Report of the Board of Statutory Auditors
to the Meeting of the Shareholders of Telecom Italia S.p.A.

(pursuant to art. 153 of Legislative Decree no. 58/1998)
Dear Shareholders,

This report explains the activities performed by the Board of Statutory Auditors during the course of the 2013 financial year and up to today's date, as required by Consob Notice no. DEM/1025564 of 6 April 2001 and subsequent amendments and additions.

During the 2013 financial year the Board of Statutory Auditors performed the supervisory activities required by the applicable legislation, taking account of the principles of conduct recommended by CNDCEC (the Italian board of chartered accountants and accounting consultants) and the Consob notices on company controls and the activities of the Board of Statutory Auditors.

The Control Body acquired the information necessary for the performance of the tasks of general supervision assigned to it by attending the meetings of the Board of Directors and board committees (i.e. the Executive Committee, the Control and Risk Committee and the Nomination and Remuneration Committee), meetings with Executive Directors and by interviewing Company management, meetings with the external auditor and the Group administration and control bodies and analysis of information flows from the competent company structures, as well as by special controls conducted in its own meetings or in joint meetings with the Control and Risk Committee. Where deemed necessary, the Control Body was assisted by its own legal advisors.

The Control Body has notified the market, in its announcements which are intended to be referred to here as required, the information required by Consob pursuant to art. 114, subsection 5 of legislative decree 58/1998 ((the Consolidated Finance Law, also referred to as “CFL”).

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

- **Assignment of La7 S.r.l.** on 30 April 2013, after having received the authorisations specified in the applicable law, Telecom Italia Media S.p.A., a company controlled by Telecom Italia S.p.A. completed the assignment of its entire shareholding in La7 S.r.l. to Cairo Communication S.p.A., according to the terms and conditions communicated to the market in March 2013.

- **Advance factoring operations with Medefactoring S.p.A. and Centro Factoring S.p.A.** (companies of the Intesa Sanpaolo Group): on 27 September 2013 the aforementioned factoring operations, deemed transactions with parties related to Telecom Italia, exceeded the threshold of major importance set out in the applicable procedure adopted by the Company (3.5% of consolidated net equity at 30 June 2013, corresponding to approximately 716 million euros). This circumstance required Telecom Italia to publish, on 11 October 2013, an information document pursuant to the Consob Regulation adopted with resolution no. 17221/2010.

- On 7 November 2013, the Board of Directors of Telecom Italia approved the issue by Telecom Italia Finance S.A. of mandatory convertible bonds convertible into Telecom Italia shares for a total sum of 1.3 billion euros. Given the identity of the bond subscribers, after bond placement, the moment at which the relationship became current, the Company considered the transaction a "transaction with related parties" and, voluntarily, a transaction "of major importance". For this reason, investigation and decision-making guarantee process set out in the procedure for major transactions with related parties was followed, with the favourable opinion of the Control and Risk Committee, although one director voted against it, and the disclosure requirements set out in the Consob regulation were then fulfilled.

The Board of Statutory Auditors, also taking account of the urgent requests received from Consob on this topic, carried out an investigation also by interviewing the Company management and the principal Joint Global Co-ordinators responsible for placing the bonds. According to the information acquired to date, the check allowed it to ascertain, in brief:

- that the qualification of the transaction as a transaction with related parties after the subscription of the bonds was correct;
- that the reference legislation on directors’ interests had been correctly applied;
- that there were no irregularities in the bond allocation procedure, also with respect to international best practice on the financial markets and taking account of bookrunners' high degree of technical discretion in their qualitative assessment of the requesting investor, although the acceptance in full of only the subscription request formulated by Telefonica appears singularly inappropriate;
- that, according to the information supplied and known, there is no indication of any violations of the provisions regarding the abuse of sensitive information (insider trading), and the Board of Statutory Auditors will continue to maintain its careful vigilance on this issue;
- that there are some critical aspects of the application of the Procedure for the handling and communication to the public of sensitive information with a consequent need to intervene, regarding which the Company has initiated an overall audit process to update and supplement the Procedure.

- **Sofora – Telecom Argentina:** on 13 November 2013 the Telecom Italia Group accepted the offer made by the Fintech group to purchase its entire controlling shareholding of the Sofora - Telecom Argentina Group from Telecom Italia S.p.A. and its subsidiaries Telecom Italia International and Tierra Argentina; as a result, the shareholding has been classified under Discontinued operations in the separate and consolidated financial statements at 31 December 2013.

The sale of Tierra Argentea's shareholding was completed on 10 December 2013, while the sale of the Sofora shares is subject to the suspensive condition that the necessary regulatory authorisations are obtained.

Translation for the reader’s convenience only. In case of inconsistency, the Italian text will prevail.
The Board of Statutory Auditors carried out a specific supervisory activity before it even received the first request to do so from Consob. This allowed it to ascertain, on the one hand, that there were no grounds for qualifying the transaction as one carried out with parties related to Telecom Italia and, on the other, that the regulations regarding directors' interests had been correctly applied. The Board of Directors also ascertained that the principle of management correctness of the transaction has been applied, specifically confirming the adequacy of the analysis of the reasons for the transaction and its advantages for the Company.

