

REPORT OF THE INDEPENDENT AUDITORS ON THE SUSTAINABILITY REPORT [G4-33]



INDEPENDENT AUDITORS' REPORT ON THE SUSTAINABILITY REPORT AS OF 31 DECEMBER 2016

To the Shareholders of
Telecom Italia SpA

We have carried out a limited assurance engagement of the Sustainability Report (hereinafter the "Report") of Telecom Italia Group (hereinafter the "Group") for the year ended 31 December 2016.

Responsibility of the Directors for the Report

The Directors are responsible for preparing the Report in compliance with the *G4 Sustainability Reporting Guidelines* defined in 2013 by the GRI - *Global Reporting Initiative* and with the *Inclusivity, Materiality and Responsiveness* principles included in *AA1000 AccountAbility Principles Standard (2008)* issued by AccountAbility (Institute of Social and Ethical Accountability), as indicated in the paragraph "Note on methods" of the Report. The Directors are responsible for that part of internal control that they consider necessary to prepare a sustainability report that is free from material misstatement, whether due to fraud or unintentional behaviours or events. The Directors are also responsible for defining the sustainability performance targets of Telecom Italia Group, for reporting the sustainability results, as well as for identifying the stakeholders and the significant aspects to be reported.

Auditor's responsibility

We are responsible for the preparation of this report on the basis of the work performed. We conducted our engagement in accordance with the *International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE 3000")*, issued by the IASSB ("*International Auditing and Assurance Standards Board*") for limited assurance engagements. The standard requires that we comply with applicable ethical requirements, including professional independence, which was respected also in accordance with the *AA1000 AccountAbility Assurance Standard (2008)*, since services or activities that could have generated an independence conflict have not been performed for the Group, and that we plan and perform our work to obtain limited assurance that the Report is free from material misstatement.

Our company applies the *International Standard on Quality Control 1 (ISQC (Italy) 1)* and, therefore, maintains an overall quality control system that includes directives and procedures on the compliance with the ethical principles, with the professional principles and with the applicable laws and regulations.

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The procedures we performed consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the Report, analysis of documents, recalculations and other verification procedures.

These procedures consisted in verifying its compliance with the principles for defining the content and the quality of a sustainability report set out in the *G4 Sustainability Reporting Guidelines* and *AA1000 AccountAbility Principles Standard (2008)*. Moreover, given the statement, included in the Report in paragraph “TIM Group – Corporate Governance System – References”, in which the Group informs on the fact that its sustainability management system takes into account the ISO 26000: 2010 standard, we have carried out an analysis, based on the work program included in the reference document UNI “*Responsabilità sociale delle organizzazioni - Indirizzi Applicativi alla UNI ISO 26000*” - UNI/PdR 18.

The procedures performed are summarised as follows:

- comparing the financial information reported in the Report with the information included in the Group consolidated financial statements as of 31 December 2016 on which we issued our audit opinion, in accordance with articles 14 and 16 of legislative decree n° 39 of 27 January 2010, on 31 March 2017;
- analysing, through inquiries, the governance system and the process for managing the sustainability issues relating to the Group strategy and operations;
- analysing the process aimed at defining the significant reporting areas to be disclosed in the Report, with regard to the methods for their identification, in terms of priority for the various stakeholders, as well as the internal validation of the findings;
- analysing the practices and initiatives, aligned with the provisions of the UNI ISO 26000: 2010 standard, that are currently underway in the Italian companies of the Domestic Business Unit;
- analysing the processes underlying the generation, recording and management of quantitative data included in the Report. In detail, we carried out:
 - meetings and interviews with management of Telecom Italia SpA, TIM Participações SA and Telecom Italia Sparkle SpA to achieve a general understanding of the information, accounting and reporting systems in use to prepare the Report, as well as of the internal control processes and procedures supporting the collection, aggregation, processing and submission of the information to the function responsible for the Report preparation to comply with the *Inclusivity, Materiality and Responsiveness* principles included in the *AA1000 AccountAbility Principles Standard (2008)*;
 - a sample-based analysis of the documents supporting the preparation of the Report, in order to obtain evidence of the reliability of processes in place and of the internal control system underlying the treatment of the information relating to the objectives disclosed in the Report;
- analysing the internal consistency of the qualitative information described in the Report and its compliance with the guidelines identified in the preceding paragraph “Responsibility of the Directors for the Report”;



- analysing the engagement of stakeholders and its results through the existing documentation concerning the significant matters arisen during the Group dialogue initiatives;
- obtaining a representation letter, signed by the legal representative of Telecom Italia SpA, on the compliance of the Report with the guidelines identified in the paragraph “Responsibility of the Directors for the Report”, as well as the reliability and completeness of the disclosed information.

