



BOARD OF STATUTORY AUDITORS' REPORT  
TO THE SHAREHOLDERS' MEETING PURSUANT  
TO ARTICLE 153 OF ITALIAN LEGISLATIVE  
DECREE NO. 58/1998

**Board of Statutory Auditors' Report to the Shareholders' Meeting  
pursuant to article 153 of Italian Legislative Decree No. 58/1998**

Dear Shareholders,

The Shareholders' Meeting of 24 April 2018 appointed the new Board of Statutory Auditors, now composed of Standing Auditors Roberto Capone (Chairman), already in office in the previous Board of Statutory Auditors and by new members Anna Doro, Giulia De Martino, Marco Fazzini and Francesco Schiavone Panni, to replace the previous Board of Auditors composed of Roberto Capone (Chairman), Vincenzo Cariello, Gabriella Chersicla and Gianluca Ponzellini, Ugo Rock.

During the financial year that closed on 31 December 2018, the Board of Statutory Auditors performed the supervisory activities required by law, according to the principles of conduct recommended by CNDCEC (the Italian board of chartered accountants and accounting consultants) and by the Consob notices on company control, and the indications in the Corporate Governance Code.

The Board of Statutory Auditors acquired the information necessary for it to perform its supervisory duties by attending meetings of the Board of Directors and the Board Committees, presentation by Company and Group management, meetings with the external auditor and the corresponding control bodies of Group Companies, analysis of flows of information acquired from the competent company departments, and additional control activities.

The supervisory duties of the Board of Statutory Auditors are governed by article 2403 of the Italian Civil Code, by Legislative Decree 58/1998 and by Legislative Decree 39/2010. The Board has examined the changes made to Legislative Decree 39/2010 by Legislative Decree 135/2016, implementing Directive 2014/56/EU which amends Directive 2006/43/EC on the external audit of annual and consolidated accounts and by European Regulation 537/2014.

This Report sets out the supervisory activities undertaken during the 2018 financial year to the present, as required by Consob Notice no. DEM/1025564 of 6 April 2001 and subsequent amendments and supplements.

1. CONSIDERATIONS ON TRANSACTIONS OF MAJOR IMPACT ON ITS REVENUES, FINANCES AND ASSETS UNDERTAKEN BY THE COMPANY, AND THEIR COMPLIANCE WITH THE LAWS AND THE COMPANY BY-LAWS.

Based on the information received and after the analyses conducted by the Board of Statutory Auditors, it emerged that the transactions carried out by the Company which have major impact on its revenues, finances and assets, including transactions performed through

companies in which the Company has a direct or indirect stake, are essentially the following:

- the issue by Telecom Italia S.p.A., on 28 June 2018, of bonds for 1,000 million euros, with coupon rate of 2.875% and maturity on 28 January 2026;
- During 2018 the Ministry of Economic Development held an auction for the award of 5G frequencies, which, after several rounds of bidding, led to a total disbursement of over 6.5 billion for telecommunications companies, well above the minimum auction price. TIM and Vodafone were awarded the broadest part of the spectrum, 10+10 MHz to 700MHz, 80 MHz in the 3.6-3.8 GHz band (the most requested to launch 5G services of good quality) and 200 MHz in the 27 GHz band, respectively, strengthening their competitive positioning in terms of bandwidth owned and quality of service offered. TIM's investment, connected to the acquisition of rights to use frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, totalled 2,399 million euros (net of the 8 million discount applied upon adjudication, proportional to the population of the test areas). The rights were adjudicated on 9 October 2018; the rights to frequencies in the 3600-3800 MHz and 26.5-27.5 GHz bands were definitively made available in January 2019, while those in the 694-790 MHz bands will be made available in July 2022. The adjudicated rights will be paid for in six annual instalments, the first of which has already been paid, at the end of October 2018, for an amount of 477 million euros.

The transactions indicated above are detailed in the notes to the consolidated financial statements of the TIM Group and the notes to the separate balance sheet of TIM, as well as in the report on operations for the year 2018.

The Board of Statutory Auditors checked that the above transactions complied with the law, the Company bylaws and the principles of correct administration, making sure that they were not manifestly imprudent or risky, or contrary to resolutions adopted by the Shareholders' Meeting or likely to compromise the integrity of the company's assets; those transactions with Directors' interests or with other related parties were subjected to the transparency procedure set out in the applicable regulations.

## 2. REPORT OF ANY ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRAGROUP OR RELATED PARTY TRANSACTIONS

Over the course of 2018 the Board of Statutory Auditors encountered no atypical and/or unusual corporate transactions with third parties or related parties (including with Group companies).

Information on the principal intra-group transactions and transactions with other related parties carried out in 2018, with descriptions of their characteristics and economic effects, is contained in the notes to the separate financial statements of TIM and in those to the consolidated financial statements of the TIM Group.

3. ASSESSMENT OF THE ADEQUACY OF THE INFORMATION PROVIDED IN THE DIRECTORS' REPORT ON OPERATIONS REGARDING ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRAGROUP AND RELATED PARTY TRANSACTIONS

The Board of Statutory Auditors believes that the report on the Company's intra-group and related party transactions provided in the notes to the separate financial statements of TIM and in the notes to the consolidated financial statements of the TIM Group, is to be considered adequate.

4. COMMENTS AND PROPOSALS ON THE REPORT REFERENCES AND NOTES CONTAINED IN THE INDEPENDENT AUDITOR'S REPORT.

On 8 March 2019, audit firm PricewaterhouseCoopers (hereinafter also "PwC") issued the reports pursuant to article 14 and 16 of Legislative Decree 39/2010 and to article 10 of EU Regulation 537/2014, in which it attests that the separate financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group at 31 December 2018 comply with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as with the orders issued in implementation of Article 9 of Legislative Decree 38 of 2005, are drafted with clarity, and represent truthfully and correctly the finances and assets, profit and loss and cash flows of the Company and the Group truthfully and correctly.

PwC issued also its *"Additional report for the internal control and audit committee"*, which illustrates the results of the external audit of the accounts that had been carried out, and includes the declaration on independence pursuant to article 6, paragraph 2, letter a) of Regulation (EU) 537 of 16 April 2014, and also the reports required by article 11 of the same Regulation, which identifies three significant shortcomings.

The Board of Statutory Auditors will inform the board of directors of the Company on the outcomes of the external audit. For this purpose it will transmit the additional report pursuant to art. 11 of the European Regulation 537/2014, complete with its own comments, if any, pursuant to art. 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016 implementing Directive 2014/56/EU which amends Directive 2006/43/EC, and by European Regulation 537/2014.

The external audit firm 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 TIM's financial statements for the period and with the consolidated financial statements for the TIM Group at 31 December 2018.

5. INFORMATION ON ANY COMPLAINTS FILED PURSUANT TO ARTICLE 2408 OF THE ITALIAN CIVIL CODE, ANY INITIATIVES UNDERTAKEN, AND THE OUTCOMES OF ANY SUCH INITIATIVES.

From the date of the previous Report (30 March 2018) to the date of this Report, the Company received 6 complaints pursuant to article 2408, subsection 3, of the Italian Civil Code, submitted by some shareholders.

Of these complaints, three were considered by the Board of Statutory Auditors in its previous composition and essentially regarded the Shareholders' Meeting of 24 April 2018. Upon completion of its activity to check the content of these complaints, the Board of Statutory Auditors found them to be without foundation and decided to take no further action.

The Board of Statutory Auditors in its current composition received three complaints. Upon completion of its activity to check the content of the first two complaints,, the Board of Statutory Auditors decided that the complaints in question regarded generic facts and alleged technical and commercial faults and that there therefore those of a commercial nature and that, therefore, the preconditions for further action had not been met, since the acts in question could not be qualified as complaints and were not pertinent to the specific supervisory activity of the control body. As for the third complaint, which was followed by an *addendum*, this was made by shareholder Vivendi SA and regards instances of misconduct specifically indicated in the complaint, deemed to be of significant gravity, alleged to have been undertaken by some of the directors of TIM.

The Board had also received a complaint from a member of the Board of Directors Arnaud Roy De Puyfontaine, which brought to the attention of the Board of Statutory Auditors a series of issues relating to the *governance* of the Company and various instances of misconduct, substantially similar to those that are the object of the complaint made by shareholder Vivendi SA.

The Board of Statutory Auditors has reviewed the complaints received, also with the support of the competent offices of the Company and, after completing its investigations, found no elements to support the allegations of irregularities that had been made, with the exception of the matters set out below, with reference to the formal complaint made by shareholder Vivendi SA (hereinafter "Vivendi" or the "shareholder") and the allegations made by of Mr Arnaud Roy De Puyfontaine.

On 23 January 2019 the Board of Statutory Auditors of TIM received from Vivendi, the major shareholder of TIM, a formal complaint (hereinafter also "Complaint"), pursuant to articles 2406, and 2408 of the Italian Civil Code, detailing alleged misconduct deemed to be of significant gravity, by some of the directors of TIM that was "in its objective materiality and importance, suitable to trigger the obligation on TIM's Statutory Auditors to immediately activate it powers to investigate and call for information with which they are invested by the law to protect the correctness and legality of the company's actions".

With the Complaint mentioned above Vivendi, essentially, and in any case retaining the right to consider any other action to safeguard its position in all competent fora, asked the Board of Statutory Auditors:

- to activate without delay, and in the exercise of its duties of impartiality and independence, all its powers of inspection to investigate and control in order to: (i) ascertain breaches of the rules relating to the functioning of the Board of Directors (hereinafter also "BOD"), the (provision of) complete, correct and non-selective information to all its members, as well as compliance with the regulations on the subject of conflicts of interest and, more generally, of the principles of correct administration, also having regard to the role played by the legal advisors of Elliott (and in particular the Studio BonelliErede) in the preparation and taking of the decisions made by a majority of the board, (ii) ascertain that all the internal documents of TIM concerning the reported irregularities, and above all the minutes of the meetings of the board mentioned in the complaint, properly and accurately reflect the facts, (iii) ensure that the preparation of the financial statements for the year 2018 is transparent, that its assumptions and the outcomes of its assessments may be reconstructed and also supported by an adequate and constant flow of information to the whole Board of Directors;
- to determine if the procedure followed in the impairment process activity, which led to a 2 billion euro writedown, was carried out correctly, taking into account all the information known to the company and the recovery plan drawn up by CEO Amos Genish;
- to determine if the revocation of Amos Genish's managerial powers, and the subsequent identification of a new Chief Executive Officer (hereinafter also "CEO") occurred in accordance with the procedures approved by the Company, on the basis of a fully informed decision by all the directors and in the absence of conflicts of interest for some Directors;
- to determine if (i) the resolution of the Board of Directors on 21 December 2018 to postpone until 14 January 2019 the decision on the request to call a shareholders' meeting formulated by Vivendi constitutes an unlawful delay pursuant to article 2367 of the Italian Civil Code, (ii) if the resolution of the BOD on 14 January 2019 to put the discussion of the items requested by Vivendi on the agenda of a shareholders' meeting scheduled for 29 March 2019 was taken in accordance with the duty of the directors to act without conflicts of interest, also taking account of the role played in the preparation of this board meeting by the law firm Studio BonelliErede, and (iii) if the resolution passed on 14 January 2019, which merely provided for the matters indicated By Vivendi to be discussed on the same date as the shareholders' meeting to approve the financial statements, albeit brought forward from its initial scheduled date but which would in any case have been called, constitutes an arbitrary and unjustified infringement of the subjective right recognised to Vivendi by art. 2367 of the Italian Civil Code, effectively becoming a denial, and an omission of the Board of Directors, with the consequent obligation on the Statutory Auditors to make provision, pursuant to the same article;
- to in any event resolve the call a specific shareholders' meeting for the end of February, pursuant to art. 2406, subsection 2 and article 151, subsection 2, of the CLF, considering the urgent need to make such provision

- to report the aforementioned irregularities to the Authorities, pursuant to art. 149 of the CLF, subsection 3;
- finally, to provide, in its report on the financial statements for the year 2018, an extensive and timely account of the investigations carried out and initiatives undertaken to restore the legality of the company's action(s), to protect the interests of TIM and all its shareholders.

