

## 2016 REPORT ON REMUNERATION

pursuant to art. 123-ter CLF

(Report approved by the Board of Directors at its meeting of 23 March 2017)

available on the website [www.telecomitalia.com](http://www.telecomitalia.com))

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# CONTENTS

<b>1</b>	<b>LETTER FROM THE CHAIR OF THE NOMINATION AND REMUNERATION COMMITTEE</b>
<b>2</b>	<b>EXECUTIVE SUMMARY</b>
<b>4</b>	<b>SECTION I - 2017 REMUNERATION POLICY</b>
4	Parties Involved in the Remuneration Process
4	Shareholder's Meeting
4	Board of Directors
4	Nomination and Remuneration Committee
6	Board of Statutory Auditors
<b>7</b>	<b>2017 REMUNERATION POLICY TOOLS AND GUIDELINES</b>
8	Fixed Remuneration
8	Short term Variable Remuneration
9	Long term Variable Remuneration
10	Benefits and Welfare
10	Severance pay
10	Clawback clause
<b>11</b>	<b>REMUNERATION OF THE CHAIR OF THE BOARD OF DIRECTORS, THE CHIEF EXECUTIVE OFFICER, THE KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES AND THE BOARD OF DIRECTORS</b>
11	Remuneration of the Chairman
11	Remuneration of the Chief Executive Officer
14	Remuneration of Key Managers with Strategic Responsibilities
15	Remuneration of the Board of Directors
<b>16</b>	<b>SECTION II - IMPLEMENTATION OF REMUNERATION POLICIES AND COMPENSATION PAID IN 2016</b>
16	Remuneration of the Board of Directors
17	Executive Chair
17	CEO
19	Key Managers with Strategic Responsibilities
20	2014-2016 Stock Options Plan
<b>21</b>	<b>COMPENSATION PAID IN 2016</b>
21	Table 1 - Compensation paid to members of the Management and Control Body and to Key Managers with Strategic Responsibilities
24	Table 2 - Stock options assigned to members of the Management and Control Body and to Key Managers with Strategic Responsibilities
25	Table 3A - Incentive plans based on financial instruments other than stock options, for members of the Management Body, General Managers and Key Managers with Strategic Responsibilities
26	Table 3B - Monetary incentive plans for members of the Management and Control Bodies and Key Managers with Strategic Responsibilities
27	CHART No. 7-ter Chart containing information on the shareholdings of members of the Management and Control Bodies and Key Managers with Strategic Responsibilities.
<b>28</b>	<b>APPENDIX - TABLE OF COMPENSATION PLANS</b>

# LETTER FROM THE CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE



Chairman of the Nomination and  
Remuneration Committee

Dear Shareholders,

It gives me great pleasure to provide you with the 2016 Report on Remuneration, which, in compliance with current legislation, is divided into two sections. The first contains a description of the remuneration policy for 2017 for Directors and Key Managers with Strategic Responsibilities, while the second gives the total for remuneration for FY 2016, together with the shareholdings held by Directors, Statutory Auditors and Key Managers with Strategic Responsibilities in the Company and its subsidiaries. This report has been prepared with the intention of providing the market and the investors with an instantly readable picture of the pay measures used and the relative results.

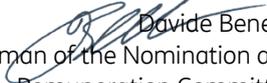
On renewal of the Board of Directors, I would like to thank my fellow members of the Committee and briefly recall the analysis, in-depth examination and development work that we have done in this three-year period, the aim of which was to pursue greater alignment with the market best practices and the expectations of the investors. In particular, through a process of continuous activity programming, we have implemented the Remuneration Policy and continuously monitored the process of implementing support tools.

With the contribution of the Human Resources and Organizational Development department, the Committee, as one of its most important tasks during this term of office, defined the annual incentive system (MBO), with particular reference to the reformulation of the gate mechanism and the introduction of Performance Management, activated the clawback clause, updated some elements relating to severance and prepared the Report on Remuneration on an annual basis.