Our limited assurance work was less in scope than a reasonable assurance engagement performed in accordance with ISAE 3000 (“reasonable assurance engagement”) and, consequently, it does not provide us with a sufficient level of assurance necessary to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the Sustainability Report of Telecom Italia Group as of 31 December 2016 has not been prepared, in all material respects, in compliance with the *G4 Sustainability Reporting Guidelines*, defined in 2013 by the GRI - Global Reporting Initiative, and with the principles included in the *AA1000 AccountAbility Principles Standard (2008)*, as disclosed in the paragraph “Note on methods” of the Report.

Turin, 6 April 2017

PricewaterhouseCoopers Advisory SpA

Signed by

Paolo Bersani
(Partner)

This report has been translated from the original, which was issued in Italian, solely for the convenience of international readers.

We have not performed any controls on the Sustainability Report 2016 translation.

REPORT OF THE INDEPENDENT AUDITORS ON TIM CORPORATE SHARED VALUE MODEL



INDEPENDENT AUDITORS' REPORT ON THE 2016 KPIs RESULTING FROM THE APPLICATION OF TELECOM ITALIA CORPORATE SHARED VALUE MODEL

To the Shareholders of
Telecom Italia SpA

We have performed a limited assurance engagement on 2016 KPIs resulting from the application of the Corporate Shared Value Model (hereafter "CSV") of the Telecom Italia Group (hereafter the "Group" or "TIM") for the year ended 31 December 2016.

Directors' responsibilities

The Directors of Telecom Italia SpA (hereafter the "Company") are responsible for 2016 KPIs resulting from the application of the Corporate Shared Value Model as described in the "Corporate Shared Value Model – Guidelines" adopted by them for the Italian companies of the Domestic Business Unit of the Telecom Italia Group. In 2016, the Economic Shared Value generated applying the Corporate Shared Value Model, amounts to Euro 14,012 million. Moreover, the Directors of the Company are responsible for the internal controls they consider necessary in order to enable the preparation of 2016 KPIs, resulting from the application of the Corporate Shared Value Model and of the "Corporate Shared Value Model – Guidelines", free from material misstatement whether due to fraud or to unintentional conduct or events.

Our responsibilities

We are responsible for the preparation of this report on the basis of the work performed. We conducted our engagement in accordance with the *International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information* ("ISAE 3000"), issued by the IASSB ("International Auditing and Assurance Standards Board") for limited assurance engagements. The standard requires that we comply with applicable ethical requirements, including professional independence, and that we plan and perform our work to obtain limited assurance that the 2016 KPIs resulting from the application of the Corporate Shared Value Model are free from material misstatement.

Our company applies the *International Standard on Quality Control 1 (ISQC (Italy) 1)* and, therefore, maintains an overall quality control system that includes directives and procedures on the compliance with the ethical principles, with the professional principles and with the applicable laws and regulations.

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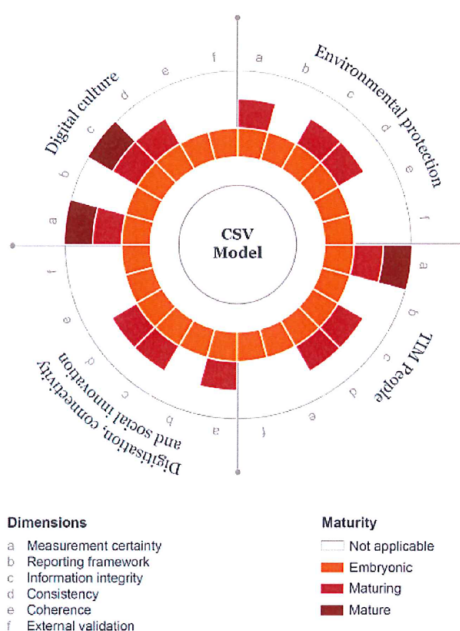