On 30 January 2019 the Board of Statutory Auditors of TIM then received, again by certified electronic mail, an addendum to the Complaint previously submitted by shareholder Vivendi pursuant to articles 2406, and 2408 of the Italian Civil Code and articles 149 et seq. of the CLF, containing the presumed reconstruction, reported by press articles cited, of recent activities undertaken by the Board itself in relation to the resolutions adopted by the Board of Directors on 21 December 2018 and 14 January 2019, which had ultimately led to the discussion of the topics that were the object of Vivendi's request to call a shareholders' meeting pursuant to art. 2367 of the Italian Civil Code (made on 14 December 2018) being placed on the agenda for the shareholders' meeting scheduled for 29 March 2019, and the arrangements whereby the Board of Statutory Auditors would acquire its own legal support.

Finally, on 19 February 2019, the Board of Statutory received an allegation made by a Member of the Board of Directors, Arnaud Roy De Puyfontaine, (hereinafter also the "Allegation"), sent for information also to CONSOB, in which Mr De Puyfontaine brought to the attention of the Board of Statutory Auditors a series of issues relating to the *governance* of the Company and to different facts that were in his view improper, substantially the same as those raised in the complaint, to which were added the following:

- 1) the fact that the Chairman of the board of directors could no longer be qualified as independent having, in the intervening period, "transformed" his role from that defined in the shareholders' meeting of May 2018 into an executive one, and this was evidenced by the fact that the board of directors had in the meantime resolved to provide him with a remuneration package containing a variable component correlated with the achievement of the targets set by the Board itself;
- 2) the circumstance that the new CEO had not followed the procedure whereby the roles in the first line of management should be discussed in advance by the board of directors;
- 3) the fact that, in relation to the calling of a meeting of the BOD on 13 November 2018, no delay procedure in accordance with the Regulation EU no. 596/2014 in relation to the preparation activities of said BOD had been triggered, and signally with reference to the conversations between some members of the BOD appointed by the Elliott Fund (hereinafter also "Elliott") and lawyers from Studio Legale BonelliErede;
- 4) the fact that, with reference to the appointment of the new chief executive officer, no delay procedure in accordance with the Regulation EU no. 596/2014 had been opened, although the agreement on his designation had been substantially achieved before the decision taken by the Board of Directors on 18 November 2018 and, specifically, during a

conference call among only the members of the BOD appointed Elliott, held on the eve of the aforementioned meeting;

5) the circumstance that, after the board meeting of 17 January 2019, the preliminary results on operations for the financial year 2018 were communicated to the market even though they had been mere a subject for review and not for approval, since they were not definitive, and therefore allegedly still provisional and general, through a press release that had not been specifically approved by the BOD;

6) the fact that TIM has appointed Elliott's strategy consultants, and specifically Vitale & Co, which had supported Elliott in its campaign on TIM from the start, as advisors on issues relating to the fixed network.

On the "*misconduct of significant gravity*" included in the Complaint and in the Allegation, the Board of Statutory Auditors promptly started the investigation activities within its remit, aimed at responding to the shareholder's request, identifying a series of further information deemed necessary in order to ascertain the existence or otherwise of the irregularities complained of, also involving the Internal Audit department, to which specific questions were put and, after the investigations are complete, provides point by point responses to the issues raised in the aforementioned Complaint and Allegation, reporting on the outcomes of the multiple investigation activities undertaken.

However, with reference to the content of the addendum to the Report, the Board of Statutory Auditors provides the clarifications requested in its own communication of 4 February 2019, addressed to the shareholder and, for information, to CONSOB.

Specifically, the Board of Statutory stated that:

- it had considered the whole process that led the Company's Board of Directors to call a Shareholders' Meeting for 29 March 2019, it had attended the meetings of the Board of Directors on 21 December 2018 and 14 January last, and had examined the entirety of the documentation on the topic made available to the Directors and Statutory Auditors, including the various legal opinions issued by the Company's and Shareholder Vivendi's consultants;
- he had thought it advisable obtain its own ad hoc opinion from an independent third party consultant;
- having expressed its considerations in a statement by its Chairman - namely, that after having completed its assessments, and on the basis of the information available, it has not found any irregularities in the decision of the Board of Directors to call a Shareholders' Meeting for 29 March 2019, with an agenda that (also) included the topics requested by the shareholder Vivendi, and had not considered there were any prerequisites for it to exercise its vicarious powers to call a specific shareholders' meeting pursuant to art. 2367 of the Italian Civil Code;
- it in any case reserved the right, if appropriate, to review its own considerations if the outcome of the investigations of the facts alleged by shareholder Vivendi, any new elements or situations as yet unknown should emerge;



In this communication, the Board of Statutory Auditors also clarified that it was not true that, as indicated in the press agency report of 25 January 2019 cited from Vivendi, the Board of Statutory Auditors had formed its view in just two days (from 23 to 25 January 2019), and on the basis of an opinion commissioned by its Chairman "*motu proprio*" (of his own initiative).

It is true, however, that:

- the whole Board of Statutory Auditors (and not its Chairman), in its meeting on 9 January 2019, had, for the purpose (prudentially) of providing an adequate and timely response to which might have been the resolution made by the BOD on 14 January 2019, already decided at that time to avail itself of a legal expert, initially identified, by agreement, as Prof. Montalenti, immediately contacted during the aforementioned meeting. However, because of the urgency of the time available to express its opinion, in preliminarily accepting the task the latter had immediately stated that he would write this opinion jointly with Prof. Notari;
- on 10 January 2019 the same Prof. Montalenti reported to the Board that, following an in-depth check of the other professional commitments he had assumed, he would be unable to complete the task in sufficient time before the BOD meeting of 14 January 2019;
- in consequence, given the need to proceed with urgency, the task was assigned to Prof. Notari alone, since he was already involved in the topics on which the Board of Statutory Auditors had requested an opinion.
- Prof. Notari's independent legal opinion was provided to the Board of Statutory Auditors on Sunday 13 January 2019 at 6.08 pm, sent to the mailboxes of the individual members of the Board of Statutory Auditors.

In relation to the objection made in the addendum to the Complaint that it had not "*undertaken preliminary investigations aimed at verifying the independence of the expert or otherwise to exclude the existence of professional relations or fiduciary engagements, current or past, between Prof. Notari, or the legal firm with which he is associated and shareholder Elliott or its legal advisor*", the Board of Statutory Auditors also observed that the request was specious since (i) in signing the engagement letter, formalised on 11 January, Prof. Notari had expressly stated that he did "*not have any conflict of interest in rendering the professional services that are the object of the engagement*" and (ii) in any case, for the avoidance of any doubt whatsoever, Prof. Notari was asked to provide clarification without delay on the facts cited by Vivendi, receiving prompt written responses written in which he reiterated that, *inter alia*, he had no reason not to be considered absolutely independent also with respect to the Elliott fund or to companies controlled by said fund.

Having firstly clarified the above, the answers to the single points and requests raised by the shareholder in the Complaint and by Mr De Puyfontaine in the Allegation are provided below, grouping related topics into specific macro-areas, if appropriate.

\* \* \*

A) *On the breach of the rules relating to the functioning of the Board of Directors, including the role played by Studio BonelliErede, on the observance of the regulations on the subject of conflict of interests, on the minutes of the board meetings and on the procedure for drawing up the financial statements*

In relation to the alleged breach of the rules relating to the functioning of the board of directors with specific regard to (the provision of) complete, correct and non-selective information to all its members, as well as on the observance of the regulations on the subject of conflict of interest and, more generally, of the principles of correct administration, also having regard to the role played by Elliott's *legal advisor* (and, signally, Studio BonelliErede) in the preparation and assumption of the decisions made by majority of the board, the Board of Statutory Auditors, without prejudice to all the specific considerations indicated in paragraph c) below, relating specifically to the process of revoking the mandate of the CEO, intends here, with reference to the above issues raised in the Complaint, to state:

- that on 16 November 2018 it had sent a specific communication to the Chairman of the BOD, and, for information, to the General Counsel, requesting further details of the reasons that had led to the urgent call, pursuant to article 11.2 of the Bylaws, of the Board meeting of 13 November 2018 and had received a reply on 28 November in which the Chairman explained that the reason for the decision for the urgent call was the need, following the critical aspects that had emerged during the Board meeting on 8 November 2018, to immediately consider the overall work of the Chief Executive Officer and General Manager Amos Genish in order to take appropriate measures, and that, taking account of the fact that just the news that the meeting had been called would have brought the risk of negative impacts on the share price, it had been in the best interests of the Company to use the urgent call procedure, when the markets were closed so as to avoid creating uncertainty about the fate of the figure of senior management;
- that on 21 November 2018, with reference to the process that had led to the revocation of the powers of the previous CEO and the appointment of the new CEO, and in light of the considerations expressed by some Directors at meetings of the Nomination and Remuneration Committee (hereinafter also "CNR") and the Board that had considered the issue, it had sent a specific communication to the Chairman of the board of directors, and, for information, to the General Counsel, asking if there were any documents, including from external consultants that had been produced in the investigation process that had not been brought to the attention of all the Directors and the Board of Statutory Auditors and had received a reply from the Chairman on 27 November 2018, stating that he had had discussions with some members of the Board of Directors, without, however, exchanging information that had not been brought to the attention of all the Directors and Statutory Auditors, and had also obtained external legal advice, given the sensitivity of the issue;
- that it had asked the Internal Audit Department to verify the role of Studio BonelliErede, in the process to resolve on the 2018 impairment loss, the revocation of the powers of the previous CEO and the appointment of the new one, and in the resolution pursuant to art. 2367.

