Shareholders,

This report is made up of two separate sections: the first section explains the activities performed by the Board of Auditors during the course of the financial year 2010 and up to today's date, as required by Consob Notice no. 1025564 of 6 April 2001 and subsequent amendments and additions, in the second section the Board of Auditors reports on the specific activities of supervision and monitoring which it has performed in relation to the so-called Greenfield Project, in other words the structured internal analysis initiated by the top management of Telecom Italia in relation to certain allegedly illegal acts committed to the detriment of the Company and the Group in recent years, subdivided into four distinct project areas (Telecom Italia Sparkle, the Security affair, irregularly issued SIM cards and improper sales of products and services), and sets out the assessments of the Board of Auditors with regard to the Project.

First section

The Board of Auditors of Telecom Italia S.p.A. (the “Company”), appointed by the Shareholders’ Meeting of 8 April 2009, is made up of Enrico Maria Bignami (Chairman), Gianluca Ponzellini, Lorenzo Pozza, Salvatore Spiniello and Ferdinando Superti Furga and will remain in office until the Shareholders’ Meeting called to approve the financial statements at 31 December 2011.

The Board of Auditors has performed the supervisory activities required by the applicable legislation, also taking account of the principles of conduct recommended by the National Board of Chartered Accountants and Accounting Consultants and the Consob notices on company controls and the activities of the Board of Auditors.

The Board of Auditors has acquired the information necessary for the performance of the tasks of general supervision assigned to it, a) by specific interviews of the management of the Company, b) through constant attendance in the meetings of the Board of Directors, the Executive Committee and the Committee for Internal Control and Corporate governance, and c) by means of special analyses conducted directly or in meetings held jointly with the last of the Committees listed.

1. On the basis of the information received and as a result of the special analyses conducted by the Board of Auditors, it has become clear that the transactions of major impact on the revenues, finances and assets of the Company, including those performed through companies in which the Company has a direct or indirect stake, are essentially made up as follows:

- on 5 October 2010, after authorisation had been obtained from the Dutch authorities, the Company’s stake in the BBNed Group (provider of wireline services in the Netherlands), consisting of the parent company BBNed N.V. and its subsidiaries BBeyond B.V. and InterNLnet B.V., was sold to the company Tele 2 AB,

- on 13 October 2010, once the necessary government authorisations had been obtained, the transfer was completed of 8% of the share capital of Sofora Telecomunicaciones S.A. (“Sofora”), the holding company controlling Telecom Argentina, from the Werthein Group to Telecom Italia International N.V., in accordance with the agreements signed between the Telecom Italia Group and the Werthein Group on 5 August 2010, in view of this acquisition, which did not entail any substantial financial expenditure, the Telecom Italia Group gave up the call options that it held for the purchase of the entire stake held by the Werthein Group in Sofora, which had already been the subject of inhibitory judicial and administrative orders issued by the Argentine authorities. The above agreements brought the legal proceedings between the Company and the Werthein Group to a settlement, and also resulted in a new shareholder agreement regarding the rules for the governance of the Telecom Argentina Group, which gave Telecom Italia the levers of control. The approval of the agreements by the
Argentine authorities was also consequent on undertakings made by the parties, guaranteeing complete separation between the Telefónica Group and the Telecom Italia Group with reference to activities performed in Argentina,

- 31 January 2011 saw the completion of the sale to the Cuban finance company Rafin S.A. of the entire stake held by Telecom Italia International N.V. (equivalent to 27% of the share capital) in the Cuban operator EtecSA, the total purchase price was 706 million dollars, of which 500 million had already been paid by the purchaser to the Telecom Italia Group, while the remainder will be paid by EtecSA in 36 monthly instalments, this credit is the subject of a specific guarantee.

* * *

In 2010 the following notes were issued:

- on 10 February 2010 Telecom Italia issued a note for the amount of Euro 1,250 million, with coupon rate 5.25% and maturity on 10 February 2022,

- on 12 March 2010 Telecom Italia issued a note ("Floating Rate Notes") for the amount of Euro 107,715,000, Euribor 3M rate +1.3% and maturity on 14 March 2012.

on 25 January 2011 Telecom Italia issued a note for the amount of Euro 1,000 million, with annual coupon rate 5.125% and maturity on 25 January 2016.

* * *

All the transactions indicated above are listed in the notes to the consolidated financial statements of the Telecom Italia Group and the notes to the separate financial statements of Telecom Italia S.p.A., as well as in the report on operations for the year 2010. The Board of Auditors has verified that the above transactions comply with the law, the Company bylaws and the principles of correct administration, and has made sure that they were not manifestly imprudent or hazardous, in conflict with the resolutions adopted by the Shareholders’ Meeting or likely to compromise the integrity of the Company’s corporate assets.

2. During the course of 2010 the Board of Auditors did not encounter atypical and/or unusual corporate transactions with third parties or related parties (including the companies within the Group).

The information relating to the principal intragroup transactions and with other related parties executed in the financial year 2010, and the description of their characteristics and economic effects is contained in the notes to the consolidated financial statements of the Telecom Italia Group and in the notes to the separate financial statements of Telecom Italia S.p.A..

Again in terms of transactions with related parties, the Board of Auditors emphasises that, in compliance with the regulatory prescriptions by Consob contained in its Resolution no. 17221 of 12 March 2010 (and subsequent amendments and supplements), the Company has adopted an appropriate procedure which classifies transactions into different categories, applying to each of them a specific path to validation and approval, according to a structured procedure, explained in detail in the "Report on corporate governance and share ownership for the financial year 2010 for Telecom Italia S.p.A.,” to which, therefore, please refer. The Board of Auditors has overseen the conformity of the procedures adopted by the Company with the principles indicated by Consob, as well their observance.

3. Taking account of the size and structure of the Company and the Group, the information concerning the Company’s transactions with related and intragroup parties, given in the notes to the consolidated financial statements of the Telecom Italia Group and in the notes to the separate financial statements of Telecom Italia S.p.A., should be considered adequate.

4. On 16 March 2011 the Statutory Auditor PricewaterhouseCoopers issued the reports pursuant to Article 14 of Legislative Decree no. 39 of 27 January 2010, in which it states that the financial statements for the year and the consolidated financial statements at 31 December 2010 comply with the International Financial Reporting Standards (IFRS) adopted by the EU as well as with the provisions issued in implementation of Article 9 of Legislative Decree no. 38 of 2005, that they are drafted with clarity and that they represent
truthfully and correctly the finances and assets of the company, the profit and loss results and the cash flows
of the Company and the Group. The Statutory Auditor furthermore considers that the report on operations
and the information in subsection 1, letters c), d), f), l) and m) and subsection 2, letter b) of Article 123-bis
of Legislative Decree no. 58 of 1998 (the so-called Consolidated Finance Law, also referred to as “CFL”),
presented in the report on corporate governance and share ownership, are consistent with the Company’s
financial statements for the year and the consolidated financial statements for the Group.

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

In particular, in implementation of the resulting obligations which fall on the Board of Auditors in its capacity
as Audit Committee to the Company, the Board of Auditors has adopted since 2005 a specific procedure for
the receipt, retention and treatment of ‘whistle blowing’ reports it receives. These ‘whistle blowing’ reports
may consist of:

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

There are instructions on the Company’s website, Corporate section, Governance pages, for sending such
‘whistle blowing’ reports to the Board of Auditors/Audit Committee.

5. In the period from 26 March 2010 to 24 February 2011, three complaints under Article 2408 of the Civil Code
were made to the Board of Auditors.

In particular, in the course of the ordinary Shareholders’ Meeting of Telecom Italia on 29 April 2010, a
shareholder submitted a complaint to the Control Body, describing as misconduct the fact that he had been
prevented from exercising his right of intervention to dispute the explanation given by the Chairman of the
Board of Auditors of the “Reasoned proposal by the Board of Auditors to the Shareholders’ Meeting in
relation to the appointment of the audit firm PricewaterhouseCoopers S.p.A. as statutory auditors for each of
the financial years in the nine-year period 2010-2018”.

In view of the fact that the Chairman of the Company had recalled, at the start of the proceedings, that the
maximum duration of speeches by Shareholders, as required by the Regulations governing Shareholders’
Meetings, would be fifteen minutes and had further specified, in accordance with tradition, that the
discussion of all the items for, respectively, the ordinary and extraordinary sessions would be taken together,
and taking account of the fact that the explanation given by the Chairman of the Control Body had consisted
of a mere summary of the “Reasoned proposal” (made available to the shareholders in the thirty days
preceding the meeting without introducing any new information to the above proposal), the Board of Auditors
did not find, in this particular case, any omission, misconduct or irregularity to notify to the Shareholders’
Meeting.