In 2013 the following bonds were also issued:

- on 30 March 2013 Telecom Italia issued subordinated convertible bonds (hybrid bonds) for 750 million euros, with coupon rate 7.750% and maturity on 20 March 2073. On 6 February 2014, the Board of Directors of Telecom Italia decided to avail itself of the right to early repayment of the hybrid convertible bonds in circulation, at the same time revoking the resolution, made on 18 February 2013, approving the programme to issue this type of securities, for a maximum sum of 3 billion euros;
- on 25 September 2013 Telecom Italia issued bonds for the amount of one billion euros, with coupon rate 4.875% and maturity on 25 September 2020.

On 23 January 2014 Telecom Italia issued bonds for the amount of one billion euros, with coupon rate 4.5% and maturity on 25 January 2021.

All the transactions indicated above are listed in the notes to the consolidated financial statements of the Telecom Italia Group and the notes to the separate balance sheet of Telecom Italia S.p.A., as well as in the report on operations for the year 2013. The Board of Statutory Auditors has verified that the above transactions comply with the law, the Company bylaws and the principles of correct administration, and has made sure that they were not manifestly imprudent or hazardous, in potential conflict of interest, or contrary to the resolutions adopted by the Shareholders’ Meeting or likely to compromise the integrity of the corporate assets; the transactions with Directors' interests, or with related parties, were subjected to the transparency procedure set out in the applicable regulations.

2. During the course of 2013 the Board of Statutory Auditors did not encounter atypical and/or unusual corporate transactions with third parties or related parties (including the companies within the Group). The information relating to the principal infragroup transactions and with other related parties executed in the financial year 2013, and the description of their characteristics and economic effects is contained in the notes to the separate financial statements of Telecom Italia S.p.A. and to the consolidated financial statements of the Telecom Italia Group.

The Board of Statutory Auditors would note that the procedure for undertaking transactions with related parties, drawn up in compliance with Consob Regulation no. 17221 of 12 March 2010 and adopted in November 2010, was updated in June 2012, introducing some clarifying amendments based on the experience accrued, without, however, changing the authorisation system and investigative responsibilities in force. For a thorough illustration of the company procedure, see the Telecom Italia S.p.A. Report on corporate governance and share ownership for the 2013 financial year.

During 2013 Telecom Italia published two information documents regarding the major transactions with related parties mentioned above. The Board of Statutory Auditors has overseen the conformity of the procedure adopted by the Company with the principles indicated by Consob, as well its actual observance.

3. Taking account of the size and structure of the Company and of the Telecom Italia Group, given that there were no atypical and/or unusual transactions, the Board of Statutory Auditors believes that the report on the Company’s transactions with related and infragroup parties, given in the notes to the separate financial statements of Telecom Italia S.p.A. and in the notes to the consolidated financial statements of the Telecom Italia Group, should be considered adequate.

4. On 24 March 2014, Independent Auditor PricewaterhouseCoopers issued the reports pursuant to articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010, in which it states that the separate financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group at 31 December 2013 comply with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as with the provisions issued in implementation of Article 9 of Legislative Decree no. 38 of 2005, that they are drafted with clarity and that they represent truthfully and correctly the finances and assets of the company, the profit and loss results, and the cash flows of the Company and the Group. Furthermore, the Independent Auditor also considers that the report on operations and the information in subsection 1, letters c), d), f), l) and m) and subsection 2, letter b) of Article 123-bis of CFL, presented in the report on corporate governance and share ownership, are consistent with the Company’s separate financial statements and the consolidated financial statements for the Group at 31 December 2013.

5. On 20 December 2013 a shareholder of the Company submitted a complaint pursuant to article 2408 of the Italian Civil Code regarding the operation to issue the Mandatory Convertible Bonds. In particular, the shareholder alleges infringement of article 2391 of the Italian Civil Code, which disciplines the subject of directors’ interests, and article 92 of the CFL, which imposes listed issuers to ensure that all holders of listed financial instruments that are in the same conditions receive the same treatment, and the non-application of article 2629-bis of the Italian Civil Code for failure to communicate the conflict of interest.
The Board of Directors has assessed the content of the complaint as part of its investigations and checks made into the mandatory convertible bond issue operation. Regarding the outcome of the controls carried out, see the information given in point 1 of this Report.

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

In particular, in implementation of the obligations that derive from its role as Audit Committee of the Company, the Board of Statutory Auditors adopted in due course a specific procedure for handling reports received by the control body. These reports may consist of:

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

There are instructions on the Governance section of the Company’s website (Governance System – Board of Statutory Auditors - Role, tasks and responsibilities), for sending such reports - in paper or electronic format - to the Board of Statutory Auditors/Audit Committee of the Company.

