observed that today, since the company has declared a state of serious crisis, and solidarity contracts had been activated with trade union agreement: an employment reduction initiative that was unique in Italy, possibly also in Europe, for the number of people involved. In fact, the
enforced absence from work and consequent economic sacrifice of 29,204 employees has been supporting the company since November 2010, and will continue to do so until December 2012. Last year, the shareholder recalled, the company had invited the shareholders and investors present to continue to supply their capital to finance the company. So he renewed his invitation with an even more determined and strong voice: the invitation to continue to invest in Telecom Italia was also extended to colleagues, since a more direct participation by the workers could contribute to create and consolidate the economic and financial stability needed to face the world of telecommunications – a world that is continually changing, with increasingly aggressive competition.

The introduction of the solidarity contracts, he recalled, had caused pain to his Telecom Italia colleagues, pain and demotivation in perceiving themselves to be superfluous to requirements, no longer needed, defined as redundant by the company. One colleague had correctly indicated that the company should report the costs of demotivation in its accounts. But despite this, after an initial moment of confusion, Telecom Italia’s people humbly “rolled their sleeves up” to continue their activities and produce a result that is the result presented today in the shareholders meeting. The financial results were produced with sacrifice, challenging the deadlines, despite solidarity contracts reducing working hours by 8%. The Group accountants, who were also affected by the 8% reduction, carried out their work with the same dignity and commitment as before. The director assistance and exchange workers had been affected by solidarity contracts resulting in a 47% reduction in hours since 2009, and worked tirelessly in the Sales department, and in public telephony with reductions of 15%, the workers work with the rhythms they always have. He also recalled that the workers of SSC, an IT company that is a wholly owned subsidiary of Telecom Italia, were coping with a 25% solidarity contract, which translates into a significant reduction in salary for them, and procedural and IT inconveniences and delays for the whole of Telecom Italia. However, the shareholder repeated that, notwithstanding the emotional and economic pain, everyone was continuing and would continue to work hard to ensure that the Company could respond to its customers, both internal and external, in a proper and correct way. The workers of Telecom Italia want to work, and want to do it well. They want to be reliable, to solve users’ problems, to intervene when it is convenient for the customer. They want to respect the current legal and fiscal regulations, they want to play an active role for the company and for their Country.

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Because of this, he repeated, his invitation to invest in Telecom Italia was stronger than ever, because a wise shareholder must not only look at the economic return on his capital, in the short term, the greatly hoped-for dividend, but must also be aware that his investment will support the work of people who with their economic sacrifice and with a great emotional challenge, support one of the most important entities in telecommunications. Its professionalism and skills are in fact unique and indispensable for the development of the sector.

The purpose of his speech, the shareholder continued, in addition to the comments he had made so far, was also to highlight some ideas that the management could take forward, to manage the employees and the activities to be carried out in the best way: firstly, to review the agreement on solidarity contracts, since in some areas there are company departments that are short of staff. And where 47% solidarity contracts apply, the economic loss suffered by workers, most of whom, by the way, belong to the operational levels of the company, is too high. There are, moreover, company departments for which the level applied is not suitable to the operation of the business, and this causes continual changes in the dates on which employees are absent from work.

Another point is to focus the cost containment policy in other directions, addressing not only personnel downsizing, wage reductions, damaging outsourcing, but also a review and redetermination of the amounts paid for miscellaneous professional services, consultancy and benefits. In particular, while the employees are asked continually to make sacrifices, and find themselves forced to passively submit to the application of solidarity contracts and redeployment allowances, the pay and benefits of managers and senior executives are not affected in any way, and in some cases there have even been significant increases. All this can only generate the conviction that it is always the same people who pay, and that those who actually have the future of the business in their hands and decide its strategies, are totally immune from the consequences of the sometimes mistaken choices that are progressively impoverishing the company.

In addition, the IT procedures of system need to be improved. In some company departments virtualisation has caused great difficulty to the activities of workers, causing high “down times”, corrective accounting documents, customer management in fits and starts, setting the business itself in concrete.

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It is also necessary to improve customer care in commercial terms, and fixed-mobile integration has not yet been efficaciously implemented, since to date the customer does not have a single contact point and offers are not very competitive. In technical terms, the organisation of work, which has theoretically calculated mean times as the sole reference, causes delays in fault resolution, and in delivery, it causes appointments with users to be missed, which often translates into loss of the customer.

It is also necessary to improve the management of productivity indicators, which, while useful, must not be the sole objectives of the work of the company: quality and productivity must be present, in harmony, in every process. He also emphasised that resorting to exasperated outsourcing in the call centres, to pursue cost cutting and reductions in completion times certainly do not make customers more loyal.

And again: improve the organisation of human resource management. This, in the shareholders’ view, is often organised in a way that does not reflect the location of the people it is managing. A serious policy of increasing revenues from fixed and mobile telephony must be implemented, and this can only come through a serious industrial plan that involves the whole workforce, working towards a clear objective to be reached, together, by improving the issues mentioned above.

For his part, the shareholder stated that he was personally convinced, as were many of his colleagues, that the potential to achieve the improvements mentioned exists within Telecom Italia. Unfortunately, to date the top managers that have followed one after the other have not always worked in the perspective of the growth and continuity of the company. The workers, however, have always remained the same, albeit decimated, with their feeling of being part of the company, and with the great dignity in their work that has always distinguished them.

Mr Franco Bernabè, he recalled, sent a letter to all the employees at Christmas – a letter from which the shareholder quoted a passage about the no longer applicable uncertainty about the future of the company. But the workers of Telecom Italia still need to know what will happen after the two year solidarity period, and hence to know how this period of uncertainty will end, if by 2013 their sacrifice will have meant that the problems of the company have been resolved, and the much hoped-for relaunch of the company will happen.

Prof. Zingales then took the floor, and recollected how in 2010 the Guardia di Finanza has
contested the deductibility of the VAT of a Company subsidiary (Telecom Italia Sparkle) relating to some transactions that had taken place in the 2005, 2006 and 2007 tax years, for a total of approximately euro 298 million and the non-deductibility of the costs of these transactions for IRES and IRAP (corporation tax and local business tax) purposes, with an estimated expense of approximately euro 429 million, plus fines and interest. In July 2010 Telecom Italia Sparkle paid the fines on the VAT fraud for a total of euro 418 million. The dispute concerning the non-deductibility of the costs for corporation and local tax purposes remains open.

At the last shareholders’ meeting, he recalled, a shareholder had asked how the Board of Telecom Italia had failed to be aware of the tax problems of its subsidiary Telecom Italia Sparkle, which have cost the Company so much. The question was a legitimate one and, as a director of Telecom Italia since April 2007, he felt directly implicated by this question. For this reason, Prof. Zingales reiterated, he undertook to examine this issue in depth. So in his comment today he wanted to report on this examination, which had actually raised a number of significant doubts which he thought should be examined further, using instruments more incisive those that available to him, as a simple director.

Prof. Zingales stated that he was not a legal expert, and reported that he had been informed that he could not have confidential Company documents analysed by a lawyer of his choice, paid by him. And in addition, as had been made clear to him by the Company, he had no powers of inspection, as an individual director. Such powers would have allowed him to go deeper, at the time of the facts in question, and find out more about what was reported or brought to the Board. So his power of examination was limited to the detailed study of the Greenfield analysis, which the new management of Telecom Italia had commissioned from Deloitte, to shed light on the things that had happened under the previous management that everyone had been able to read about in the corporate governance report. From this analysis, which has to be consider an amateur one, there emerge, in his view, two areas of shade.

The first concerns the internal control system in 2005 and 2006, the period in which most of the fraudulent traffic took place. The Greenfield investigation, the report on which was delivered to the Board on 16 December 2010, was limited to the facts that occurred in 2007, and did not examine 2005 and 2006, the period in which most of the presumed fraud took place. The results of the report, together with the results of the order of the
investigating judge served during 2010, have detected elements that prompt him to ask how the preceding management could not have become aware of the anomalies from the ordinary checks carried out on contractual counterparties. In particular, he wondered how irregular traffic, invoiced in an irregular way, with unknown operators, which represented one third of the turnover of Telecom Italia Sparkle in one year, was only identified as anomalous after the start of an external investigation. In fact, he recalled that TI Sparkle had decided to start internal checks, which had led to the suspension of relations with I-Globe and Planetarium, only after it became aware of the investigation by the judicial authorities that was underway.

The Company system of control should have become aware of these problems on its own. So then wondered if the external auditors of Telecom Italia Sparkle had reported the high concentration of traffic with the unknown counterparties to the Board of Directors and the Board of Auditors of Telecom Italia Sparkle. If it had, then one must ask what the Board of Directors and Board of Auditors of Telecom Italia Sparkle did at the time the events took place. Two articles published recently in “Sole 24 Ore” report disagreements within the external auditor concerning the tax situation of Telecom Italia Sparkle. If these matters were raised, one must ask what the Chairman of Telecom Italia Sparkle, who was also the Chief Executive Officer of Telecom Italia, did. And one must also ask what the directors of Telecom Italia Sparkle, who were also employees of Telecom Italia, again at the time these events took place, did. In his opinion it would be useful to undertake further examination to understand what actually happened.

Again with reference to the previous management, there was, in his view, a second area of shadow. He believed that the analysis undertaken from January 2007, which also saw the involvement of illustrious academics, and the assessments of the directors concerning the outcomes of these analyses, should have been properly brought to the attention of the Board of Directors of the controlling company at the time the events took place. But none of this happened, since the report given to the Board of Directors of Telecom Italia at that time was a report that he had to define as marginal, made by the company bodies only after a casual request of his to receive further information about an article that had appeared in “L’Espresso”. On that occasion he was told that the company had carried out internal checks about the presumed evasion of VAT by contractual counterparties of TI Sparkle, ad that these checks had excluded that there had been irregularities in the behaviour of the
subsidiary, although it was possible that the traffic had been generated in the context of a fraudulent plan to avoid VAT of which Sparkle was unaware.

Always on the basis of his amateur analysis based on the documentation obtained in 2010, he believed that the external professional advisors who, at the time of the events, had been asked to provide their assessments, had also failed to produce a report. These areas of shadow suggest that greater clarity must be made on how this business was managed. Not only for historical purposes, but also prospectively to ensure that certain things do not occur again.

From his amateur analysis of the documents he asked if it was not necessary to examine in greater depth if the management at the time had provided the Board with sufficient elements to allow it to make some alternative decision. In particular, it should be determined if the Board could have considered changing the Sparkle 2006 VAT return, avoiding the heavy fines that were applied.

He believed that the time had come to progress from his amateur analyses to analyses carried out by technicians and legal experts. For this reason he hoped that the Board that was soon to be appointed would bring the clarifying work started with the Greenfield analysis to completion. To remedy the reporting defects that in his view had characterised the management at the time the events occurred, he expressed the hope that the new Board would assign to the independent directors elected by the minority shareholders the task of appointing suitable legal advisors to conduct complete and in depth review of the documents on these matters from a legal perspective, reporting the results of this review to the first useful meeting of the shareholders.

Mafezzoni queried some detailed data related to the purchases of raw materials and services item, and listed the various sub-items: on this question, he asked how many of these purchases had been made by the Purchasing department and how many by other departments in order to be able to assess the actual involvement of purchasing in company strategy. He was convinced that this was an area that must be increasingly supervised, and that any exceptions on completing purchases should be explained and motivated.