When the Chief Executive Officer Flavio Cattaneo was appointed a new incentive instrument was introduced, the 2016-2019 Special Award, to support the company turnaround objective. The bonus is for the Chief Executive Officer and some managers to be identified by him.

Moreover, in 2016, before the closure of the 2014-2016 Stock Option Plan, the Committee then proceeded with a careful evaluation of the long-term variable component, with a view to correctly balancing the fixed and variable components. The significant organizational developments that occurred in 2016, the company turnaround process, and the pursuit of internal fairness requirements and economic sustainability principles have led to the evaluation of the advisability to launch a new Long Term Plan being postponed until next year.

Confident that this Report testifies to the Committee's commitment to respect the logic of transparency required by the legislation and endorsed by the Company, I thank you for your acceptance and support which I hope you will give to the policies set for 2017.

  
Davide Benello  
Chairman of the Nomination and  
Remuneration Committee

# EXECUTIVE SUMMARY

The Group remuneration policy is established in such a way as to guarantee the necessary levels of competitiveness of the company on the employment market. This competitiveness in turn serves to pursue the company's strategic objectives, aiming to achieve sustainable results over the long-term and ensuring a correct balance between the unitary needs of the Group and the differentiation of the various reference markets. This results in a remuneration architecture that is aimed as a priority at ensuring the correct balance between the fixed component and the variable component, in addition to the benefits and welfare system, within a framework of Total Rewarding. At the same time, the ongoing corporate turnaround process and the need to ensure economically sustainable corporate management give rise to the need for a rigorous and selective remuneration policy, more so than in the past.

The TIM remuneration policy is essentially divided into the following components:

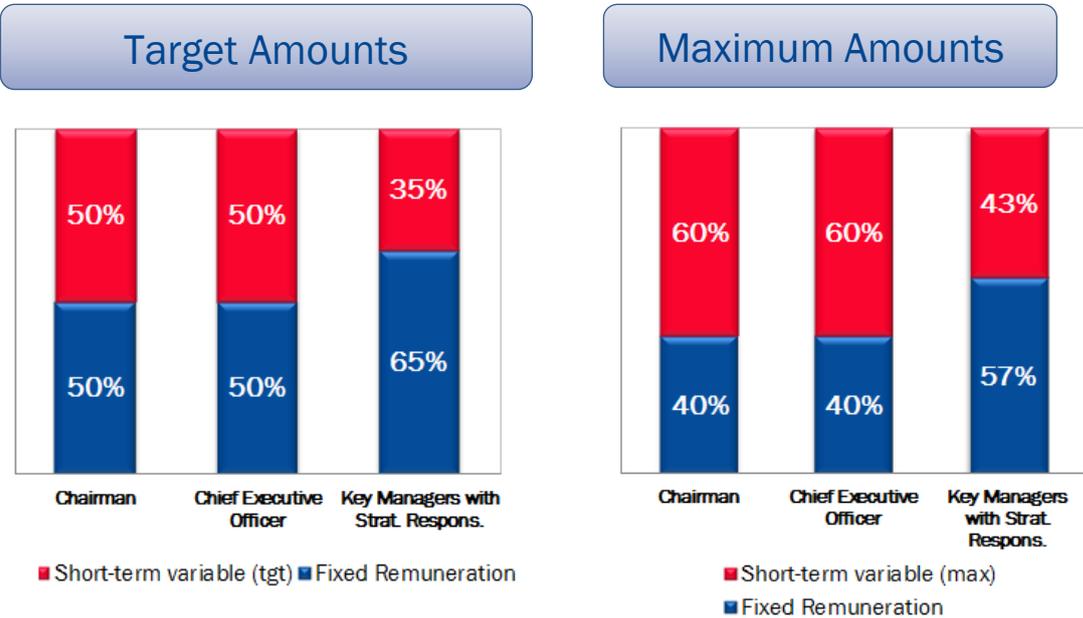
- Fixed Remuneration
- Variable Remuneration
- Benefits and Welfare

the key elements of which are summarised below.

