

**Report of the Board of Statutory Auditors to the Meeting of the Shareholders
of Telecom Italia S.p.A. pursuant to Article 153 of Legislative Decree no. 58/1998**

Dear Shareholders,

This report presents the activities performed by the Board of Statutory Auditors during the 2016 financial year and up to today's date, as required by Consob Notice no. DEM/1025564 of 6 April 2001 and subsequent amendments and supplements.

The Board of Statutory Auditors has carried out the supervisory activities required by the law, taking account of the standards of conduct for listed companies recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (national association of chartered accountants and auditors) 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 internal board committees (i.e. the Control and Risk Committee, the Nomination and Remuneration Committee and the Strategy Committee), meetings with Executive Directors questioning of Company management, meetings with the external auditor and control bodies of Group companies, analysis of information flows from the competent company structures, as well as further inspection and control activities. Where deemed necessary, the Control Body availed itself of its own legal consultants, performing its supervisory activities in a completely autonomous and independent way.

1. On the basis of the information received and as a result of the analyses conducted by the Board of Statutory Auditors, it emerged 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:
 - on 8 March 2016, the sale was completed of the company's entire remaining stake in Telecom Argentina, with the sale to the Fintech Group of 51% of the share capital of Sofora Telecomunicaciones (the parent company of Nortel, the holding company that controls Telecom Argentina). As set out in the agreements signed by the parties on 24 October 2014, the sale was completed after having received the approval of Enacom, the Argentine communications regulator;
 - the project to reorganise the company's information technology arrangements started in the second half of 2016. It involved the integration into the company of the wholly owned subsidiary Telecom Italia Information Technology, merged by incorporation into Telecom Italia, and the subsequent reorganisation of the IT sector;
 - on 28 July 2016, a company entitled Flash Fiber S.r.l. was constituted with Fastweb S.p.A. to design, create, maintain and supply the fibre network throughout Italy;
 - on 15 November 2016, the conversion of the Mandatory Convertible Bond issued by Telecom Italia Finance S.A. into new ordinary shares of TIM S.p.A. took place in November 2013. The conversion took place based on the definitive conversion ratio calculated as specified in the terms and conditions of the note;
 - on 28 December 2016, a company entitled TIMVision S.r.l. was created to serve the Group's fibre development strategy by entering the content production sector.

In 2016 the following bonds were issued:

- on 20 January 2016 Telecom Italia S.p.A. issued bonds for the amount of 750 million euros, with coupon rate 3.625% and maturity on 19 January 2024;

- on 25 May 2016 Telecom Italia S.p.A. issued bonds for the amount of one billion euros, with coupon rate 3.625% and maturity on 25 May 2026;
- on 30 September 2016 Telecom Italia S.p.A. issued bonds for the amount of one billion euros, with coupon rate 3.000% and maturity on 30 September 2025.

on 29 June 2016, a transaction was undertaken to buy back a Telecom Italia S.p.A. bond with maturity May 2023 and a nominal value of 25 million euros.

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 2016.

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, 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 other related parties, were subjected to the transparency procedure set out in the applicable regulations.

2. During the course of 2016 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 intra-group transactions and with other related parties executed in the financial year 2016, 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.

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 intra-group 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 31 March 2017, the independent auditor PricewaterhouseCoopers issued the reports pursuant to articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010, which state that the separate financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group at 31 December 2016 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 figures, and the cash flows of the Company and the Group.

The external auditor also considers that the report on operations and the information in the Report on corporate governance and share ownership indicated in art. 123-bis, subsection 4 of the CLF are consistent with the Company's financial statements for the period and the consolidated financial statements for the Group at 31 December 2016.

5. In 2016 and to the date of this report, five complaints were received pursuant to article 2408 of the Italian Civil Code, including three from the same shareholder.
 - 5.1 The first complaint criticised the changes that introduced flat prices for residential fixed offers and the remodulation of mobile telephony contracts (the 'TIM Prime' contracts). The shareholder asked that the responsibilities for these changes be ascertained, since AGCom has levied a two million euro fine on the company because of the introduction of flat pricing for

residential fixed offers and the notice from AGCom requiring it to refrain from the remodulation of the basic price plans for mobile telephony.