He then asked to be given details of expenditure on staff training, not just a breakdown between managers, junior executives and office staff, but also by functional areas of the employee. He also asked what KPIs had been identified to assess the efficiency and efficacy of the department, and what its improvement objectives were. He asked how many

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suppliers had been added and how many cancelled from the list of suppliers, and what
controls were made on supplies and what the outcomes were.
He then noted with pleasure that the number of questionnaires actually completed in the
satisfaction survey for the purchasing department, and more in general for the Company,
had risen to 48.7%. This was a figure that in his opinion should improve further, since if a
supplier cannot be convinced to complete a questionnaire with 27 simple questions it is
hard to imagine he could become a partner of the Company.

Barzaghi recalled that he had been an employee shareholder since the first moments of
Telecom Italia, a company that had always been the national and international pride of
Italy, at least until its privatisation. Since then, Telecom Italia had constantly been at the
centre of the intertwining of finance and politics, occupying a position that is still able to
influence the internal balances of the Italian capitalist system. Many industrialists, business
banks and party leaders had attempted to lead the Group, often ending by frustrating the
savings of many small shareholders, without anything being done about this by the
institutions.
The shareholder went on to express his esteem for Mr Bernabè, observing how in some
passages of the letter to employees drafted in 1999 there was the ideal and moral tension
that could be glimpsed in the communications disseminated last year. He recalled in
particular the invitation just last year to subscribe to shares in the company, and to commit
to an atmosphere of ethically sustainable collaboration, based on the respect of moral and
ethical principles and a true shared democracy. In response, over 10,000 employees signed
up to the invitation: on this point, he asked that these incentive plans be extended also to
retired employees, especially to benefit those who, having already been allocated shares,
have remained faithful to the Company, despite having seen the value of the share fall
constantly, and never having had the benefit of a bonus share.
The outgoing management has undoubtedly achieved a recovery of image, he commented,
also promoting the renewal of some senior positions, often compromised in transactions of
doubtful utility and little transparency. He also appreciated the attempt to restore a serious
and constructive confrontation with the institutions, improving communication with the
outside.
He recalled, again, that he had participated in a small shareholder initiative to request the
start of liability proceedings against the directors who were guilty, in his view, of having
gutted the company not only of its property assets, but also of its history and image in the world. However, it appears once again that the interests, or rather the conflicts of interest, of some shareholders and some directors have prevailed over the interests of millions of small shareholders.

As a supporter of true economic democracy, the shareholder continued, he had some nostalgia for the old “State boyars” who had in any event lent lustre to the company, leaving a mark that would still be worth cultivating today, while naturally correcting the errors committed at that time.

Moving on to some questions, the shareholder asked:

- if it is opportune to think about investing in North African countries, given what is happening;
- if it is not the case to also reduce the costs of shareholders’ meetings, given the general cost containing policies of the company;
- if it would be possible to have a conversation with Morandi, for an exchange of views;
- for how long Telecom Brazil could continue to produce results like today’s.

Finally, he recalled how at strategic level the issue of possibly creating new companies to manage the network, perhaps with minority shareholdings by other public or private institutions, and the issues of service innovation, without reducing personnel, need to be faced. He asked what the future of the TIM Alice points present throughout the country would be, and what prospects there might be for a separation of the network.

He concluded by expressing his appreciation for the path undertaken with the solidarity contracts, since any project to restore the company must involve sharing the project between management and trade unions.

Le Pera, representing D&C Governance, a company active in the corporate governance sector, pointed out that he had already submitted some questions through the channels made available by the company pursuant to the new regulatory provisions, albeit after the period of time indicated in the call notice: on this point, he observed that the lack of response on the site does not appear coherent with the spirit of constructive interaction of the new regulations.

In any event, the shareholder stated that they were questions relating to the appointment of directors and the related provisions in the bylaws. He wanted in particular to know the
reasons why the outgoing Board of Directors had not submitted its own slate of candidates, although it had the possibility to do so. On this point, he also asked if such a clause could be considered legitimate, since he believed that at least in the Italian context this was a provision that was highly unsuitable.

Referring again to the questions submitted in advance, he asked if D&O insurance policies had been activated in the Group, and if so, what the corresponding premium and conditions were, and also asked if they had been approved by a specific ordinary shareholders’ meeting.

More generally, the shareholder observed that it was to be hoped that the company would fully embrace the innovations offered by the new regulations, such as including an obligation to reply to questions received before the shareholders’ meeting by publication on the website in the regulations of the shareholders’ meeting, instead of reserving the right to answer directly during the meeting.

Finally, referring to the comments made by Prof. Zingales, he asked if the internal structure of the Board of Directors was sufficient to guarantee that control functions were carried out correctly: for his part, he thought it was probably necessary to intervene to change the internal distribution of directors’ powers, emphasising how it could well be that the shareholders themselves request that the issue be examined at a future shareholders’ meeting, by means of a supplement to the agenda for the meeting.

The Chairman, in relation to the comments made by Prof. Zingales, clarified that although the remarks merit partial approval, it had to be reiterated that the Board of Directors, as a whole, had carried out and continues to carry out its control and checking duties constantly, also through the support of external professionals. If we wish the practice of each individual member of the Board being able to superimpose his own personal investigations on the collectively decided investigations to spread, then perhaps it would be more correct to talk of “anarchy” in the work of the board rather than “democracy”, and this does not seem to reflect the constructive spirit that should animate the work of the administrative body.

After expressing his disapproval that only a small number of directors were present, D’Atri observed, with equal disappointment, that there was not a single woman among the candidates in the various slates submitted for the appointment of the Board of Directors, a circumstance that also contrasts with well-known recent legislative interventions. Again
with reference to the contents of the slates, he pointed out that the passage in the curriculum of Mr Sentinelli concerning the acquisition of 5 billion customers with the GSM project was probably not correct, and probably included this figure merely to refer to the geographical coverage of the project.

After having received confirmation that the current Chairman was included in the slate presented by Telco, he suggested that the Chairman himself, given his new appointments, should set an example by resigning to allow a woman to stand. Again in relation to the appointment of the directors, he asked if the proposed resolution on the derogation of the prohibition of competition could be read again before the vote.

He then made some comments about the progress of the work of the shareholders’ meeting, observing, for example, that the comments made by Mr Lombardi should necessarily be given more space, given the broad membership of his association. As for the considerations raised by the Findim representative, he asked if, since he has the numbers before him, the shareholder intends to challenge the financial statements or not, or if he intends to start proceedings for liability against the directors, and invited the shareholder to be more explicit about his intentions.

After having asked what had been done to help the population of L’Aquila, hit by last year’s earthquake, referring to Prof. Zingales he reiterated that in his view the directors in reality have very incisive powers. They just need to take action, through initiatives, including additional and out of the ordinary initiatives, such as soliciting proxies or seeking to convince other directors in the most incisive way possible, including appealing to their high individual levels of scientific and doctrinal knowledge. He then asked Prof. Zingales if he believed that Telecom Italia was suffering from a true “disease”, and ended by asking for a copy of the Deloitte report.

Giulianelli observed that in this, as in the other recent meetings of the shareholders of Telecom Italia, he would have preferred to hear not about the various legal and moral questions, but about the figures in the financial statements, which show a sharp fall in revenues and demonstrate how the real pain was being felt by both the shareholders and the employees, numbers of which have fallen by 30,000 over the years, with a further 30,000 on solidarity contracts.

So he hoped that in the future there would be more talk about business issues, and suggested, for his part, that efforts be made to maintain an effective system of governance.
and auditing, and, in organisational terms, to pass from a system based on business units to a one company model, in which there is just one director who is responsible for all activities, and not individual division chiefs with maximum freedom of action.

The results of our competitors, those in mobile telephony at least, appear to be better than those of Telecom Italia, and the 2010 advertising campaign was equally disappointing, in his view. He also believed that this campaign created confusion among customers about the various types of products. Institutional advertising must be viewed in a similarly negative way and its time seems to be over.

He expressed his opposition to the exemption from the prohibition on competition that is to be granted to the directors, pointing out that this created a disparity with the employees, who naturally, although perhaps only working part time as a result of the application of the solidarity contract, are certainly not able to work for competitors in their free time.

Finally, he asked for information about the position of Mr Sentinelli in another company, Onda Communication.

Cusani emphasised that the big clean up had also necessitated sacrifices by the small and medium shareholders and the workers, and the great renewed interest shown in the Company by international funds also appeared to be a tribute to this. The relationship between the Chief Executive Officer and the representatives of the workers has been a real dialogue, sometimes tough but always fair, and above all inspired by their common desire to save the company.

Referring to some of the speeches made in the shareholders’ meeting, he considered it very unlikely that Mr D’Andrea could have covered up matters of doubtful legality, given his professional background. And as for the question of the appointment of the administrative body, he expressed his personal regret for the possible exclusion of the Fossati, a great family of entrepreneurs, and therefore expressed the hope that a solution could be found for them to once again be involved.

Looking forward, he hoped that in the next three years, after completing at least most of the necessary cleaning operation that had to be done, the company would pursue a strategy of development, which means once again assuming the role of an active and living company, and returning to be one. Many sacrifices have been made, but now everyone – workers, capital, banks – had faith in the management: so he asked what the plans are to
restore Telecom Italia’s role as a player of primary importance in the economic and financial scene.

Finally, he invited (the company) to look into the possibility of offering some help for the situation on Lampedusa, promoting a discounted tariff for citizens and associations that are seeking to offer help to people fleeing dramatic situations.

**Girelli Consolaro** asked how come many of the presenters of La7 had taken political positions that were hostile to the current government, remarking how this could damage the Company in terms of loss of audience. He also asked how come a decision had been made to distribute dividends given the significant debt.

At this point Mr **Sentinelli** took the floor, and clarified that he had never been a shareholder of Onda Communication, but had been its Honorary Chairman, for just one year.

He recalled that he had started as an employee of SIP in 1974, and had had a long career, the central moment of which was his assumption of responsibility for GSM technology, culminating in his appointment as director general of TIM. When it was legitimately decided to proceed to merge the fixed and mobile businesses, he resigned, believing his position to be superfluous at that point. But this certainly was not an acrimonious resignation, considering that he remained as a consultant on technology platforms to the Chairman at that time, and was then also appointed to represent Telecom Italia in the GSM Association, in which he also served as Vice Chairman. He also recalled that he had received a career prize from this association, and had been one of the directors of TIM International until its cessation in 2008. A career, and a whole life, dedicated to the Telecom Italia Group.

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No-one else having asked to speak, the **Chairman, Mr Galateri**, proceeded to reply as follows.

After thanking Mr Sentinelli for his always constructive contributions in Board meetings, particularly on questions of a technical nature, he firstly dealt with the comments made during one speech about Mr D’Andrea. These were comments, the Chairman insisted, that he could in no way agree with, made about a professional who was doing an excellent job, and thanks to whom we could today be certain that the control processes are fully efficient
and correct. So no insinuations about the work of Mr D’Andrea could be accepted, and in any event, he reported, Mr D’Andrea had stated that he would check whether or not he should take legal action to protect his image.