Upon completion of its checks, the Board of Statutory stated that it had ascertained that:

- a conference call had been held on 11 November 2018, booked by the secretary of the Chairman of the BOD for a maximum number of 10 accesses, recorded in TIM's audio conferencing system, in which some lawyers from Studio BonelliErede had participated, in addition to several members of the BOD, during which Studio BonelliErede had provided support to answer the questions raised by the participants on the risks linked to the procedure for the removal of the CEO and to provide an assessment of the merits of the revocation of his powers, without any written opinions having been provided;
- on 12 November 2018 there had been contacts between the Chairman of the BOD and representatives of the Cassa Depositi e Prestiti SpA (hereinafter also "CDP") as a result of which the head of the Corporate Affairs Department asked the Head of Corporate Governance and Privileged Information Management to enter the CEO and Chief Legal Officer of CDP in the Register of Inside Information;
- that, on the same date, 12 November 2018, Studio BonelliErede had sent an email to 10 members of the TIM BOD, namely, to all the directors appointed by Elliott, containing a template for the board meeting to be held the following day and, specifically, (i) a document entitled " *Minutes of the meeting of the Board of Directors on 13 November 2018*" which, *inter alia*, contained, in the "Resolution" section, the revocation with immediate effect of "all the powers delegated by the Board of Directors to Director Amos Genish", and (ii) two draft press releases that the Company might issue at the end of the meeting, and more specifically the press release on the "resolutions adopted today by the Board of Directors of TIM" and the press release on "Clarifications on the declarations made by shareholder Vivendi and on some subsequent news items". This email was sent in the evening of 12 November by the Chairman of the BOD to the General Counsel, who in turn forwarded it to the head of the Corporate Affairs department;
- all the lawyers from Studio BonelliErede had been entered in the Register of Inside Information of the Project entitled "Extraordinary Meeting of the Board of Directors", with the exception of Mr Stefano Calabria, although he was one of the recipients of a copy of the aforementioned email of 12 November 2018;
- on 13 November 2018, while the board meeting was under way, the General Counsel had then emailed the Corporate Affairs department, asking it to prepare an e-mail to the Directors for the press releases to be sent. Two emails were then sent by the Head of Corporate Affairs to all the Directors (with the exception of the Chairman) and all the members of the Board of Statutory Auditors, with the following attachments (i) the file entitled "Hypothetical press release" containing the press release on the resolutions adopted by the TIM BOD, identical to the text sent to the 10 Directors appointed by Elliott only, on 12 November 2018, and (ii) the file entitled "Hypothetical press release on clarifications", containing the press release on the resolutions adopted by the TIM BOD, also identical to the release received on 12 November 2018 by the 10 Directors appointed by Elliott only;
- the Head of Corporate Affairs used the non-TIM network e-mail addresses during the board meeting of 13 November 2018. With the exception of Mr Dante Roscini, all the other email addresses indicated are not among those included in the personal details entered in the Register of Inside Information; however, this behaviour was not found to have resulted in any misalignments of information among the directors, or in leaks of confidential information outside of the directors themselves.

Upon completion of its checks, the Board of Statutory Auditors considered that:

- the information acquired, as a whole, indicated that, in contrast to the content of the communication made by the Chairman of the BOD, the same information was not provided to all the Directors at the same time, and that certain information had been provided only to certain Directors and, specifically, to those elected from the slate submitted by Elliott;
- the aforementioned facts, ascertained during its investigations, may constitute a breach of the obligation incumbent on the Chairman of the BOD to ensure that "*adequate information on the items on the agenda is provided to all the directors*" and of the collective responsibility principle, pursuant to the provisions of article 2381, subsection 1, of the Italian Civil Code, the Company Bylaws (art.11.1), the Regulations of the Board of Directors of TIM (articles 2.3 and 4) and the comment to art. 1 of the Corporate Governance Code;
- the non-registration of lawyer Stefano Calabria in the Register of Inside Information of the Project entitled "*Extraordinary Meeting of the Board of Directors*" constitutes a failure to respect TIM's Inside Information and Insider Dealing Procedure.

The irregularities encountered were therefore reported by the Board of Statutory Auditors to the Supervisory Authority pursuant to article 149, subsection 3, of Legislative Decree 58/1998.

As regards the minutes of the board meetings, the Board of Statutory Auditors considered that they faithfully reflect the debate during the meetings and that the process of preparing the 2018 financial statements took place in application of the rules on their finalisation.

The Board of Statutory Auditors has not, so far, determined that there has been any breach of the rules on conflict of interest.

*B) On the correctness of the procedure followed in the goodwill impairment test for the 2018 third quarter report*

As for the issues raised in the Complaint made by shareholder Vivendi, with reference to the impairment test that resulted in a 2 billion euro writedown in the 2018 third quarter report, the Board of Statutory Auditors has reconstructed and verified all the steps of the corporate process that led to this impairment, in light of both the information available at the time, and the information acquired after the specific verification activities the Internal Audit Department was requested to undertake, taking account of the principles and rules governing impairment testing in compliance with IAS 36, and of TIM's corporate regulatory documents that identify the various steps of the impairment test process in an analytical way, and signally, the arrangements and timing with which TIM must proceed with its execution, also specifying the company departments and bodies involved, and their respective roles.

In fact TIM had adopted a specific procedure in its internal regulations, entitled "*Impairment test on Goodwill and Assets with indefinite useful life*", drawn up in accordance

with the TIM Group's Code of Ethics and Organisational Model 231. This procedure, in the version in force on the date of the preparation of the 2018 third quarter report, was approved by the Board of Directors of TIM on 10 November 2017 and describes the impairment test process analytically, in terms, *inter alia*, of (i) the roles and responsibilities of the Bodies/Departments involved, (ii) a description and the deadlines of the process and (iii) the principles and criteria for valuing and estimating items in the Financial Statements, and their corresponding accounting treatment. The procedure is updated every year, as required by Consob, ISVAP and Banca d'Italia Document 4 of 3 March 2010, and all the departments that participate in the process are involved in the process. The procedure is also assessed by the Control and Risk Committee (hereinafter also "CRC") and specifically approved by the board of directors. The following entities are involved in the procedure (i) the CRC, which assists the Directors in the process of approving the accounting documents, assessing, together with the Executive responsible for preparing them, and having obtained the opinion of the external auditor and the Board of Statutory Auditors, the correct application of the reference accounting principles and (ii) the Administration, Finance and Control Department (hereinafter also "AFC"), which collects the information necessary for the execution of the impairment test, and carries it out, with the support of external consultants. The procedure also prescribes that, at periodic intervals, the AFC department identifies one or more external consultants with the professional characteristics, know-how and specific knowledge of the telecommunications sector such as to be able to support the department itself in the execution of the impairment test. The appointment of consultants is shared with the CRC, and the consultants, each for their sphere of competence, contribute critically to the process of determining the elements of scenario and assessment and express their opinion with regard to the execution of the impairment test process, the application of the IAS 36 rules and TIM's impairment procedure, and the main references of legal theory and practice.

Pursuant to point 3.1.6 of the procedure in force on the date of the 2018 third quarter report, it was expected that the TIM Group would check, on each reporting date, whether or not any triggering events existed that might indicate that an asset (or CGU) might have suffered a reduction in value, taking account of a series of elements from both internal and external sources, including also substantial differences between final and provisional figures, in terms of indicators of industrial and operational management, as well as the evolution of the principal parameters identified in the downside scenario (pursuant to art. 4.2.4.) and submitted to the CRC. Then, as prescribed in point 4.2.2. of the aforementioned procedure, in accordance with IAS 36, the principles of valuation and best practice, the recoverable amount is determined taking as reference the cash flows in various scenarios that are summarised in an average normal flow, based on the strategic plan identified by the management and approved by the board of directors. Specifically, in the use of projections, the procedure also establishes that the reasonableness of the forecasts for the entire period must be checked in light of :

- the differences between the actual figures and the budget figures;
- the macroeconomic, competitive, regulatory and technological scenario of the investments;

- the analysts' forecasts and sector analyses.

As also indicated in point 4.2.4 of the procedure *"in the determination of Recoverable Value, provisional economic and financial figures are applied. These forecast figures are derived from the most recent TIM Group business plan approved by the Board of Directors, or the most up to date forecast available.*

*The analysis of these forecast figures will include variations deriving from result scenarios more or less favourable than those of the approved business plan (sensitivity analysis on upside or downside scenarios) which the Senior Management of the Group - supported by the independent external consultant- identifies, based on critical analyses of the industrial hypotheses on which the economic/financial plans approved by the Board of Directors of the Company are based."*

In this analysis, the procedure then prescribes that, in compliance with IAS 36, the plan figures are adjusted using the "expected cash flow" approach, based on the information reasonably available, so as to attribute greater weight to observable parameters and evidence from the outside which are deemed relevant within the perspective of the market operator. So the data used in the determination of the recoverable amount take account of other scenarios deemed possible, not just the scenario of the business plan.

Having said that, with reference to the procedure followed in the goodwill impairment test carried out for the 2018 third quarter report, the Board of Statutory Auditors, after having completed its investigations, acknowledges that:

- all the information used for the purpose of the impairment test was acquired by the directors in the various and many meetings of the CRC and the BOD, which the Board of Statutory Auditors always attended;
- the methodology used for the execution of the test is the document entitled *"Impairment test -Update on the process underway for the purpose of the definitive figures as at 30.9.2018"* which was finalised in the CRC meeting on 7 November 2018, taking account of the internal and external trigger events, the average representative plan, the differences between the 2018 budget and forecast figures that became evident after the meeting on 24 September 2018, and further additional negative elements; and after having reviewed the recovery actions presented by the Chief Executive Officer at the meeting the previous day, in which he indicated how many were already included in the DigiTIM Plan and how many was additional, and also how many had actually started;
- the 2018 forecast on ton which the impairment test was carried out, was the subject of a presentation by the former CEO to the directors only during the meeting of the Board of Directors on 24 September 2018, and this was despite the fact that repeated requests for this information had been made by various directors both in the CRC (and, specifically, in the meetings of 18 July 2018 and 23 July 2018) and during the board meeting of 24 July 2018, and at that meeting the CFO had also compared the reported and organic results, also analysing (i) the various economic-financial indicators (revenues, EBITDA, CAPEX, net financial position)) in their quarterly evolution and (ii) the principal risk factors to achievement of the plan targets (regulatory risks, but above all market risks). So the directors were thus informed that actions aimed at achieving savings might not be achieved

the objectives in their entirety, indicating that the dynamics of cash flow were actually lower than expected;

- expert assessor Prof. Enrico Laghi, called to assist the Company in the impairment test to be performed for the 2018 third quarter report, was identified by the management after a specific "beauty contest", shared with the CRC;