In the course of the financial year the Control Body received two other ‘whistle blowing’ reports from
Shareholders, described by the senders as complaints under Article 2408 of the Civil Code, in which it was
found that no misconduct had in fact been demonstrated. The first ‘report’ complained of
accounting/administrative faults (alleged unjustified debiting of a credit card and failure to send invoices, as
well as contradictory behaviour on the part of the Company), accusing the Company of conduct allegedly not
complying with the ethical code and legal requirements, the second ‘report’ alleged technical faults and poor
service. The Board of Auditors conducted suitable investigations into both these ‘reports’ without finding
omissions, misconduct or irregularities to notify to the Shareholders’ Meeting.
6. Between 26 March 2010 and 24 February 2011 the Board of Auditors received 23 “reports” (or groups of reports, treated as units in the case of several communications from a single individual, even if at separate times), which complained, for the most part, of technical service issues and failures of a commercial, accounting and administrative nature. The Control Body investigated these complaints appropriately, with the support also of the Group Compliance Officer, but no irregularities to be reported to the Shareholders’ Meeting have emerged to date.

7. During the course of 2010, Telecom Italia conferred on Reconta Ernst & Young S.p.A. - the outgoing auditing firm, whose term of office expired with the audit of the financial statements for the year ending 31 December 2009 - a number of tasks for the period from 1 January to 28 April 2010 in addition to auditing the financial statements, for which the fees, excluding out-of-pocket expenses and VAT, are summarised below:

<table>
<thead>
<tr>
<th>RECONTA ERNST &amp; YOUNG S.P.A.</th>
<th>(in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreed procedures, interrupted and not completed, on the planned issue of the comfort letter in relation to the updating of the €15,000,000,000 Euro Medium Term Note Programme</td>
<td>85,000.00</td>
</tr>
<tr>
<td>Agreed procedures connected with the issue of the comfort letter in relation to the “Issue of €1,250,000,000 5.25% Notes due 2022 by Telecom Italia S.p.A. issued under the €15,000,000,000 Euro Medium Term Note Programme”</td>
<td>90,000.00</td>
</tr>
<tr>
<td>Auditing procedures undertaken in relation to the minority or joint control shareholdings held by the Telecom Italia Group at 31 December 2009</td>
<td>105,000.00</td>
</tr>
<tr>
<td>Agreed procedures on subsidiaries as at 31 December 2009 consequent on the Telecom Italia Sparkle affair</td>
<td>73,000.00</td>
</tr>
<tr>
<td>Agreed procedures for the issue of the declaration of turnover made by Telecom Italia S.p.A. in the course of its participation in the tender competition announced by Consip S.p.A. for “Mobile telephone services for public authorities”</td>
<td>5,500.00</td>
</tr>
<tr>
<td>Agreed procedures for the issue of the declaration of turnover made by Telecom Italia S.p.A. in the course of its participation in the tender competition announced by Consip S.p.A. for “Awarding contracts for telephone services and IP connectivity for the benefit of public authorities”</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Agreed procedures for the issue of the declaration of turnover made by Telecom Italia S.p.A. in the course of its participation in the tender competition announced by Consip S.p.A. for the “Supply, installation and maintenance of private telephone systems and ancillary services and products for public authorities”</td>
<td>5,500.00</td>
</tr>
<tr>
<td>Accounts auditing of the statement of costs borne by Telecom Italia S.p.A. in financial year 2009 for the research and development allowed for the acceptance of the tax credit governed by Article 2 of Decree no. 76 of 28 March 2008, issued by the Minister of Economic Development in conjunction with the Minister for the Economy and Finance</td>
<td>28,000.00</td>
</tr>
<tr>
<td>Accounts auditing of the summary of costs for the staff engaged in research and development for Telecom Italia S.p.A. for the financial year 2009 allowed as deductible for the purposes of IRAP [Regional Tax], in accordance with Article 11, subsection 1, letter A) no. 5) of Legislative Decree no. 446/97 and subsequent amendments</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>418,000.00</td>
</tr>
</tbody>
</table>

In addition, in the course of the same financial period, Telecom Italia conferred on PricewaterhouseCoopers S.p.A. - the new Statutory Auditor appointed by the Shareholders’ Meeting of 29 April 2010, on a reasoned proposal by the Board of Auditors, for the nine year term 2010-2018 - a number of tasks for the period from 29 April to 31 December 2010 in addition to the auditing of the financial statements, for which the fees, excluding out-of-pocket expenses and VAT, are summarised below:
Activities connected with updating the €20,000,000,000 Euro Medium Term Note Programme:
- limited auditing of the financial information as at 31 March 2010, for inclusion in the information prospectus relating to the “Euro Medium Term Note Programme”
- agreed procedures connected with the issue of the comfort letter in relation to the “Euro Medium Term Note Programme”

Agreed procedures connected with a due diligence report relating to the proposed purchase by others of control of a company
- Financial Due Diligence
- Tax Due Diligence

Verification procedures in relation to the portfolio of trade receivables sold by Telecom Italia S.p.A.

Limited examination ("review") of the abbreviated half-yearly consolidated financial statements of Telecom Italia S.p.A. at 30 June 2010, prepared in accordance with the IFRS issued by the International Accounting Standards Board for the purposes of Form 6-K for filing with the Securities and Exchange Commission ("SEC")

Agreed procedures, interrupted and not completed, on the planned issue of a note

Total

8. In the course of the 2010 financial year, Telecom Italia S.p.A. conferred on parties connected by continuing relationships with PricewaterhouseCoopers S.p.A. and/or on companies belonging to the latter’s international network (i.e. PricewaterhouseCoopers Advisory S.p.A. and Price Waterhouse & Co. Asesores de Empresas S.R.L.) a number of tasks for which the fees, excluding out-of-pocket expenses and VAT, are summarised below:

PRICEWATERHOUSECOOPERS ADVISORY S.P.A.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Fee (in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing the sustainability report of the Telecom Italia Group as at 31.12.2010</td>
<td>55,600.00</td>
</tr>
<tr>
<td>Activities to support the creation of “Paid Digital services and content on a cross-operator platform”</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>95,600.00</td>
</tr>
</tbody>
</table>

PRICE WATERHOUSE & CO. ASESORES DE EMPRESAS S.R.L. (ARGENTINA)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Fee (in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing the financial statements as at 31.12.2010 of “Sucursal Argentina” (Argentina Branch Office). Equivalent of 25,000 Argentinian Pesos (ARS) at the average exchange rate for financial year 2010: 1 Euro = 5.18735 ARS</td>
<td>4,819.00</td>
</tr>
<tr>
<td>Declaration in documentation and accounts records of funds provided by Telecom Italia S.p.A. in favour of “Sucursal Argentina” (Argentina Branch Office), as required by the local authorities. Equivalent of 5,000 Argentinian Pesos (ARS) at the average exchange rate for financial year 2010: 1 Euro = 5.18735 ARS</td>
<td>964.00</td>
</tr>
<tr>
<td>Checking and assistance on monthly and annual tax returns prepared by “Sucursal Argentina” (Argentina Branch Office)</td>
<td>1,851.00</td>
</tr>
</tbody>
</table>
Equivalent of 9,600 Argentinian Pesos (ARS) at the average exchange rate for financial year 2010:
1 Euro = 5.18735  ARS

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</tr>
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<tbody>
<tr>
<td>Total</td>
<td>7,634.00</td>
</tr>
</tbody>
</table>

For completeness, it is hereby stated that in the course of financial year 2010 (for the period 1 January – 28 April 2010), Telecom Italia S.p.A. did not confer appointments on parties connected by continuing relationships with the previous statutory auditor Reconta Ernst & Young S.p.A. and/or on companies belonging to the Ernst & Young international network.

* * *

As is well-known, on the basis of a reasoned proposal moved by the Board of Auditors, the Shareholders’ Meeting of 29 April 2010 appointed PricewaterhouseCoopers S.p.A. as Statutory Auditor for the separate financial statements, the annual consolidated financial statements, the abbreviated half-yearly consolidated financial statements, the consolidated financial statements included in the Form 20-F and the internal controls under section 404 of the Sarbanes-Oxley Act, for the nine year period 2010-2018.

The selection of the audit firm proposed for the appointment was conducted after a comparative analysis carried out under the supervision of the Control Body – which was supported by the corporate structures – in compliance with the Guidelines for the conferment of appointments as Statutory Auditor, adopted by Telecom Italia at the end of 2009. These Guidelines apply to the following: (i) conferment of the appointment to audit the financial statements of Telecom Italia S.p.A.; (ii) conferment of the appointment to audit the financial statements/reporting packages of the subsidiaries of Telecom Italia; (iii) conferment by the Company and its subsidiaries of further appointments on the company appointed to audit the financial statements of Telecom Italia, and on the entities belonging to its network, as defined by the applicable regulations. The due diligence carried out prior to the conferment (or subsequent amendments thereto) of the appointment to audit the financial statements of Telecom Italia is coordinated by the manager responsible for the preparation the Company's accounting documents, under the supervision of the Board of Auditors, which can draw on the support of the Person responsible for internal control to check that the candidate auditor meets the requisites for independence, and to monitor the firm during the course of the mandate.

