Dear Shareholders,

in its report to the Telecom Italia S.p.A. Shareholders' Meeting called for 18 October 2012, the Board of Directors has explained the proposals for dispute settlements with the former Executive Directors of the Company Mr. Carlo Orazio Buora and Mr. Riccardo Ruggiero and, subordinately, for starting corporate liability action against them.

The Board of Auditors – having consulted its own experts – agrees with the proposals and the considerations of the Board of Directors and, insofar as it has the independent power to initiate the action, reports as follows.

The Board of Auditors has constantly monitored the critical issues regarding both the Security affair and the prepaid cards affair as they emerged over several years, and has duly reported on its activities and resolutions in its reports, most recently in the reports pursuant to Article 153 of Legislative Decree no. 58/1998 regarding the 2010 and 2011 financial years, which are referred to in this document.

With reference to the Security affair, the Board of Auditors, in its report on the 2011 financial year, referred to its previous comments in the report on the 2010 financial year in which, having raised the question of the uncertainties that remained unresolved at that time, regarding the institution of legal proceedings against the «executive directors hypothetically involved», pointed out that the five year period within which such action could be taken had not yet expired, and that since the criminal proceedings «do not appear to have been concluded», it would monitor «with the greatest attention the developments in the case, as well as the emergence of any relevant finding, so as to be able to promptly update its assessment if this should be necessary» (page 17 therof).

On the occasion of the Telecom Italia Shareholders' Meeting held on 15 May 2012, the Board of Auditors also supplied the report pursuant to article 114, subsection 5 of Legislative Decree no. 58/1998, quoted herein, after the grounds for the ruling of the Supreme Court of 20 September 2011, no. 1265 had been filed, demonstrating that the decision recognised that the activities of the Security department were also carried out in the interest of the Company, agreeing with the decision to implement an interruption of the statute of limitations against former Executive Director Carlo Orazio Buora, and declaring
that it would «carefully oversee the initiatives that will be taken by the Company, taking into due account the independent power of the Board of Auditors on the liability proceedings against its directors».

After the decision of the Board of Directors to interrupt the statute of limitations, announced to the Shareholders’ Meeting on 15 May 2012, a letter was sent to Mr. Buora setting out the charges, in response to which the Company received a proposal for full and final settlement through the legal counsel of the former Director, in the form of the payment of a sum of one million euros.

Moreover, shortly before the meeting of the Board of Directors on 13 September 2012, called to approve the report on the items on the agenda for the Shareholders' Meeting of 18 October 2012, the Company received a similar proposal for full and final settlement for the sum of 1.5 million euros through the legal counsel of Mr. Riccardo Ruggiero.

The Board of Auditors shares the favourable assessment of the settlement with Mr. Buora expressed by the Board of Directors and, likewise, the settlement with Mr. Ruggiero and the proposal to start liability action, subordinately, for the following reasons.

First, one must take account of the fact that, in criminal terms, Mr. Buora is no longer a person under investigation, since an order for dismissal has been made for the relative proceedings – due to some of the alleged criminal acts being time barred, and due to issues of merit for others.

Furthermore, any liability proceedings would still present some uncertainties in terms of the subjective element and the causal nexus, notwithstanding the significant decision of the Supreme Court, in its judgement no. 1265 of 20 September 2011, quoted in the Directors' report, as noted by the Board of Auditors in its own previous reports.

In any event, obtaining a judgement would be a very long process, with substantial costs and, presumably, prolonged media exposure that would not be positive for the Company.

Moreover, taking account of the difficulty of quantifying the amount of damages imputable to Mr. Buora, that may hypothetically be compensated, also bearing in mind the frequency, known in practice although not susceptible to precise statistical calculation, of awards of sums that are considerably lower than the amounts claimed in the legal proceedings, appreciating, in any event, the significance of the proposal – formulated as totalling one million euros – the Board of Auditors concludes that it considers acceptance of the settlement proposal to be justified and opportune for the Company.
Regarding the position of Mr. Ruggiero, the Board of Auditors also views favourably the decision to propose acceptance of the settlement (and, subordinately, start liability proceedings).

Even though Mr. Ruggiero has been committed for trial and the identification of the elements of liability, already briefly indicated in the letter setting out the charges sent to him by the Company, with the consequent interruption of the statute of limitations, would be relatively straightforward, in terms of the subjective element, of breach of the obligations to equip the Company with adequate organisational and procedural arrangements, of a causal nexus between breach and damage, of identification of prejudice, the following must however be noted.

All liability action presents significant uncertainty regarding the final outcome of the judgement. Also considering the time required for a decision to become final, the normal risk of uncertainty about the possibility for a fruitful enforcement increases considerably, irrespective of the reasonable expectations about the outcome of the judgement.

Also having noted that, as already emphasized above, it is normal practice to reach a settlement for lesser amounts, even significantly so, with respect to the damage theoretically quantifiable, the Board of Auditors concludes that, in any event, the sum proposed by Mr. Ruggiero – formulated as totalling 1.5 million euros – does not seem to be merely symbolic.

In conclusion, for all the reasons explained in detail above, the Board of Auditors agrees with the Board of Directors' proposals to the Telecom Italia S.p.A. Shareholders' Meeting to authorise the settlement, and, subordinately, to start liability proceedings, with reference to both Mr. Carlo Orazio Buora and Mr. Riccardo Ruggiero, in the terms specified in greater detail in the Directors' report.

This document has been translated into English solely for the convenience of the readers. In the event of a discrepancy, the Italian language version prevails.