- 5.2 The second complaint received by the Board of Statutory Auditors criticised presumed irregularities in the shareholder's fixed telephone line. It also asked that statutory auditors ascertain if there were any *"responsibilities, cover-ups, tacit acquiescence or other forms of endorsement by senior Telecom managers"* and, if there were, to ascertain the extent to which the reported facts could have an effect on the Company's customer satisfaction and negatively impact the company's results.
- 5.3 The third complaint was a complaint of a commercial nature.
- 5.4 The fourth complaint criticised the behaviour of the current Chief Executive Officer and the management of the Company *"for Telecom's non-fulfilment with regard to 81 non-compliances by TIM with the same number of instructions issued by Co.re.com"*.
- 5.5 The fifth complaint regarded the award of the contract for the management of the TIM media centre to Havas Media, in light of the shareholding relationships by virtue of which Havas Media is a company controlled by the Bolloré Group which has voting rights in Vivendi, while the latter holds 23.94% of TIM's capital. The shareholder thus complained that the fact cited above was to be criticised, since it was *"potentially in conflict of interest with shareholder Vivendi-Bolloré"*, and asking that the statutory auditors investigate the *"criteria for the selection and subsequent award"* of the contract.

The Board of Statutory Auditors undertook appropriate investigation of the complaints received, with the support of the Audit department and the competent offices of the Company, and, where present, also tested the adequacy of the initiatives undertaken after the issue of the notes cited in some of them, and also monitored the ascertainment of any individual responsibilities. After its investigations, it found no irregularities to report to the shareholders' meeting.

With specific reference to the contract with Havas for the media centre business, it should be noted that the Board of Statutory Auditors undertook an in-depth investigation, including a meeting with the Chairman of the Company and representatives of the management involved in the issue, to check that the laws and procedures for conducting the tender used to select the supplier had been correctly observed, and also undertook a specific analysis to consider the issue of whether or not TIM and Havas are related parties. On completion of the investigation, the Board of Statutory Auditors, by majority vote of its members, decided that the elements of information in its possession did not permit it to qualify Havas Media as a related party of TIM, at the time of its investigation. Furthermore, taking account of the relevance of the relations between the Bolloré Group and Vivendi, the Board of Statutory Auditors unanimously recommended to the Board that the safeguards with reference to transactions with Bolloré and Vivendi Group companies be strengthened.

6. Telecom Italia is registered with the US Securities and Exchange Commission as a foreign issuer and listed on the New York Stock Exchange, is also subject to United States legislation and 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;
- 'notifications' or reports, 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 About Us section of the Company's website (Corporate Bodies – 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.

During the last financial year and until the date of this report, the Board of Statutory Auditors received 20 reports (or groups of "reports", treated as units in the case of several communications from a single individual, even if at separate times), of which 4 were anonymous, complaining, 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 Audit Department and the competent Company departments, but no irregularities to be reported to the Shareholders' Meeting emerged. We should however point out that the relevant investigations are still being carried out regarding 1 report.

7. During the 2016 financial year TIM 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:

PricewaterhouseCoopers S.p.A.	(in euros)
Accounting advice and consultation activities carried out in financial year 2015.	215,000.00
Agreed procedures connected with the issue of comfort letters in relation to the issue of notes	83,000.00
Agreed procedures for certification services regarding tender bids	26,500.00
Additional audit procedures on the internal control system - Rule 4040 of the Sarbanes Oxley Act	120,000.00
Agreed audit procedures on regulatory accounting areas	47,000.00
Activities connected with updating the 20,000,000,000 euros Euro Medium Term Note Programme	29,000.00
Total	520,500.00

8. In the course of the 2016 financial year, TIM S.p.A. conferred, also through its Branch Office in Argentina, a number of tasks on parties connected by continuing relationships with PricewaterhouseCoopers S.p.A. and/or on companies belonging to the latter's network for which the fees, excluding VAT, are summarised below:

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Price Waterhouse & Co. S.R.L. (Argentina)	(in euros)
Auditing the 2016 final closure financial statements of "Sucursal Argentina" (Argentina Branch Office). Equivalent of 62,000 Argentinian Pesos (ARS) at the average exchange rate on 31.12.2016: 1 Euro = 16.33204 ARS	3,796.00

PricewaterhouseCoopers Advisory S.p.A.	(in euros)
Analysis of the ISO 26000 requirements in the CSR approach to management	18,000.00

Grand total (total assignments in point 7 + total assignments in point 8)	542,296.00
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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. In accordance with Brazilian law, the audit of the separate financial statements of TIM Participações S.A. was assigned to BDO RCS Auditores Independentes, while PricewaterhouseCoopers audits the reporting package produced by the Company for the purposes of the consolidated financial statements of the 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 ('preapproved appointments'), approval is given in advance. 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.