Consistently with the Guidelines, PricewaterhouseCoopers S.p.A., as Statutory Auditor appointed by the Shareholders’ Meeting of the Company (the “Appointed Auditor”) is the principal auditor for the entire Telecom Italia Group. The conferment of auditing and correlated appointments (known as audit services and audit-related services) on entities other than the Appointed Auditor and/or the entities belonging to its network must be checked in advance with the manager responsible for the preparation of the accounting documents of the Parent Company, who will activate the necessary processes, including those involving the Board of Auditors, for approval and reporting, thus ensuring observance of the applicable regulations.

In order to safeguard the independence of the Appointed Auditor, the Guidelines lay down the principle that the conferment of further appointments on the Appointed Auditor and on the entities belonging to its network is limited to services and activities pertaining to the auditing of the financial statements. This is however without prejudice to the fact that the conferment of further appointments on the Appointed Auditor (when allowed by the reference legislation) and on the entities belonging to its network is subject to prior approval by the Board of Auditors of Telecom Italia, which expresses its opinion as the occasion arises or by type of appointment (so-called “pre-approved” appointments, as listed in Point 12 of the above-mentioned Guidelines). In urgent cases the prior opinion on the conferment of new appointments may be issued by the Chairman of the Board of Auditors (or other Auditor designated by the latter), who refers it for ratification to the Control Body as a whole at its next subsequent meeting.

* * *

Having taken note of the appointments conferred on the auditing firm in financial year 2010, as reproduced in the tables in points 7 and 8 of this Report, the Board of Auditors 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 particularly important profiles from a qualitative and quantitative point of view.
The Board of Auditors has taken note of the request made by PricewaterhouseCoopers S.p.A. to supplement their fee on a final account basis for auditing the 2010 financial statements (in connection with the identification of the material weakness which was recognised as existing in the internal controls over financial reporting as at 31 December 2009 in the Annual Report Form 20-F 2009, and with regard to the acquisition of control of Sofora and its subsidiaries). The Board has no criticism or objection to make on this request.

The Board of Auditors has noted, furthermore, that the acquisition of control of Sofora and its subsidiaries has significantly altered the structure of the Telecom Italia Group, thus fulfilling one of the requirements for the existence of exceptional and unforeseeable circumstances which are such as to justify revising the fees originally specified in the proposal for the appointment of the statutory auditor approved by the Shareholders’ Meeting of 29 April 2010. The Board of Auditors has therefore proposed to the Shareholders’ Meeting (with a special “Reasoned Proposal”, which should be referred to for more details), for each of the financial years 2011-2018, to increase by Euro 34,700 to Euro 146,800 the annual remuneration for the statutory audit of the consolidated financial statements of Telecom Italia S.p.A., and to increase by Euro 45,900 to Euro 704,000 the annual remuneration for the review of the internal controls which oversee the process of drafting the consolidated financial statements of Telecom Italia, for the purposes of section 404 of the Sarbanes-Oxley Act.

9. During the course of financial year 2010, the Board of Auditors issued to the Board of Directors, in accordance with Article 2389, subsection 3 of the Civil Code, an opinion on the matter of the remuneration allocated to Directors appointed to specific offices.

It is appropriate to point out that the remuneration of the Executive directors (Article 2389, subsection 3 of the Civil Code) is established by the Board of Directors after hearing the opinion of the Board of Auditors and after examination by the Nomination and Remuneration Committee, which is made up of non-executive Directors, the majority of whom are independent, including at least one Director from a minority slate, and which has, among other things, the task of formulating proposals to the Board of Directors on the remuneration of Directors who perform particular tasks, in order to ensure their alignment with the objective of creating shareholder value over time.

For further details on the remuneration of Directors, general managers and executives with strategic responsibilities, please refer to Note 44 (Other information) to the financial statements of Telecom Italia S.p.A. and to the “Report on Corporate Governance and Share Ownership”.

10. Over the course of financial year 2010, the Company's Board of Directors and Executive Committee held, respectively, nine and five meetings, at which the Board of Auditors was always present.

The Committee for Internal Control and Corporate Governance met twelve times, and the Nomination and Remuneration Committee eight times.

The Board of Auditors held thirty-five meetings and took part in all the meetings of the Committee for Internal Control and Corporate Governance, in some cases, depending on the subjects being discussed, in joint session with the Committee itself, in other cases through the participation of its Chairman or of (at least) one Auditor designated by the Chairman.

The Board of Auditors took part in the Shareholders’ Meeting, held on 29 April 2010.

11. In accordance with its obligations, the Board of Auditors obtained information and supervised compliance with the principles of correct administration, via interviews, direct observation, investigations, the receipt of information from management, and meetings with the Person responsible for internal control, the Company Group Compliance Officer and the Committee for Internal Control and Corporate Governance. In addition, the Board of Auditors met with Statutory Auditor Reconta Ernst & Young and, from 29 April 2010, Statutory Auditor PricewaterhouseCoopers, to exchange relevant information and data pursuant to article 150, subsection three, of the CFL. Finally, the Board of Auditors held specific meetings with the Chairman and Chief Executive Officer, the General Counsel and the Chief Financial Officer of the Company. The Board of Auditors believes that the governance arrangements and tools adopted by the Company constitute a valid supervisory framework to ensure that the principles of correct administration are respected in operational practice. In particular, in relation to the decision-making processes of the Board of Directors, the Control Body has supervised, including by attendance at board meetings, the compliance of
management decisions made by the Directors with the law and the company by-laws, and checked that the related resolutions were adequately supported by information, analysis and audit processes – also involving consultation with the board subcommittees and external professionals, when necessary – regarding, primarily, the economic and financial consistency of transactions and their alignment with the interests of the Company.

12. The Board of Auditors has supervised the adequacy of the organisation structure of the Company, by collecting information from the appropriate structures, interviews with the managers of the various company departments, and meetings with those responsible for internal and external audit.

The Board of Directors plays an active role, in both the strategic guidance of the Company and in the control of operations, and the full board has the power to develop strategic policy and a responsibility to intervene directly in the most important decisions about the business made by the Company and the Group. In particular, the Board reserves to itself the right, among others:

- to examine and approve the strategic, industrial and financial plans, as well as the budget;
- to examine and approve strategic operations;
- to verify the adequacy of the general organisational, administrative and accounting structure, with particular reference to the internal control system;
- to draw up and adopt the Company rules of corporate governance and to define the Group corporate governance guidelines; to define the limits, work methods and intervals at which the delegated bodies must report on their activities;
- to designate the Chairmen and Chief Executive Officers of subsidiary companies of strategic relevance;
- to supervise the general trend in operations, periodically comparing the results achieved with the results planned.

The attribution (and revocation) of powers to the Directors is reserved to the Board of Directors, which defines the object, limits and methods for the exercise of these powers, and receives a continuous flow of information on the activity carried out, the general trend in operations and the transactions of major impact on the revenues, finances and assets of the Company.

On 15 April 2008 the Board of Directors appointed Gabriele Galateri di Genola as Chairman and Franco Bernabè as Chief Executive Officer.

In addition to the power to act as legal representative of the Company, the Chairman was also empowered to supervise the formulation of strategic, industrial and financial plans, and their execution and development; and to supervise the definition of the organisational structures and the economic and financial performance of the Company, and was given responsibility for supervising the process of examining and defining the internal control system guidelines. The Chairman was also given organisational responsibility for the Corporate Legal Affairs, Relations with Institutions, Relations with the Territory and Institutional Marketing Functions, and for Telecom Italia Audit & Compliance Services S.c.a.r.l.

In addition to the power to legally represent the Company and to exercise, with a single signature, all powers required to accomplish actions pertinent to the activity of the company in its various ramifications, bar none – the Chief Executive Officer was also made responsible for the overall governance of the Company and the Group. In particular, the Chief Executive Officer was assigned (i) responsibility for defining, proposing to the Board of Directors and then implementing and developing the strategic, industrial and financial plans; (ii) responsibility for defining the organisational structures; (iii) organisational responsibility to guarantee the management and development of the business, by coordinating the organisational aspects not attributed to the Chairman.

The Group's Committee System is one of the main tools for the governance and operational integration of the Group. The aim of this system is: (i) to monitor the implementation of strategies and the development of plans (ii) to guarantee that the operations of the Group are monitored, and that market and technology
management and development activities are coordinated; (iii) to strengthen the operational synergies needed between the different departments involved in technological, business and support processes.

The Group Committees are listed below, with a description of the mission assigned to each.

- **Management Committee**: guarantees the monitoring of the operations of the Group and the coordination of market and technology management and development activities.