- based on the data available at 30 September 2018, compared with the forecast presented in the board meeting on 24 September 2018, the following were specifically analysed, first by the CRC, and then by the BOD: (i) the trigger events (difference between the stock market capitalisation and the net equity, and between the actual results and the plan targets, and interest rate volatility), (ii) the sensitivity analyses carried out in June, in the absence of an updated plan, and (iii) the update the assessment to September 2018, when the stock market figure had deteriorated and a structured forecast was available, indicated that there would be difference between the budget and end of year estimates (2018 forecast) of 381 million euros, on terms of EBITDA, also in light of further risks;

- the calculation was carried out in coherence and continuity with the previous calculations for the figures to 31 December 2017 and 30 June 2018, based on the updated "Damodaran" data;

- no account was taken of the macro-indicators and the guidelines for the coming three years, and in particular of the top 15 corrective actions identified by the former CEO in order to comply with the requirements of IAS 36 which, in case of misalignment between the budget forecasts and the finalised results, prescribes that special weight be given to the market evidence with respect to the internal forecasts, and in any case to not consider: (i) the projection of the benefits resulting from the restructuring processes, in the absence of their approval of the BOD, and its specific commitment to their implementation and (ii) the benefits resulting from the improvements in the performance of the asset, unless the investment needed to secure said improvements had been approved by the board of directors and its deployment had already started;

- pursuant to IAS 36, any mitigation action envisaged by the management had to have been approved by the Board before being included in the plan for the use of the impairment test process and whether or not the aforementioned actions were or not related to the initiatives already present in the original plan also had to have been checked, and this in order to avoid the risks of double counting of the presumed improvement. The inclusion, for the purposes of the impairment test, of new initiatives which, while approved by the Board, had not yet been deployed by the management should in any event have been carefully considered.

- the difference between the budget and 2018 forecast in terms of EBITDA, which could be quantified at around 380 million was assumed as the basis for the execution of the impairment test, with the addition of 145 million euros in further risks that the CFO considered were likely, with the consequent definition of full risk EBITDA for the purposes of the impairment test of 6,870 billion euros at the end of the year. This figure was compared to a consensus figure of 6,883 billion euros (75th percentile and average) hence, based on the assumed WACC rate (6.53%) and capex/revenues (19.4%), led to the ascertainment of an impairment loss of 2 billion euros, all details of which were provided to the CRC;

- with respect to the work also done on the 2018 half-yearly report, in terms of sensitivity, for the 2018 third quarter report an official 2018 forecast was available (presented to the Board on 24 September 2018), while at 30 June 2018 there existed, so far as the Directors and Statutory Auditors were aware, and, without prejudice to what has emerged from the checks undertaken by the internal audit department, which will be discussed below, only a preliminary indication, only a sensitivity analysis to reflect the potential evolutions in subsequent years had been carried out;
- on the subject of 5G, at 31 December 2017 the related investment was considered solely in terms of risk, with an indication of the estimated cost of participating in the auction and, therefore, it was not considered in the plan, since in relation to this item only a sensitivity analysis considering the risk associated with it had been carried out, for a lump sum of 1.2 billion euros, since at the time the level of analysis was not considered sufficient to precisely value the overall impact of the company's participation in the auction. After the auction had finished, although a document clearly showing the advantage resulting from the 5G investment 5G, accompanied by a fairness opinion by external consultant Arthur D. Little had been shown to the CRC, it was decided, also on the basis of the indications received from external consultant Prof. Laghi, that neither the positive nor the negative impacts of the 5G investment should be considered for valuation purposes since said investment was made only in the fourth quarter of the year (31 October 2018);
- as regards the investments, it was a question of defining a recurring and normalised value for cash generation to project in the terminal value (which has a weight of 80% of the overall value), and although the procedure did not require a capex to be assumed on consensus revenues, it was decided, also on the basis of the indications received from external consultant Prof. Laghi, that this figure would remain a reference to consider carefully, especially given the absence on that date of a new industrial plan or a plan adjusted to take account of what was known at that time;
- as for the long term cap rate, based on the data available, it was decided, also based on the indications received from external consultant Prof. Laghi, that a value slightly lower than the market estimate should be considered, since this took account, in its entirety, of the negative impact resulting from the deviation in EBITDA recorded in the forecast and the more recent prudential estimates (full risk EBITDA), excluding the negative impact of 5G;
- in any event, the CRC was only able to have sight of the information also related to the mitigation actions hypothesised by the CEO at that time, in the meeting on 6 November 2018, and these were conditions that made it very difficult for the members of the CRC to recognise if the figures presented were new and incremental, or instead developed from data already included in the original strategic planning;
- PwC, the external auditor of TIM's financial statements, which attended the CRC meeting on 6 November 2018, also confirmed the technical correctness of the methodology described above, and also stated that TIM's practice, in the case of impairment testing in the absence of a plan, in the course of the year, had never been to proceed to make adjustments to the results of the plan other than to consider negative effects, when the negative results achieved were projected, and that any decision to include additional improvement elements in an "umbrella plan" was, in PwC's view, difficult to reconcile with the IFRS standards, and therefore would have to be carefully considered by the board of directors.



For all the reasons set out above, the Board of Statutory Auditors, in recognising that it had followed in detail the process that had led the Board of Directors of TIM to perform a 2.0 billion euro writedown due to impairment loss, in the board meeting of 8 November 2018, and without prejudice to the possible implications, also for the purposes of the impairment test process, and what will be explained below with regard to the results of the internal audit activities carried out at its specific request, would point out that:

A) the procedure followed by the Company in the goodwill impairment test activity was carried out in accordance with the body of regulations on the matter, including internal regulations, since, *inter alia*:

- the principles and rules governing the exercise of the impairment test in compliance with IAS 36 were respected;
- the company procedure entitled "*Impairment test on Goodwill and Assets with indefinite useful life*", drawn up by the Company in compliance with the Code of Ethics and Organisational Model 231 of the TIM Group had been complied with in terms of: (i) the roles and responsibilities of the Bodies/Departments involved, (ii) the description and deadlines of the process and (iii) the principles and criteria for valuing and estimating items in the Financial Statements, and their corresponding accounting treatments;
- the company had proceeded to give greater evidence to external sources, as provided by IAS 36, in the hypothesis of a difference between the budget and forecast figures, using the market consensus as verification parameter. More specifically, as prescribed by the IAS 36, which, in the presence of a significant uncertainty in valuation, establishes that the approach of the management must be to rely on the analyses of market operators, the definitive effects (reasonably envisaged, and in any case reviewed by the CRC) of the risks identified, were incorporated into the representative average plan, applying them in modelling mode, i.e. substantially automatic, to the data that had previously been approved, in such a way that the series of flows incorporates the plan originally approved by the company and the finalised risks, projected in such a way as to align the company projection with the market consensus; and
- an external consultant was used in order to obtain the assurance required by the internal procedure on the methodology for the execution of the impairment test;

B) an in-depth background investigation was undertaken by the CRC in order to consider all the information known to the Company, including the recovery plan prepared by the former CEO not including in the calculation of cash flows the values associated with the recovery and mitigation actions since, as indicated in the IAS 36 standard, the following must necessarily be excluded for the execution of the impairment test (i) the projection of the benefits resulting from the restructuring processes, in the absence of their approval of the BOD, and its specific commitment to their implementation and (ii) the benefits resulting from the improvements in the performance of the asset, unless the investment needed to secure said improvements had been approved by the board of directors and its deployment had already started; and

C) all the directors were placed in the condition to make an informed decision for the purposes of approving the 2018 third quarter report.

As previously mentioned, the Board of Statutory Auditors deemed it appropriate to request the assistance of the Internal Audit Department also for the purposes of the reconstruction of the process followed for the preparation of the first TIM Group 2018 Forecast presented by the former CEO in the board meeting on 24 September 2018. Specifically, the Internal Audit Department was asked to verify whether: (i) in July 2018, the competent internal departments had or had not prepared a first Forecast, (ii) if said Forecast evidenced a negative deviation compared to the budget forecasts contained in the business plan launched in the month of March 2018, and (iii) if said Forecast have been discussed internally during specific meetings of the CEO and the competent structures and finally (iv) what the reasons were for only sending said Forecast to the Board of Directors, Statutory Auditors and CRC only at the time of the Board meeting on 24 September 2018.

Upon completion of the checks carried out by the Internal Audit Department, it emerged that:

A) in July 2018, based on the finalised figures for the first half of 2018, the document entitled "*Preliminary 2018 forecast of the Domestic business, based on the initial findings at June 2018*" was drawn up, and this presented a difference in EBITDA from the 2018 budget figure that was substantially the same as the figure later communicated by the CEO to the Directors in the meeting on 24 September 2018;

b) said Preliminary Forecast, the results of which had already been presented by the management to the CEO himself during several meetings in July 2018, was presented in its definitive version (which did not differ from the previous version) in September 2018, by the CFO and the head of the Consolidation, Reporting and Cash Cost Management department to the then CEO during a specific meeting;

c) said Preliminary Forecast was not presented to the CRC, and certainly not to the external consultant who had been called in to express his opinion on the impairment tests referred to in the 2018 half-year accounts, since the then CEO considered that it did not properly represent the recovery actions that, in his view, should have been taken by the responsible departments. Subsequent events then confirmed that the proposed recovery actions have not led to different results from those referred to in the Preliminary Forecast;

d) in response to the remonstrations by some Directors regarding the forecast's lack of data on the occasion of the meeting of the Board of Directors on 24 July 2018, the then CEO (A. Genish) claimed at the board meeting that "*the non-availability of a detailed forecast was merely a consequence of the delay in the closure of the final half-year accounts*";

e) said Preliminary Forecast presented in mid July to the CEO was very far from the objectives for revenues, EBITDA and net financial position specified in the Budget.

In this regard, the Board of Statutory Auditors determined:

- that the existence and availability, as early as the first few days of July 2018, of a substantially complete set of 2018 forecast data was confirmed, and that this data was contained in a document named "Preliminary Forecast";

- that said Preliminary Forecast showed a significant deviation from the 2018 budget, substantially similar to the one later notified by the CEO to the Directors at the meeting on 24 September 2018;
- that, as declared by the then CEO, said Preliminary Forecast had not been presented to the CRC and the Board of Directors by the then CEO, on the grounds that it did not properly represent the recovery actions taken by the technical departments;
- that the above reasoning advanced by the CEO for not sharing the Preliminary Forecast does not seem entirely convincing, since said recovery actions had not been concretely identified nor started at the date of the preparation of the half-yearly report, as shown by the fact that, in the third quarter of 2018, the discrepancies indicated in the July Forecast were confirmed;
- that, furthermore, this reasoning substantially conflicts with the representation provided by the then CEO to meet the requests made by various Directors, both in the CRC and in the board meeting, with regard to the non-availability of 2018 forecast data;
- that the clarification offered to the members of the CRC and to the expert, Mr Lorenzo Pozza, that the end-of-year forecast for the Domestic business unit was an organic EBITDA less than 300 million euros below the budget forecasts, does not seem exhaustive as it disregards the entire discrepancy contained in the Preliminary Forecast, which stated an amount of 385 million euros;
- that said Preliminary Forecast, irrespective of the possible implications that knowledge of its existence and its use may or may not have had for the results of the impairment tests carried out in respect of the 2018 half-year, was not shared - on the basis of arguments which are partly contradictory and do not appear completely convincing - with the company structures responsible for assessing them (the CRC, the expert appointed to check the impairment test and the BoD) for the consequent resolutions.