In relation to the question of the disposal of property, he recalled that the subject had already been examined in depth in the first shareholders’ meeting of this management team: the transaction was analysed by external auditors and professionals, as well as by the company board of auditors. The remarks about the actual price of a single property have little meaning, since this is a market that changes greatly over time: the important thing was to check that the procedures followed to execute the transaction were correct, and this was done with all possible in-depth investigation, and the current control bodies, moreover, have never raised the question of returning and re-examining the investigations carried out. The entrepreneurial merit of the choice made at that time was, naturally, a separate issue: this was a decision taken on the basis of policies and strategies that have changed over time, but this tells us nothing about the correctness of the transaction itself. So we have now reached the moment, the Chairman stated, to really look to the future, as some shareholders have also suggested.

On the question of the solidarity contracts, Mr Galateri pointed out that Telecom Italia has always paid attention to helping those in need: it had done so for the L’Aquila earthquake, and had also acted in relation to the immigration emergency, with the prompt restoration of a series of telephone boxes in Catania. More information on this point could, in any event, be obtained from the sustainability report.

He then spoke about the position of Mr Patuano, whom some shareholders had criticised. He stated that, in ascertaining what had happened under the previous managements, the current one had certainly not neglected to formulate criticisms, stigmatise behaviour, or take measures. However, people certainly cannot be blamed for simply having also played an important role under the previous management: in this particular case, there were no reasons to express criticisms or reservations about the work done over the years by Mr Patuano.

The Brazil property question, to which one shareholder referred, was the construction of buildings on Pirelli land by TIM Brazil: the problem today was to determine a rental charge for the buildings that takes account of the enhancement work done by TIM Brazil on other people’s land. Nor does the question of the sponsorship of a film in Brazil,
mentioned by one shareholder, present anomalies, since this was a transaction with its own specific rationale, undertaken by the local management in accordance with the powers and procedures in force.

And as for the comments about the direction and coordination to which Telecom Italia is allegedly subject, the Chairman repeated that the decisions that are brought to the attention of the Board of Directors are taken by the board without there ever being any intervention, pressure, coordination or instructions of any kind from anybody whatsoever: and the professional background of its Chairman, and its Chief Executive Officer constitute a further guarantee on this point. However, legal advice had been taken on this matter, and confirmed the absence of any type of direction and coordination. Moreover, today’s shareholders’ meeting also confirmed that no de facto control of Telecom Italia by Telco exists, since the shareholding of the latter does not constitute an absolute majority of the share capital present. He further recalled that the Telefonica representatives on the Board of Telecom Italia or the Board of Telco do not participate in any debate or vote concerning the business in South America: the comments made during the shareholders’ meeting concerning the management of the Argentine investment were therefore contradicted by the rules and procedures adopted by both Telco and by Telecom Italia in every respect.

Returning to the comments made by Prof. Zingales, the Chairman firstly expressed his great appreciation of the commitment and activism that distinguishes his participation in the work of the Board. However, he repeated, participation in a board should mean respecting the principle of collective decision-making: if the Board assigns the execution of indepth investigations and checks to independent external consultants, and if 14 of the 15 directors consider these checks complete and thorough, then perhaps the instigation of further independent checks is not opportune.

As for the specific issues raised by Prof. Zingales, and that is the completeness or otherwise of the information made available at the time to the directors on the TI Sparkle affair, it had to be recalled that this opinion is inevitably one made without full knowledge of all the facts. Further analyses of this question had recently been carried out, with the consultants who had examined the issue at the time, and they confirmed that the information they had at the time was complete. So he again repeated the invitation to look to the future with faith and enthusiasm.
Moving on to other matters, the Chairman commented that, irrespective of the powers granted by the bylaws, the existence of major shareholders active in the submission of slates of candidates for director makes the submission of a slate by the outgoing body singularly inappropriate.

He concluded by confirming that there is a civil liability policy; this is a single policy covering all senior management, and executed in compliance with the procedures applicable in the specific case.

The Chairman then invited the Chief Executive Officer, Mr Franco Bernabè, to continue, and Mr Bernabè accepted.

He clarified that so far as the Company was aware the Brera area equipment was operating correctly, but this could certainly be looked into; however, it should be borne in mind that sometimes the problems are caused by using cards not issued by Telecom Italia.

The results of the mobile business in Latin America (TIM Brazil and Telecom Argentina) showed strong growth in 2010 (10% for Brazil, and 20% for Argentina), exceeding the forecasts of the financial market, and the prospects for the three year period from 2011 to 2013 also confirmed further growth in turnover.

In the last three years, he went on, the financial and economic results of the Telecom Italia Media Group confirmed a progressive recovery, after embarking on a restoration process, accompanied by digitalisation of the network and a major review of the editorial profile of the programme schedule. The results had been significant in terms of audience share, with a consequent increase in advertising revenues. The group expected to further increase revenues, since the public had shown it liked the kind of information provided by La7.

The Chief Executive Officer continued with the answer to a series of detailed questions, recalling that Miroma and Contact System were two business partners of the “Canale Etnico” (ethnic channel) which both ceased operations during 2007 and included in the complaint filed in Naples in August 2008 alleging fraud involving fake top-ups, since they had sold and registered some prepaid SIM cards used for that fraud. In particular, Miroma had sold 100 of these SIM cards and Contact System had sold 70. Some employees who from 2005 held positions of responsibility for this channel are still working for the Group.

The Tim Welcome Home offer was launched in 2006 and was focussed on acquiring ethnic minority customers. The competent structure was the new market consumers and emerging
markets structure, headed by Riccardo De Angelis. At present Riccardo De Angelis is working in Brazil as business sales manager.

On the question of the false SIM cards, he went on, all possible initiatives had been taken, and the issues that had been shown to be an element of weakness of the system had been removed. As soon as it emerged, the phenomenon was dealt with through an extensive audit plan and subsequently by continuous monitoring by the compliance department, with the results that have already been reported. As for the pairing of Mr D’Andrea with Mr Sasini, the news item that appeared some time ago was denied at the time and immediately afterwards, with the apologies of the journalist who had published it. Naturally, Mr Bernabè also stated, Mr Andrea reserved all rights to protect his image.

Since 2007 Telecom Italia has used Advalso for document management activities relating to mobile sales contracts, paying the company a fee for document management activities carried out both directly and through the supplier Comdata. The combined activities involve document collection, formal checking, categorising, archiving and disposal, if necessary. The latter activity represents approximately 8% of the total activity covered by the contract, the value of which oscillates between 1.8 and 2 million euros per year, and consists of a series of microactivities.

At this point, Mr Bernabè returned to the Deloitte report, and reiterated that this is a project that is the end of a long verification process that the Company undertook when apparently critical situations and potential alarm signals emerged, taking the action it considered appropriate on each occasion. He recalled that in February 2010 the Sparkle affair, which caused the approval of the financial statements for 2009 to be postponed, was current, and led to the emergence of the need for checks. Extending the scope of these checks to other issues, particularly those that were being investigated by various public prosecutors, was immediately thought to be advisable.

As regards the position of Mr Luciani, the Chief Executive Officer recalled the response given to the Consob request, that is, that in deciding its approach, the Board of Directors had taken the embryonic state of the legal proceedings against Mr Luciani into account, proceedings of which the Company only had knowledge through indirect sources. It also took into account the fact that it was advisable for the Company to acquire a full and official account of the investigation currently underway, when it would be able to base its assessments on the legal documents when more fully developed, and hence determine if
new or additional facts have emerged beyond those already known from the Deloitte audit and the internal investigations. Furthermore, he recalled, the Board considered there was no need to take urgent or summary action, since there is no danger that similar events might reoccur.

On the continuation of activities relating to the fake registrations of SIM cards, he recalled that the many initiatives adopted included the activation of the intelligent kit for the obligatory acquisition of personal documentation was activated in July 2009, and the welcome text message to inform the customer of the new activation had been active since March 2010. The recovery activity has also continued, with customer contact transactions in dual outbound and inbound mode, and the assignment of a fee to the sales network for regularising customers. The activity started in 2009 and continued throughout 2010 has meant that the activations of prepaid cards without documentation to be almost completely eliminated. The incidence of this phenomenon was 0.10% per year in 2010, and is now at more or less the same level.

Continuing with the replies to the issues raised by the shareholders who spoke, the Chief Executive Officer emphasised how the third sector is these days an important element in the Italian economy, and the Group has always adopted a constructive and sustainable approach to this, with an approach that goes beyond mere assistance to the building of pathways of development and replicability.

As for the Assilt association, he observed that the current telephone access assistance service to this association is guaranteed permanently by 8 operators, with an increase to 12 in times of maximum traffic. The creation of a dedicated call centre to guarantee greater assistance to Assilt members and to improve service accessibility is under consideration. The new arrangements are expected to be activated during the summer.

So far as innovative services are concerned, the industrial plans for 2011-2013 envisage a three-pronged offer to government service: digital bureaucracy, digital healthcare and digital territory management. These strands are a response to many elements envisaged in the E-government Code (CAD). During 2010 Telecom Italia was, with Poste Italiane, awarded a concession to manage the Pec (Certified Electronic Mail), with a four year contract with euro 25 million. The innovative services for local authorities and government offices in the Telecom Italia price list envisage solutions for televoter and for document management based on cloud computing. Regarding the provisions in the CAD for health
record management, he recalled that the Telemedicine solution for the management of chronic and fragile patients won the Confindustria innovation prize.

As for the broad-based share ownership plan launched in 2010, he recalled that its objective was to promote strengthening of the sense of belonging to the Telecom Italia group and greater employee involvement in achieving the company results. From this perspective, also to guarantee the economic sustainability of the plan, it was considered advisable to limit the possibility of joining the plan to employees, also making the allocation of the bonus share one year after the investment to retention of the share and maintenance of employment with the Group. In future, given the innovative nature of the initiative for Telecom Italia, we may consider repeating the plan, or versions of it, depending on the overall outcome and on the Company’s priorities.

Mr Bernabè went on to answer some of the questions received before the meeting, stressing, in particular, that the Domestic Business Unit had, in reality, produced positive results, recording a margin much higher than those of many of its competitors despite a fall in turnover. Telecom Italia was today characterised by a profitability comparable to that of the best international companies thanks to a cost dynamic that efficiently compensates for the opposing revenue dynamic. This, moreover, is an inevitable process in a sector that experiences radical technological change such as telecommunications: the direction to follow is that of drastic simplification of the organisational structure, and hence a reduction of total organisational costs that can offset the fall in prices. This is exactly the type of action that has allowed the company to maintain impressive margins in a period of great crisis, like that of the last three years.

With specific reference to Telecom Italia Media, he recalled that the results of this subsidiary had improved considerably, progressing from negative EBITDA of euro 55 million in 2007 to euro 13 million in 2010, its first positive result for many years. Operating cash flow had also improved by about euro 100 million. The aim of Telecom Italia Media continues to be that of improving its audience share with a distinctive and quality offer, particularly in high value time slots.