- **Business Review Operations**: assures that the progress of major projects and action plans is examined, that operational processes are supervised, and that their progress and results are analysed.

- **Group Investments Committee**: guarantees that investments of particular economic or strategic relevance are assessed and approved, and oversees the critical aspects of their progress.

- **Operational Investments Committee**: guarantees the assessment and approval of Group operational investments, and the selection of investments that because of their particular economic or strategic relevance require the authorisation of the Group Investments Committee; it also ensures that progress made and its related commercial/technological benefit are confirmed and verified.

- **IT Compliance Steering Committee**: guarantees that the levels of alignment of the company systems are supervised, in accordance with the regulatory framework and the provisions of the Privacy Protection Authority.

- **Group Risk Management Committee**: guarantees the governance of the Group risk management process, coordinating the plan of preventive actions intended to assure the operational continuity of the business, and monitoring the efficacy of the countermeasures adopted.

- **Quality Governance Steering Committee**: directs and supervises initiatives/activities focussed on achieving end to end improvement of process quality, monitoring the quality results obtained and supervising the process of quality certification and the launch of new products/services offered to customers – in particular those of greatest impact in terms of image and competitive positioning on the market – without prejudice to the specific operational responsibilities of the technical and business structures involved.

- **Steering Committee 231**: assures that areas in which improvements/supplements need to be made to Organisational Model 231 are identified; coordinates the execution of the related implementation plans and is responsible for reports to the governance bodies on the progress of implementing Organisational Model 231.

- **Crisis Management Board**: assures the implementation and operation of the organisational model for the prevention and management of crisis situations; provides strategic and operational policies at Group level for the resolution of emergencies and crises and assures the coordination of the related initiatives for communicating with internal and external stakeholders.

In June 2010 a “Special Committee” was created to support the Chief Financial Officer of the Company (who chairs it). This Committee is responsible for evaluating the potential liabilities arising from tax frauds for the purpose of financial disclosure. It consists of senior managers from the Administration, Finance and Control Function (meaning the Manager of Administration Account and Financial Statement Department and the Manager of the Taxation Department), the General Counsel, the Manager of the Domestic Market Operations Division and the Manager of the Technology and Operations Division, the Manager of the Corporate Finance Legal Affairs Department within Corporate Legal Affairs and the Manager of the Human Resources and Organization Function and, finally, the Chairman of TI Audit and Compliance Services S.c.a r.l..

The Special Committee, which meets at least once every three months, according to the calendar for preparing quarterly and annual financial reports: (i) has the task of defining the procedures and processes to ensure that all the information available on the cases of suspected tax fraud involving Telecom Italia and/or the companies within its perimeter of consolidation is made available promptly to the Committee itself; (ii) it has the right to ask Telecom Italia departments, and to directly ask Group companies, for any further
information needed to evaluate the potential risks deriving from the cases of suspected tax fraud, issuing the necessary operational instructions for this purpose; (iii) ascertains that the information collected as described above is correctly examined and evaluated, checking – within reasonable limits – that the potential risks deriving from cases of suspected tax fraud are correctly represented in the half-yearly and annual financial reports and in the consolidated intermediate quarterly reports on operations of the Group, and in the separate financial statements of Telecom Italia S.p.A..

Again in relation to the prevention, monitoring and countering fraudulent situations, the Board of Auditors reports that a specific office called the Fraud Management & Revenue Assurance Department has been created within the Domestic Market Operations Division, with the responsibility of ensuring comprehensive oversight of the fraud management and revenue assurance processes in this area, to strengthen the prevention and countering of fraud in all the business processes managed by this Division, and to improve the efficacy of those actions that guarantee revenue assurance, working with the other competent departments of the Company.

The organisational macrostructure of Telecom Italia Sparkle has been redefined, attributing to the Chairman the organisational responsibility for the Administration and Control, Human Resources, Legal & Regulatory Affairs Functions, and for the "Anti-Fraud and 231 Referee", recently established, while maintaining the responsibility of the Chief Executive Officer for comprehensive oversight of the business, including the Sparkle group companies.

During 2010, to guarantee that the internal control system has integrated governance in both the audit phase and in the subsequent phase of implementing and checking improvement plans, TIAudit Latam S.A. (a Brazilian company 70% controlled by Telecom Italia Audit and Compliance Services) amended its mission, and hence changed its company name to TIAudit Compliance Latam, assuming responsibility for ensuring audit and compliance activities for the perimeter of reference and according to the directives issued by the Telecom Italia Group.

At the end of December 2010, in order to effectively coordinate the Divisions of the Parent Company and the Telecom Italia Group companies, the Functions/Divisions of Telecom Italia to which the subsidiary companies refer were reclassified: while the separate responsibilities of the different company Functions and Divisions remain, the Managers of the Functions/Divisions coordinate with the Executive Directors of the subsidiary companies in order to maximise value for the subsidiaries and the Group, ensuring that the holdings assigned to them are monitored, and coordinating with any members of the governing bodies designated by Telecom Italia, if present.

During the meeting held on 3 February 2011, the Board of Directors ascertained the new list of managers with strategic responsibilities (key managers or executive officers) resulting from the inclusion of the Telecom Argentina Group in the consolidation area of Telecom Italia S.p.A., identifying them as the Executive Directors (Chairmen and Chief Executive Officers) and the pro tempore appointees to the following roles;

- The persons responsible for Domestic Market Operations and Technology and Operations, the Diretor Presidente of Tim Brasil and the Director General Ejecutivo of Telecom Argentina,
- The General Counsel, and the persons responsible for Administration, Finance and Control, Human Resources and Organization and Purchasing.

13. The Board of Auditors closely supervised the internal control system adopted by the Company, evaluating its adequacy, also through periodic meetings with the Person responsible for internal control and with the audit and compliance structures, interviews with management, joint meetings or attendance at meetings of the Committee for Internal Control and Corporate Governance and by acquiring documentation.

As for the overall architecture of the internal control system, the internal audit activities of the Company and the Group have been assigned to a limited responsibility consortium, Telecom Italia Audit and Compliance Services, for some time. This organisation reports to the Chairman of Telecom Italia and its principal purpose is the impartial and independent execution of "internal auditing activities and the management of compliance activities, both direct (Organisational Model 231, article 154-bis of the CFL, Section 404 Sarbanes Oxley Act) and indirect, for consortium partners and the companies in which they own shares, directly or indirectly". Given the activities undertaken by Telecom Italia Audit and Compliance Services, the Company (and the other consortium company in the Group, Telecom Italia Media) identified the director of the consortium company appointed by Telecom Italia as the “Person responsible for internal control".
This Person responsible for internal control reports his activities to the Board of Auditors and the Committee for internal control and corporate governance, and also reports on the activities he has carried out to the Director responsible for the internal control system (currently the Chairman), who is responsible for executing the directives of the Board of Directors and defining the tools and arrangements for implementing the internal control system, as well as for deciding on the corrective actions to be taken.

The activity of the Person responsible for internal control is carried out primarily through an annual plan of audit and compliance operations that, from 2009, has been part of a three year programme, with the aim of covering the entire perimeter in scope, over the life of the plan, it being understood that sufficient margins of flexibility remain to satisfy any unforeseen needs; in fact, the existence of the plans does not exclude any specific unplanned interventions requested by the Company or the control bodies, or necessitated by problematic situations encountered. From 2010, the audit interventions have been categorised as “continuity” projects (projects relating to issues of relevant company interest, for which constant oversight is to be maintained), “consolidation” projects (relating to topics that have already been examined, but that need further evaluation), and “innovation” projects (concerning new areas for in-depth examination), in addition to “targeted” interventions, to guarantee full coverage of the system. Regarding the phase of reporting weaknesses encountered during audits, and the consequent identification of improvement actions (action plans), a monitoring activity (follow-up) has been formalised since 2008, and from 2010 this has been consolidated with new arrangements for the systematic and timely examination of compliance with the timing of actions, as well as of the efficacy and efficiency of the initiatives adopted to overcome the weaknesses found. The activity of the Person responsible for internal control then translates into periodic reporting on the results obtained, directly to the Senior Executives and the hierarchical managers of the structures affected by the interventions; periodic reports highlighting only issues of major interest are then submitted to the Board of Auditors and the Committee for Internal Control and Corporate Governance.

As part of its verification of the adequacy of the internal control system to meet the regulations contained in legislative decree no. 231/2001 on the administrative liability of organisations, for offences or crimes committed by employees and collaborators, the Board of Auditors reports that Telecom Italia has adopted an “Organisational Model” designed to prevent the commission of unlawful acts that might constitute liabilities for the Company. The Organisational Model, centred on the Code of Ethics and Conduct, which elucidates the general principles (transparency, correctness, fairness) that inspire the Company in the execution and conduct of its business, consists of: (i) “general principles of internal control”, that is, the set of tools designed to provide a guarantee with regard to the objectives of efficiency and operational effectiveness, reliability of financial and management information, compliance with laws and regulations, safeguarding of assets against possible fraud; (ii) “principles of conduct”, expressed as specific rules for relations with representatives of government agencies, and for all fulfilsments and activities of a corporate nature, (iii) “schemes of internal control”, describing the processes, any crimes that might be perpetrated in relation to these processes, and the preventive control activities designed to avoid the related risks.