The irregularities encountered were therefore made the subject of a communication by the Board of Statutory Auditors to the Supervisory Authority pursuant to article 149 of the CFL.

*C) In compliance with the procedures approved by the company in the revocation of the managerial powers of Amos Genish and in the subsequent identification of a new CEO on the basis of a fully informed decision by all the directors and in the absence of conflicts of interest in the case of certain directors*

Without prejudice to what has already been stated in paragraph a) on the violation of the rules relating to the operation of the Board of Directors and, signally, to the asymmetries of information encountered there, and to the role played by Studio BonelliErede with reference to the compliance with the procedures followed by the Company in the revocation of the managerial powers of the CEO, Amos Genish, at the outcome of the investigations carried out with the aid of the Internal Audit Department, the Board of Statutory Auditors states as follows:

- In view of the assistance referred to in paragraph a) above, the appointment was conferred on Studio BonelliErede only verbally, and therefore under arrangements which did not comply with the organisational procedure named “*Planning, approval, engagement*”

*and monitoring of Consultancies and Professional Services*", which provides that, for activities requested directly by the Executive Directors, and therefore without the involvement of a Company Department, the administrative/engagement cycle should be carried out by the staff of the Executive Director making the request;

- With reference to this appointment, Studio BonelliErede has not signed any declaration of absence of conflict of interest, this condition having been attested only verbally with the indication that the services rendered by Studio BonelliErede in favour of the shareholder Elliot were concluded at the end of May 2018;

- The cost of the services performed by Studio BonelliErede in view of the assistance rendered in the course of the process of removal of the then CEO, and extensively represented in paragraph a) above, is 191,000 euros, in addition to legal charges, as indicated in the invoice bearing the description "*Extrajudicial Legal Assistance rendered in relation to the board meetings of 13 and 18 November 2018*".

The above confirms and supplements the cases of irregularity already highlighted in paragraph a) above, which have been the subject of communication by the Board of Statutory Auditors to the Supervisory Authority pursuant to article 149 of the CLF.

As for more specifically the procedure for the appointment of the new CEO following revocation of the powers of the CEO Amos Genish, on 15 November 2018 the NRC met to convey to the Board of Directors a non-binding recommendation for the appointment of the possible replacement. At this meeting, the Chairman of the NRC, taking account of the "*very short time available*", in conjunction with the Chairman of the Board of Directors, conferred a specific "*urgent*" appointment on the consultant Russell Reynolds, asking him to prepare an assessment document on the members of the Board in office at that time "*given the need to identify a candidate as a priority from within the board itself*".

This document was not sent to the members of the NRC before the meeting mentioned above. It was delivered to the members of the NRC only during the course of this meeting, during which it was explained in detail to the members of the NRC by the consultant.

At its meeting on 18 November 2018 the NRC then took a majority vote (i) on the candidacy of the current CEO to succeed Amos Genish in the posts presently held by the latter (CEO and General Manager), and on putting this recommendation to the Board, and (ii) on the proposal to award the nominated CEO a financial settlement corresponding to that previously awarded to his predecessor, and therefore in line with the Company's remuneration policy.

Having decided that, the Board of Statutory Auditors noted the following:

- the Regulations of TIM's NRC, Article 3 (tasks) establish that: "*The Committee shall perform the tasks assigned by the Code to the remuneration committee and to the nomination committee, as well as any further tasks assigned by the Company's Corporate Governance Principles and by the Board of Directors*";
- the Corporate Governance Principles adopted by TIM, in point 6.2, letter a) establish that the NRC "*oversees the succession plan for executive directors, and monitors the*

*updating of the company management replacement lists carried out by the Executive Directors."*

- recourse to an external consultant in situations such as those in question is intended to ensure the objectivity and traceability of the procedure followed;
- the appointment of Russell Reynolds as consultant was negotiated, as regards terms and conditions, by the Human Resources and Organization Department, which confirmed that the fees requested were substantially in line with the remuneration earlier allocated to a similar consultant for a corresponding activity, on the occasion of the succession of a previous Company CEO;
- the function of the NRC is consultative in nature, to support the BoD, which remains the competent body for making any decision on the matter;
- the Shareholders' Meeting has determined the number of members of the Board of Directors and, despite the revocation of the powers previously assigned to Mr Genish, there were no available seats on the Board while he remained a member. Therefore, if the Board intended to move swiftly to appoint a new Chief Executive Officer, it had necessarily to choose a candidate from inside the current membership. If it then considered that there was no suitable candidate within its membership, it would have to call a Shareholders' Meeting and propose a change to the composition of the Board to make room for a new entrant, assuming that none of the current members of the Board had offered their resignation. It remains the case that shareholders who have the qualifying shareholding required by law may request the calling of an extraordinary Shareholders' Meeting to increase the number of Directors;
- in this context, the activity performed by the consultant was essentially assessment of the members of the BOD, without specifically identifying external candidates, given the numerical composition of the Board, and considering the requirements of the role and the characteristics/skills/experience of the ideal candidate, in order to make a non-binding proposal to the Board which, therefore, has always had the right to adopt its own resolutions even if they do not comply with the opinion expressed by the NRC;
- the failure of the Chairman of the NRC, on his own decision, to disseminate in advance to the other members of the Committee and the Board of Statutory Auditors the document prepared by the external consultant (as well as his selection, the arrangements for which were not in any event specifically indicated by the procedure), while conflicting with the procedure established under article 2.3 of the NRC's Regulations, should be seen in the context of the small time available and the need to limit the leakage of further rumours.

For all of the above reasons, the Board of Statutory Auditors, without prejudice to the irregularities encountered under article 149 of the CLF, which have been the subject of a specific communication to the Authority, has not identified in the process of appointing the new CEO, with regard to the specific point, elements that could lead to the conclusion that this process as a whole is substantially out of line with the regulatory framework (including the rules on conflicts of interest).

*d) On the request to call the shareholders' meeting made by Vivendi pursuant to art. 2367*

On 14 December 2018, the shareholder Vivendi submitted a request to call the shareholders' meeting pursuant to article 2367 of the Italian civil code. During the Board meeting of 21 December 2018, which has as point 1) on the agenda "*1. Preliminary considerations and start of the review of the request to call a Shareholders' Meeting pursuant to art. 2367 of the Italian Civil Code (report)*", the correctness of the request made by the shareholder was verified, and the inquiry was launched into the request for convening the Shareholders' Meeting, while it was proposed to defer the resolution regarding the board meeting convened for 14 January 2019. In this meeting, also on the basis of specific opinions required by the Board of Directors, it was decided to accept the request made by the shareholder Vivendi, calling the Shareholders' Meeting for 29 March 2019, therefore combining it with the Shareholders' Meeting to be called for the approval of the financial statements for the 2018 financial year.

The Board of Statutory Auditors, as previously stated, assessed the overall process that led to the Company's Board of Directors calling a Shareholders' Meeting for 29 March 2019, and examined the whole of the documentation on the subject made available to the Directors and Statutory Auditors, including the various legal opinions issued by the Company's consultants and the shareholder Vivendi, and in its turn considered it advisable to ask an independent third party consultant for an *ad hoc* opinion.

As a result of the assessments made, and on the basis of the information available, as already described in the reply provided to the *Addendum* to the Complaint, the Board of Statutory Auditors a) has not detected breaches of the rules on directors' conflict of interests; b) did not consider that there existed the prerequisites for exercising its vicarious powers to call a specific shareholders' meeting pursuant to art. 2367, for the following reasons: (i) it must be stated, on the basis of settled case-law and doctrine, that the duty to call the Shareholders' Meeting does not derive automatically and mechanistically from the existence of the elements of the case, (ii) the convening of the Shareholders' Meeting by the BoD was done without delay, that is to say, within thirty days of the date of the request, as provided by the complex of rules on the matter and on the subject of penalties (art. 2631) and, consequently, the Board of Directors has not proven inactive, and (iii) at regards the time of calling the Shareholders' Meeting pursuant to art. 2367, the thirty day time-limit specified by Art. 2631 does not, however, apply and, although the time chosen by the BoD appeared to have been connected with considerations of discretion, it was, however, supported by justifying reasons which are not manifestly unreasonable or incoherent.

However, with reference to the role played by the BonelliErede Law Firm in the process referred to above, the audits carried out by the Board with the assistance of the Internal Audit function showed that the respective appointment had been made respecting the company procedures in force at the time, and that:

- on 8 January 2019, the Chairman of the Board of Directors signed the letter of appointment prepared by Studio BonelliErede on 20 December 2018 concerning the "*Request to call the shareholders' meeting made by Vivendi pursuant to Article 2367 of the*

*Civil Code*”, which, among other things, provided for collaboration with other professionals trusted by the Company;

- the declaration of absence of conflicts of interest (paragraph 4 of the letter of appointment) is signed by Studio BonelliErede; and
- the cost of the service was quantified at 325,000 euros, plus legal charges, as stated in the advance notice of fees dated 13 February 2019, containing the following description “*Assistance provided up to 31 January 2019 in relation to the request to call the shareholders’ meeting made by Vivendi pursuant to Article 2367 of the Civil Code*”.

*e) On the independence of the Chairman of the BoD*

With reference to the assertion that the Chairman of the Board of Directors can no longer be defined as independent since, in the meantime, compared to the framework defined in the Shareholders’ Meeting held in May 2018, he has “transformed” his role into an executive one, and given that, also in the meantime, the Board has approved a remuneration package for him containing a variable component linked to the achievement of objectives set by the Board itself, it is worth noting that, as also reported in the Remuneration Report 2018, the remuneration package established by the Board, on the proposal and with the agreement of the NRC, was defined on 24 July 2018 and provides for a fixed component, set at 600,000 euros gross, and a variable component, as additional remuneration payable at the end of the term of office, amounting to a further full year of pay, conditional upon the good operation of the Board, provided that for each of the three financial years 2018, 2019 and 2020, the Board review (which is carried out by an external advisor) makes a positive assessment of at least 4 out of 5.. This remuneration is therefore not linked to the financial results achieved by the Company and is not subject to any clawback. Furthermore, the Chairman of the Board of Directors is not the subject of a share incentive plan.