Between 8 March 2013 and 6 March 2014 the Board of Statutory Auditors received 16 “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 Board of Statutory Auditors investigated these complaints appropriately, with the support of the Group Compliance Officer, the Audit Department and the competent Company departments, but no irregularities to be reported to the Shareholders’ Meeting have emerged.

7. During the 2013 financial year Telecom Italia S.p.A. appointed PricewaterhouseCoopers S.p.A. to undertake various tasks other than audits of financial statements, the fees for which, before VAT, are summarised below:

<table>
<thead>
<tr>
<th>PricewaterhouseCoopers S.p.A.</th>
<th>(in euros)</th>
</tr>
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<tbody>
<tr>
<td>Agreed procedures and declarations regarding tender bids</td>
<td>51,650</td>
</tr>
<tr>
<td>Agreed procedures connected with the issue of comfort letters in relation to the issue of notes</td>
<td>63,000</td>
</tr>
<tr>
<td>Activities connected with updating the 20,000,000,000 euros Euro Medium Term Note Programme</td>
<td>39,000</td>
</tr>
<tr>
<td>Agreed procedures in relation to the project of issuing notes on the US market</td>
<td>383,000</td>
</tr>
<tr>
<td>Agreed audit procedure on special projects</td>
<td>340,935</td>
</tr>
<tr>
<td>Agreed audit procedures on data used to draw up the profit and loss account and balance sheet of the so-called “Telecom Italia S.p.A. single perimeter” for “Fixed network services” and “Mobile network services”</td>
<td>55,000</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 2012 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>20,000</td>
</tr>
<tr>
<td>Limited auditing of the abbreviated interim consolidated financial statements at 30 September 2013.</td>
<td>296,000</td>
</tr>
<tr>
<td>Fairness opinion on the issue price of the shares related to the capital increase with disapplication of preferential subscription rights.</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,848,585</strong></td>
</tr>
</tbody>
</table>
8. During the 2013 financial year, Telecom Italia S.p.A. conferred the following task, through its Branch Office in Argentina, to PricewaterhouseCoopers & Co. S.R.L. (a company connected by continuing relationships with PricewaterhouseCoopers S.p.A. that belongs to the latter’s international network) for which the fees, excluding VAT, are summarised below:

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<tbody>
<tr>
<td>Auditing the financial statements as at 31.12.2013 of “Sucursal Argentina” (Argentina Branch Office). Equivalent of 44,650 Argentinian Pesos (ARS) at the average exchange rate for financial year 2013: 1 euro = 7.27875 ARS</td>
<td>6,134</td>
</tr>
<tr>
<td>Total</td>
<td>6,134</td>
</tr>
</tbody>
</table>

It should be noted that the Shareholders’ meeting held on 29 April 2010, on the basis of the proposal put forward by the Board of Statutory Auditors, conferred the office of External Auditor (separate financial statements of Telecom Italia S.p.A., annual consolidated financial statements, abbreviated half-yearly consolidated financial statements, annual report for the purposes of the US Laws) on PricewaterhouseCoopers S.p.A. for the nine year period 2010-2018.

The external auditor appointed by the Parent company Shareholders’ Meeting is the main external auditor for the entire Telecom Italia Group. To protect the independence of the appointed auditor, the Company has adopted special Guidelines for the appointment of the independent auditor to undertake assignments. These establish the principle under which the appointment of further assignments (when allowed by the reference regulations) is limited to the services and activities closely related to the audit of the financial statements. Conferment of a single further appointment is subject to the prior approval of the Board of Statutory Auditors of the Parent company; for some types of appointment (“pre-approved appointments”), approval is given in advance for categories of appointments. In any event, the Board of Statutory Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of external auditors, valid for the entire Group, which it did by requiring the introduction, from 1 January 2012, of an operative procedure which provides for prior examination by the Board of Statutory Auditors, even for pre-approved appointments, when certain qualitative conditions occur or when specific quantitative thresholds are exceeded.

The Board of Statutory Auditors would also make clear that, with an adequate flow of information, it will adopt the corresponding determinations made by the audit committees of the SEC registered subsidiary companies (i.e. TIM Participações S.A., Nortel Inversora S.A. and Telecom Argentina S.A.) provided they are taken based on rules that comply with the applicable law - including U.S. law - and the Group Guidelines on this subject.

The Board of Statutory Auditors acknowledged the request made by PricewaterhouseCoopers S.p.A. to supplement their 2013 fee on a final account basis for auditing of the internal controls that govern the process of drafting the consolidated financial statements of the Telecom Italia Group, pursuant to section 404 of the Sarbanes-Oxley Act.

9. Pursuant to article 2389, subsection 3 of the Italian Civil Code, the Board of Statutory Auditors issued its favourable opinion on:

- the scorecards regarding the short-term incentive targets for the Chairman and Managing Director of the Company;
- the financial remuneration to be awarded to Franco Bernabè, after his resignation from the office of Chairman of the Board of Directors, after having ascertained its substantial alignment with the provisions of the contract signed with the Company on 20 May 2011.