The Model is subject to periodic revisions, both to take account of elements that have emerged from how it has worked in practice, and to incorporate its extension to further criminal categories as predicate offences. During 2010 the Organisational Model 231 was updated and refined: specifically, the scheme designed to prevent the “231 risk” resulting from the inclusion in the category of relevant offences of criminal conspiracy and mafia-type conspiracy has been introduced in the list.

A specific body (the “Supervisory Body”), consisting of an Auditor, an independent Director who is a member of the Committee for Internal Control and Corporate Governance, the Person responsible for internal control and an external member (identified by the Nomination and Remuneration Committee and appointed by the Board of Directors in its meeting on 2 December 2009), supervises the operation and observance of the Model. This Body is supported in the execution of the tasks attributed to it, by the “231 Compliance” structure created inside Telecom Italia Audit and Compliance Services.

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Evaluation of the adequacy of the internal control system, with particular reference to the internal controls for the formulation of the financial statements, is based on a process defined by Telecom Italia S.p.A., also with reference to the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a reference framework that is generally accepted internationally.

With reference to the specific operational contexts analysed, and the consequent corrective actions planned and implemented, the Person responsible for the internal control considered that the internal control system
as a whole is capable of reducing the risk profiles to an acceptable physiological level that will enable the processes to operate correctly.

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To develop a global approach to risk management (where risks are “possible events, the manifestation of which could preclude the achievement of its strategic objectives by the company”), the Telecom Italia Group has started a process of flexible and structured risk management, inspired by Enterprise Risk Management (ERM), based on the self-evaluation of the risk profile of company processes and strategic objectives by the management (a Top Down approach), through which the risks themselves may be identified, evaluated and managed.

The ERM process adopted by the Group (overseen by the Group Risk Management Committee, chaired and coordinated by the Administration, Finance and Control Manager) allows the following aspects to be defined:

- the risk “map”, assessing the risks by impact and likelihood of occurrence, at both “inherent” level (i.e. without taking account of management actions currently underway) and at “residual” level (i.e. considering the residual risk after completion of the actions already undertaken), with a specific focus on the most significant risks (the so-called Top Risks);
- the degree of maturity of the process of managing the most significant risks through a gap analysis; an index of maturity that can be tracked over time is identified for each individual Top Risk and for the Risk Management system at central level;
- the treatment of risk by the company structures that “own” the risk (risk owners), by identifying and implementing specific improvement plans (action plans) devised to reduce the level of residual risk and increase the maturity index.

The mapped risks have been classified in ten groups, belonging to five classes - Management Risks, Compliance Risks, Fraud Risks, Continuity Risks and Financial Risks.

The Board of Auditors has monitored (and continues to monitor) the evolution of the project by acquiring information from Company management in specific interviews as well as in meetings held jointly with the Committee for Internal Control and Corporate Governance.

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

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With reference to the case involving Telecom Italia Sparkle and its impacts on the financial statements of the Company, in relation to which the Control Body reported in its Report to the Shareholders’ Meeting in April 2010, the Board of Auditors points out that the system of internal control was considered adequate for the purpose of the financial statements at 31 December 2009, while, as a result of the restatement of the accounts and in application of the U.S. regulations of reference, in the Form 20-F for the 2009 financial year (completed by the Company in compliance with the disclosure requirements to which it is subject as a foreign private issuer registered with the Securities & Exchange Commission – the SEC), the management of the Company has acknowledged the existence of a material weakness in its control system at 31 December 2009 in Item 15.2 of this Form – “Management’s Annual Report on Internal Control Over Financial Reporting”.

This material weakness was a shortcoming in the design and operation of the controls in relation to their capacity to identify and collect the reliable information needed to correctly assess the potential liabilities deriving from suspected fraud with tax impact and to make the corresponding postings to the accounts.

Again in relation to Item 15, a description of the “Remediation Plan” developed by the Company to “resolve” the material weakness declared was provided, which essentially consisted of the creation of a specific committee – the Special Committee – chaired by the Chief Financial Officer of the Company and consisting of senior managers from the Administration, Finance and Control Department, the General Counsel, and the Managers of the Human Resources and Organization, Domestic Market Operations and Technology & Operations Departments, and the Chairman of Telecom Italia Audit and Compliance Services, which was given the mandate detailed in the Remediation Plan item of Form 20-F 2009, and in relation to which a
specific Entity Level Control has been developed to test, assess and monitor the efficacy of the Special Committee. See the information provided in point 12 of this Report for details of the duties of the Committee.

The Board of Auditors, as the Company Audit Committee, has supervised and monitored the actual adoption and efficacy of the Remediation Plan through periodic meetings with the management and with statutory auditor PricewaterhouseCoopers.

In particular, the Control Body checked that the Special Committee had been constituted, and its mandate finalised; it received a report on the adoption of a specific Guideline (“Valuation of potential liabilities deriving from suspected frauds with fiscal impacts”) which defines the general principles for the identification of the risks and potential losses generated by liabilities correlated with possible frauds with fiscal impact and which, among other things, prescribes that each Company/Division/Function of the Group activates its own action plans to identify all the information that exists relating to indicators of possible fraud with fiscal impact. The Board of Auditors was also informed that the Companies/Divisions/Functions had ensured that specific Operating Instructions and the reports to be drawn up to define the monitoring activities to be carried out and the business sectors to involve, had been drafted and issued, in their respective sectors, during the second half of 2010.

The Board of Auditors also received constant reports from PricewaterhouseCoopers on its auditing and testing of the procedures and controls established by the Company in relation to the material weakness. Given this activity, which is not as yet complete, and based on the results available so far, the material weakness that existed at 31 December 2009, according to the U.S. regulation, may be considered to have been overcome and resolved.

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

The Board of Auditors acknowledged the statements issued by the Chief Executive Officer and the Officer responsible for preparing the corporate accounting documents of Telecom Italia S.p.A. concerning the adequacy – in relation to the characteristics of the company – and the actual application during 2010 of the administrative and accounting procedures for the drawing up of the separate and consolidated financial statements.

On the question of the impairment test, the Board of Auditors reports that in Telecom Italia it is applied in a consolidated and structured way, coordinated by the Administration, Finance and Control Function, with the intervention of an independent external expert of acknowledged professional expertise, Professor Mauro Bini of Bocconi University. The implementation of the process is analysed and discussed in special meetings of the Committee for Internal Control and Corporate Governance that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied, and which are usually joint meetings with the Board of Auditors (which acts as an Audit Committee pursuant to the U.S. regulations).

Coherently with the procedure described above, the Board of Auditors reports that the impairment test procedure was applied to the 2010 financial statements in a continuation of the process adopted the previous year, and, specifically, using the procedure approved by the Board of Directors on 25 March 2010.

The Control Body would also point out that the Board of Directors that met on 24 February 2011 approved a supplement to the impairment test as described above, to apply in mid-year impairment tests, providing for a review of the consensus among analysts after announcement of the plan to be included, in addition to any negative variances between the budget figures and the forecasts.

Finally, the Board of Auditors would clarify that the process followed to determine if the goodwill value could be recovered, and the assumptions used for this purpose, are described in detail in the notes to the financial statements, as requested by the reference accounting principles. In particular, the amounts by which the values in use exceed the carrying amounts at 31 December 2010, the “values of the key variables for estimating the value in use”, and the “changes in key variables needed to render the recoverable amount equal to the carrying amount” are indicated in the report on the consolidated financial statements (Note 4 – Goodwill).

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

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

The Company adopted a specific “Procedure for the management and public disclosure of inside information” that disciplines the management of inside information relative to the entire Telecom Italia Group, aimed at the members of the corporate bodies, employees and external collaborators of all Group companies. It also serves as an instruction to all subsidiary companies, to obtain from them without delay the information that might be necessary for the correct and prompt compliance with the Group’s obligations to communicate with the public. This Procedure also disciplines the maintenance of the register of people with access to inside information.

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

17. The Board of Auditors has supervised the arrangements for the concrete implementation of the rules of corporate governance required by the Self-Regulatory Code drawn up by the Committee for the Corporate Governance of Listed Companies, to which the Company adheres.