So far as the comments in the report of the Board of auditors concerning the appointments of Reconta Ernst & Young and PriceWaterhouseCoopers, Mr Bernabè recalled that the shareholders’ meeting of 29 April 2010 appointed PriceWaterhouseCoopers as auditor of the Telecom Italia financial statements for the nine year period 2010-2018; so this external

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auditor became the principal auditor of the entire Group. The announcement referred to in the report of the Board of auditors concerned appointments to carry out work other than the audit of the financial statements, to ensure that the independence of Telecom Italia and its statutory auditor was maintained. For this reason, the tasks assigned to PWC from 29 April (the date of appointment) to 31 December 2010 are detailed. Moreover, the Telecom Italia group limits recourse to the statutory auditor and the firms in its network, by inhouse policy, to only those services that are closely linked to the financial statement audit activity, which would make recourse to another auditor more costly.

He then stated that the absences of Alierta and Berger from meetings of the Board of Directors had always been justified.

Again in response to some of the questions received before the shareholders’ meeting, relating in particular to the use of the Telecom Italia networks by competitors, the Chief Executive Officer recalled that the regulation categorically establishes obligatory guidance on the costs of supplying wholesale services. The regulation requires that Telecom Italia is entitled to a reasonable margin of profit on its investments. The criteria used to determine this margin are the subject of specific resolutions of the Authority. Where there have been grounds to do so, Telecom Italia has always appealed to the Lazio Administrative court for all those provisions that it considered damaging to its legitimate interests.

In relation to any behaviour by AGcom that might damage the property rights of the company, he stated that this Authority operates with powers that have been granted to it by law. Telecom Italia has represented and protected its interests in the administrative provisions made preparatory to the adoption of the individual regulatory provisions, and, he reiterated, acts if necessary to challenge any provisions it does not consider legitimate, while always seeking a positive outcome to its dealings with the Authority.

In terms of costs, he assured the meeting that the Group will continue to work to reduce cash costs, in line with its objective of managing to reduce the costs/revenues ratio by 64% by the end of 2013, from the December 2010 level of 67%. With stable capex for the duration of the plan, the main reduction in costs will come from lower interconnection costs, thanks to one billion in greater efficiencies. The operating costs will not change significantly in terms of labour costs, thanks to the continual progress to a lean organisation, obviously within a process that is agreed with the trade unions, which will fully compensate the natural salary dynamics.
Again referring to the debt reduction plan, indebtedness is expected to be reduced by 2 billion per year over the next three years. The debt reduction objectives announced will allow the Group to reduce its net indebtedness from the current euro 31.5 billion to approximately 25 billion by the end of 2013. The debt reduction will be achieved thanks to approximately 22 billion in operating cash flow generated over the three-year period, which will translate into approximately 12 billion in net cash generated, net of financial charges, taxes and other expenses. On the question of the advisability of refinancing the existing debt, he pointed out that Telecom Italia has one of the lowest debt cost in Italy, at international level. The management model of the debt structure is a model that represents a benchmark among corporate issuers.

As for the Long Term Incentive Plan, he clarified that, in order to carry out the increase in share capital to serve the plan, the performance conditions specified in said plan for selected executives need to have been met. The performance objectives are determined in such a way as to reward growth in shareholder value and the achievement of the industrial objectives set in the industrial plan. With this approach the 2011 long-term system is self-financed by the increase in industrial profitability.

Mr Bernabè then went on to provide the following clarification about staff and supplier training: during 2010, Telecom Italia spent approximately 13.2 million on training activities. These activities involved over 80% of the resources. Specifically, 94% of the management, 82% of the junior executives, and 81% of the office staff. 35% of the total expenditure was allocated to institutional and managerial training across the organisational structure of Telecom Italia, 30% to Domestic Market Operations training, 25% to Technology & Operations, and 10% to staff structures. During 2010 there were approximately 4,100 active suppliers, and at 31 December 2010 there were approximately 3,800 suppliers on the supplier list for the Domestic area, which represents the most important suppliers in the purchasing processes. The supplier list, drawn up after qualification tests, saw the addition of 315 new approved suppliers, and 64 suppliers who no longer met the required requisites were eliminated. As for the detail of the individual purchasing items, he clarified that the purchasing perimeter for goods and services managed by Purchasing totals approximately euro 6.5 billion. The costs delegated to other company departments concern interconnection costs, remuneration of sales channels, insurance, to focus on their core competencies, based on the organisational assessments of...
the Group, which take account of the particular needs of the business or activities carried out, or also on the basis of business situations in which the definition of cyclical payables is closely correlated with cyclical receivables, or in the presence of prices determined by the Authority or by tariffs. At Group level, the perimeter of goods and services purchases managed by Purchasing in 2010 was approximately 9.8 million euros.

Again on the subject of Purchasing, he clarified that the principal improvement objective for the supplier list is to contribute to maximising the purchasing results, also by strengthening control of supplier risk, also in relation to purchasing markets, by structured monitoring of the various strategic, economic and operational risks so as to minimise procurement risk. As for the network separation project, he recalled and commented that Telecom Italia believes that its access network is a fundamental asset, and there are therefore no plans to structurally separate the access network, but rather, in the context of developing the optic fibre access network, only projects for public and private investment for the creation for the passive infrastructure of the new network. Where Telecom Italia does intervene, it intends to maintain operational management of activities to ensure that a single architecture is used, that the investment is cost-effective, and that the service offered is a quality service.

The prospects of TIM Brazil, he continued, as represented in the Industrial Plan, reflect both the positive performances of the Company in its reference market and the expectations of the further development of the Brazilian economy; economists forecast a three year period that is again positive in terms of growth in the real economy, and the continuation of the social inclusion process that will lead to 20 million new consumers.

Telecom Italia stopped using the Alice brand for its mobile and fixed broadband products in 2009, opting for the Telecom Italia brand for fixed services and the TIM brand for mobile. As for the association of the Alice brand with mobile broadband, the combination was definitively abandoned because of the opportunity of directly associating the innovative characteristics typical of the internet directly to the TIM brand.

No particular projects existed for Arab countries, Mr Bernabè concluded, areas which already appear to be well covered.

At this point the Chairman intervened, recollecting that the current D&O policy is not nominative, and covers requests for damages that might affect any of the senior managers, members of the Board of Directors and auditors, whether of Telecom Italia or of the
companies it controls. Like the other insurance policies taken out against risks of various kinds, this policy falls within the management tasks assigned to the Board of Directors and its delegated bodies, in which the shareholders’ meeting has no competence.

The answers to the questions received before the meeting were not published on the website because there were only a few questions and so it did not seem necessary: for future years other options will be looked at.

As for the accidents involving two employees that one shareholder had raised, the Chairman recalled that their families had been offered every possible support: from moral and economic support (15,000 euros in extraordinary subsidy in one case, and 30,000 euros in the other), to enquiries made to the Tuscany regional government, the employer of the wife of one of these colleagues to ensure that she was allowed to work from home to be able to stay with her husband and provide him with assistance and support. The company had also promoted a collection of funds with voluntary contributions from colleagues, which raised approximately 39,000 euros which were paid into the current account of the colleague’s wife by bank transfer.

He then returned to the insinuations made about Mr Patuano, and reiterated that no irregularities had emerged from the court papers of the Tavaroli case. The assertions of dubious behaviour by Patuano and Dal Pino that emerged in the Security trial have been around for years: however, not even the public prosecutor ever gave any credence to the declarations made by Iannone who, it should be recalled, is accused of very serious offences and currently being tried before the Court of Assizes. Telecom Italia has brought a civil action in these proceedings against Iannone. There had been no arrest of Mr Bimonte, he continued, and certainly not in relation to his professional activities: so the Company incurred no legal costs.

As for the plea bargain made in relation to the prescription of Law 231, the Chairman recalled that the plea bargain does not result in a declaration of liability for the Company; this plea bargain has allowed Telecom Italia to stop the criminal proceedings, obtaining a reduced pecuniary sanction and definitively avoid the risk, albeit remote, of interdictive sanctions. For the comments on the issue of starting liability proceedings, the Chairman referred the shareholders to the analysis contained in the corporate governance report.

As for the series of questions formulated during the speeches of the shareholders concerning the conduct of the Board of Auditors, Mr Galateri again recalled that the
auditors had expressed their views in the report to the financial statements, as well as in the statement made by the Chairman of the Board of Auditors at the start of the meeting. On the question of making the Greenfield report available to the shareholders’ meeting, Mr Galateri recalled that it had been made available to the corporate bodies, to Consob, and to some public prosecutors in relation to their ongoing investigations. This shows the transparency adopted by the Company, and confirms, given the nature of the report, that this is not a document that can be published.

Mr Bernabè resumed speaking at this point, emphasising that the concept that Hansenet was sold at a price less than its real value could not be substantiated in any way. On this question it should in fact be recalled that the competitive scenario of the German broadband market at the date of sale must be considered in valuing the adequacy of the sale price. The size and infrastructure characteristics of the competitors made successful long-term strategic positioning impossible without considerable investment, the return on which would be far from certain. So, with the support of Morgan Stanley, a sale process was started involving a number of potential purchasers, and at the end of this process - a transparent process, managed by business bank - a deal was agreed with Telefonica. The adequacy of the price represented by the enterprise value of Hansenet was confirmed in a specific fairness opinion obtained from the Company’s consultant, i.e. from Morgan Stanley, which acted as financial advisor. The correctness of the economic terms of the agreement was also confirmed by Barclays Bank, the advisor appointed by the Committee for Internal Control and Corporate Governance. The advisor carried out a financial assessment of the sale price, confirming that it was within a valuation range calculated using a number of methods applied in similar situations.

With reference to Argentina, the Chief Executive Officer recalled that the targets in the industrial plan 2011-13, announced to the financial markets last March, forecast turnover of approximately 18 billion pesos for 2011 and an EBITDA of over 5.5 billion. The corresponding euro figures will also depend on the trend in the euro/peso exchange rate, currently at 5.7 pesos for 1 euro. As for the initiatives against the managers involved in the TI Sparkle affair, he recalled that actions of this kind had in effect been taken, and had in fact already been reported.

He then spoke about the question of goodwill, also raised by a number of the shareholders who spoke, and recalled that non-current assets, at euro 51.8 billion, in reality are made up

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of euro 43.9 billion in goodwill and euro 7.9 billion other intangible assets. Specifically, this last figure, amortised over the useful life of the assets, includes euro 3.7 billion in concessions, licences and trademarks, and euro 2.6 billion in industrial patents and rights (principally the application software for both Italy and South America). The value of goodwill is periodically checked in the impairment test.

Referring to a query about the reasons for the low level of investment in Telecom Italia, Mr Bernabè pointed out that over the last three years, savers and operators had become more and more risk averse, and this had caused a significant contraction in total investment in shares, and hence in stock market indicators. This particularly penalised shares burdened with high levels of debt, like Telecom Italia, and is also the reason why reducing the debt is an important factor to restore share value: the less debt, the more growth in equity value, and hence in shareholder value. As for the solidarity contracts, their application does not prevent the use of professional mobility between the various sectors of the business. The solidarity agreement applied to directory assistance (47%), based on the agreement reached with the trade unions on 4 August 2010, will be renewed for two years from 1 September 2011 with arrangements that will be discussed and negotiated with the trade unions.