Remuneration element	Aims and features	Description
Fixed Remuneration	The fixed remuneration component is aimed at appraising the breadth and strategic nature of the role held.	For 2017 the Committee confirms the tendency to gradually align individual positioning (commensurate with the powers and the role held) with the market references, determined on the basis of periodic market benchmarks.
Short Term Variable Remuneration (MBO)	The short-term variable component (with a target value commensurate with the fixed component, in accordance with different proportions depending on the weight of the role, and variability of 50-150% for Executive Directors and 70-140% for the remaining key managers) is aimed at supporting and creating a transparent link between financial reward and the degree of achievement of annual objectives.	<p>The targets are fixed according to generally quantitative indicators that represent and are consistent with the strategic and business priorities, measured according to pre-established and objective criteria. This measure is subject to clawback.</p> <p>The targets are: Group/Company, Departmental and Individual. The individual objectives for all key managers (with the exception of the Executive Directors) are contained within the Performance Management system. A "gate" target is set, applied to all the participants in the Plan.</p>
Long term Variable Remuneration (Stock Options)	The long-term variable component of the remuneration is aimed at achieving alignment between the management's interests and those of shareholders, through participation in the business risk, with positive effects expected in terms of growth in the value of the shares.	<p>The performance conditions of the 2014-2016 Stock Option Plan (2014-2016 Free Cash Flow and relevant TSR of Telecom Italia in the same period) were achieved to the extent of causing the exercisability of options equivalent to 20% of the quantity assigned as target, making a total of 15,280,446 options, valid for three years as of 24 March 2017. The average subscription price is 1.02 euro per share.</p> <p>The Company, based on advisability considerations, has postponed the evaluation of the launch of a new Long Term Plan until next year</p>

Remuneration element	Aims and features	Description
Long term Variable Remuneration (Special Award)	The instrument is designed to align the interests of the beneficiaries (CEO and some managers to be identified by the CEO himself) with those of the shareholders with respect to Company turnaround objective.	A four year plan (2016-2019), based on the allocation for each of the financial years included of a percentage share of the overperformance achieved against the targets for the period, within an overall total that has a predefined absolute maximum amount. The indicators are EBITDA (weight 50%), Net Financial Position (weight 25%) and Opex Reduction (weight 25%). The bonus (subject to clawback), will be paid at the end of the cycle, 80% in equity and the remainder in cash.
Variable Remuneration (One-off Bonuses/)	Paid as a one-off bonus	Used as an alternative to intervention on the fixed remuneration, in the event of: <ul style="list-style-type: none"> <li>➢ salary review</li> <li>➢ ex-post rewarding of significant performances or in the case of project-based/extraordinary initiatives</li> </ul>
Benefits and Welfare	They generate an economic value distinct from the other forms of remuneration. They are resources, benefits and a welfare system, aimed at increasing the individual benefits and welfare and family welfare of the employees in economic and social terms.	They are non-monetary tools used alongside traditional monetary tools such as fixed and variable remuneration: healthcare assistance, welfare assistance, services for people, mobile phone, mixed-use car, check-ups, loans

For the senior roles in Telecom Italia, that is the Executive Chair, Chief Executive Officer and Key Managers with Strategic Responsibilities, the pay mixes suggested for 2017 are described below (please note that the Shareholders' Meeting of 4 May 2017 will proceed with the renewal of the Board of Directors), net of the Special Award:



The Company considers that the ratio indicated between the fixed component and the variable component is adequately balanced according to the strategic objectives and risk management policy of TIM. The definition of the ratio between the fixed component and the variable component – that is the pay mix – has been guided by the goal to define a compensation package that can effectively drive, reward and recognise the performances and achievement of the strategic plan and objectives. At the same time, the compensation strategy pursued the aim of correctly balancing the enterprise risk management and, therefore, of meeting the Top Management engagement and retention requirement in a particularly delicate business phase.