The Board of Directors, having taken note of the finalisation of the short term incentive system objectives for the Managing Director for 2013, and, in particular, his non-achievement of the access gate to the premium expressed in terms of reported consolidated net income, expressed its approval of the discretionary award of a one-off bonus for 2013 to the Managing Director as specific recognition of the results he achieved, particularly in the role of Chief Executive Officer.

Pursuant to article 2386, subsection 1 of the Italian Civil Code, the Control Body approved the appointment of Angelo Provasoli as Director of the Company to replace the outgoing Elio Catania.

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

Finally, the Board of Statutory Auditors formulated a favourable opinion of the appointment of Mr. Valerio Cavallo as Group Compliance Officer reporting directly to the Board of Directors of the Company.

10. Over the course of financial year 2013, the Company’s Board of Directors and Executive Committee held sixteen and two meetings, respectively, at which the Board of Statutory Auditors was always present. The Control and Risk Committee met fifteen times (of which fourteen jointly with the Board of Statutory Auditors, due to the topics dealt with). The Nomination and Remuneration Committee met fourteen times.
During 2013, there were fifty meetings of the Board of Statutory Auditors (including the fourteen meetings held jointly with the Control and Risk Committee).

It should also be noted that the Board of Statutory Auditors attended all meetings of the of the Control and Risk Committee (not held jointly with the Board of Statutory Auditors' meetings) and of the Nomination and Remuneration Committee, by the attendance of its Chairman or another Statutory Auditor designated by the Chairman.

The Control Body took part in the Shareholders’ Meetings, held on 17 April and 20 December 2013, respectively. The Board of Statutory Auditors (through its Chairman or another Statutory Auditor designated by him) also attended the meeting of the savings shareholders’ of the Company (22 May 2013) and the meeting of the bondholders relating to the loan “Telecom Italia 2002-2022 Floating Rate bonds, Open Special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired” (18 May 2014);

11. In accordance with its obligations, the Board of Statutory Auditors obtained information and supervised compliance with the principles of correct administration, by constant attendance at the meetings of the Board of Directors, via interviews, direct observation, investigations, the receipt of information from the management of the Company, and meetings with the Head of the internal audit function, the manager responsible for preparing the corporate accounting documents, the Head of the IT & Security Compliance function and the Company Group Compliance Officer.

The Board of Statutory Auditors – occasionally through its Chairman – met the Executive Chairman, the Managing Director and external auditor PriceWaterhouseCoopers S.p.A (for the reciprocal exchange of relevant information and data pursuant to article 150, subsection three of the CFL) and attended the meetings of the board's internal committees.

The Board of Statutory Auditors believes that the governance arrangements and tools adopted by the Company constitute a valid supervisory framework to ensure that the principles of correct administration are respected in operational practice. In particular, in relation to the decision-making processes of the Board of Directors, the Control Body has supervised, including by attendance at board meetings, that the management decisions made by the Directors be substantially legitimate and in the interests of the Company, and checked that the Board resolutions were adequately supported by information, analysis and audit – also involving consultation with the board committees and external professionals, when necessary.

The Board of Statutory Auditors carefully monitored the assets and liabilities as well as the financial position of the Company, prompting the Board of Directors to consider the most favourable initiatives to strengthen its position, and, finally, it took note of the actions taken in this sense as part of the 2014-2016 industrial plan.

Finally, the Board of Statutory Auditors checked that the regulations regarding directors’ interests (article 2391, Italian Civil Code) had been correctly applied, also recommending that the latter assure the maximum transparency regarding any interest, even merely potential, which any Director might have, in any organisational situation, including those of a merely fact-finding nature. When requested, the Board of Statutory Auditors also provided a report to Consob on this topic.

12. Pursuant to the Corporate Governance Principles of Telecom Italia, the role of providing strategic supervision and direction for the Company pursuing the primary objective of creating value for the shareholders, with a medium-long term perspective, also taking the legitimate interests of the remaining stakeholders into account, is reserved to the Board of Directors.

For the execution of its resolutions and the management of the company, the Board of Directors may, in accordance with the legal limits, delegate the appropriate powers to one or more Directors who report to the Board of Directors and Board of Statutory Auditors on the activities carried out, the general trend of operations and on the transactions of greatest economic and financial significance concluded by the Company or its subsidiaries.

On 13 April 2011, following the renewal approved by the Shareholders’ Meeting on 12 April 2011, the Board of Directors appointed Franco Bernabè Chairman of the Board and Chief Executive Officer, Aldo Minucci Vice Chairman and Marco Patuano Chief Operating Officer.

In addition to the power to legally represent the Company, as laid down in the Bylaws and all the powers necessary for performing actions pertinent to the activity of the company in its various manifestations, to be exercised with a single signature, the following powers were conferred on the Chairman and CEO,
- overall governance of the Group, including coordinating the activities of the Chief Operating Officer, and defining the Company's strategic guidelines;
- responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors.

In addition to the power to legally represent the Company and to exercise, with a single signature, all powers required to perform actions pertinent to the activity of the company in its various manifestations, the Chief Operating Officer was made responsible for the overall governance of operations in Italy.