Through an adequate flow of information, the Board of Statutory Auditors adopts the corresponding determinations adopted by the audit committees of the SEC registered subsidiary companies (*i.e.* TIM Participações S.A. and, prior to the sale of the whole remaining shareholding in Telecom Argentina, Nortel Inversora S.A. and Telecom Argentina S.A.) provided they are made based on rules that comply with the applicable law - including U.S. law - and the Group Guidelines on this subject.

The offices of the Company are undertaking a review to update the Guidelines for the conferment of assignments to the external auditor, in light of the recent changes to the regulatory framework.

9. As reported in last year's report by the Board of Statutory Auditors, with regard to the compensation package for the Company's new CEO, appointed on 30 March 2016, the Board of Statutory Auditors expressed an unfavourable opinion, pursuant to article 2389, subsection 3, of the Italian Civil Code, because of issues with the arrangements for determining the variable part of the remuneration (special award), particularly in relation to the market benchmarks, and to its being determined exclusively on the basis of improvements on the 2016-2018 Strategic Plan, previously approved by the Board of Directors on 15 February 2016.

Pursuant to article 2389, subsection 3, of the Italian Civil Code, the Board of Statutory Auditors formally expressed its disapproval of the increase in the variable part of the compensation of the Chairman of the Board of Directors for 2016.

Finally, pursuant to article 2389, subsection 3, of the Italian Civil Code, the Board of Statutory Auditors formally approved the attribution of additional remuneration for the director appointed Vice Chairman of the Company.

With the prior approval (by majority vote) of the Control and Risk Committee, the Board of Directors appointed Daniele Gulinatti as Head of the Audit Department on 26 July 2016, to replace Silvia Ponzoni, who resigned from the position she had held since 15 September 2015. As required by the Corporate Governance Principles, the Board of Statutory Auditors discussed this issue, and expressed its approval by a majority vote (although their role was purely consultative).

Pursuant to the Corporate Governance Principles the Board of Statutory Auditors formally approved the functional objective scorecards for the short term incentive scheme (2017 MBO) for the Heads of the control departments who report directly to the Board (Audit Department, Compliance Department and IT & Security Compliance Function).

10. In the financial year 2016, the Company's Board of Directors held 14 meetings, at which the Board of Statutory Auditors was always present.

The Control and Risk Committee met 16 times (of which 9 jointly with the Board of Statutory Auditors, due to the topics dealt with). The Nomination and Remuneration Committee met 12 times.

On 26 July 2016, the Board of Directors created a Strategy Committee, which met once in 2016.

During 2016, there were 50 meetings of the Board of Statutory Auditors (including those meetings held jointly with the Control and Risk Committee).

The Board of Statutory Auditors attended the meetings of the Control and Risk Committee (not held jointly), the meetings of the Nomination and Remuneration Committee, and the meeting of the Strategy Committee, by the attendance of its Chair or another Statutory Auditor designated by the latter.

The Statutory Auditors took part in the Shareholders' Meeting, held on 25 May 2016.

The Chair of the Board of Statutory Auditors attended the meeting of the savings shareholders of the Company on 16 June 2016.

11. In accordance with its obligations, the Board of Statutory Auditors obtained information and supervised compliance with the principles of correct administration, by attendance at the meetings of the Board of Directors, meetings with the executive responsible for preparing the corporate accounting documents, the Head of the Audit Department, the Group Compliance Officer, the Head of the IT & Security Compliance function and by means of interviews with the management and the acquisition of information.

Following on the comments made about the analysis in last year's report regarding the applicability of the competition prohibition, pursuant to art. 2390 of the Italian Civil Code, to the Directors appointed by the shareholders' meeting of 15 December 2015, nominated by Vivendi, the Board of Statutory Auditors has continued to monitor the actual activities undertaken by TIM and Vivendi, and has not - to date - found that there have been any instances in which said provisions were applicable.