It should also be further highlighted that the NRC meeting held on 18 February 2019 examined, inter alia, the proposal made by the Chairman of the Board of Directors to waive this variable component of his salary in order to share responsibility for the failure by management to achieve the MBO due to the failure to pass the gate set for 2018. At that meeting, the NRC decided to issue a positive assessment of the proposal made by the Chairman of the Board regarding the financial year 2018 and decided to maintain, pro quota, the variable remuneration package for the financial years 2019 and 2020. The respective resolution was approved at the Board of Directors’ meeting held on 20 February 2019.

For these reasons, the Board of Statutory Auditors believes that, as things stand, there are no grounds to challenge the independence of the Chairman of the Board.

*f) On the appointment of senior management figures*

At the Board of Directors’ meeting of 24 July 2018, during the presentation of Reports issued by the internal Committees, the Chairman of the NRC reported to the other Directors

that he had received the report from the Human Resources and Organizational Development Department on the succession process which had led to the replacement of the CEO of the subsidiary TIM Brazil and that he had discussed with the CEO and the Chairman the appropriateness, in future, of introducing the principle of prior sharing with the CNR, and prior disclosure to the full Board, of the appointments and replacements of the company's top managers, as well as the CEOs of the Group's most important companies, to complement the responsibilities already held to monitor the replacement tables and the adequacy of the organisational structures, and that the NRC had agreed with this solution, which it shared with the Board in view of the planned review of the governance documents on which the RCC was working. The Board took note.

The aforementioned principle was incorporated (i) into the Corporate Governance Principles (point 6.2.b, according to which the NRC “*shall share in advance with the Executive Directors the decisions for which they are responsible concerning the appointment of managers who report to them directly and the appointment of the Chief Executive Officers of the major subsidiaries*”) and (ii) in the BoD Regulations (point 4.2, which provides for the flow of information to non-executive Directors to include, among other things “*prior information about the appointment of managers reporting directly to the Executive Directors and the appointment of the Chief Executive Officers of the most important subsidiaries*”).

As a consequence, a specific information flow was activated between the CEO and the Chairman of the NRC, with flexibility granted regarding the definition of the subsequent operational processes, based on the replacement times and methods, as well as the importance of the organisational position in question.

*g) On the delay procedure according to Regulation EU 596/2014 related to the preparatory activities of the BoD of 13 November 2018*

With regard to the assertion that no delay procedure was activated under Regulation EU No 596/2014 (hereinafter also referred to as “MAR”) regarding the convocation of the Board of Directors’ meeting of 13 November 2018 and the preparatory activities for this meeting, and in particular with reference to the discussions held between some members of the Board of Directors appointed by Elliott and lawyers from Studio Legale BonelliErede, the investigations carried out by the internal audit department show that the register was opened on 12 November 2018 at 18.51, and therefore at the same time as the meeting of the Board of Directors on 13 November 2018 was called as an “*extraordinary meeting of the Board of Directors*”.

With reference to the charge made that there was a failure to activate the delay procedure pursuant to the MAR, the Board determined that the register was properly opened at the time the Board meeting 13 November 2018 was called, and that before that time the information could not be defined as inside information, as it related to interim and preparatory activity which might or might not have become price-sensitive information based on whether a decision was taken to make it the subject of a specific Board meeting.



*h) On the disclosure to the market of the preliminary operating results for the 2018 financial year examined at the Board meeting of 17 January 2019 and on the non-approval of the press release*

During the meeting of 17 January 2019, the Board of Directors, following a comprehensive illustration by the CEO, took note of the first consolidated management results for 2018 and made them the subject of a specific press release.

The Board of Statutory Auditors, in its entirety, determined that disclosure to the market was both appropriate and necessary, and it specifically promoted this action by recommending that the Board disclose the 2018 data because:

- 1) the proposed route was similar to that adopted by the Company during 2018;
- 2) there was a gap between the 2018 results presented, albeit preliminary, and the market consensus, which, among other things, required the information to be defined as inside information under the MAR, as also confirmed by the registration of Directors and Statutory Auditors on the insider list from the moment the support material was distributed;
- 3) there was a potential conflict with market expectations, with a consequent need to re-establish equality of information;
- 4) the CEO himself clarified that (i) the data were “*reasonably secure and substantially final, subject to minimum adjustments: sales, organic EBIT and net financial position*”, (ii) the gap could not be considered negligible and (iii) with respect to December 2018, “*the data are final or in any case close to their definitive quantification, which, subject to inorganic factors intervening, may change by insignificant amounts*”.

Finally, with regard to the assertion that the press release was not approved by the Board of Directors, the Board states that, at the end of the Board’s discussion on whether or not to disclose the preliminary 2018 figures, a draft press release had been made available. This was subsequently read out publicly by the Chairman of the Board in English and was the subject of specific revisions during an extensive discussion on the subject. This led to the final draft of the press release which was distributed by the Chief Executive Officer, as per the applicable regulation.

*i) On the appointment by TIM as its Advisor on the fixed network of strategic consultants of Elliott, and, specifically, Vitale & Co.*

In this regard the Board of Statutory Auditors has verified that:

- the consultant Vitale & Co. was involved in the project concerning the possible separation of the fixed network and that, in this context, it signed a specific confidentiality agreement, and
- as of the date of this Report, no contract has yet been finalised with the aforementioned consultant which indicates the scope of the activities to be carried out and the other contractual terms.

6. REPORT ON THE PRESENCE OF ANY COMPLAINTS REGARDING INITIATIVES UNDERTAKEN AND THEIR OUTCOMES

The Board of Statutory Auditors of TIM, in addition to acting as the Internal Control and Audit Committee pursuant to article 19, Legislative Decree 39/2010 and Legislative Decree 135/2016, implementing Directive 2014/56/EU amending Directive 2006/43/EC and European Regulation 537/2014, also performs the duties of an Audit Committee, as TIM is also subject to US regulations as a foreign issuer, registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange.

The Board of Statutory Auditors has adopted a procedure governing the management of reports to the Control Body. There are instructions on The Group section of the Company's website (Company Bodies – Board of Statutory Auditors – Role, tasks and responsibilities), for sending reports to the Board of Statutory Auditors/Audit Committee of the Company.

The Company has developed its own Whistleblowing procedure, which provides for the establishment of information channels that guarantee the receipt, analysis and handling of reports relating to internal control, company information, corporate administrative responsibility, fraud and other matters, submitted by employees, members of corporate bodies or third parties even in the confidential or anonymous form. Following the introduction of Law 179/2017, on 24 July 2018, the Board of Directors of the Company adopted the new version of Organisational Model 231, in order to incorporate the legislation and an updated version of the Whistleblowing Procedure (published on 30 January 2019). The Audit Department is responsible for ensuring the reporting flows required.

In this regard the Board of Statutory Auditors carried out constant monitoring activities. In particular, from the date of the previous Report (30 March 2018) to 31 January 2019, the Board of Statutory Auditors received 13 reports, 4 of them 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 reports 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 point out that the relevant investigations are still being carried out regarding no. 4 reports.

The Board of Statutory Auditors also received the report by Director Arnaud Roy De Puyfontaine, which is specifically described in the paragraph above.

7. REPORT ON ANY APPOINTMENTS CONFERRED ON THE INDEPENDENT AUDITOR AND THE CORRESPONDING COSTS

During the 2018 financial year TIM appointed PwC to undertake various tasks other than audits of financial statements, the fees for which, before VAT, are summarised below:

<b>PricewaterhouseCoopers S.p.A.</b>	(in euros)
Limited audit of the consolidated non-financial statement of TIM for the years 2017 (EUR 137.206) and 2018 (EUR 81.850)	219,056.00
Specialist Support in the context of the GDPR (General Data Protection Regulation)	110,000.00
Agreed procedures connected with the issue of the comfort letter in relation to the updating of the Euro Medium Term Note Programme for EUR 20,000,000,000 (EUR 33,000) and the issue of notes (EUR 24,000)	57,000.00
Agreed audit procedures on regulatory accounting areas	30,000.00
Audit services with the issue of certification	8,000.00
Certification of TIM's national fiscal consolidation declaration as at 31.12.2017, for the purpose of offsetting the VAT credit transferred by Noverca	500.00
Total	424,556.00

Under current “Guidelines for the appointment of external auditors”, the above appointments were previously approved by the Board of Statutory Auditors.

8. REPORT ON ANY APPOINTMENTS CONFERRED ON PARTIES CONNECTED BY CONTINUING RELATIONSHIPS WITH THE INDEPENDENT AUDITOR AND THE CORRESPONDING COSTS

In the course of the 2018 financial year, TIM conferred a number of tasks on parties connected by continuing relationships with PwC and/or on companies belonging to the latter's network for which the fees, excluding VAT, are summarised below:

<b>PricewaterhouseCoopers Advisory S.p.A.</b>	(in euros)
Due Diligence in relation to the independent assessment of the accuracy of the terms and conditions of the definitive agreements for a J.V.	180,000.00
Analysis of the ISO 26000 requirements in the approach to management of the Corporate Social Responsibility	15,500.00
Total	195,500.00

Under current “Guidelines for the appointment of external auditors”, the above appointments were previously approved by the Board of Statutory Auditors.

9. REPORT ON THE EXISTENCE OF OPINIONS ISSUED PURSUANT TO LAW DURING THE FINANCIAL YEAR

The Board of Statutory Auditors, in its previous composition, issued the following, pursuant to art. 2389, paragraph 3, of the Italian Civil Code:

- a favourable opinion on the proposals by the Nomination and Remuneration Committee relating to the variable compensation (MBO 2018) of the Executive Chairman and CEO;
- a dissenting opinion on the proposal of the Nomination and Remuneration Committee of a long term share incentive plan called "Long Term Incentive Plan 2018-2020", the first tranche reserved to the CEO, having decided that
  - o in the definition of the performance parameters excessive weight (70%) had been attributed to the Stock performance objective, whose achievement can also be significantly influenced by external factors not linked to the performance of the company's business;
  - o the maximum amount of the Pay Out Curve relating to the Chief Executive Officer, relating to the market benchmarks, appears excessively high.

Pursuant to the Corporate Governance Principles, the Board of Statutory Auditors itself formally approved the functional objective scorecards for the short term incentive scheme (2018 MBO) for the Heads of the control departments who report directly to the Board (Audit Department, Compliance Department and IT & Security Compliance Function).

The Board of Statutory Auditors, in its current composition, pursuant to art. 2389, paragraph 3, of the Italian Civil Code, expressed its favourable opinion on the proposals made by the Nomination and Remuneration Committee regarding the remuneration of the current Chairman of the Board of Directors and Chief Executive Officers, as well as on the scorecard for the variable compensation (MBO 2019) of the current Chief Executive Officer.