We have developed verification procedures on the four areas the Corporate Shared Value Model consists of (Digitisation, connectivity and social innovation, Environmental protection, Digital culture and TIM people) and we have examined them according to six key dimensions used as indicators of the overall maturity of the process underlying the application of the Corporate Shared Value Model and the calculation of the relevant KPIs.

The procedures we have carried out concerned how the Group has determined the 2016 KPIs resulting from the application of the Corporate Shared Value Model, as described in the document “Corporate Shared Value Model – Guidelines”. These procedures are summarized below:

- analysis, through interviews, of the governance system, of the process, method and quantitative structure underlying the measurement of the 2016 KPIs and resulting from the application of the Corporate Shared Value Model;
- analysis, on a sample basis, of documents supporting the preparation of the 2016 KPIs and resulting from the application of the Corporate Shared Value Model;
- obtaining the representation letter, signed by Telecom Italia SpA legal representative, on the conformity of the 2016 KPIs and resulting from the application of the Corporate Shared Value Model with the guidelines set out in the paragraph “Directors’ Responsibilities”, as well as on the reliability and completeness of data and information included therein.

These procedures have also allowed us to present a score (on a scale ranging from “0 = not applicable” to “3 = mature”) to the outcome of the verification performed on the various dimensions; the score is illustrated below.





Digitisation, connectivity and social innovation (contribution to the 2016 CSV Model - Euro 13,912 million):

8 projects are included in “Digitisation, connectivity and social innovation” area:

- Digitisation of the country
- Single European Number 112
- Employment impact
- 2016 Patent
- TIM Ventures
- WithYouWeDo
- TIM Wcap Accelerator
- Joint Open Lab (JOL)



a. **Measurement certainty – Maturity: 2** (maturing)

To what extent the CSV calculation model includes quantitative elements depending on estimates, benchmarks, statistics that might affect the measurement result.

Accounting and management data represent a large portion of the impact assessment of KPIs for some projects in the area. On the other hand, for other projects, assessment is made applying calculation models defined internally by TIM, which rely on the re-processing of estimated data. Accordingly, as far as the “measurement certainty” dimension is concerned, the area appears “maturing”.

b. **Reporting framework - Maturity: 1** (embryonic)

To what extent the indicators used in the CSV calculation model refer to known reporting frameworks, other than the specific methodology internally developed to assess results.

The Group has defined the relevant KPIs forming TIM Corporate Shared Value Model by developing its own methodology in order to identify projects and reference KPIs. The CSV Model development process is described in the Organization Procedure 2015-00151 “Telecom Italia Corporate Shared Value Process”. CSV responsible officials periodically analyse trends for the KPIs to be reported, despite the absence of a formal definition of a quality control activity for project KPIs. With regard to the “reporting framework” dimension, the area appears “embryonic”.

c. **Information integrity - Maturity: 2** (maturing)

To what extent data and information used for the CSV calculation model result from established processes and systems where control functions exist.

As far as long-term projects are concerned, TIM has utilized a calculation process and KPIs calculation method consistent with the previous year. With regard to the existing control



system of data and indicators, there are data deriving from accounting systems as well as estimates used as basic component of calculation performed by end-user computing application. The segregation of roles and responsibilities designed in the process, allows to consider the “information integrity” dimension “maturing”.

d. **Consistency - Maturity: 2** (maturing)

To what extent the CSV calculation model, for long-term projects and for projects having the same nature, is consistently applied among them and through subsequent reporting periods, and to what extent are restatements disclosed. To what extent the CSV calculation refers to a Group perimeter consistently applied along the reporting periods.