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.

Following the resignation of Marco Patuano from the office of Chief Executive Officer, the Board of Statutory Auditors duly and promptly monitored events, attending board meetings and those of the Nomination and Remuneration Committee, collecting information, including by interviews with the Chairman and resigning Chief Executive Officer and ascertaining effective compliance with the law, the articles of association and with standards of correct administration, also with reference to the agreement stipulated for the termination of his relationship as an employee and Director.

The Board of Statutory Auditors also monitored the process for the replacement of the Chief Executive Officer, attending the meetings of the Nomination and Remuneration Committee aimed at identifying the new Chief Executive Officer and defining his compensation, ensuring the release of the opinion envisaged by Art. 2389, subsection 3 of the Italian Civil Code. On this point, see the comments in paragraphs 9 and 18.

To ensure ever better alignment of the Company's rules of corporate governance with best practices and the most accredited interpretations of provisions of law, regulations and self-regulatory provisions, the Board of Statutory Auditors proposed and intends to continue to propose

both changes to the current regulations and procedures adopted by the Company (including the application of the stricter, more rigorous optional rules already envisaged therein) and supplementation of these regulations and procedures.

The Board of Statutory Auditors has proposed to proceduralise the disclosure on transactions in which there are interests pursuant to art. 2391 of the Italian Civil Code. The Company did not agree with this recommendation, although it made provision for suitable induction sessions to be provided for the Company's Directors.

In any event, the Board of Statutory Auditors has monitored the decision-making procedure adopted by the Directors, ensuring that decisions are based on principles of reasonableness and correct information, that they comply with the applicable regulations and are consistent and compatible with the Company's resources and assets, that Directors are aware of the risks and effects of every decision they take, and that these decisions are taken in the interest of all the shareholders.

12. Pursuant to the Corporate Governance Principles adopted by the Company, the role of providing strategic supervision and direction for the Company in order to pursue 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 16 April 2014, the Shareholders' Meeting appointed Giuseppe Recchi Chairman of the Board of Directors.

Following the resignation of the then Chief Executive Officer, Marco Patuano, on 21 March 2016, the Board of Directors appointed Director Flavio Cattaneo as Chief Executive Officer of the Company on 30 March 2016. In the same meeting, the Board of Directors conferred powers on the newly-appointed Chief Executive Officer and reattributed the powers of the Chair of the Company, with some changes.

On 27 April 2016 the Board of Directors appointed Director Arnaud Roy de Puyfontaine to the office of Vice Chairman, without delegated powers.

During 2016 the Company started a process to profoundly reorganise and simplify its organisational structures. The interventions made have resulted in the broadening of controls on the management, with reference to the efficient execution of the assigned tasks, in line with strategic priorities that the company has set itself. The Board of Statutory Auditors has monitored the principal changes in the organisation and supervised the adequacy of the organisational structure with respect to the strategic objectives of the Company, by specific meetings with the Executive Directors, the Head of Human Resources and Organisational Development and the Heads of the individual company departments.

Given the complexity of the organisational structure of the Company and the Telecom Italia Group, subject, as such, to continuous evolution, the Board of Statutory Auditors believes that the organisational structure of the Company and Group is 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 Corporate Governance 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

The Head of the Audit Department has an adequate level of independence and means suitable for the execution of this function. They are responsible for supporting the management and control bodies in assessing the adequacy, full functioning and effectiveness of the internal control and risk management system and for proposing corrective measures in case of anomalies and/or deficiencies.

Within the scope of its powers of inspection and control, the Board of Statutory Auditors, when it considers it necessary or advisable, assigns tasks on specific topics to the Audit Department and the Compliance Department.

The Head of the Audit Department reports on his work to the Directors in charge of the internal control and risk management system, i.e. the Chairman and the Chief Executive Officer, each with respect to their area of competence, to 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 of 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 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;
- control of 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 Head of the Audit Department also carries out their activities in the subsidiary companies without corresponding audit structures, acting in their interests and reporting to their governing bodies. If subsidiary companies have their own audit departments, the Audit Department of the Parent Company interfaces and collaborates with it, for coordination purposes.