The Board of Statutory Auditors, in its current composition, pursuant to the Corporate Governance Principles, expressed:

- its favourable opinion regarding a fine tuning of the 2018 scorecards for the Heads of the Control Departments (Audit Department, Compliance Department and IT & Security Compliance Department of the Company); and
- its favourable opinion on the scorecards for the short term incentive scheme (2019 MBO) for the Heads of the Control Departments (Audit Department, Compliance Department and IT & Security Compliance Department).

The Board of Statutory Auditors, in its current composition, pursuant to art. 13 of the Bylaws and art. 154-bis, paragraph 1, of Legislative Decree no. 58/1998 CFL, expressed its favourable opinion on the resolution regarding the appointment of the manager responsible for preparing the corporate accounting documents, confirming the previous holder of this post.

#### 10. REPORT ON THE FREQUENCY AND NUMBER OF MEETINGS OF THE BOD, EXECUTIVE COMMITTEE AND BOARD OF STATUTORY AUDITORS

In the financial year 2018, the Company's Board of Directors held 21 meetings, at which the Board of Statutory Auditors was always present.

The Control and Risk Committee met 22 times (5 of which jointly with the Board of Statutory Auditors, given the issues addressed); the Nomination and Remuneration Committee met 14 times, the Related Parties Committee, set up in May 2018, met 9 times and the Strategy Committee met 3 times.

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, the Related Parties Committee and the meeting of the Strategy Committee, by the attendance of its Chair or another Statutory Auditor.

The meetings of the Board of Statutory Auditors in 2018 were 37 (20 after the renewal). During 2019 (and until the date of this report), the Board of Statutory Auditors has met 15 times. 6 meetings in 2018 and 1 meeting in 2019 saw the Board of Statutory Auditors meet in its role as Supervisory Body pursuant to Legislative Decree 231/2001.

The Statutory Auditors took part in the Shareholders' Meeting held on 24 April 2018 and 04 May 2018.

#### 11. REMARKS ON COMPLIANCE WITH THE PRINCIPLES OF CORRECT ADMINISTRATION

The Board of Statutory Auditors oversaw compliance with the principles of correct administration by attending meetings of the Board of Directors and the internal board committees, 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, interviews with the management and gathering information.

The Board of Statutory Auditors believes that the governance arrangements and tools adopted by the Company overall constitute an appropriate supervisory framework to ensure that the principles of correct administration are respected in operational practice. The Board of Statutory Auditors has supervised on proceedings followed in the deliberations of the Board of Directors and ascertained that the management choices complied to the applicable rules (substantial lawfulness), adopted in the interests of the Company, compatible with the resources and the company's assets and adequately supported by information, analysis and audit processes, including with recourse, when deemed necessary, to advice from committees and external professionals.

The Board of Statutory Auditors monitored the process of revoking the powers of the previous Chief Executive Officer and the process of appointing the new Chief Executive Officer, verifying that the procedure followed was in compliance with the law, regulations and Corporate Governance Code, subject to the statements made in point 5 above regarding the prior information notice supplied to the Board on 13 November 2018.

## 12. REMARKS ON THE ADEQUACY OF THE ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors monitored the evolution of the TIM Group's organisational structure (in particular pursuant to the Golden Power regulations, as per the provisions contained in the Prime Ministerial Decrees of 16 October 2017 and 2 November 2017) established with respect firstly for the organisational and managerial autonomy of the Parent Company and its subsidiaries and secondly the exercise of management and coordination by TIM in relation to its direct and indirect subsidiaries..

In particular, the Board of Statutory Auditors monitored the process of ascertaining the termination of the management and coordination of TIM by Vivendi, with the consequent abolition of the policy adopted in November 2017.

The Board of Statutory Auditors also monitored the principal changes in the organisational structure of TIM and the TIM Group through meetings with the Human Resources & Organisational Development Department and the Heads of the company's main departments, and by obtaining organisational communications which had an impact on the first and second tiers reporting directly to TIM's senior managers or on the macro-organisation of the Group's companies.

The Board of Statutory Auditors will continue to monitor the organisational structure of the Company, particularly in view of the frequent turnover among the company's top managers during 2018.

## 13. REMARKS ON THE ADEQUACY OF THE INTERNAL CONTROL SYSTEM, IN PARTICULAR ON THE ACTIVITY OF THE INTERNAL CONTROL MANAGERS, AND HIGHLIGHTING OF ANY CORRECTIVE ACTIONS UNDERTAKEN AND/OR TO BE UNDERTAKEN

Please refer to the Report on corporate governance and share ownership for the 2018 financial year of TIM S.p.A. for information on the internal control and risk management system.

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 during 2018 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, in sharing the assessment of the overall adequacy of the internal control and risk management system formulated by the Head of the Audit Department, points out that the effectiveness of the Audit Department's control activity, albeit adequately established and implemented, may be negatively influenced by the occasionally observed late implementation of the corrective actions identified, and hopes that a way might be found for compliance with the timescales envisaged for remediation plans to be included as a criterion in the management incentive programmes.

The Board of Statutory Auditors constantly supervised the internal control system and monitored the activities of the main individuals involved in implementing the internal control and risk management system and, in particular, the implementation of risk improvement and mitigation actions identified, in some cases prompting further specific interventions to strengthen the controls.

The Board of Statutory Auditors exchanged information with the corresponding supervisory bodies of the main national subsidiaries, noting the assessments of the overall adequacy of the respective internal control system and the fact that no situations that deserved to be reported to the Parent Company's Board of Statutory Auditors were highlighted and also met the *Comitê de Auditoria Estatutário* of TIM Participações, noting the assessment of the overall adequacy of the internal control system of the Brazilian company.

The internal control and risk management system also includes the Organisational Model, 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. The Organisational Model 231 has been adopted by domestic subsidiaries of the Group as well as by TIM.

The functions of the Supervisory Body are assigned (from 2012) to the Board of Statutory Auditors, which as such oversees the operation and observance of the Organisational Model 231 and reports to the Board of Directors on the oversight and examination activities which it has performed and the corresponding outcomes. The Board of Statutory Auditors is supported by a dedicated corporate structure, within the Compliance Department .

The Board of Statutory Auditors met 6 times in 2018 in its Supervisory Body role. During the meetings, the Supervisory Body met the Group Compliance Officer and the Head of the Company's Compliance Governance Department (which is entrusted with providing operational support for this specific activity), as well as the Head of the Audit Department and the Heads of the Health Security and Environment and Procurement Unit & Real Estate departments, in order to carry out checks and in-depth analysis on specific 231 issues with reference to the activities for which they are responsible.

The Supervisory Body has also received updates and further information on the law and precedent on 231 issues, which are useful for the consulting and advisory activities that are within its remit. The Supervisory Body determined that there were no anomalies during 2018 that could jeopardize the effectiveness of the Organisational Model..

The TIM 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 process is governed by the ERM Steering Committee, which provides governance of the Group's risk management, aimed at containing the level of exposure within acceptable limits and guaranteeing the operational continuity of the business by monitoring the effectiveness of the countermeasures adopted. The Board of Statutory Auditors confirmed that, on 21 February 2019, 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).

The Board of Statutory Auditors supervised compliance with the laws and regulations of the procedure for carrying out transactions with related parties, its effective implementation and its actual operation. The Compliance Department monitors the application of this Regulation.

The Board of Statutory Auditors was kept constantly informed of transactions with related parties and verified the Company's compliance with the applicable procedures, referring the reader to paragraph 18 with regard to a specific transaction with the related party Havas Milan Srl.

Reference is also made to the contents of paragraph 18 regarding the qualification of Elliott Capital Advisors L.P. as a related party of the Company.

The Board of Statutory Auditors oversaw the conformity with the provisions of Legislative Decree 254/2016 of the TIM Consolidated Non-Financial Statement for 2018 (Sustainability Report) and the adequacy of the procedures, processes and structures that govern the production, reporting, measuring and representation of the results and information of this nature. In this regard, the Control Body examined the report issued by PwC on 8 March 2019, pursuant to article 3, paragraph 10, of Legislative Decree 254/2016 and article 5 of Consob Regulation 20267, which, on the basis of the work carried out, concluded that no evidence had come to its attention that would suggest that the Consolidated Non-Financial Statement for the year ended 31 December 2018 has not been drafted, in all significant respects, in compliance with the requirements of articles 3 and 4 of the aforementioned legislative decree, the "Global Reporting Initiative Sustainability Reporting Standards and the process suggested by the principles of the AA1000APS".

#### 14. REMARKS ON THE ADEQUACY OF THE ADMINISTRATIVE AND ACCOUNTING SYSTEM AND ITS ABILITY TO FAIRLY REPRESENT OPERATIONS



In order to guarantee compliance with the Italian and U.S. laws, TIM operates a structured and documented model of detection and monitoring of risks connected to the financial information, which refers to the 2013 CoSo framework. This model, managed with the support of a specific software, brings together the internal controls associated with the risks identified on the financial reporting and the consequent assessment activities, with precise attributions of responsibility, in compliance with the principle of accountability.

The Board of Statutory Auditors 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. Also monitored the financial reporting process.

The Board of Statutory Auditors acknowledged the statements issued by Chief Executive Officer and the Manager responsible for preparing the corporate accounting documents of TIM concerning the adequacy in relation to the characteristics of the company and the actual application during 2018 of the administrative and accounting procedures for the preparation of the financial statements and the consolidated financial statements.

At TIM the goodwill impairment test was 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 preliminarily analysed and discussed at special meetings involving the Control and Risk Committee and the Board of Statutory Auditors, prior to 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 2018 financial statements was conducted in terms coherent with the procedure approved by the Board of Directors on 06 December 2018 and with the applicable IFRS standards.

Reference is also made to the explanations given in the "Goodwill" note to the consolidated financial statements as at 31 December 2018 of the TIM Group and the considerations made in relation to paragraph 5 above.

With regard to the provisions of article 15, subsection 1, letter c, point (ii) of the Market Regulations (conditions for the listing of shares of parent companies of companies established and governed by the laws of non-EU countries), the Board of Statutory Auditors did not uncover any facts or circumstances implicating the unsuitability of the administrative and accounting system of the subsidiaries requiring the economic, equity and financial data necessary for the preparation of the consolidated financial statements to be regularly submitted to the management and auditor of the parent company.

15. REMARKS ON THE ADEQUACY OF THE INSTRUCTIONS IMPARTED BY THE COMPANY TO ITS SUBSIDIARIES PURSUANT TO ARTICLE 114, SUBSECTION 2 OF LEGISLATIVE DECREE NO. 58/1998

The Board of Statutory Auditors believes that the instructions imparted by TIM to its subsidiaries, pursuant to art. 114, subsection 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.