The reporting perimeter refers to the Italian companies of the Domestic Business Unit of the Telecom Italia Group and is consistent with the previous reporting year. As far as projects and relevant KPIs are concerned, it should be noted that, for projects already reported in the previous year, the calculation methods used to prepare KPIs are unchanged. For new projects identified in the course of 2016 the calculation model adopts the same logics as in the previous reporting year. With reference to the “consistency” dimension, the area appears “maturing”.

e. **Coherence - Maturity: 1** (embryonic)

To what extent the CSV calculation model values elements consistent with those used by management to strategically organize and steer business.

The CSV function implemented the Corporate Shared Value Model by performing an analysis of the country’s social needs, which enabled the identification of three strategic intervention areas and a fourth additional area concerning TIM people. Top management is the recipient of an information flow concerning the results of the projects forming the CSV Model. The CSV Model, however, is not included among the tools used for strategic decision-making. With regard to the “coherence” dimension, the area appears “embryonic”.

f. **External validation - Maturity: 1** (embryonic)

To what extent the CSV calculation model uses data and information subjected to external validation in other operating areas.

Data used to value KPIs of projects forming TIM Corporate Shared Value Model derive from accounting and management systems and from renowned external sources, not necessarily subjected to specific validation. With regard to the “external validation” dimension, the area appears “embryonic”.



Environmental protection (contribution to the 2016 CSV Model - Euro 83 million):

“Environmental protection” includes 2 projects:

- Energy efficiency
- Digital healthcare



a. **Measurement certainty - Maturity: 2** (maturing)

To what extent the CSV calculation model includes quantitative elements depending on estimates, benchmarks, statistics that might affect the measurement result.

A significant portion of the impact assessment of some KPIs for this area derives from accounting or management data. On the other hand, the assessment of other KPIs derives from the application of calculation models defined internally by TIM, which rely on the re-processing of estimated data. With reference to the “measurement certainty” dimension, the area is “maturing”.

b. **Reporting framework - Maturity: 1** (embryonic)

To what extent the indicators used in the CSV calculation model refer to known reporting frameworks, other than the specific methodology internally developed to assess results.

The Group has defined the relevant KPIs forming TIM Corporate Shared Value Model by developing its own methodology in order to identify projects and reference KPIs. The CSV Model development process is described in the Organization Procedure 2015-00151 “Telecom Italia Corporate Shared Value Process”. CSV responsible officials periodically analyse trends for the KPIs to be reported, despite the absence of a formal definition of a quality control activity for project KPIs. With regard to the “reporting framework” dimension, the area appears “embryonic”.

c. **Information integrity - Maturity: 2** (maturing)

To what extent data and information used for the CSV calculation model result from established processes and systems where control functions exist.

As far as long-term projects are concerned, TIM has utilized a calculation process and KPIs calculation method consistent with the previous year. With regard to the existing control system of data and indicators, there are data deriving from accounting systems as well as estimates used as basic component of calculation performed by end-user computing application. The segregation of roles and responsibilities designed in the process, allows to consider the “information integrity” dimension “maturing”.



d. **Consistency - Maturity: 2 (maturing)**

To what extent the CSV calculation model, for long-term projects and for projects having the same nature, is consistently applied among them and through subsequent reporting periods, and to what extent are restatements disclosed. To what extent the CSV calculation refers to a Group perimeter consistently applied along the reporting periods.

The reporting perimeter refers to the Italian companies of the Domestic Business Unit of the Telecom Italia Group and is consistent with the previous reporting year. As far as projects and relevant KPIs are concerned, it should be noted that, for projects already reported in the previous year, the calculation methods used to prepare KPIs are unchanged. For new projects identified in the course of 2016 the calculation model adopts the same logics as in the previous reporting year. With reference to the “consistency” dimension, the area appears “maturing”.

e. **Coherence - Maturity: 1 (embryonic)**

To what extent the CSV calculation model values elements consistent with those used by management to strategically organize and steer business.

The CSV function implemented the Corporate Shared Value Model by performing an analysis of the country’s social needs, which enabled the identification of three strategic intervention areas and a fourth additional area concerning TIM people. Top management is the recipient of an information flow concerning the results of the projects forming the CSV Model. The CSV Model, however, is not included among the tools used for strategic decision-making. With regard to the “coherence” dimension, the area appears “embryonic”.

f. **External validation - Maturity: 1 (embryonic)**

To what extent the CSV calculation model uses data and information subjected to external validation in other operating areas.