The powers conferred on the Vice Chairman were the representation of the Company, as laid down in the Bylaws, in the event that the Chairman is absent or unable to act.

On 3 October 2013, after the resignation of Franco Bernabè, the Board of Directors of Telecom Italia started the process to identify the new Chairman of the Company; the process was progressed in coherence with the succession plan for executive directors. In the meantime, the powers and organisational responsibilities previously assigned to the former Chairman were attributed to Managing Director Marco Patuano, while - in accordance with the provisions of the bylaws, and in his capacity as deputy - the Vice Chairman, Aldo Minucci, took the chair of the board.

Notwithstanding a broad selection process, the replacement of the Chairman with an external candidate was not completed; on 6 February 2014, the Board of Directors appointed Aldo Minucci Chairman of the Board of Directors, without amending the powers held by Managing Director Marco Patuano.
In January 2014 the new organisational framework of the Telecom Italia Group was formalised, defining the organisational structures that report directly to Managing Director Marco Patuano, in line with the board resolutions of 3 October 2013.

Within the company there is a system of management committees, focused on the governance and operational integration of the activities of the Group. The Board of Statutory Auditors would point out that the Group Committees System is an important element of the organisational structure and, in particular, fulfills the aim of (i) monitoring the implementation of strategies and the development of plans; (ii) monitoring the overall operations of the Group and specific businesses; (iii) strengthening the operational synergies needed between the functions involved in the different innovation, technological, business and support processes; (iv) improving the flow of information (v) maintaining the focus on aspects of particular importance.

The Board of Statutory Auditors carefully monitored the main organisational changes that occurred in the reference period, and supervised the adequacy of the organisational structure with respect to the strategic objectives of the Company, by meetings with the Managing Director and the head of People Value (the name recently adopted by the Human Resources and Organisation function), interviews with the heads of the individual company functions, and meetings with the heads of internal and external audit.

Given the objectives, the complexity of the organisational structure of the Company and the Group, and having noted the changes made to the Executive Directors of the Company, the 2014-2016 industrial plan and, finally, having taken into account that in a complex enterprise the organisational systems are subject to a substantially permanent evolution process, the Board of Statutory Auditors considers the organisational framework of the Company and the Group to be adequate.

13. The internal control and risk management system consists of the set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the principal risks, allows the sound, fair and consistent operation of the company in line with the pre-established objectives.

It is organized and operates according to the principles and criteria of the Borsa Italiana Code, to which the Company adheres, and involves several components that act in a coordinated way according to their respective responsibilities – the responsibility of the Board of Directors to direct and provide strategic supervision, the responsibility of the Executive Directors and management to control and manage, the responsibility of the control and risk Committee and the Head of the Audit Department to monitor and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

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

In particular, the Board of Directors has specified that the Head of the Audit Department should have an adequate level of independence and means suitable for the execution of this function. The Head of the Audit Department is responsible for supporting the management and control boards in assessing the adequacy, operation and effectiveness of the control and risk management system and for proposing corrective measures in case of anomalies and/or deficiencies.

The Head of the Audit Department reports on his work to the Director in charge of the internal control and risk management system, the Control and Risk Committee and, through the latter, to the Board of Directors, as well as to the Board of Statutory Auditors. The oversight role of the head of the Audit Department is directed, in particular, towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control and risk management system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the qualitative/quantitative risk factors present and the probability of their affecting the achievement of those objectives. This oversight is assured through:

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

The Board of Statutory Auditors took note of the overall assessment of the internal control system carried out by the Head of the Audit Department, who assessed the internal control system as adequate and capable of reducing the risk profiles to an acceptable level for the correct operation of the Company's processes.

The Board of Statutory Auditors closely supervised the internal control and risk management system adopted by the Company, evaluating its adequacy. In particular, it has constantly monitored the activities carried out by the principal components of the control system, taking note of the implementation of the improvement actions identified and, in some cases, prompting further specific interventions to strengthen the controls.

In this context, the Board of Statutory Auditors has held periodic meetings with the Head of the Audit Department, the Group Compliance Officer, the Head of the IT & Security Compliance Function, the manager responsible for preparing the corporate accounting documents, the Head of Enterprise Risk Management, the management and the external auditor. It also had contact and exchanged information with the corresponding control bodies of the major Italian subsidiary companies.

The Board of Statutory Auditors of the Parent Company also took note of the assessment of overall adequacy of the internal control system of Tim Participações expressed by the Comité de Auditoria of the Argentinian subsidiary. The Board of Statutory Auditors also noted the positive opinion formulated by this control body on the functioning of internal audit in the South American subsidiary, and on the independence of the internal audit work carried out.

The Board of Statutory Auditors promoted some initiatives undertaken towards the Comité de Auditoria of Telecom Argentina S.A. that enabled a relationship to be established for collaboration and coordination on the functioning of the internal control system of the Argentinian subsidiary (currently being assigned, as reported in point 1 of this Report).
The internal control and risk management system also incorporates the so-called "Organizational Model 231", i.e. a model of organization and management adopted pursuant to Legislative Decree No. 231/2001, aimed at preventing offences that can result in liability for the Company.