The Board of Statutory Auditors has acknowledged the overall assessment of the internal control and risk management system by the Head of the Audit Department, which is set forth below: *“With reference to the specific operating contexts analysed, considering the findings of the analysis of the internal control and risk management system, and having assessed the process of implementation of the improvement actions undertaken by the other control department, also taking account of the assessments of the Audit departments of the Group listed companies (TIMPart and INWIT), it should be noted that no significant elements emerged that could have a negative effect on the overall adequacy and functioning of the Group Internal Control and Risk Management System”*.

The Board of Statutory Auditors shares the assessment of overall adequacy of the internal control and risk management system as formulated by the Audit Department. The Control body, on its

part, constantly monitored its effectiveness and monitored the work of the main players in the internal control and risk management system and, in particular, the implementation of risk improvement and mitigation 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 executive responsible for preparing the corporate accounting documents and the external auditor.

The Board of Statutory Auditors has engaged and exchanged information with the corresponding control bodies of the principal domestic subsidiary companies, taking note of the assessments that the internal control systems of the domestic Group companies are adequate overall.

The control body has also met, through its Chair, with the *Comitê de Auditoria Estatutário* of TIM Participações, reviewing the shortcomings raised by its external auditors (cf. paragraph 16) and taking note of the assessment that the internal control system of the Brazilian company is adequate overall.

The internal control and risk management system also includes the Organisational Model 231, the organisation and management model designed to prevent the commission of offences that could result in liability for the Company, pursuant to Legislative Decree No. 231/2001.

In fact, Organisational Model 231 is intended to intercept the predicate offences specified in the reference law that could be attributable to the characteristic functioning of the Group.

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 the management committee called the 231 Steering Committee, advised by the Supervisory Board and approved by the Board of Directors of the Company when they were of significant extent.

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. In this context, a foreign version of the Organisational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level.

The duties of Supervisory Body are assigned (since 2012) to the Board of Statutory Auditors, which uses a dedicated company structure which is part of the Compliance Department.

The Board of Statutory Auditors oversees the operation and observance of the Organisational Model 231 and reports to the Board of Directors on the oversight and verification activities which it has performed and the corresponding outcomes.

During 2016, the Board of Statutory Auditors formally approved the proposed revision of the Group anti-corruption policy intended to update and refine the document in light of the evolution of best practice, as well as of regulatory changes, domestic and international.

The Board of Statutory Auditors expresses an opinion of conformity of the Organisational Model 231 adopted by the Company with the reference legal framework.

The Telecom Italia Group has adopted an Enterprise Risk Management Model (ERM) which enables risks to be identified, assessed and managed in a homogenous way within the Group companies, highlighting potential synergies between the players involved in the assessment of the internal control and risk management system. The ERM process is designed to identify potential events that may impact on business activity, to manage the risk within acceptable limits and to provide reasonable assurance of the achievement of the objectives.

The process is guided by the ERM Steering Committee, which assures governance of Group risk management, aimed at guaranteeing the operational continuity of the business, monitoring the effectiveness of the countermeasures adopted.

During 2016 oversight of the Enterprise Risk Management process was reassigned to the Security area, with the Risk Management Department, which reports directly to the Head of Security. The intervention revised a major component of the internal control system with the aim of, on the one hand, strengthening the independence of Enterprise Risk Management, and, on the other, promoting integration between complementary activities responsible for identifying and monitoring business risks.

The control body has ascertained that, on 3 February 2017, the Board of Directors defined the risk that was acceptable for the Group (Risk Appetite) and the acceptable levels of deviation from the principle company objectives (Risk Tolerance).

On the question of transactions with related parties, the Board of Statutory Auditors would point out that the company procedure, drawn up in compliance with Consob Regulation no. 17221 of 12 March 2010 and adopted in November 2010, was last updated in March 2016. In particular, references to the undertakings given at the time to the Brazilian regulatory authorities (Anatel and CADE) have been eliminated and, at the suggestion of the Board of Statutory Auditors, some changes have been made to the part relating to the dispensation of intra-group operations from application of Consob Regulation no. 17221/2010. It has in fact been specified that the presence of a significant interest of the related third party excludes beneficial treatment, where a "significant interest" is meant as a shareholding of the related third party in the capital of the related intra-group party that exceeds 5% of said capital.