As for the cost containment policies, he reported that recently, in contrast to the affirmations made in this meeting, operations reversing the trend to outsourcing have been carried out; in particular, training activities were selectively brought back in-house, and in information technology, given the expressions of interest in SSC received during 2009, a decision was made not to proceed with the sale, but to keep the IT division inside the Group, since SSC is a company that is wholly owned by Telecom Italia. The cost containment policy was in any event constantly focussed on reducing professional services and consultancy, which had been reduced by approximately 25% in the last year. In parallel, meritocratic policies have been made more selective, with a reduction from 15 to 30% over the last three years. As for the senior management, the Chief Executive Officer continued, there has been a progressive contraction in both the fixed and variable components of their retribution. In particular, the fixed remuneration of senior managers fell by 11% over the last 3 years (for the top management alone the reduction was 20%). However, for the management as a whole, pay grew less than for the rest of the personnel. On the subject of “virtualisation”, he recalled that 16,000 virtual workstations based on

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“cloud computing” architecture had been introduced in the company. This is a major project aimed at reducing the overall cost of internal IT architecture, and also to demonstrate the value of the offer of cloud services to the market.

The integrated fixed-mobile offer, Mr Bernabè commented, has proved to be particularly effective in the business segment, where the Company has launched the Simple Enterprise concept. In the enterprises segment, customer care staff are already working in an integrated way, providing support to fixed and mobile services without distinction. The assurance process is fully part of a continuous improvement culture, guided by the need to improve the quality of the service provided to customers in a cost sustainable way. He himself analyses the trend and quality of these indicators every three weeks, more or less. However, productivity indicators are never the only objectives in the work of the company, since quality is of primary importance, he reiterated. Finally, he concluded this set of replies by emphasising that the conclusion of the solidarity agreement had created the conditions for sustainable labour costs in the period covered by the 2010-2012 plan.

Moving on to other questions raised, and in particular to the series of comments made about the revenues of Telecom Italia compared to its competitors, the Chief Executive Officer pointed out that Vodafone did not actually increase its turnover, having had the same problems as Telecom Italia, that is, problems in transferring the benefits of cost cutting to its customers. However, the comparison should look at the trend in revenues compared to the trend in productivity: and from this perspective the results achieved by Telecom Italia can only impress. The Italian situation is in any event the picture of a market that has been falling for about ten years, a loss that is mainly in the average population bands into which almost all Telecom Italia customers fall. So we need to take this trend into account, focussing all our efforts on profitability rather than on turnover, and on financial flows that allow the company to achieve two fundamental results: on the one hand, the gradual reduction of the debt, and on the other an adequate level of remuneration for shareholders. It is well known that the latter have seen shrinking dividends in recent years, with pay out falling from 70% to as low as 30%: but this was a sacrifice paid for by the reduction in debt needed. The objective, the Chief Executive Officer stated, is thus to maintain a cash flow that allows the debt to be reduced while continuing to pursue a policy of stable dividends, as announced, and thus manage the process of progressively consolidating the Group, which in turn is aimed at restoring growth conditions.
As for the advertising campaigns, he went on, everyone naturally has their own opinion. However, the Company, taking account of the fact that these are major investments, possesses a range of tools to monitor the costs and efficacy of these campaigns, and advertising investments are made on the basis of these tools.

As for the average age of employees, Mr Bernabè stated that it is actually increasing, due primarily to the decision to reduce the social impact of the necessary business downsizing process. The agreements with the trade unions mean that the company labour cost structure is, as a whole, sustainable. On this question, Mr Bernabè emphasised that the Company has started an impressive project, perhaps unique in Italy, to retrain personnel, promoting and enabling migration from areas with excess capacity to those in which there were shortages. This type of training exercise has been greatly appreciated by the personnel, and has also included the possibility of attending university courses. This does not mean that having a young work force is not a real necessity, since young people offer a prospect for the future.

An agreement was recently made with the trade unions to enable the company to employ young graduates on a special and innovative training contract designed to enable and facilitate the recruitment of new engineering graduates, in particular from universities in the South of Italy.

As for the TIM shops, he stated that in 2009 approximately 2 million phones were sold through the network of shops: in the fourth quarter alone, approximately one million were sold, indicating that smart phones are again central to the TIM sales offer, since they are the enablers of new mobile internet applications. Smart phones in fact represented approximately 36% of sales in the fourth quarter. As a percentage of total sales of smart phones in Italy, TIM has just over 20% of the total market, in line with Vodafone, and here it is worth recalling the role of the open market, which accounts for 40% of the total. In 2011 smart phones are expected to account for 45% of the approximately 3 million phones projected to be sold.

Regarding the revenue strategy for the next three years, Mr Bernabè recalled that, the revenue dynamic in a market like Italy is known to be an extremely complicated one. However, as is clear from the financial statements, the trend in the consolidated revenues of the Group is positive, thanks to its presence in markets without the saturation typical of the domestic market. Revenues will also be affected by the trend in fixed telephony, where Telecom Italia currently holds a market share that is still very high: however, in an
increasingly competitive market, this market share is destined to be eroded for physiological reasons, not because Telecom Italia is unable to overcome the competition. Regarding mobile telephony, however, the trend, in terms of quantities, remains extremely positive: examining the growth in data traffic, for example, there has been an increase of 30% in fixed traffic and 100% in mobile. The growth in voice traffic – that is, minutes of conversation - has been equally substantial, especially after the change in tariff structures: the simplifications introduced since 2009 have therefore led to greater use of the phone by customers, whose numbers are also growing. On the other hand, it is clear that in a market with penetration of 150% the dynamic can only depend on subtracting market share from other operators, triggering competitive pressure that is inevitably price-based. As could be seen, the Chief Executive Officer went on, the price dynamic is in any event stabilising, and since the quantities are growing, we can expect positive results. He referred to his comments about the Deloitte report and the issues around the disposal of the property portfolio in the introduction to the meeting, and in relation to the focus on strategic assets, observed that the sale of the minority investment in Cuban operator Etecsa may be considered the last sale. This is a geographical area in which the interest of the Group is in reality a strong one: however, this was an investment that could not be consolidated, and therefore could not become part of a growth strategy. So we are satisfied for the terms of the final agreement. Finally, the Chief Executive Officer stated that, in relation to the comments made about some of the presenters of La7, that the Group is only interested in the audience that the individual presenters are able to acquire. 

The Chairman of the Board of Auditors, Prof. Bignami, took the floor, and stated that over recent years the Board had been constantly informed by the officer responsible for internal control on the developments of the investigations into the irregular SIM cards, as well as on the initiatives created to reduce the phenomenon to physiological conditions. The reports naturally concerned the process as a whole, not necessarily the individual episodes reported on. As for the question of the assets, Prof. Bignami referred to the previous assessment of the Board of Auditors, and in particular to their assessment in point 5 of the report to the shareholders for the 2007 financial year after a complaint had been submitted by a shareholder.

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As for the request concerning the reasons of the non-dissemination of the Greenfield report to the shareholders’ meeting, he pointed that all the information on this matter was already contained in the directors report and the report of the Board of Auditors itself, as well as in the supplementary reports given to the shareholders’ meeting after specific requests made by Consob. The adequacy of this report had been ascertained by the Board of Auditors, which had been able to verify the entire Deloitte report directly. On this point he added that with the choice made the desire was to in any event avoid out of context quotes from the report being picked up and reported in the media, which might distort its meaning. In other words, this could trigger a confused sequence of statements, clarifications and protests in the newspapers, which could have been damaging to the truth as well as to Telecom Italia.

He also stated that the first five year period after which liability proceedings could not be started against the previous executive directors is the period that applies to Mr Tronchetti Provera, and this expires on 15 September 2011, since this gentleman had ceased to hold office on 15 September 2006.

He also stated that the further comments made to the Board of Auditors in the shareholders’ meeting had already been answered at the start of the meeting, since these were comments that had been submitted in advance by post.

Finally, regarding the supervision of other appointments conferred on the external auditor, he emphasised that the Board of Auditors constantly monitors this topic, also pursuant to the guidelines for the appointment of the audit firm: these further assignments are properly mentioned in points 7 and 8 of the Board of Auditors’ report. He also stated that to protect the independence of the external auditor, the Guidelines establish the principle under which the conferral of other appointments is limited to the services and activities closely related to the financial statements audit, for reasons that have been explained. However, it remains the case that conferrals of other appointments, when permitted in the reference regulations, are subject to the prior favourable opinion of the Board of Auditors, which periodically expresses itself, or by type of task. He further noted that the Board of Auditors, having taken note of the appointments conferred on the external auditors in financial year 2010 has recommended to the Company that appointments should be submitted anyway for the prior approval of the Board of Auditors which, although they may be considered pre-approved by the Control Body as per the Guidelines, have profiles that are particularly important from a qualitative and quantitative point of view.

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At this point the Chairman stated that further replies would then be given to the shareholders.

On behalf of shareholder Findim, Toffoletto clarified that he had not wanted to speak about the level of attendance at the shareholders’ meeting, but had rather wanted to point out that during a series of earlier years a situation had been established, namely the de facto control of Telecom Italia by Telco, and that this should in his view be raised. He considered the summary comments on the question of the direction and coordination (of the Company) insufficient, given the substance of what had happened.

And as for the proposal to exempt the directors from the competition prohibition, after having obtained further clarification of the voting arrangements from the Secretary, Prof. Toffoletto stated that, considering the delicate nature of the issue, a vote of this type should be taken on a case by case basis, and hence candidate by candidate, after analysis and discussion of the reasons underlying the request.

He further commented that the next Board of Directors, also considering the public nature of the company, an aspect that everyone hopes will increasingly characterise it, should device a change to the mechanism of appointing directors in order to give greater space to the minority directors by introducing a proportional mechanism.

Finally, regarding any challenging of the financial report, he recalled how voting against a resolution is very different to challenge: for his part, today he is simply the holder of a proxy to vote against it.

After asking for and immediately obtaining further details of the proposals formulated by shareholder Telco on the number of directors, remuneration and exemption from the competition prohibition, D’Atri observed that these proposals, particularly the last one, did not appear to him to be in any way reasoned.

He then complained that he had received no answers to the queries he had formulated, and asked on what date the intention to proceed to repurchase the company’s own savings shares had been announced to the market, how the stock had been trading immediately prior to this announcement, and the specific reasons for the proposal. He also asked if the Board of Directors had or had not authorised the soliciting of proxies, given the high
percentage of capital present in the shareholders’ meeting, and the cost of the designated representative of the Company.

In response, the Chairman stated that the Board had not solicited any proxies, and the cost for the designated representative was 35,000 euros. The decision to proceed to buy back the savings shares was communicated on the day of the Board meeting: there had been no particular movement recorded in the preceding days, while in the following days the stock had started to rise.

Le Pera acknowledged and shared the Chairman’s opinion that the submission of slates by the Board did not reflect best practice in the Italian market, and suggested that in future the related clause of the bylaws should be corrected. He also observed that the dispute with a director was, from the outside, a symptom of the need to improve governance arrangements. He also asked if more information could be provided on the existing D&O policy, and in particular if the part concerning the directors and senior managers could be extrapolated.

Finally, he asked if there was any intention to publish some answers on the website after the shareholders’ meeting.

The Chairman observed that there would be no outstanding need to publish further responses at the end of the meeting.