The Organisational Model 231 has been adopted by domestic subsidiaries of the Group as well as by Telecom Italia, and consists of:

- the Code of Ethics and Conduct of the Telecom Italia Group, which enunciates the general principles (transparency, fairness, loyalty) that guide the Company in the carrying out and management of business;
- the "general principles of internal control", i.e. the set of tools to achieve the objectives of efficiency and operational effectiveness, reliability of financial and management reporting, compliance with laws and regulations, safeguarding of assets against possible fraud;
- the "principles of conduct", which consist of specific rules for relations with third parties and for all fulfilments and activities of a corporate nature, and
- the "internal control schemes" that describe business processes at risk of crime, any predicate offences relating to them, the preventive control activities and the behavioural indications aimed at avoiding the related risks.

The Organizational Model 231 is a dynamic instrument, which affects the corporate operation and must, therefore, be constantly checked and updated in the light of the elements that emerged from experience of its application and of the evolution of the regulatory framework. The amendments were drafted by a managerial committee called Steering Committee 231, briefed by the Supervisory Board and approved by the Board of Directors of the Company when of a significant nature.

During 2013 the Organisational Model 231 was specifically subject to an update required by the introduction of the predicate offence of "corruption between private subjects and undue inducement to promise or give benefits to a public official/public service employee", pursuant to the law of 6 November 2012.

In this context, the Organisational Model represents an integral part of the reference compliance program for the application of foreign anti-corruption legislation such as the US Foreign Corrupt Practices Act and the UK Bribery Act.

As is known, the Supervisory Body functions were attributed in 2012, with progressive extension at Group level, to the Board of Statutory Auditors, supported by the Group Compliance Officer and dedicated Company offices. The Board of Statutory Auditors checked the adequacy and functionality of the Organisational Model 231 and supervised its observance, assessing the conformity of the Organisational Model 231 with the reference regulatory framework, based also on the positive results of an audit carried out by the Audit Department which found that "at general level, the OM231 monitoring system was found to be adequate".

To achieve a comprehensive approach to risk management, the Telecom Italia Group has developed a process inspired by Enterprise Risk Management (ERM) to identify, assess and manage risks.

The process of managing risks (defined as "potential events whose occurrence could compromise the achievement of strategic objectives") is governed by a Group managerial committee (the Group Risk Management Committee), chaired and coordinated by the Head of the Administration, Finance and Control Function. As at 31 December 2013 this Committee reports to the Managing Director and periodically informs the control and risks Committee and the Board of Statutory Auditors on the results of its activities.

The ERM process is based on self-assessment of the risk profile by management and allows for the definition of:

- the mapping of risks, assessed by level of impact and probability of occurrence, with a specific focus on the most significant risks (Top Risks);
- treatment of risk, performed by risk-owner company structures by identifying and implementing specific action plans intended to reduce the level of residual risk.

During 2013 an initiative to renew the ERM process started, affecting both the risk identification phase (passage from a self assessment approach to a top down/bottom up method), and the assessment phase (relationship between impact/probability in the existing ERM process).

The Board of Statutory Auditors monitored the evolution of the ERM process particularly closely, to promote a more incisive approach in harmony with the internal control and risk management system.

14. With particular reference to the internal controls for the preparation of the financial statements, the Board of Statutory Auditors notes that Telecom Italia has adopted the Internal Control - Integrated Framework model (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission as its reference framework for the definition and assessment of its internal control system.

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

The Board of Statutory Auditors acknowledged the statements issued by the Domestic Managing Director and the Manager responsible for preparing the corporate accounting documents of Telecom Italia S.p.A. concerning the adequacy – in relation to the characteristics of the company – and the actual application during 2013 of the administrative and accounting procedures for the preparation of the financial statements and the consolidated financial statements.

On the question of goodwill impairment test, the Board of Statutory Auditors observed that in Telecom Italia it is applied in a consolidated and structured way, coordinated by the Administration, Finance and Control Department, with the intervention of an independent external expert of acknowledged professional expertise. The implementation of the process is also analysed and discussed in special meetings of the Risk Committee that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied. These meetings are held jointly with the Board of Statutory Auditors. The Board of Statutory Auditors
checked that the impairment test procedure was applied to the 2013 financial statements in terms coherent with the procedure approved by the Board of Directors on 18 February 2013.

Finally, the Board of Statutory Auditors would note that the process followed to determine if the goodwill value has been reduced in value, to determine if this value can 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 differences between the values in use and the carrying amounts at 31 December 2013 before the impairment test” and 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 Statutory Auditors has not ascertained facts and circumstances that would indicate that the administrative-accounting system of the controlled companies is not adequate to ensure that the data on the revenues, finances and assets of the companies needed for the preparation of the consolidated financial statements regularly reaches the management and auditor of the controlling company.

The Board of Statutory 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.