The Board of Statutory Auditors has monitored compliance of the procedure adopted by the Company with provisions of law and regulations and its effective implementation and its actual functioning.

Also following the critical aspects highlighted by the sanctions imposed on the Company by the industry regulators, the Board of Statutory Auditors has monitored the evolution of the new equivalence model, and verified that continuous and progressive improvement of the performance of the provisioning and assurance processes is underway. The Board of Statutory Auditors will continue to monitor the ongoing transformation process to assure wholesale access to the TIM fixed network by the company Retail departments and the Other Licenced Operators happens under the same terms and conditions, using the same organisation and the same processes and IT systems.

14. Telecom Italia has adopted the Internal Control - Integrated Framework model (2013) 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, with particular reference to the internal controls for the preparation of the financial statements.

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, also by collecting information from Company management, examining company documents and analysing the results of the activities undertaken by the External Auditor.

The Board of Statutory Auditors acknowledged the statements issued by the Chairman, Chief Executive Officer 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 2016 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 independent external experts of acknowledged professional expertise. The implementation of the process is also analysed and discussed in special joint meetings of the Control and Risk Committee and Board of Statutory Auditors, that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied.

The Board of Statutory Auditors has checked that the impairment test procedure applied to the 2016 financial statements was conducted in terms coherent with the procedure approved by the Board of Directors on 4 November 2016 and with the applicable IFRS standards.

For a more detailed analysis, the Board of Statutory Auditors refers to the explanations given in the "Goodwill" Note to the consolidated financial statements as of 31 December 2016 of the TIM Group.

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.

Finally, the Board of Statutory Auditors monitored the financial disclosure process including through the collection of information from the Company's management.

15. The Board of Statutory Auditors believes that the instructions imparted by the Company to its subsidiaries, pursuant to art. 114, section 2 of the CLF, are 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.

After EU Regulation 596/2014 (the "Market Abuse Regulation" or MAR) came into force in July 2016, the Board of Directors, on 3 February 2017, notwithstanding the non-completion of the Italian regulatory framework, approved the replacement of the Procedure for the internal management and disclosure to the public of inside information (adopted on 5 August 2014) and its replacement with the new inside information and insider dealing Procedure, currently being deployed.

The procedure will also apply as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfilment of the public disclosure

obligations. The procedure, which also disciplines the maintenance of the register of persons having access to inside information, has been affected by the adoption of a new IT support application.

The Board of Statutory Auditors has continuously monitored the application of the procedure for the management and disclosure to the public of sensitive information, through specific interviews with the management and requests for information and documentation.

From the checks of the correct application of the company procedure, the Board of Statutory Auditors ascertained that, with respect to some projects entered in the register, the persons informed had not signed the confidentiality agreement, and ensured that the management and most recently the Executive Directors, were made aware of the need for rigorous respect of the instructions in the procedure. These circumstances were reported to Consob.

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, pursuant to article 19, subsection 3, of Italian Legislative Decree 39 of 27 January 2010, on the year that ended on 31 December 2016 by PricewaterhouseCoopers S.p.A., there emerged “significant difficulties, significant uncertainties, disagreements with the company senior management or findings” during the external audit, while two significant shortcomings have been identified in the internal control system on the financial reporting of TIM Participações. Firstly, in the context of contracts for revenue sharing with suppliers of added value content, the controls to ensure that the company procedure for agreeing contracts with suppliers were found to be weak. Secondly, after the check procedures instituted on the controls on critical accesses in SAP, users were identified with accesses to certain functions without adequate monitoring of the activities they were undertaking.

These weaknesses were reported by the external auditor to the Board of Statutory Auditors, which will continue to carefully monitor the initiatives implemented to remedy the shortcomings found.

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 of Borsa Italiana recently amended in July 2015, to which the Company adheres. In its meeting of 26 July 2016, the Board of Directors carried out some maintenance interventions on the text of the Corporate Governance Principles adopted in December 2012.

In particular, 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.

Following the appointment of Flavio Cattaneo to the office of Chief Executive Officer, on 30 March 2016 the Board of Directors ascertained that he no longer met the independence requirements pursuant to the CLF and the Corporate Governance Code and that he was therefore qualified as non-independent executive director.