Fogliati announced that he would vote in favour of the financial statements, approve the Telco list, and vote in favour of the buy back of shares and the changes to the regulations for the shareholders’ meeting, although he would like to see more representation of minorities on the Board. But, he announced, he would abstain on the incentive plan, since he believed its objectives were not entirely comprehensible due to the organisational structure of the Company. He also announced that he would vote in favour of the topics on the extraordinary agenda, although he hoped that in future the burden of work of the assembly could be lightened.

Lombardi, chairman of ASATI, expressed his disappointment with the replies received, both those of the Chief Executive Officer, barely sufficient, in his view, and above all those of Prof. Bignami. In relation to this, he repeated his request for the Chairman of the Board of Auditors to explain why the Deloitte report had not been divulged to the shareholders’ meeting, considering that in reality the press were well familiar with it, as shown by the articles that had appeared in Panorama, for example, or those written by
Oscar Giannino. So he considered the arguments offered in the replies of the Chairman of the Board of Auditors unacceptable. He stated that the report in reality contained material that would substantiate liability proceedings, and repeated his request to know whether or not it was true that there was a specific prohibition to distribute the report to the shareholders’ meeting at the start of its four volumes.

He then returned to the question of the property, to complain that Telecom Italia had been doubly disadvantaged: firstly because it had sold at non-market prices, and secondly because today it found itself, through net lease type contracts, having to pay a cost corresponding, on average, to approximately 7% of the value of the Tiglio I and Tiglio II properties, and 9% for the Magnum properties. So he asked if at least in relation to the rental contracts was there or was there not any desire to remedy the action taken in the past.

After the Chairman had confirmed that the directors had been informed of the content of the reply sent to Findim in response to its letter, Mr Lombardi, chairman of Asati, proceeded to explain and summarise his reply, a paper copy of which was then delivered to the chairman’s table and then reported, at his request.

Today – the Asati reply asserted – is a historic day, because the ordinary share capital present in the shareholders’ meeting has exceeded about 51% for the second time in the history of Sip –Telecom Italia, after the Colaninno IPO in 1999. And, strangely, Mr Bernabè is here again. So in theory Telco could be in a minority. Revolutions similar to the fall of the financial power of relationships and the system bankers could happen, and perhaps we would witness the waxing, and then the waning, of the power of the corporate wide-boys.

As for the prior events – referring always to the reply of Mr Lombardi, Chairman of Asati – first of all, Findim sends a letter to the Board of Directors, and Consob asks Telco for explanations, about the fact that since Telco controls and directs Telecom Italia, it should consolidate the Telecom Italia financial statements. Consob had in fact previously required Olimpia to consolidate the Group, in 2002-2003, but the decision was reversed by the Lazio Administrative Court. To be honest, Asati had raised the problem of Consob, Telco and Telecom Italia before, but received no reply whatsoever. One of the parameters that supports the company’s argument against consolidation is that Telco must be a minority in
the Shareholders’ Meeting for three consecutive years: here we have the possible miracle of today’s meeting.

Assogestioni, as the press is aware, had difficulty putting together the 1% required to compose a slate. In March 2008, in the previous renewal of the Board of Directors, it even asked Asati to vote in its list, when the threshold was 0.5%. This year Asati has not been asked to help. In fact Assogestioni preferred not to meet its Chairman, and submitted a slate with just three directors. And one might discover during the shareholders’ meeting that Assogestioni could collect over 20%, perhaps exceeding Telco, with the votes brought by the representative of the Trevisan funds, which usually groups Blackrock, Brandes Investment, BNP Paribas and others. Brandes Investment usually participates 0.4% in the shareholders’ meeting, always voting in favour of the management, and hence of Telco. In this case too, one could wonder whether the bankers had not spoken to one another, or if the Assogestioni establishment is not very able, and not foreseeing this avalanche of preferences, submitted a slate with just three directors on it even though it could have overtaken Telco: in Asati’s opinion this was very ingenuous.

Given what is represented, the less ingenuous Mr Lombardi and Asati would not want the banks and bankers of the system to surface in another audience, using the new regulation on the record date (which expires on 6 April) in the days prior to 6 April – a period in which shares may be sold while their voting right is maintained. One would not wish to think that these people (excluding Telecom Italia itself in any event) had bought voting rights, employing very considerable financial expense to promote the progress of a possible farce in favour of the controlling shareholder, so as to not have to comply with the legitimate consolidation of Telecom Italia. But watch out, because if this “unbelievable and fanciful reconstruction” should be true, then this whole transaction could be the subject of investigation by the competent bodies, because technically it does not make sense. That is, the Lombardi reply went on – a shareholder buys a voting right that he or she lends to a fund which then gives a proxy to a third party. Why doesn’t the shareholder want to exercise this right himself or herself? So the shareholder would do this to favour a project that, if concluded successfully, will bring him or her much more than the considerable losses to his or her property if this objective is not achieved.

Moving to the voting declarations, while it respected Chairman Galateri and Mr Bernabè, who made the company safe after the disasters of the previous top management, creating

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the conditions for a relaunch over the next three years, Asati would be voting against approval of the financial statements because it does not wish to write off all the work done in recent years to propose liability proceedings in a civil court against the top managers and senior executives of the 2001-2007 management at all levels and in all competent jurisdictions and bodies. The content of the Deloitte report, now an open secret, and so which Asati too now knows the essentials of, is the certain proof that it was and is right, otherwise it would not be withheld from the shareholders’ meeting. Technically, it would not be desirable for some judge to be able to hold forth on the abstention or vote in favour in future civil proceedings that might be started (a letter to suspend the limitation period for civil damages has already been sent, signed by over 200 Telecom Italia shareholders). And the Board does not appear to want to immediately carry out an audit of the property, so for its part Asati has confidence in the decision taken.

For this reason it invited all the minority shareholders to give a clear negative vote to approval of the financial statements because otherwise the option of applying to be a civil party will be precluded, given the investigations being undertaken by the judiciary, and the possibility of further judicial initiatives, considering that recently investigating magistrate Gennari returned to the prosecutors the famous illegal documents which will therefore not be destroyed but will certainly substantiate further accusations of acts of maladministration. The economic press, including foreign papers, have given little space to this news: who’s worried now? - the Asati reply asked.

The initiative announced by Bernabè – that is, the start of a partial recovery of the damages, could be considered – the reply goes on – a good start for a new three-year period of management, but the further decisive extension with a second phase will certainly be blocked by the system bankers inside Telco, so it is, regrettably, only peanuts.

As for the list of the new Board of Directors, given that there is a conviction that the film just alluded to will be made, Asati - while it profoundly esteemed Luigi Zingales who, with two representatives of the minority shareholders, Baratta and Berger (who were even disowned by Findim, which had put them on its slate) had tried, in a Board of Directors that was defending the previous management, to oppose the chorus on the Board that was defending the 2001-2007 period – with a proposal to not archive the liability proceedings, despite all – would today (after also being refused a meeting with Assogestioni) be voting for the only minority slate that has its shares, like all of us small shareholders. Assogestioni
has no more shares the day after the meeting, so Asati invites everyone to vote for the only shareholder not in the choir, that is, the Findim list, with which the by now essential liability proceedings can be accelerated, and together achieving much more than the 2.5% needed to proceed in the most expeditious way to the liability proceedings.

Asati will vote against all the auditors who to date noticed nothing about the previous management, the reply went on: PriceWaterhouseCoopers produced a half page on the financial report – and this is supposed to be worth over two million euros per year: we invite you to vote against it.

Asati, the reply ended, is absolutely against and will vote against the long term incentive plan, because its objectives and timing are not clear, and Asati believes that when the business is in this difficult situation, in which, among other things, there are solidarity contracts, it is scandalous to propose such a plan, and it invites all the other minority shareholders to do the same. If the small shareholders, who have been the most penalised in recent years, and simple employees are to be asked to make sacrifices, then the senior management should be the first to give a good example.

After Mr Lombardi had finished speaking, De Septis took the floor, and stated that there had been a mistake in the article by the journalist Biondani, with whom he had exchanged emails at the time. He made his excuses to Mr D’Andrea, and accepted all responsibility for his actions as he always had done.

However, he continued to not understand the singular coincidence of the report on the facts relating to the siphoning off of money from Telecom Italia and the isolation and marginalisation of a simple employee. The feelings that he might have intuitively wished to report to Mr D’Andrea, to make a contribution, would have been different again. For example, when he asked if one can be certain that from 2007 onwards some other “creative manager” had not continued to artificially boost the Sim figures, he did it thinking about what had happened to him. He himself, he went on, had requested a list of the Sims registered in his name, and had found some registered with the TIM Albania profile: however, he had no idea who had activated these cards, some of which were actually still active, with the profile changed in the meantime to TIM Tribù. And so where one of these creative managers has left the Company, with a very generous compensation package, the possibility of demonstrating that data have been falsified could be useful to the company.
In a further response, Mr Bernabè assured and clearly stated that the interests of the business are protected not only by dazzling actions, but also with daily work. He confirmed that Telecom Italia has already implemented initiatives to restore the damage incurred in some situations that had damaged it. With specific reference to the rentals mentioned during the replies, he reported that most of the contracts expiring in 2011-2012 had been renegotiated in recent months, with a total saving of approximately 20 million euros: the remaining renegotiations were underway, and further savings are expected. So all reminders are useful, while it remains the case that those who are responsible for the company are concerned with protecting its interests on a daily basis.

The Chairman of the Board of Auditors in turn stated that it is not for the Board to choose what communications are to be disseminated, but the Board of Directors which, in the case of the Deloitte report, decided to announce the essential elements. The Board in turn had checked and evaluated the decision, and believed that the information disseminated was in any event complete.

From the floor, Mr Lombardi then asked the Chairman why the Board had made this decision, and the Chairman referred him again to the statements made on this subject, and postponed the matter to further meetings.

***

No-one else having asked to speak, the Chairman declared the discussion closed and invited the Secretary to explain how to use the televoters, and how to vote, also using slides. The Secretary complied.

The Chairman then in relation to the first item on the agenda:
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- announced that at 4.05 p.m. a total of 6,723,501,888 shares were present, entitled to the same number of votes and equivalent to 50.15% of the ordinary shares;
- at 4.05 p.m., put the proposed resolution of the Board of Directors, transcribed below, to the vote, using the televoters:

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

- having examined the 2010 annual financial report;
• having taken note of the reports by the Board of Auditors and by the external auditor PricewaterhouseCoopers S.p.A.;
• having considered that the overall number of shares with regular entitlement on the proposed coupon date will be 13,407,963,078 ordinary shares and 6,026,120,661 savings shares;
• having taken account of the current amount of the legal reserve;
• in view of the authority given to the Board of Directors to increase the share capital by allocating profits, as stated in Article 5.4 of the Bylaws;

resolves

1. to approve the annual accounts of Telecom Italia S.p.A. for the period ending 31 December 2010, showing an annual net profit of Euro 3,512,580,577;

2. as regards the profit for the year,
   a. to allocate to the legal reserve profits of 2,976,175.29, the sum required for the legal reserve to reach the amount of one fifth of the share capital at the time this resolution is adopted;
   b. to allocate to a special reserve (designated “Plans pursuant to Article 2349 of the Civil Code”) the amounts of (i) Euro 4,960,292.15 to service the free of charge increase in share capital, by the allocation of profits, as provided in the “2010-2014 Broad-based Employee Share Ownership Plan”, approved by the Shareholders’ Meeting of 29 April 2010 and (ii) Euro 5,000,000 to service the free of charge increase in share capital, by the allocation of profits, as provided in the “Long Term Incentive Plan 2010-2015” approved by the Shareholders’ Meeting of 29 April 2010.
   c. to pay the Shareholders a total dividend calculated on the basis of the following amounts, which will be applied to the number of ordinary and savings shares that they own (thus excluding the treasury shares in the Company’s portfolio) on the coupon date of said dividend:
      - Euro 0.058 for each ordinary share,
      - Euro 0.069 for each savings share,
    gross of the withholdings required by law. It remains understood that the profits not distributed as dividends shall be carried forward;
a. to carry forward the residual profits;

3. to authorise the Board of Directors - and on its behalf its Chairman - to ascertain in due course, on the basis of the actual number of shares for which dividends are paid, the amount of profit distributed to shareholders and the amount carried forward;

4. to make the dividend payable starting on 21 April 2011, with a coupon date of 18 April 2011.