As for the Board of Directors of the Company (currently composed of 14 members), there are 12 non-executive directors, 5 of whom (Paolo Baratta, Roland Berger, Elio Cosimo Catania, Jean Paoul Fitoussi and Luigi Zingales) qualify as independent members of the Board, based on their declarations. In this respect, it is pointed out that Telecom Italia has adopted the criteria established by the Self-Regulatory Code of Borsa Italiana for qualifying Directors as independent. Based on the information available to the Company and provided by the Directors themselves, the Board of Directors evaluated the subsistence of the requisites for independence during its meeting on 24 February 2011, and then announced to the market; these ascertainment activities were also monitored by the Board of Auditors, which made its own assessments, confirming that the requisites for the composition of the administrative body for collective decision making (the presence of at least two independent Directors satisfying the independence requirements established by law for Auditors) had been respected.

The Board of Auditors also verified its own independence pursuant to article 148, subsection three of the CFL.

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

In conformity with the recommendations of the Self-Regulatory Code for Listed Companies, the Board of Directors created a board subcommittee, the Committee for Internal Control and Corporate Governance, composed of non-executive directors, a majority of whom independent and at least one from a minority slate, with accounting and financial experience. This Committee is entrusted with consultative and advisory functions and may also formulate proposals; in particular, it assesses the adequacy of the internal control system and the work plan prepared by the Person responsible for internal control, supervises the efficacy of the audit process and respect of the principles for executing transactions with related parties, and defines the methods and times of “board performance evaluations”.

Other Board subcommittees have been established:

- the Executive Committee, composed of the executive Directors (Chairman and Chief Executive Officer) and non-executive Directors, which is responsible for monitoring the operations of the Company and the Group, approving the organisational macrostructures as proposed by the executive Directors, formulating opinions for the Board of Directors on the
budget and strategic, industrial and financial plans of the Company and the Group, and any additional tasks attributed to it by the Board of Directors that the latter may delegate.

- the Nomination and Remuneration Committee, composed of non-executive Directors, a majority of whom independent (including at least one Director from a minority list), which, in addition to the formulation of proposals for the remuneration of those Directors who hold particular offices and on the criteria for the remuneration of the senior executives of the Company, is also responsible for proposing candidates to the Board if an independent Director is to be replaced during the term of office of the Board. In particular, during 2010, the Committee dealt with the subject of remuneration initiatives in the form of financial instruments, preparing a proposal for an employee share ownership plan (the “2010-2014 Broad-based Employee Share Ownership Plan”) and a long term incentive plan for the senior management (the “2010-2015 Long Term Incentive Plan”), both submitted to the Shareholders’ Meeting of 29 April 2010 for approval. Again in 2010, the Committee also started an investigation that led this year to the formulation for a long term incentive and retention plan (the “2011 Long Term Incentive Plan”, reserved to a selected part of the senior executives, top management and the soon to be appointed Executive Officers of the Company) which the Shareholders’ Meeting to be held in April 2011 will be called on to deliberate.

Again on the subject of the independent Directors, it should be noted that the Company has created the position of Lead Independent Director (currently the Chairman of the Committee for Internal Control and Corporate Governance, Director Paolo Baratta), as a point of reference and coordination for requests and contributions made by independents, who is also empowered, inter alia, to call so-called Independent Directors’ Executive Sessions, i.e. meetings for independent Directors only to examine subjects related to the operational activity or functioning of the Board.

See the specific “Report on Corporate Governance and Share Ownership” for further detailed information on the corporate governance of the Company, which the Board of Auditors evaluates positively.

18. The Board of Auditors also reports that no observations or problems have emerged from its analysis of the information flows received in relation to the activity carried out by the boards of auditors of the subsidiary companies or the representations the statutory auditor has made in its reports on said subsidiaries. Equally, no problems have emerged from the review of the reports of the Board of Auditors and the Statutory Auditor of Telecom Italia Media (a subsidiary company with shares listed on the market organised and managed by Borsa Italia S.p.A.), or Telecom Italia Sparkle (subsidiary company) pursuant to and for the purposes of article 153 of the CFL, article 2429, second paragraph, of the civil code and article 14 of legislative decree no. 39/2010. The Board of Auditors also examined the statutory auditor’s report on Tim Participações S.A. and Telecom Argentina S.A., which also contained no observations or remarks. No facts that should be mentioned in its Report to the Shareholders’ Meeting, or that should be reported to the other supervisory and control bodies have emerged from the supervision and control activities carried out by the Board of Auditors, as described above.

19. The Board of Auditors, having acknowledged the separate financial statements at 31 December 2010, has no objections to formulate on the proposed resolutions presented by the Board of Directors on the allocation of profits and the size of the dividend to be paid.

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The mandate conferred on the Board of Directors by the Meeting of the Shareholders of the Company on 14 April 2008 expires with the Shareholders’ Meeting called to approve the financial statements for the year ended 31 December 2010, and the Board of Auditors therefore invites the Shareholders to resolve on this matter.
Section Two

As stated in the introduction, this section of the Report to the Shareholders’ Meeting reports on the specific supervision and monitoring activities carried out in relation to project known as the Greenfield Project, that is, the structured internal analysis undertaken by the top management of Telecom Italia with reference to some allegedly unlawful phenomena that took place in recent years, to the detriment of the Company and the Group, which involved four separate categories of project (Telecom Italia Sparkle, Security, irregular registration of SIM cards, anomalous sales of products or services), and provides the Board of Auditors’ evaluations of the result of the Project.

A. The Greenfield project

In the board meeting on 25 March 2010, the Chief Executive Officer of the Company informed the Directors and Auditors that he had arranged for a high level specific work group to be created to undertake an extraordinary in-depth examination of the areas of potential criticalities and operational aspects that might constitute risks, focussing in particular on the analysis of some allegedly unlawful phenomena that occurred in recent years, to the detriment of the Company and the Group. These emerged from the investigations and orders of the Judicial Authorities, from the results of the internal control activities, or phenomena otherwise considered to be anomalous in terms of ordinary business management. The general aim of the Project was to provide support to the various business divisions:

The general aim of the Project was to provide support to the various business divisions: (i) in the implementation of all the necessary and/or opportune actions to protect the Company from any liabilities that might emerge; (ii) in the systematic analysis of some of the unlawful phenomena that involved Telecom Italia that had emerged from criminal investigations, internal control activities or were known in some other way; and (iii) in the definition, implementation and monitoring of any process improvement initiatives.

As stated, the Project started at the instigation of the management, with the assistance of legal counsel and the support of Deloitte Financial Advisory Services S.p.A. (“Deloitte”). It was comprised of four separate areas of investigation, namely:

1) **Telecom Italia Sparkle** – further investigation of the traffic flows (particularly voice traffic) between the company and some of its subsidiaries (Telecom Italia Sparkle North America, Telecom Italia San Marino and Telecom Italia Sparkle of Singapore) and third party telephone operators, after the orders issued on 23 February 2010 by the judge in the preliminary investigation (GIP) of the Rome Court, at the request of the Rome Public Prosecutor’s Office, as part of the criminal proceedings for alleged tax fraud pending against some ex-directors, ex-employees and employees of Telecom Italia Sparkle S.p.A., among others;

2) **The Security Department** of Telecom Italia S.p.A.: in-depth analyses to understand the management methods employed by this department in order to verify the business and economic impact of the pending criminal proceedings and to identify further organizational actions to prevent such situations from reoccurring and/or to identify elements to support the legal advisors in determining what legal action might be taken to protect the Company;

3) **SIM card registration** (Prepaid Cards) – in depth investigation to understand the phenomenon of the unlawfully registered prepaid cards, to evaluate the organisational actions already taken or to be taken, and to identify elements to support possible legal actions to protect the company.

4) **The “anomalous/irregular” sales of products/services** – area of investigation focussed on specific aspects that are anomalies in relation to the ordinary course of business that might constitute business criticalities, consisting of in-depth investigation of the fraudulent phenomena detrimental to the Company created through Premium (“Non Geographic Numbers”) Services, the sale of products to operators with registered offices in San Marino, customised sales of ICT services/products/projects designated for Top and Enterprise customers.

The investigations in the four areas described above were assigned to the Forensic Division of Deloitte, and focussed on the period 2005-2009, with the sole exception of the Security department, for which the investigation of the management methods in use was extended to the period 2000-2007.
The results of the analysis carried out by Deloitte into the four investigation areas identified (further detail of which is provided in the Company Report on corporate governance and the share ownership – *Greenfield* appendix), contained in separate summary reports, were presented by Deloitte itself to the Directors and Auditors at the board meeting held on 16 December 2010. The results of the work done by law firm Paul, Hastings, Janofsky and Walker (attorney Bruno Cova) and by Bonelli Errede Pappalardo (Professor Franco Bonelli) were also presented and analysed during this meeting. As is known (and indicated in the press release issued on the same day, 16 December 2010), after the presentation and discussion of the issues, and also based on the opinion of the legal advisors Professor Bonelli and Attorney Cova, the Board of Directors of Telecom Italia, based on the knowledge available at that date, decided not to add the possible instigation of liability proceedings against the executive directors in office at the time of the facts examined to the agenda for the next shareholders’ meeting.