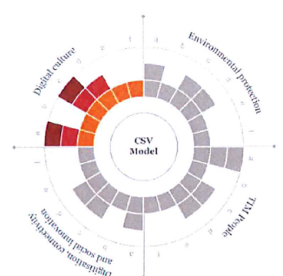
Data used to value KPIs of projects forming TIM Corporate Shared Value Model derive from accounting and management systems and from renowned external sources, not necessarily subjected to specific validation. With regard to the “external validation” dimension, the area appears “embryonic”.



Digital culture (contribution to the 2016 CSV Model 2016 - Euro 16 million):

The “Digital culture” area includes 11 projects:

- #TIMgirlsHackathon
- Digital learning with TIM
- Smart working
- TIM 60+
- TIM Academy
- Partnerships with schools and the academic world
- TIM Protect
- Programme the Future
- PappanoinWeb
- TIM College
- START! La vita a portata di App



a. **Measurement certainty – Maturity: 3** (mature)

To what extent the CSV calculation model includes quantitative elements depending on estimates, benchmarks, statistics that might affect the measurement result.

For the majority of Digital culture projects, a large portion of KPIs impact assessment derives from accounting or management data. Accordingly, as far as the “measurement certainty” dimension is concerned, the area appears “mature”.

b. **Reporting framework - Maturity: 1** (embryonic)

To what extent the indicators used in the CSV calculation model refer to known reporting frameworks, other than the specific methodology internally developed to assess results.

The Group has defined the relevant KPIs forming TIM Corporate Shared Value Model by developing its own methodology in order to identify projects and reference KPIs. The CSV Model development process is described in the Organization Procedure 2015-00151 “Telecom Italia Corporate Shared Value Process”. CSV responsible officials periodically analyse trends for the KPIs to be reported, despite the absence of a formal definition of a quality control activity for project KPIs. With regard to the “reporting framework” dimension, the area appears “embryonic”.

c. **Information integrity - Maturity: 3** (mature)

To what extent data and information used for the CSV calculation model result from established processes and systems where control functions exist.

As far as long-term projects are concerned, TIM has utilized a calculation process and KPIs calculation method consistent with the previous year. With regard to the existing control system of data and indicators, there are mainly data deriving from accounting systems and processes that appear to be stable and with control functions in place. The segregation of roles



and responsibilities defined in the process, allows to consider the “information integrity” dimension “mature”.

d. **Consistency - Maturity: 2** (maturing)

To what extent the CSV calculation model, for long-term projects and for projects having the same nature, is consistently applied among them and through subsequent reporting periods, and to what extent are restatements disclosed. To what extent the CSV calculation refers to a Group perimeter consistently applied along the reporting periods.

The reporting perimeter refers to the Italian companies of the Domestic Business Unit of the Telecom Italia Group and is consistent with the previous reporting year. As far as projects and relevant KPIs are concerned, it should be noted that, for projects already reported in the previous year, the calculation methods used to prepare KPIs are unchanged. For new projects identified in the course of 2016 the calculation model adopts the same logics as in the previous reporting year. With reference to the “consistency” dimension, the area appears “maturing”.

e. **Coherence - Maturity: 1** (embryonic)

To what extent the CSV calculation model values elements consistent with those used by management to strategically organize and steer business.

The CSV function implemented the Corporate Shared Value Model by performing an analysis of the country's social needs, which enabled the identification of three strategic intervention areas and a fourth additional area concerning TIM people. Top management is the recipient of an information flow concerning the results of the projects forming the CSV Model. The CSV Model, however, is not included among the tools used for strategic decision-making. With regard to the “coherence” dimension, the area appears “embryonic”.

f. **External validation - Maturity: 1** (embryonic)

To what extent the CSV calculation model uses data and information subjected to external validation in other operating areas.

Data used to value KPIs of projects forming TIM Corporate Shared Value Model derive from accounting and management systems and from renowned external sources, not necessarily subjected to specific validation. With regard to the “external validation” dimension, the area appears “embryonic”.