# SECTION I - 2017 REMUNERATION POLICY

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## PARTIES INVOLVED IN THE REMUNERATION PROCESS

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The remuneration policy for Directors and Key Managers with Strategic Responsibilities involves the bodies specified below.

### Shareholder's Meeting

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- Determines the compensation of the Board of Directors as a whole, with the exception of the Directors holding specific offices (Chair, Vice Chair and Chief Executive Officer)
- Expresses a non-binding vote on the first section of the Report on Remuneration.
- Resolves on the remuneration plans based on the allocation of financial instruments.

### Board of Directors

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- Resolves on the division of the remuneration determined by the Shareholders' Meeting for the Board of Directors (when a total amount is established for the board in its entirety).
- Defines the remuneration policy of Executive Directors and Key Managers with Strategic Responsibilities.
- Determines the remuneration of Directors holding specific offices;
- Makes proposals to the Shareholders' Meeting on the remuneration plans based on the allocation of financial instruments to directors and employees.
- Prepares the Report on Remuneration.

In order to ensure that the decisions taken regarding remuneration are appropriately investigated and conform to the rules on transparency and strict regulation of potential conflicts of interest, the Board of Directors makes use of the support of the Nomination and Remuneration Committee.

### Nomination and Remuneration Committee

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- Proposes the criteria for allocating the total compensation established by the Shareholders' Meeting for the Board of Directors as a whole and the remuneration of Directors holding specific offices, to the Board of Directors.
- Examines, with the assistance of the Human Resources and Organizational Development Department, the remuneration policy for managers, with specific regard to the Key Managers with Strategic Responsibilities
- Examines proposals made to the Board of Directors for compensation plans based on financial instruments;
- Assesses the appropriateness, practical application and consistency of the general remuneration policy, particularly with reference to actual corporate performance, making suggestions and proposals for corrective measures;
- Ascertains the level of achievement of the variable short and long-term incentive targets by the Executive Directors and management in general, applying the measurement criteria determined when these targets were assigned, and establishes the architecture of the performance objectives linked to the variable incentive system for the following year.
- Monitors the development of the relevant regulatory framework and of market best practices in remuneration, collecting ideas for setting up the remuneration policy and identifying aspects for improving the Report on Remuneration
- Reports on its own activities to the Board of Directors, as a rule, at the first available meeting.

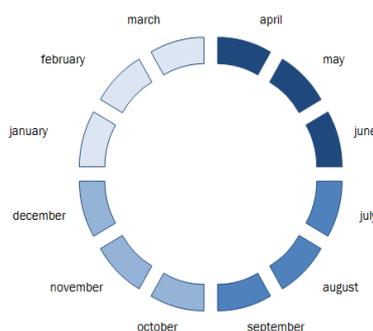
The Committee scheduled its 2016-2017 activities according to the agenda shown below.

#### January – March 2017

- Finalising the results of the performance targets for the previous year and determining the short-term variable incentive policies for the current year
- Examination of the Board Evaluation results
- Succession plan: updating and monitoring the process
- Benchmark analysis on Board Compensation
- Preparing the Report on Remuneration.

#### October – December 2016

- Updating the Peer Group for analyses and benchmarks on market best practices
- Preparatory work for the remunerative policy for the subsequent year
- Analysis of the hypothesis of a new Long Term Incentive 2017-2019
- Progress of the indicators for short-term and long-term incentive systems (2014-2015 SOP and Special Award)
- Board Evaluation: identification of the advisor
- Definition of compensation for Strategic Committee



#### April - June 2016

- Analysing benchmarks for the remuneration of the Chair and Vice-Chair
- Monitoring Implementation of the MBO system