**B. Monitoring of the evolution and developments of the Greenfield Project by the Control Body**

The Board of Auditors, having noted that the project areas of the *Greenfield* Project (whose aims it shares) included issues that have already been subject to specific supervision activities by the Control Body, monitored the evolution of the Project from the start, and followed its implementation, receiving reports through its attendance during the year at the meetings of the Board of Directors and of the Committee for internal control and corporate governance (in some cases held jointly with the Board of Auditors itself). In addition, the Board of Auditors obtained direct information on the progress of the analyses included in the Project, proceeding to specific hearings with the management responsible for their execution, and also meeting with the internal coordinators of the various areas of investigation (from whom it received detailed reports on the organisation and composition of the four specific dedicated “work groups”, and on the operating methods used in conducting investigations) receiving, on such occasions, detailed information on the preliminary results (in essentially qualitative terms) of the ongoing investigations.

With reference to the resolutions passed by the Board of Directors of the Company at its meeting on 16 December 2010 (referred to in point A above), the Board of Auditors was asked by Consob (on 22 December 2010) to disseminate to the public a press release containing information about: (i) the assessments the Board of Auditors was making in relation to the information contained in the so-called “Deloitte Report”; (ii) the time within which the Control Body intended to take any decisions; (iii) the assessments of the Board of Auditors concerning the procedures actually adopted by the Board of Directors of the Company to take its decision not to add the possible instigation of liability proceedings against the directors in office at the time of the facts examined to the agenda of the next shareholders meeting, and the actions that the Control Body intended to take.

The Board of Auditors, in a press release issued on 23 December 2010, announced: (i) that it had started, also with the assistance of its own legal advisors, its analysis of the documentation supporting the summary reports presented to the Board of Directors on 16 December 2010 concerning the *Greenfield* Project and the opinions of the legal advisors of the Company, for any initiatives which the Board of Auditors deemed necessary; (ii) that it intended in any event to express its own positions within the time periods provided for submitting its report to the shareholders’ meeting pursuant to article 153 of the CFL and, for any other initiative, within the legal period of time, also based on the knowledge that becomes available. In relation to the procedures followed by the Board of Directors on 16 December 2010, attended by all the Auditors, the Board of Auditors clarified (again in the body of the aforementioned press release) that the Directors were provided with copies and comments on the summary reports of the *Greenfield* Project and the opinions of the legal advisors of the Company, followed by an extensive discussion with a number of questions and comments. Given the debate that occurred, the Board of Directors - taking the rumours and media leaks already in the public domain – thought it necessary in the interests of the Company to express its view immediately and not postpone the subject to be dealt with by a subsequent board meeting. Director Zingales expressed his total opposition to this. The Board of Directors also established that the approach described above could be modified if new facts and/or information emerged, also as a result of the judicial procedures underway. The Board of Directors also agreed that this resolution should be made public in a press release after the meeting, and all the Directors at the meeting, including Director Zingales, approved the text of the release. The Board of Auditors found that there had been no irregularities during the meeting of the Board of Directors.

**C. Prior vigilance and control activities by the Board of Auditors in relation to some areas of investigation of the Greenfield Project**

Some of the areas analysed in the *Greenfield* Project have previously been the subject of information gathering and checks by the Control Body, which reported the results of the activities it had undertaken in its
Reports to the Shareholders’ Meeting pursuant to article 153 of the CFL (as well as in the “Comments of the Board of Auditors on the half-yearly results at 30 June 2007”): this documentation should therefore be referred to for detailed information about the activities initiated, as summarised below.

C.1 Telecom Italia Sparkle (TIS)

Report pursuant to article 153 of the CFL for the 2009 financial year: in Section Two of this document, the Board of Auditors provided an analytical reconstruction of the facts as they had learned of them, and of the actions set in motion by the Control Body, and reported the decisions taken in this respect by the Board of Directors of the subsidiary, and by the board of controlling company Telecom Italia S.p.A., with particular reference for the decision to postpone approval of the financial statements in order to complete the examination of legal documentation, and then proceed to make a correct evaluation and representation of the situation. The Board of Auditors also provided information on the documentary investigation undertaken, its perimeter and its results, finally referring to the comments made by the Company (and the consequent action taken) with reference to the recognition that errors were present, pursuant to IAS 8, which had led to restatement of the balances, to the close examination of the possible risks of an unfavourable outcome of the criminal proceedings against TIS and the fiscal risks the subsidiary was subject to (with the consequent allocations made).

C.2 The Security case

Report pursuant to article 153 of the CFL for the 2006 financial year: in this document (particularly Section Two), the Board of Auditors illustrated the activities undertaken in relation to the legal problems that involved the ex-Manager and some executives of the group Security Department, and to the issues of network security and traffic data handling, describing the specific weaknesses encountered in Group Security sector operations and the technical and organisational inadequacies of Company management of compliance with the privacy laws. In this Report the Board of Auditors explained the corrective actions taken by the Company, in some cases at the instigation or recommendation of the Control Body, and the in-depth investigations carried out by the Board itself.

Comments on the half-yearly report at 30 June 2007: this document, too, contained an update about the further corrective actions taken by the Company and a detailed account of the supervisory activities carried out by the Board of Auditors in relation to a number of aspects of the case that involved the ex-Manager of the Security Department.

Report pursuant to article 153 of the CFL for the 2007 financial year: The Board of Auditors reported, in point 13 of its Report, that its assessment of the internal control system as a whole, taking the necessarily “evolutionary” nature of the system into account, had shown no signs of significant criticalities. In relation to the specific case that had arisen, and the supervisory activities undertaken, it made the following clarification:

“…….. in late 2007 and early 2008 the Board continued to perform its supervisory activities in the field of network security and traffic data management, as well as its supervision of some other specific aspects linked to the legal issues that have seen the involvement of the ex-Manager and some executives of the Group Security Department. In particular, the Board of Auditors ascertained that the prior specific operational weaknesses of the internal control system encountered in the Group Security sector, evidenced in the agreed audit procedures carried out by the Statutory Auditor (i.e. the external auditors in office at the time), had gradually been attenuated, and substantially eliminated during 2007, as a result of the procedural and organisational corrective actions taken by the Company.

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In its Report to the Shareholders for 2006 the Board of Auditors communicated that the Person responsible for internal control had started – for precautionary purposes and also at the request of the Board of Auditors itself - a specific audit of consultancy and professional service expenses posted to the cost centre for the Senior Management of the Company. The Board of Auditors examined the results of the work carried out by the internal control officer, which detected only a small number of weaknesses in the application of the procedure that the Board considers to be non-significant.”
With specific reference to the judicial proceedings in the so-called Tavaroli affair (which, with the notice that the investigation had been concluded pursuant to article 415-bis of the Italian Code of Criminal Procedure, and after having seen the Company entered in the register of subjects under investigation in relation to legislative decree no. 231/2001, as an outcome of the charging of employees and collaborators of Telecom Italia with a scheduled offence, i.e. of corruption of public officials), the Board of Auditors reported that it had appointed two independent external professionals to assist the Control Body in its analysis of the notice that the investigation had been concluded and of the copious case documentation, requiring them to carefully scrutinise this documentation in order to report to the Board of Auditors any facts or elements that had not already been considered by the Board itself in the activities it had undertaken in relation to the affair. The Board also reported that, on completion of this activity, it had defined a methodological pathway – identified based on criteria such as the relevance of the documents, the order of priority of the various interests and the actual feasibility of further investigations – to lay the basis for further work when the mandate of the Board of Auditors had been renewed.

At the request of Consob, a specific “Supplement” was added to this Report at the Shareholders’ Meeting held on 8 April 2009, containing information about the appointment of the external professionals, the activity they had undertaken and the outcomes. Consob had also asked the Control Body to report (in the “Supplement”) its conclusive assessment of the outcomes of the investigations and, more generally, of the evolution of the “Security” issue in 2008. In relation to the investigations carried out, and given that the criminal procedure was, at the time, at an early stage, and that the examination of the documentation was still underway, the Board of Auditors expressed the view that the examination and selection of the documentation filed in the aforementioned procedure should be continued “in order to identify any operational or procedural anomalies that might contribute to the evaluation of possible initiatives to be taken, and to request further work on the organisational arrangements and Organisational Model 231”.