The resolution was approved by a majority of the shareholders.

For: 5,977,773,237 shares
Against: 702,507,041 shares
Abstained/Not voting: 43,221,610 shares

All as detailed in the annexes.

The Chairman then formally acknowledged that, with the approval of the proposed resolution submitted by the Board of Directors, the following proposals had been approved:

- the financial statements of Telecom Italia for the year ending 31 December 2010
- the allocation of the profits for the year by distribution of a dividend of 0.058 euros per ordinary share and 0.069 euros per saving share, gross of the withholdings prescribed by law.

Then the Chairman, in relation to the second item on the agenda:
- announced that there would be two votes, on, respectively:
  - the determinations of the number, duration, remuneration and removal of the competition prohibition for the new Board;
  - the appointment of the Directors, using a slate voting system;
- he pointed out that Shareholder Telco had proposed:
  - that the number of members of the Board of Directors should be 15;
that the duration of the mandate should be established as three financial years, and hence until the shareholders’ meeting called to approve the financial statements at 31 December 2013;

- to establish a maximum of 2,200,000 euros as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board;
- to authorise the candidates to serve on the Board of Directors to continue the activities indicated in their respective curricula vitae and in any event to remove from them the competition prohibition insofar as it might be necessary and possible, pursuant to article 2390 of the Civil Code;
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- announced that at 4.09 p.m. a total of 6,723,501,887 shares were present, entitled to the same number of votes and equivalent to 50.15% of the ordinary shares;
- at 4.09 p.m., put the proposed resolution of Shareholder Telco, transcribed below, to the vote, using the televoters:

The Shareholders’ Meeting of Telecom Italia S.p.A.

resolves

- that the number of members of the Board of Directors should be 15;
- that the duration of the mandate should be established as three financial years, and hence until the shareholders’ meeting called to approve the financial statements at 31 December 2013;
- to establish a maximum of 2,200,000 euros as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board;
- to authorise the candidates to serve on the Board of Directors to continue the activities indicated in their respective curricula vitae and in any event to remove from them the competition prohibition insofar as it might be necessary and possible, pursuant to article 2390 of the Civil Code;

The resolution was approved by a majority of the shareholders.

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For: 5,817,029,913 shares
Against: 707,648,260 shares
Abstained/Not voting: 198,823,714

All as detailed in the annexes.
The Chairman then announced that:

- it had been resolved that the number of members of the new Board would be 15;
- the duration of the mandate had been established as three financial years, and hence until the shareholders’ meeting called to approve the financial statements at 31 December 2013;
- a maximum of euro 2,200,000 had been established as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board;
- the removal of the competition prohibition of the candidates for membership the Board of Directors, insofar as it might be necessary and possible, pursuant to article 2390 of the Italian Civil Code, had been authorised.

and, continuing:

- reported that, since the Shareholders’ Meeting had determined the number of members of the Board of Directors as 15, 12 of the Directors (corresponding to four fifths of the total) would be allocated from the slate that received the highest number of votes, pursuant to the Company bylaws. While the remaining Directors would be allocated from the other slates;

- recalled that three slates had been submitted, as indicated in the booklet distributed on entering the hall:

The **TELCO List**, submitted by Telco S.p.A. and composed of

1. Cesar ALIERTA IZUEL;
2. Tarak BEN AMMAR;
3. Franco BERNABÈ;
4. Elio Cosimo CATANIA;
5. Jean Paul FITOUSSI;

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6. Gabriele GALATERI di GENOLA;
7. Julio LINARES LOPEZ;
8. Gaetano MICCICHE’;
9. Aldo MINUCCI;
10. Renato PAGLIARO;
11. Marco PATUANO;
12. Mauro SENTINELLI;
13. Francesco COATTI;
14. Filippo BRUNO;
15. Oliviero Edoardo PESSI.

The **Findim List**, submitted by Findim S.p.A. and composed of
1. Gianemilio OSCULATI;
2. Paolo Carlo Renato DAL PINO;
3. Carlos Manuel DE LUCENA E VASCONCELOS CRUZ.

The **Institutional Investors List**, submitted by a group of savings management companies and international institutional investors and composed of
1. Luigi ZINGALES;
2. Ferdinando FALCO BECCALLI;
3. Francesco PROFUMO;
   - invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
   - informed the meeting that at 4.13 p.m. a total of 6,723,501,527 shares were present, entitled to the same number of votes and equivalent to 50.15% of the ordinary shares;
   - put the submitted lists to the vote, using the televoters, at 16.13 p.m.

The following results were obtained:

For List 1: 3,151,992,215 shares
For List 2: 786,861,815.
For List 3: 2,645,933,381.
Against all the lists: 10,292,821.

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All as detailed in the annexes.
The Chairman then formally acknowledged that the Telco List had received a majority of the votes and therefore 12 of the Directors on the list would be appointed, in the order in which they are listed, and specifically: Cesar ALIERTA IZUEL; Tarak BEN AMMAR; Franco BERNABÈ; Elio Cosimo CATANIA; Jean Paul FITOUSSI; Gabriele GALATERI di GENOLA; Julio LINARES LOPEZ; Gaetano MICCICHE’; Aldo MINUCCI; Renato PAGLIARO; Marco PATUANO; Mauro SENTINELLI; pursuant to the bylaws, the remaining 3 directors should be taken from the other lists, applying the criteria specified in article 9 of the Company bylaws. The following were declared to have been elected: Luigi ZINGALES; Ferdinando FALCO BECCALLI and Francesco PROFUMO.
The Chairman then stated that the Board of Directors itself would ascertain that the newly appointed Directors possess the requisites in its first useful meeting, as indicated in the Self-Regulatory Code of the Company.

Then the Chairman, in relation to the third item on the agenda:
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- informed the meeting that at 4.20 p.m. a total of 6,722,901,528 shares were present, entitled to the same number of votes and equivalent to 50.14% of the ordinary shares;
- at 4.20 p.m., put the proposed resolution of the Board of Directors, transcribed below, to the vote, using the televoter:

The Board of Auditors of Telecom Italia S.p.A.

whereas

- the ordinary Shareholders’ Meeting of Telecom Italia S.p.A., held on 29 April 2010, resolved to confer the appointment as statutory auditor (formerly external auditors) for the period 2010 – 2018 on PricewaterhouseCoopers S.p.A. with a total annual honorarium of Euro 1,811,300;

- the proposal for the appointment of statutory auditor approved by the Shareholders’ Meeting specifies that the times and the fees for the appointment can be reviewed in the event of the occurrence of the cases provided for in the current provisions and as
- in the course of the 2010 financial year, following the acquisition of control of Sofora Telecomunicaciones SA and its subsidiaries, the structure of the Telecom Italia Group significantly changed, a circumstance which constitutes one of the conditions referred to in the previous paragraph;

- this alteration will entail increased effort on the part of PricewaterhouseCoopers S.p.A. for the statutory auditing of the consolidated financial statements and for the coordination and supervision of the auditing of the internal controls which govern the process of drafting the consolidated financial statements, pursuant to section 104 of the Sarbanes-Oxley Act;

- due to the increased activity which the external auditor is required to perform for Telecom Italia S.p.A. for the statutory auditing of the consolidated financial statements and the internal controls pursuant to section 404 of the Sarbanes Oxley Act, PricewaterhouseCoopers S.p.A., in a letter dated 15 February 2011, has asked for the adjustment of its remuneration for each of the financial years 2010-2018, observing that the case comes under the heading of exceptional and unforeseeable circumstances which justify reviewing the fees originally agreed for statutory auditing services;

  having observed that

- the proposal by PricewaterhouseCoopers S.p.A. for adjustment of its remuneration contains information relating to (i) the hours which are estimated to be necessary for performing the above mentioned increased activity; (ii) the diverse professional categories of the individuals involved in the performance of the activity; (iii) the respective remuneration;

- the increase requested by PricewaterhouseCoopers S.p.A. amounts to Euro 34,700 per annum for auditing the Company’s consolidated financial statements and Euro 45,900 per annum for coordination and supervision in relation to the auditing of the internal controls which govern the process of drafting the consolidated financial statements, pursuant to section 404 of the Sarbanes-Oxley Act;
therefore, the hours and the remuneration for the auditing of the consolidated financial statements of Telecom Italia S.p.A. will be respectively increased from 1,900 hours to 2,360 hours and from Euro 112,100 to Euro 146,800, while the hours and the remuneration provided for the auditing of the internal controls which govern the process of drafting the consolidated financial statements of Telecom Italia, pursuant to section 404 of the Sarbanes-Oxley Act, will be respectively increased from 12,000 hours to 12,510 hours and from Euro 658,100 to Euro 704,000, all in addition to VAT (where applicable) and out-of-pocket expenses, to be invoiced on the terms and conditions agreed upon the conferment of the original appointment;

considering that

with reference to the above proposal, the Board of Auditors has received the positive assessments made by the competent bodies within Telecom Italia which, in their turn, have discussed with the executives of the external auditor the terms, including the economic terms, of the proposal, and the latter has also been examined, without comment, by the Company’s Internal Control and Corporate Governance Committee;

in formulating the proposal for increasing the remuneration, PricewaterhouseCoopers S.p.A. has provided suitable assessment considerations concerning, in particular, the economic conditions envisaged in the proposal;

the remuneration appears appropriate, substantially in line with the proposed appointment approved by the Shareholders’ Meeting of 29 April 2010, and also consistent with the use of professional resources required for the auditing activities described above.

The Board of Auditors, as a result of the assessments referred to above and of checks which it has made directly

proposes

to this Shareholders’ Meeting

- for each of the financial years 2011-2018, to increase to Euro 146,800 the annual remuneration for the statutory auditing of the consolidated financial statements of Telecom Italia S.p.A., and to Euro 704,000 the annual remuneration provided for the auditing of the internal controls which govern the process of drafting the consolidated
• to increase, for each of the financial years 2011-2018, to Euro 1,891,900 the total annual fee to be paid to PricewaterhouseCoopers S.p.A.

all the other terms of the appointment conferred by the Shareholders’ Meeting of 29 April 2010 to remain unaltered.

The resolution was approved by a majority of the shareholders.