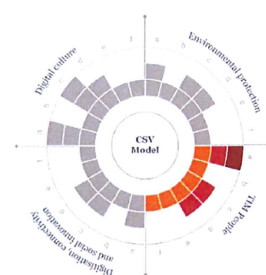
TIM People (contribution to the 2016 CSV Model - Euro 1 million):

The “TIM People” area includes the Nurseries and Preschools project.

a. **Measurement certainty – Maturity: 3** (mature)

To what extent the CSV calculation model includes quantitative elements depending on estimates, benchmarks, statistics that might affect the measurement result.

Accounting and management data represent a large portion of the impact assessment of KPIs for the Nurseries and Preschools project. Accordingly, the area appears “mature” with regard to the “measurement certainty” dimension.



b. **Reporting framework - Maturity: 1** (embryonic)

To what extent the indicators used in the CSV calculation model refer to known reporting frameworks, other than the specific methodology internally developed to assess results.

The Group has defined the relevant KPIs forming TIM Corporate Shared Value Model by developing its own methodology in order to identify projects and reference KPIs. The CSV Model development process is described in the Organization Procedure 2015-00151 “Telecom Italia Corporate Shared Value Process”. CSV responsible officials periodically analyse trends for the KPIs to be reported, despite the absence of a formal definition of a quality control activity for project KPIs. With regard to the “reporting framework” dimension, the area appears “embryonic”.

c. **Information integrity - Maturity: 2** (maturing)

To what extent data and information used for the CSV calculation model result from established processes and systems where control functions exist.

As far as long-term projects are concerned, TIM has utilized a calculation process and KPIs calculation method consistent with the previous year. With regard to the existing control system of data and indicators, there are data deriving from accounting systems as well as estimates used as basic component of calculation performed by end-user computing application. The segregation of roles and responsibilities defined in the process, allows to consider the “information integrity” dimension “maturing”.



d. **Consistency - Maturity: 2** (maturing)

To what extent the CSV calculation model, for long-term projects and for projects having the same nature, is consistently applied among them and through subsequent reporting periods, and to what extent are restatements disclosed. To what extent the CSV calculation refers to a Group perimeter consistently applied along the reporting periods.

The reporting perimeter refers to the Italian companies of the Domestic Business Unit of the Telecom Italia Group and is consistent with the previous reporting year. As far as projects and relevant KPIs are concerned, it should be noted that, for projects already reported in the previous year, the calculation methods used to prepare KPIs are unchanged. For new projects identified in the course of 2016 the calculation model adopts the same logics as in the previous reporting year. With reference to the “consistency” dimension, the area appears “maturing”.

e. **Coherence - Maturity: 1** (embryonic)

To what extent the CSV calculation model values elements consistent with those used by management to strategically organize and steer business.

The CSV function implemented the Corporate Shared Value Model by performing an analysis of the country's social needs, which enabled the identification of three strategic intervention areas and a fourth additional area concerning TIM people. Top management is the recipient of an information flow concerning the results of the projects forming the CSV Model. The CSV Model, however, is not included among the tools used for strategic decision-making. With regard to the “coherence” dimension, the area appears “embryonic”.

f. **External validation - Maturity: 1** (embryonic)

To what extent the CSV calculation model uses data and information subjected to external validation in other operating areas.

Data used to value KPIs of projects forming TIM Corporate Shared Value Model derive from accounting and management systems and from renowned external sources, not necessarily subjected to specific validation. With regard to the “external validation” dimension, the area appears “embryonic”.



Our limited assurance work was less in scope than a reasonable assurance engagement performed in accordance with *ISAE 3000 Revised* (“*reasonable assurance engagement*”) and, consequently, it does not provide us with a sufficient level of assurance necessary to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the 2016 KPIs resulting from the application of the Telecom Italia Group Corporate Shared Value Model as of 31 December 2016 have not been prepared, in all material respects, in accordance with the “Corporate Shared Value Model – Guidelines” for the Italian companies of the Domestic Business Unit of the Telecom Italia Group.

Turin, 6 April 2017

PricewaterhouseCoopers Advisory SpA

Paolo Bersani
(Partner)

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