**Report pursuant to article 153 of the CFL for the 2009 financial year:** in Section Two of the document, the Board of Auditors provided a description of the preliminary investigations it had undertaken: (i) from September 2006 to April 2009 (noting how the investigations had not evidenced structural criticalities in the internal control system such as to give rise to notable irregularities, had ascertained that the original weaknesses had been corrected, and had not detected elements that might constitute the basis for specific liabilities of the directors); (ii) from April 2009 to April 2010 (this description included a detailed analysis of the specific investigations the internal control officer had been asked to undertake, of the information the statutory auditor had been asked to provide in relation to some potential criticalities concerning the financial statements – presumably those for the 2003 financial year – of Tim Brasil, of the checks on the organisational adequacy of the Security Department and the activity of the internal control officer in relation to this department, including follow up activities, and of the information obtained on the evolution of the grip of the internal control system in Latin America, particularly for the Security sector, of the checks of Organisational Model 231, also in relation to the Security Department. None of the checks and information acquired evidenced the emergence of new weaknesses or criticalities in the organisational, administrative and accounting system, the internal control system, or in Organisational Model 231). The Board of Auditors then reported its “Conclusive evaluations” in the document, which maintained that at that time none of the necessary elements on which a liability action against previous directors could be based had been identified.

**C.3 SIM cards**

**Report pursuant to article 153 of the CFL for the 2008 financial year:** In a specific paragraph of Point 13 of this document, the Control Body had pointed out that phenomena of unlawfully registered cards had emerged and it had therefore extended its monitoring to SIM cards. It acknowledged the current results of the audit activities undertaken by the Audit Department of Telecom Italia Audit & Compliance Services and the Security Department in their respective areas of competence, and the initiatives adopted to further strengthen supervision to prevent the phenomenon and to repress conduct and procedures that were not coherent with the ethical principles the Telecom Italia Group had adopted. The Board of Auditors also acknowledged the decisions made by the Company to pursue those collaborators responsible with determination, including the application of severe penalties.
The audit of prepaid SIM cards incorrectly associated to customer ID documents continued in 2009. In particular, the Board of Auditors noted the cessation of approximately 2.9 million SIM cards and the regularisation of a further 760 thousand cards in 2009 alone. Moreover, during the year the prepaid card activation procedures were reviewed, to optimise the process of associating a copy of an identity document with a SIM card: IT solutions were implemented to activate the new mobile phone line only in the presence of the required documentation, and to optimise the quality of the documentation in the acquisition and archiving phase. Finally, the sales network incentive system was revised, introducing remuneration criteria correlated with the traffic actually produced by the customer, and the compliance of the acquisitions with the regulations in force.

The Board of Auditors believes that the activities carried out in 2009 have had a positive effect on the SIM card activation process, substantially eliminating the phenomenon of activations without documentation in the system”.

The activity of monitoring the phenomenon still continued in 2010, by means of the assumption of information by the management, which allowed the Board of Auditors to confirm the conclusions it had reached in 2009.

D. The results of the Deloitte investigation and the assessments of the Control Body

The Board of Auditors, also with the assistance of its own legal advisors, completed its analysis (i) of the summary reports on the Greenfield Project presented by Deloitte to the Board of Directors on 16 December 2010 (the so-called “Deloitte Report”; (ii) of the documentation supporting the summary reports, and (iii) the opinions of the Company’s legal advisors.1

The Board of Auditors then obtained the opinions of its own legal advisors – Professor Paolo Montalenti, for the civil law aspects, and Professor Alberto Alessandri, for the criminal law aspects.

On the basis of the above, the Board of Auditors then made its own assessment of the state of play, which may be summarised as follows.

D.1. The Sparkle case

So far as the Sparkle case is concerned, the Greenfield Project represents an important source of knowledge, which must necessarily be complemented by whatever emerges from future developments in the legal proceedings. The Board of Auditors therefore believes that it must suspend its opinion on this question for the moment, and in any case the period within which criminal proceedings may be brought against the executive directors in office at the time expires on 3 December 2012. In any event, the gravity of the issue and the extent of the damage require the Board of Auditors to take particular care.

D.2. The Security Department

As mentioned in point C.2., the Board of Auditors, in its report pursuant to article 153 of the CFL on the financial statements at 31 December 2009, had concluded on this subject that “the state of the documentation in the proceedings (at April 2010), the documentation examined, the complexity of the analysis of any breaches of the obligations of directors and, if such breaches have occurred, their relevance in causing prejudice to the company in the absence of an involvement of the ex-directors in the criminal proceedings, not even in terms of non-prevention of a crime, lead us to conclude that currently none of the necessary elements on which a liability action against previous directors could be based has been identified. In any event the Board of Auditors reiterates that it will follow the developments in the Security affair legal proceedings with the greatest attention, as well as the emergence of any relevant finding, so as to be able to promptly review or update its assessment if this should be necessary”.

1 For illustrative references on the context, limits, time frames, content and results of the in depth investigations, see the Company Report on corporate governance and share ownership – Greenfield appendix , and the Notes to the consolidated financial statements referenced in this report.
The findings of the Deloitte Report confirm the shortcomings in the organisational structure of the company (non-compliance), in particular in the internal control system and above all in the operational and control procedures of the Security department.

It also emerged from the investigations carried out in the Greenfield project that the internal control system was updated over time. With reference to the question of the feasibility of a liability action against the previous senior executives of the company, the following considerations apply.

Considering the many shortcomings reported in an area that is intrinsically delicate, the entity of the increase in costs, even if only budgeted costs, and the gravity of the episodes reported, it might be concluded that the preceding senior executives behaved in a negligent way, in the lateness of the start of interventions to correct the shortcomings in the internal control system after the emergence of anomaly indicators; however, given the extremely complex structure of the company, taking the circumstance that the internal control systems in a complex enterprise are subject to an essentially permanent “tuning” process into account, considering that reaction times can never be instantaneous, and that knowledge not so much of the system anomalies but of the underlying unlawful acts has not been proven, then the time that elapsed between the alarm signals and the start of the intervention process might not appear unreasonable. Considering all the elements indicated, and in particular the circumstance that in the light of the criminal proceedings – currently – it has not been proven that the senior executives were aware of the unlawful acts that underlay the organisational shortcomings, it may indeed be hypothesised that non-compliances imputable to the executive directors - i.e. their negligent conduct - subsist, but since the issue is not an absence of corrective action to remedy the shortcomings in the internal control system but rather possible delays in this, then the question is open to considerable debate.

Identifying the legal causal nexus between damages and non-compliances is also uncertain, since whether or not prompter corrective action would have led to the discovery of the unlawful activities is debatable.

Furthermore, the analysis of the costs led to the emergence of a not always clearly identifiable linkage between the various “cost” items and the technical concept of the damages payable.

Finally, the Board of Auditors again asserts that the absence of information about criminal investigations to determine the positions of the senior executives means that – at present – no relevant elements have been found to demonstrate their involvement in the alleged facts.

In conclusion, the Board of Auditors considers that while liability proceedings against the prior senior executives of the company could be based on some elements, such action would be very uncertain in terms of the capacity to impute the shortcomings in the internal control system to them, or in terms of a causal nexus and, to a certain extent, to identify and quantify the damage payable and for these reasons pursuing such action is – at present - inadvisable.

Since the criminal proceedings in relation to this affair do not in any event appear to have been concluded, the Board of Auditors will monitor the developments in the case, as well as the emergence of any relevant finding, so as to be able to promptly review or update its assessment if this should be necessary.

In any event, it emphasised that, for those executive directors hypothetically involved, the legal period within which proceedings may be started, five years after the director concerned ceased to hold office, has not yet expired (a period of time emphasised in the detail by the Company in the report on the Greenfield Project) and the Board of Auditors confirmed that it will not allow any period within which proceedings may be started to expire without having carefully evaluated any opportunity to take action that might arise in the meantime that could suspend this.

* * *

Moreover, significant elements have emerged from the documents filed by the Prosecutors and the Greenfield Project, confirming that the activities carried out by the Security department were carried out to the benefit of interests other than those of Telecom Italia, even considering their interests in the broadest sense of the word. In this sense, the Board of Auditors reports that, with the senior executives of the company, it is attempting to examine and explore in depth the feasibility of legal action by the Company against third parties for compensation for the damages caused by activities extraneous to the interests of the company, over and above any liability action against the preceding senior executives.
D.3. Prepaid Cards

The results of the *Greenfield* Project indicate that it is possible to hypothesise breaches by the Telecom Italia senior executives in office at the time of their obligation to equip the Company with adequate organisational structures and of the obligation to intervene to remove any shortcomings encountered. Currently no elements have emerged on which liability proceedings could be based, also because criminal investigations are ongoing, and in any event, since the period after which action against the previous senior executives expires on 3 December 2012, any initiative would be premature. In this case too, the Board of Auditors will monitor the evolution of the situation with due attention, also to take account of the developments of the investigation by the judicial authorities recently announced in the press.

D.4. Anomalous/irregular sales

With reference to the institution of liability proceedings against the directors, no elements have emerged to date.

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In conclusion, in relation to the content of the *Greenfield* Project, the Board of Auditors will monitor the evolution of the specific actions taken by the Company to (i) eliminate certain anomalies, (ii) protect its own interests, and (iii) further improve the internal control system.

Milan, 18 March 2011

For the Board of Auditors

The Chairman