In its meeting on 3 February 2017, the Board of Directors checked that its members continued to meet the requirements for independence and took due note (i) that Directors Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Herzog, Kingsmill, Marzotto and Valerio possessed the requirements of independence, pursuant to the Corporate Governance Code, and (ii) the same Directors, plus Mr Fitoussi possessed the requirements of independence pursuant to the Consolidated Law on Finance. The market was informed of the outcome of this verification.

On 15 February 2017, the Board of Directors checked that the criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members were correctly applied. On the same date, the Board of Statutory Auditors checked that each of its own

members continued to meet the requirements of independence pursuant to art. 148, subsection 3 of the CLF and the Corporate Governance Code, and that they continued to meet the professional parameters set out in art. 19, subsection 3 of Legislative Decree No. 2010/39 (as amended by Legislative Decree No. 135 of 17 July 2016).

The Board of Statutory Auditors checked the independence of the 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 the declaration from the external auditor as specified in article 17, subsection 9, letter a) of said decree.

The Board of Directors also has subcommittees comprising a Control and Risk Committee, a Nomination and Remuneration Committee, and, since July 2016, a Strategy Committee. Each board subcommittee is disciplined by its regulations approved by the Board of Directors on 5 August 2014 and, for the Strategy Committee, on 26 July 2016 (documents available for consultation on the website www.telecomitalia.com section About Us - Governance System/Regulations channel).

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. At least one member of the Control and Risk Committee shall possess adequate expertise in accounting and finance or risk management. Without prejudice to the tasks attributed to it by the Corporate Governance 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 and the values of Telecom Italia;
- 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;
- performs other duties assigned to it by the Board of Directors.

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 the Nomination and Remuneration Committee possesses adequate expertise in financial matters or remuneration policies. Without prejudice to the tasks assigned by the Corporate Governance Code to the remuneration committee and to the nomination committee, the Nomination and Remuneration 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 compensation established by the Shareholders' Meeting for the whole Board of Directors;
- performs other duties assigned to it by the Board of Directors.

The Strategy Committee is composed of the Chair of the Board of Directors and the Chief Executive Officer (who ensure its coordination with the management of the Group), as well as non-executive directors with expertise in technology, organizational strategies and corporate finance. The Committee carries out the duties of a fact-finding and consulting nature attributed to it by the Corporate Governance Principles. In particular:

- assure support on matters of strategic importance;
- at the request of the Chairman of the Board of Directors and the Chief Executive Officer, and in coordination with the prerogatives of their respective offices and powers, carry out preliminary assessments on the strategic choices of the Group;
- provide opinions and formulate recommendations on business plan proposals to bring to the Board of Directors.

The Board of Statutory Auditors monitored the activities performed by the Control and Risk Committee during 2016 in joint meetings or by the attendance of at least its Chairman or a Statutory Auditor designated by the Chairman at their meetings. The Board of Statutory Auditors also monitored the activities performed by the Nomination and Remuneration Committee and the Strategy Committee by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings.

The point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general is the Lead Independent Director, a role currently held by Mr. Davide Benello. He also has the right, *inter alia*, 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 2016 financial year for further detailed information on the corporate governance of the Company, which the Board of Statutory Auditors evaluates positively.

18. In June 2016 the Board of Statutory Auditors started an analysis to check if the conditions existed to qualify Vivendi as the controlling shareholder of Telecom Italia, pursuant to the provisions on transactions with related parties in art. 2359 of the Italian Civil Code and art. 93 of the CLF. During its investigation, which the Board of Statutory Auditors had notified to Consob, a legal opinion was also obtained from an independent consultant.

The Board of Statutory Auditors reached its conclusions after it had carried out in-depth review of the complex issue.

After the analysis promptly carried out and formally submitted to Consob, on 20 January 2017 - also in response to a request for information from the latter received on 15 December 2016 - and to the Company, the Board of Statutory Auditors, firstly, and unanimously, decided that the conditions to qualify Vivendi as controller of Telecom Italia pursuant to and for the purposes of art. 2359, subsections 1 and 2, of the Italian Civil Code, and of art. 93 of the CLF were not fulfilled. This opinion appears to correspond to the reference legal framework, as interpreted by the prevailing legal opinion and case law, also taking account of the indicators of relevance identified by Consob. However, the Board of Statutory Auditors continued to monitor the situation, and will continue to do so, to assess if the conclusions it reached at that time might and should be changed in light of the changes of circumstances of law and/or fact.