Following the entry into force in July 2016 of the Market Abuse Regulations, the Board of Directors, on 03 February 2017, approved the new inside information and insider dealing procedure. The document, which also applies 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, was updated on 24 September 2018.

16. REMARKS ABOUT ANY RELEVANT ASPECTS THAT EMERGED DURING THE MEETINGS HELD WITH THE AUDITORS PURSUANT TO ARTICLE 150, SUBSECTION 2 OF LEGISLATIVE DECREE NO. 58/1998.

During the financial year, the Board of Statutory Auditors held meetings with the executives of the independent auditor, pursuant to art. 150, subsection 3, of Legislative Decree 58/1998, during which there were appropriate exchanges of information and no other facts or situations came to light that deserve to be highlighted. The Board of Statutory Auditors: (i) analysed the activities carried out by the independent auditor and, in particular, the methodological system, the audit approach used for the various significant areas of the financial statements and the planning of the audit work and (ii) agreed the business risk issues with the independent auditor, and was therefore able to appreciate the adequacy of the response planned by the auditor with the structural and risk profiles of the Company and the Group.

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 took note of the following from the external auditor: (i) the significant shortcoming identified in the previous financial year regarding the monitoring of supply relationships which are complex and/or characterised by medium-long term time frames has essentially been resolved, and also (ii) that the three significant shortcomings specified below emerged in 2018:

- The monitoring of TIM Brasil privileged users.

During the audit of the 2018 Financial Statements, PwC identified a series of accesses to the administrative accounting system by privileged SAP users. These accesses, which numbered over 200, were not monitored as specified by the current policies or they were not monitored promptly (in some cases even twelve months after the event). As a result of the shortcoming in question, the company's management implemented some specific compensatory IT checks.

- Reconciliation between the accounting data and operational data regarding liabilities for prepaid traffic in the mobile sector.

During the 2018 financial year, a misalignment between operational data and accounting liabilities was detected relating to the management of prepaid traffic. This misalignment resulted in the accounting liabilities being underestimated by approximately 62 million euros. The difference was generated over a period of approximately 10 years, due to the effect of various phenomena.

A remedial plan is underway which will cover both process aspects and organizational aspects.

- Checks on the implementation of the new accounting standard IFRS 15.  
In 2018 the Company's Management identified some anomalies in the operation of the SAP RAR module which prepares entries relating to the recognition of revenues in accordance with IFRS 15 and some inconsistencies in the data processed by management systems. These anomalies were analysed and led to the issue of a new software release by the SAP supplier and the preparation of some of manual correction entries. An inaccurate and complete loading of some commercial offers in the management systems was also noted, with the consequent incorrect measurement of discounts over time.

The Board took note of the three significant shortcomings reported, together with the respective corrective actions and rectifications, as well as the auditor's overall assessment of the internal control system, and therefore took the view that there were no elements that would lead to the internal control system not being considered adequate as a whole. The Board of Statutory Auditors will in any case continue to monitor the progress of the remedial plans identified and put into action by the company.

Pursuant to article 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, in 2018 the Board of Statutory Auditors continued to check and monitor the independence of the external auditor in accordance with articles 10, 10-bis, 10-ter, 10-quater and 17 of the aforementioned Decree, and article 6 of the European Regulation, particularly as regards the adequacy of the provision of services other than auditing, in accordance with article 5 of this Regulation.

Taking into account:

- the statement on independence pursuant to article 6, paragraph 2, letter a) of (EU) Regulation 537 of 16 April 2014, contained in the additional report for the internal control committee issued by PwC, and the transparency report produced by the same pursuant to article 18, subsection 1, of Legislative Decree 39/2010, as published on its website;

- the tasks assigned to it and to the companies belonging to its network by TIM and the Group Companies;  
the Board of Statutory Auditors considered that the conditions to attest the independence of the external auditor PwC had been met.

#### 17. INDICATION OF THE ADHERENCE OR OTHERWISE OF THE COMPANY TO THE CORPORATE GOVERNANCE CODE OF THE COMMITTEE FOR THE CORPORATE GOVERNANCE OF LISTED COMPANIES

The Company complies with the Corporate Governance Code of Borsa Italiana and the Board of Statutory Auditors has supervised the arrangements for the concrete implementation of the rules of corporate governance it contains.

TIM has adopted the criteria established by the Corporate Governance Code for the qualification of the independence of Directors. With this in mind and based on the elements made available by those concerned pursuant to the Borsa Italiana Code and as per the Consob Issuers' Regulation, or in any case available to the Company, a requirements assessment was carried out at the first meeting of the Board after its appointment (7 May 2018), and then renewed on 21 February 2019.

Of the current 15 serving Directors, 12 were found to fulfil the independence requirements: Mr Altavilla, Ms Bonomo, Ms Capaldo, Ms Cappello, Mr Ferrari, Ms Giannotti, Ms Moretti, Ms Morselli, Mr Roscini, Mr Sabelli and Mr Valensise and the Chairman of the Board of Directors, Mr Conti. With respect to the latter, the Board of Directors expressly ruled out that the role of "significant representative" of the Issuer could, in the governance structure actually adopted, influence his independence of judgement to the extent that it would invalidate his independence as a director. The Board of Directors reached this conclusion:

- during the initial appointment (given the lack of delegation of powers);
- when the variable component of his remuneration was allocated (as it is unrelated to corporate objectives);
- during the process to replace the CEO (given the fact that the acquisition of an *interim* management was limited to a few days).

The Board of Statutory Auditors monitored the process and agreed with the decisions made by the Board of Directors.

The Board of Statutory Auditors checked the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members for the first time on 14 May 2018, and then on 28 February 2019 it checked that they were still met.

Pursuant to article 148, subsection 3, of the CLF and of the Corporate Governance Code of the professional parameters set out in art. 19, subsection 3, of Legislative Decree 2010/39

(as amended by Legislative Decree no. 135 of 17 July 2016), the Board of Statutory Auditors, at the meeting on 4 May 2018, checked that each Statutory Auditor continued to satisfy the independence requirements and, therefore, at its meeting on 19 February 2019, it ascertained that they were still met.

The internal Board committees are a Nomination and Remuneration Committee, the Related Parties Committee and the Control and Risk Committee, and a Strategy Committee, the functions of which are described in the Corporate Governance Principles.

See the Report on the corporate governance and share ownership of TIM S.p.A. for the 2018 financial year for further information on the composition and functions of the internal board committees, and on the Company's corporate governance, which the Board of Statutory Auditors evaluates positively.

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 held by Mr. Dante Roscini.

The Lead Independent Director is granted the right to use corporate structures to perform the tasks entrusted to him and to convene special meetings of the Independent Directors to discuss issues affecting the functioning of the Board of Directors or the management of the business.

The Board of Statutory Auditors monitored the activities of the Control and Risk Committee, the Nomination and Remuneration Committee, the Related Parties Committee and the Strategy Committee by the attendance at their meetings by at least its Chairman or by a Statutory Auditor designated by the Chairman.

#### 18. CONCLUSIVE ASSESSMENTS OF THE SUPERVISORY ACTIVITY CARRIED OUT AND OF ANY OMISSIONS, MISCONDUCT OR IRREGULARITIES NOTED DURING THE COURSE OF THIS ACTIVITY

With reference to the fine imposed on the Company by the Presidency of the Council of Ministers for non-notification pursuant to Decree Law 21/2012 on "*Golden Power*" (in relation to which the Company lodged an appeal and obtained suspension of payment), the Board of Statutory Auditors, after an audit, also carried out by the Company's Audit Department and with the assistance of its own legal consultant, of the events that led to the imposition of the same, given the legal investigation carried out by the Board of Directors, did not uncover, in relation to the decision to notify, any fact that could unequivocally be interpreted as a breach of the duties of the administrative body.

On 25 February 2019, the Board of Statutory Auditors informed the Chair of the Board of Directors and the Chair of the Related Parties Committee of the Company that in its opinion the shareholder Elliott Capital Advisors L.P. (through its subsidiaries Elliott International L.P., Elliott Associated L.P. and The Liverpool Limited Partnership) exercises a significant influence over the Company, and then invited the Related Parties Committee and the Board

of Directors to take this into account, pursuant to art. 3 subsection 1, letter a of the Consob Regulation containing provisions on transactions with related parties.

On 26 February 2019, the Board of Statutory Auditors informed Consob of an irregularity found pursuant to article 149, subsection 3, of the CLF, relating to a contract with the related party Havas Milan S.r.l., the final amount of which was higher than had been previously authorised. With respect to this discrepancy, the Related Parties Committee, to which the transaction had been referred during the approval process, expressed a negative opinion, informing the Board of Directors of this circumstance, which has not yet passed a resolution on this point.

On the same date, the Board of Statutory Auditors also formally invited the Board of Directors to make its own decision in this regard, in accordance with the Consob Regulation and TIM's Procedure for performing transactions with related parties.

On 06 March 2019, the Board of Statutory Auditors informed Consob of the irregularities found pursuant to art. 149, third subsection of the CLF, which has been extensively outlined in paragraph 5 above.

19. Report of any proposals to be brought to the attention of the shareholders' meeting pursuant to article 153, subsection 2 of Legislative Decree no. 58/98

Having acknowledged the 2018 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.

It is noted that the Shareholders' Meeting on 29 April 2010 appointed PwC to undertake the external audit of the separate and consolidated financial statements of TIM, and the limited audit of the condensed half-yearly consolidated financial statements and the external audit of TIM's Annual Report pursuant to the US law, for the period 2010 - 2018.

PwC was then appointed to carry out the external auditing task limited to the consolidated statement of a non-financial nature (sustainability report) for TIM and its subsidiaries for the 2017 and 2018 financial years.

In view of the expiry of the nine-year appointment as external auditor (financial statements as at 31 December 2018), to facilitate the transition between PwC and the new external auditor, in 2017 TIM started the process for its selection, and the Board of Statutory Auditors in office at that time acquired and shared the results of this process, recommending the assignment be conferred on EY SpA or KPMG SpA, expressing its preference for the former. The Shareholders' Meeting of 24 April 2018 was therefore also called to resolve on the conferment of the appointment as external auditor for the period 2019-2027. However, the necessary majority could not be achieved at the time for the appointment of either EY S.p.A. or KPMG S.p.A..

The Board of Statutory Auditors currently in office updated the investigation in turn conducted by the previous Board, requesting all the information supplements it deemed necessary in order to express its own recommendation, which was issued to the Board of Directors on 31 October 2018, in sufficient time to ensure an orderly transition between the external auditors.

The Shareholders' Meeting of 29 March 2019 will therefore be called – inter alia – to confer the appointment for the nine-year period 2019-2027, based on the selection made by the Board of Statutory Auditors currently in office, as summarised in the recommendation made available by the Board of Directors and the Shareholders.

Milan, 08 March 2019

For the Board of Statutory Auditors  
The Chairman  
Roberto Capone