For: 6,647,803,234 shares
Against: 7,928,289 shares
Abstained/Non-voting: 67,170,005 shares.

All as detailed in the annexes.
The Chairman then formally acknowledged that the following proposal had been approved:
• to increase the annual fee for the statutory audit of the consolidated financial statements of Telecom Italia S.p.A. to euro 146,800 per year, for each of the years 2011-2018 and
• to increase the annual fee for the auditing of the internal controls which govern the process of drafting the consolidated financial statements of Telecom Italia, pursuant to section 404 of the Sarbanes-Oxley Act, to euro 704,000 per year, for each of the years 2011-2018,
in addition to VAT (where applicable) and out-of-pocket expenses, all the other terms of the appointment conferred by the Shareholders’ Meeting of 29 April 2010 to remain unaltered.

Then the Chairman, in relation to the fourth item on the agenda:
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- announced that at 4.22 p.m. a total of 6,721,694,138 shares were present, entitled to the same number of votes and equivalent to 50.13% of the ordinary shares;

- at 4.22 p.m., put the proposed resolution of the Board of Directors, transcribed below, to the vote, using the televoters:

The Ordinary Shareholders’ Meeting of Telecom Italia S.p.A.,

- having examined the explanatory report of the Board of Directors;
- having examined the financial statements for the year ending 31 December 2010

resolves

1. to authorise, for a period of 18 months starting from the date of this resolution of the Shareholders’ Meeting, the purchase, in one or more tranches and at any time, of savings shares in Telecom Italia S.p.A., within the quantitative limits laid down by law and in any event within a maximum expenditure limit of Euro 800,000,000. The purchase price must lie – in compliance with regulatory prescriptions or accepted market practices – between a minimum and a maximum corresponding to the weighted average of the official prices of the savings shares recorded by Borsa Italiana S.p.A. in the last ten trading days before the date of purchase or of fixing the price, respectively minus or plus 20%. The purchase of the treasury shares must in any event take place within the limits of the available reserves, as appearing in the latest financial statements approved at the time of effecting the transaction. The purchases may be effected on regulated markets, according to the procedures laid down by Borsa Italiana S.p.A., in accordance with Article 132 of Legislative Decree no. 58 of 24 February 1998 and Article 144-bis, paragraph 1, letters b) and c) of Consob Regulation 11971/1999;

2. to authorise, for the same period of 18 months starting from the date of this resolution of the Shareholders’ Meeting, the disposal, in one or more tranches and at any time, of the Telecom Italia S.p.A. savings shares in the Company’s portfolio, with the power, in the event of disposals, to carry out subsequent buy-back transactions until the expiry of the authorisation by the Shareholders’ Meeting, provided always that the limits laid down by law as to the number of treasury shares that may be held by the Company at

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The disposals may be effected in accordance with the procedures permitted by the current legal and regulatory rules, at the discretion of Board of Directors;

3. to mandate the Board of Directors to arrange for the appropriate accounts postings to be made, following transactions to buy back or dispose of treasury shares, in accordance with the provisions of law and the accounting principles applicable at the time;

4. to mandate the Chairman of the Board of Directors and the Chief Executive Officer, jointly and severally and by means of proxies, to undertake the transactions that are the subject of this resolution.

The resolution was approved by a majority of the shareholders.

For: 5,629,819,207 shares
Against: 1,022,530,714 shares
Abstained/Non-voting: 69,344,217.

All as detailed in the annexes.
The Chairman announced the result.

Then the Chairman, in relation to the fifth item on the agenda:
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- announced that at 4.24 p.m. a total of 6,721,694,138 shares were present, entitled to the same number of votes and equivalent to 50.13% of the ordinary shares;
- at 4.24 p.m., put the proposed resolution of the Board of Directors, transcribed below, to the vote, using the televoters:

The Shareholders’ Meeting of Telecom Italia S.p.A.,
having examined the information document made available to the public in accordance with the applicable regulations,

resolves

1. to approve the “2011 Long-Term Incentive Plan” in the terms appearing in the information document published in accordance with the applicable regulations;

2. to confer on the Board of Directors any power necessary or expedient for implementing the 2011 Long-Term Incentive Plan, making any changes and/or supplements to it that prove necessary for the implementation of what has been resolved, including for purposes of compliance with any applicable regulatory provision; in particular, and merely by way of example, the Board of Directors shall have the power: (i) to identify the beneficiaries and determine for each of them the limitations and terms of the long-term incentive initiative; (ii) to prepare and approve the regulations for the initiative, to amend them and/or supplement them; (iii) to make any changes to the terms and conditions of the 2011 Long-Term Incentive Plan in the event of changes to the applicable regulations or of extraordinary events liable to affect the said Plan;

3. to authorise the performance of actions to dispose of the Company’s ordinary treasury shares that are in its possession, on terms and according to procedures functional to the execution of the 2011 Long Term Incentive Plan, conferring a mandate (i) on the Chairman of the Board of Directors and the Chief Executive Officer, jointly and severally and by means of proxies, to effect the transfer transactions and (ii) on the Board of Directors to arrange for the appropriate accounts postings to be made, in accordance with the provisions of law and the accounting principles applicable at the time.

The resolution was approved by a majority of the shareholders.

For: 6,267,936,588 shares
Against: 229,077,997 shares
Abstained/Non-voting: 224,679,553 shares.

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All as detailed in the annexes.

The Chairman announced the result.

Then the Chairman, in relation to the sixth item on the agenda:
- invited those shareholders who intended to leave the room before the vote to inform the auxiliary staff in the room so that their shares would not be considered present;
- announced that at 4.26 p.m. a total of 6,721,694,138 shares were present, entitled to the same number of votes and equivalent to 50.13% of the ordinary shares;
- at 4.26 p.m., put the proposed resolution of the Board of Directors, transcribed below, to the vote, using the televoters:

*The Ordinary Shareholders’ Meeting of Telecom Italia S.p.A.,*

- having examined the explanatory report of the Board of Directors;
- having considered Article 20 of the Company Bylaws;

resolves

to amend the present Articles 4, 6, 10, 11, 12, 13, 15 and 16 of the Regulations governing Shareholders’ Meetings in the terms appearing in the text reproduced below, showing the amendments introduced:

<table>
<thead>
<tr>
<th>Article 4</th>
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<tbody>
<tr>
<td><strong>4.1</strong> The meetings may be attended by directors, as well as - in accordance with the methods established by the Chairman — by executives and employees of the Company or of the Group companies, and by other parties whose presence is deemed useful in relation to the matters to be discussed.</td>
<td>The meetings may be attended by directors, as well as - in accordance with the methods established by the Chairman - by executives and employees of the Company or of the Group companies, <strong>representatives of the firm of external auditors</strong> and by other parties whose presence is deemed useful in relation to the matters to be discussed.</td>
</tr>
<tr>
<td><strong>4.2</strong> With the agreement of the Chairman</td>
<td><strong>Unchanged.</strong></td>
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and in accordance with the methods established by the same, professionals, consultants, experts, financial analysts and qualified journalists, accredited for a Meeting, may follow the proceedings.

4.3 Persons accredited to follow the proceedings must report for identification by the Company’s appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

<table>
<thead>
<tr>
<th>Article 6</th>
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<tbody>
<tr>
<td>6.1 The Chairman shall be assisted in the conduct of the meeting and the preparation of the minutes by a Secretary, where a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons whom they trust.</td>
<td>Unchanged.</td>
</tr>
<tr>
<td>6.2 The Chairman, for the purposes of conducting the voting procedures (including the verification of the validity of mail votes), shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.</td>
<td>6.2 The Chairman may use auxiliary staff for the purposes of conducting the voting procedures (including the verification of the validity of mail votes), shall be assisted by scrutineers; he may use auxiliary staff and also to provide the necessary technical support and to maintain order.</td>
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<tr>
<th>Article 10</th>
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<tr>
<td>10.1 It is up to the Chairman to direct and regulate the discussion, ensure its correctness and prevent the regular course</td>
<td>Unchanged.</td>
</tr>
</tbody>
</table>

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of the meeting from being disturbed.

| 10.2 The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker. |
|:-------------:|:-------------:|
| 10.2 The Chairman, taking account of the subject matter and importance of the individual items on the agenda and also of any questions formulated before the Shareholders’ Meeting, may establish at the start of the meeting the time - not less than 15 minutes normally not more than ten minutes - available to each speaker. |

<table>
<thead>
<tr>
<th align="center">10.3 The Chairman shall call on Participants to comply with the time limits established in advance for interventions and to keep to the matters specified in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.</th>
</tr>
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<tr>
<td align="center">Unchanged.</td>
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<th><strong>Article 11</strong></th>
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</table>

| 11.1 Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer. |
| 11.1 Persons who intend to speak must apply to the Chairman or the Secretary following the procedure from time to time announced by the Chairman, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer. |

| 11.2 Participants may ask to take the floor a second time during the same discussion, for a period of not more than five minutes, exclusively in response to other interventions or to declare how they intend |
| 11.2 Participants may ask to take the floor a second time during the same discussion, for a period determined by the Chairman at the opening of the meeting and normally of not more than five minutes, exclusively in |

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<table>
<thead>
<tr>
<th>Article 12</th>
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<tr>
<td>12.1 The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative resolutions or with amendments or additions with respect to those put forward by the Board of Directors or by the shareholders who have requested the addition of the topic to the agenda, pursuant to the law and the Bylaws.</td>
<td>12.1 The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative resolutions or with amendments or additions with respect to those put forward by the Board of Directors or by the shareholders who have requested the addition of the topic to the agenda, pursuant to the law and the Bylaws.</td>
</tr>
<tr>
<td>12.2 The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions.</td>
<td>Unchanged.</td>
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<tr>
<td>13.1 The members of the Board of Directors and the Board of Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the first paragraph of Article 4 may also take the floor, inter alia to respond to requests for clarification.</td>
<td>Unchanged.</td>
</tr>
<tr>
<td>13.2 Shareholders' questions received before the meeting, and complying with the procedures and conditions indicated in the notice convening the meeting, shall receive a reply during the course of the meeting.</td>
<td>110 This translation is merely for the purposes of comprehension by non-Italian readers, in the event of dispute the Italian text shall prevail.</td>
</tr>
</tbody>
</table>
proceedings if they have not been satisfied by publication on the Company's website in "question and answer" format.

<table>
<thead>
<tr>
<th>Article 15</th>
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<tr>
<td>15.1 Votes may be cast by mail using the tools issued by the Company.</td>
<td>15.1 Votes may be cast by mail before the Shareholders’ Meeting and, when specified in the notice convening the meeting, electronically, with the procedures indicated using the tools issued by the Company.</td>
</tr>
<tr>
<td>15.2 - Determining the legitimacy of a voter’s ballot and in general determining the validity of the vote cast and its interpretation are the responsibility of the Chairman.</td>
<td>Renumbered</td>
</tr>
</tbody>
</table>

The resolution was approved by a majority of the shareholders.

For: 6,617,112,735 shares  
Against: 33,784,432 shares  
Abstained/Non-voting: 70,796,971 shares

All as detailed in the annexes.
The Chairman announced the result and, the ordinary part of the agenda having been dealt with, moved on to consider the extraordinary part, which was minuted separately, at 4.29 p.m.

The Chairman

The Secretary