Secondly, and in contrast, the Board of Statutory Auditors, with a resolution passed by a majority of its members, ascertained that the conditions to qualify Vivendi as the controlling shareholder of Telecom Italia for the purposes of the Consob regulations on the subject of transactions with related parties and, in consequence, to deem it necessary to change the categorisation of Vivendi's relationship to Telecom Italia from notable influence to control. On this point, a majority of the members of the Board of Statutory Auditors were of the opinion that the combination of different legal and *de facto* circumstances reasonably supported the view that Vivendi could be qualified as the controlling shareholder of Telecom Italia for the purposes of the regulations on transactions with related parties. More precisely, a set of facts and circumstances, systematically assessed, led them to affirm that Vivendi has the power to determine, stably and with reasonable certainty of existence, the financial and operational policies of Telecom Italia in order to obtain benefits from its activities.

In formalising its conclusions for Consob, the Board of Statutory Auditors asked it - as regulator with responsibility for the supervision of the implementation of the regulation on transactions with related parties and, more generally, the promotion of interpretive certainty - to in its turn review its conclusions regarding the declaration made by the Board of Statutory Auditors itself, regarding the change in the relationship between Vivendi and the Company from one of notable influence to one of control.

On 23 March 2017 the Board of Directors decided that it did not need to proceed to requalify the relationship between Vivendi and TIM from one of notable influence to one of control, and thus disagreed with the conclusions reached by the Board of Statutory Auditors. In consequence, the supervisory body communicated the non-requalification, pursuant to art. 149, subsection 3, of the

CLF, and the non-updating of the scope of the mapping of TIM's related parties, and the risk that in the future transactions would not be qualified as of major relevance that would not be classified as such by virtue of the continuation of the qualification of the relationship between Vivendi and TIM as one of notable influence.

No significant facts that should be mentioned in the Report to the Shareholders' Meeting have emerged from the further supervision and control activities carried out by the Board of Statutory Auditors, as described above, except for the issues encountered during the procedure adopted by the Company for the approval of the compensation package for the Chief Executive Officer appointed by the Board of Directors on 30 March 2016, as already mentioned in last year's report.

In particular, the Board of Statutory Auditors,

- while taking into account and agreeing that the procedure for the appointment needed to be carried out and concluded in a short space of time, considers that the Nomination and Remuneration Committee and the Board of Directors were not provided with full and adequate information suitably in advance, as provided for under art. 7, subsection 1, letter c) of the aforementioned Consob Related Party Regulations;
- Considers that the Nomination and Remuneration Committee did not provide the Board of Directors with an adequately reasoned opinion - pursuant to art. 7, subsection 1, letter a) of the above Regulation and art. 35 of the Telecom Italia Procedure for performing transactions with related parties - on the Company's interest in performing the transaction on the advantage and substantial correctness of the related conditions.

The Board of Statutory Auditors 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 observations or problems have emerged from the review of the reports of the external auditor and the Boards of Statutory Auditors of Inwit S.p.A., Olivetti S.p.A. and Telecom Italia Sparkle S.p.A. pursuant to and for the purposes of article 153 of the CLF, article 2429, second subsection, of the Italian Civil Code and article 14 of Italian Legislative Decree no. 39 of 27 January 2010.

Finally, the Board of Statutory Auditors examined the external auditor's reports on Tim Participações S.A. on the financial statements at 31 December 2016, which contained no observations or remarks.

19. Having acknowledged the 2016 financial statements of TIM, the Board of Statutory Auditors had no objections to formulate on the proposed resolution presented by the Board of Directors on the payment to savings Shareholders of the privileged dividend in the amount of 0.0275 euros per savings share, gross of legal withholdings.

The mandate of the Board of Directors appointed by the Shareholders' Meeting of 16 April 2014, subsequently supplemented by the Shareholders' Meeting of 15 December 2015, expires with the approval of the financial statements for the year ending 31 December 2016. The Board of Statutory Auditors invites the Shareholders to provide for renewal of the Board of Directors.

Milan, 13 April 2017

For the Board of Statutory Auditors

The Chair

Signed Roberto Capone