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

The Company has adopted the “Procedure for the handling and communication to the public of sensitive information”, which disciplines the handling of sensitive information about Telecom Italia, its unlisted subsidiaries and the listed financial instruments of the Group. This is directed at all members of corporate bodies, employees and external collaborators who have access to information that might evolve into sensitive information (“market sensitive information”). It also applies as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfillment of the public disclosure obligations. This Procedure also disciplines the maintenance of the register of people with access to sensitive information.

As previously mentioned, the Board of Statutory Auditors acknowledged that Telecom Italia has started a process to check and update the Procedure.

16. The Board of Statutory Auditors has ascertained, from information obtained from Independent Auditor PricewaterhouseCoopers and from the management of the Company, that the IAS/IFRS principles, and the other legal and regulatory provisions that apply to the preparation and presentation of the separate financial statements, the consolidated financial statements and the accompanying report on operations are complied with. The Board of Statutory Auditors acknowledges that, from the report issued by PricewaterhouseCoopers S.p.A. on 22 April 2013 pursuant to article 19, subsection 3 of Legislative Decree no. 39 of 27 January 2010, no “fundamental issues” or “significant shortcomings” in the internal control system on the financial reporting of Telecom Italia S.p.A. emerged for the financial year that ended on 31 December 2012.

17. The Board of Statutory Auditors has supervised the arrangements for the concrete implementation of the rules of corporate governance required by the Corporate Governance Code drawn up by the Committee for the Corporate Governance of Borsa Italiana 2011, to which the Company adheres. Furthermore, the Board of Directors adopted the new Corporate Governance Principles in its meeting of 6 December 2012.

In this respect, it should be noted that Telecom Italia has adopted the criteria established by the Corporate Governance Code of Borsa Italiana for qualifying Directors as independent. Based on information provided by the Directors themselves, the Board of Directors verified their possession of the requirements of independence in its meeting of 6 March 2014. It determined that, of the eleven members of the Board (at 31 December 2013), ten Directors qualified as non-executive, five of whom independent (Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales). The market was informed of the outcome of this verification.

It should be noted in this respect that the report on corporate governance and share ownership structure:

- acknowledges the suggestions made by the Control and Risk Committee concerning the application of more rigorous criteria in the (self)-assessment of its own independence made by Mr Fitoussi, in relation to the offices he holds in Intesa SanPaulo S.p.A., as well as to the fact that on 6 may 2013 he had completed nine years’ service on the Board of Directors of Telecom Italia. Having noted that Mr. Fitoussi reiterated his independence, the Board of Directors excluded the existence of de facto circumstances that might cast doubt on his independent judgement;
- as for Mr. Sentinelli, also at the request of Consob, the report set out the reasons why he did not qualify himself as independent when first appointed director (Shareholders’ Meeting of 29 April 2010) and why he was not considered such for the financial year 2010 in the corporate governance report, and that he in fact qualified as independent at the renewal of the Board of Directors by the Shareholders’ Meeting of 12 April 2011, and was considered such in the corporate governance reports for financial years 2011 and 2012.

The Board of Statutory Auditors monitored the ascertainment of the requirements and the correct application of the criteria of independence - and informed Consob, when requested - without formulating any comments.
The Board of Statutory Auditors confirmed that its members possess the independence requirements specified in article 148, subsection 3 of the CFL, as well as the requirements provided for in the Borsa Italiana Corporate Governance Code. Regarding the latter, the Board of Statutory Auditors took account of the circumstance that two of its members (Salvatore Spiniello and Ferdinando Superti Furga) had acted as Standing Auditors for more than three terms of office, without the emergence of elements that might be construed as a decrease in the independence of the two members.

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

The Board of Directors also has subcommittees comprising an Executive Committee, a Control and Risk Committee and a Nomination and Remuneration Committee.

The Executive Committee is composed of the executive Directors (who shall ensure coordination with the Group’s management) and some non-executive Directors. As provided for by the Corporate Governance Principles of the Company, the Committee has the task of monitoring the performance of the Company and the Group, approving upon the proposal of the executive Directors, the organizational macro-structures, formulating opinions to the Board of Directors on the budget and the strategic, industrial and financial plans of the Company and the Group as well as on operations that, according to their nature, strategic importance, size or commitments, may have a significant impact on the activity of the Company and the Group and carrying out any other duties assigned by the Board of Directors relating to matters that can be delegated. In light of the small number of occasions upon which the Executive Committee met, the Board of Statutory Auditors shares the recommendation of the outgoing Board of Directors that said Committee not be constituted after the renewal of the administrative body.

The Control and Risk Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. Furthermore, at least one member of this Committee possesses adequate expertise in accounting and finance or risk management. Without prejudice to the tasks attributed to it by the Borsa Italiana Code, the Committee:

- provides high-level supervision related to corporate social responsibility, monitoring the consistency of the actions performed with the principles laid down by the Code of Ethics of the Group;
- monitors observance of the Company's corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;
- expresses a prior opinion on (i) transactions with related parties entrusted to the board; (ii) ordinary transactions with related parties at standard or market conditions not predetermined or defined after a tender worth over 10 million euros; (iii) non-ordinary transactions with related parties worth more than 2 million euros.

The Nomination and Remuneration Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. At least one member of this Committee possesses adequate expertise in financial matters or remuneration policies. Without prejudice to the tasks assigned by the Borsa Italiana Code to the Nominations Committee and the Remuneration Committee, the Committee:

- oversees the succession plan for Executive Directors, and monitors the updating of the company management replacement lists, prepared by the Executive directors.
- establishes the procedure and period for the annual evaluation of the Board of Directors;
- proposes the criteria for allocating the total annual remuneration established by the Shareholders’ Meeting for the whole Board of Directors;

The Board of Statutory Auditors took note of the considerations of the Company on the composition of the Nomination and Remuneration Committee, contained in the corporate communications and in the Report on corporate governance and share ownership for 2013. In particular, the Board of Directors considered the composition requirement concerning the presence on the Committee of a minority director satisfied, in light of the replacement process actually followed to co-opt Director Massimo Egidi to the Board, and his subsequent appointment by the shareholders' meeting, with the legally required majorities. Mr. Egidi was called on to be a member of the Nomination and Remuneration Committee after the resignation of Director Francesco Profumo (who at the time of his appointment was taken from a slate qualified as a minority slate).

For its part, the Board of Statutory Auditors assessed the current composition of the Nomination and Remuneration Committee as substantially respecting the provisions of the corporate governance Principles adopted by the Company.

The Board of Statutory Auditors monitored the activities of the Control and Risks Committee and the Nomination and Remuneration Committee during 2013 in joint sessions or by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings.

The Lead Independent Director, a role currently held by Director Luigi Zingales, is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. He also has the right to convene special meetings of the Independent Directors only (Independent Directors’ Executive Sessions) to discuss issues affecting the functioning of the Board of Directors or the management of the business.

See the Report on the corporate governance and share ownership of Telecom Italia S.p.A. for the 2013 financial year for further detailed information on the corporate governance of the Company, which the Board of Statutory Auditors evaluates positively.

18. No significant facts that should be mentioned in its Report to the Shareholders’ Meeting have emerged from the supervision and control activities carried out by the Board of Statutory Auditors, as described above.
The Board of Statutory Auditors also reports that no observations or problems have emerged from its analysis of the information flows received in relation to the activity carried out by the control bodies of the subsidiary companies or the representations the external auditor has made in its reports on said subsidiaries.

Equally, no problems have emerged from the review of the reports of the external auditor and the Boards of Statutory Auditors of Telecom Italia Media S.p.A. (a subsidiary company with shares listed on the market organised and managed by Borsa Italiana S.p.A.), of Telecom Italia Sparkle and Olivetti S.p.A. pursuant to and for the purposes of article 153 of the CFL, article 2429, second subsection, of the Italian Civil Code and article 14 of legislative decree no. no. 39 of 27 January 2010.

Finally, the Board of Statutory Auditors examined the external auditor’s reports on Tim Participações S.A. and Telecom Argentina S.A., which also contained no observations or remarks.

19. The Board of Statutory Auditors, having acknowledged the financial statements at 31 December 2013, has no objections to formulate on the proposed resolutions presented by the Board of Directors on the coverage of the operating loss of Telecom Italia S.p.A. and on the payment of the privileged dividend to the savings shareholders by the distribution of the reserves.

The mandate conferred on the Board of Directors by the Meeting of the Shareholders of the Company on 12 April 2011 expires with the Shareholders’ Meeting called to approve the financial statements at 31 December 2013. The Board of Statutory Auditors therefore invites the Shareholders to make appropriate provision, also in light of the guidance on this matter provided by the outgoing Board of Directors, which the Board of Statutory Auditors confirms.

In particular, with reference to the requirements of independence of Directors, the Board took favourable note of the recommendation of the Board of Directors contained in the aforementioned guidance that the independent directors should be qualifiable as independent also with reference to the shareholders who propose them; although merely a recommendation, for its part the Board of Statutory Auditors will take it into account in assessing any potential conflicts of interest.

It should be noted, with specific reference to the percentage of ownership needed to submit slates of candidates for the nomination of directors, that while it is aware of the objective uncertainty regarding the interpretation of the applicable bylaws and regulatory provisions, the Board of Statutory Auditors shares the choice made by the Board of Directors (i.e. the application of the threshold of 0.5% of the ordinary capital set out in the Bylaws, without considering the possibility of derogating from it by virtue of the different percentage calculated pursuant to the combined provisions of articles 147-ter of the CFL and 144-quater of Consob Regulation no. 11971/1999, and pursuant to Consob Resolution no. 18775 of 29 January 2014) to adopt a more market-oriented interpretation that is coherent with the orientation indicated by Consob in a specific communication sent to the Board of Statutory Auditors of the Company.

Milan, 25 March 2014

For the Board of Statutory Auditors
The Chairman
Signed Enrico Maria Bignami