#### July - September 2016

- Monitoring the MBO system for the year in progress;
- Definition of criteria to assess the performance of the Chair
- Definition of compensation for the Vice Chair
- Succession Planning: audit

In 2016 the Committee met 12 times. The meetings were attended by the Head of the Human Resources and Organizational Development Department and the managers responsible for the areas being discussed were invited to provide support, from time to time. To perform its functions, the Committee makes use of the collaboration of the competent Departments within the Company and the support of external consultants who are not in situations likely to compromise their independence of judgement. Since July 2014 the Committee has made use of the assistance and the studies provided by the company Mercer, which worked in 2016 exclusively for the Committee. For the succession process (which led to the appointment of a serving Director, Flavio Cattaneo, as new Chief Executive Officer on 30 March 2016), the Committee was supported by executive search company Korn Ferry, as well as consultancy on employment law by the Company's external legal advisors.

During 2017 and until the completion of this report (Board of Directors meeting on 23 March 2017), the Committee met 3 times.

The Committee members currently are: Davide Benello (Chairman), Luca Marzotto, Giorgio Valerio, Arnaud Roy de Puyfontaine and Stéphane Roussel.

## Board of Statutory Auditors

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The Board of Statutory Auditors expresses the opinions required by current legislation on the proposed remuneration of Executive Directors holding specific offices.

The Committee's meetings are attended by the Chair of the Board of Statutory Auditors or, if he is unavailable, by another Statutory Auditor designated by him.

# 2017 REMUNERATION POLICY TOOLS AND GUIDELINES

The remuneration policy of the Telecom Italia Group is aimed at ensuring the company's competitiveness in the labour market, as well as its capacity to attract, retain and motivate people.

The guidelines and related remuneration tools are aimed at ensuring:

- the achievement of the Company's strategic targets
- the competitiveness of the company on the labour market
- the commitment of its people
- the safeguarding of the principles of internal fairness and diversity
- the alignment of the interests of the management with the creation of value for shareholders and also with the sustainability of the results in the long term;
- the safeguarding of consistency at Group level, while taking into account the diversity of the reference markets

The remuneration policy dimension, like other company processes and systems, in this business phase must contribute to the turnaround objectives operating the levers that ensure sustainable company management. This is why the 2017 remuneration policy, while in keeping with the past in terms of guiding principles and values, will be characterised by a greater level of selectivity and rigour.

To improve the determination of the remuneration policies, the necessary comparisons are made with the external market. In this regard, the Peer Groups used, respectively for benchmarks on international market practices and policies and benchmarks on compensation positioning and governance issues, were updated as follows:

- **International Companies**  
operating in the same sector as Telecom Italia (telecommunications, ICT and Media)

TELCO		MEDIA/ICT	
EUROPE	WORLD	EUROPE	WORLD
Telekom Austria	America Movil	Ericsson	Time Warner
Orange	AT&T.	Nokia	21st Century Fox
Deutsche Telecom	Verizon Comm.	Vivendi	
BT Group			
Vodafone			
Telenor			
KPN			
Proximus			
Telefonica			
Teliasonera			
Swisscom			
		OTHERS	
		EUROPE	
		National Grid	
		EDF	
		Engie	
		RWE	

- **Major Italian companies**  
comparable in terms of business and/or best practices

PEER GROUP FTSE MIB	
Atlantia	Luxottica
Campari	Mediaset
Enel	Prysmian
ENI	Saipem
FCA	Snam
Leonardo-Finmeccanica	Terna

Definition of a correct and sustainable Compensation Package which takes account of three principal remuneration tools: the first two typically having monetary content, the third being linked to a broader idea of the remuneration system.



The integration of the various components will mean – in continuity with 2016 – the appropriate balancing of monetary and non-monetary tools, with the goal of increasing the satisfaction of the beneficiaries at a sustainable cost.

For 2017, the trend towards alignment with market practices continues. However, with respect to the already mentioned selectivity requirements in the remuneration interventions, above all on the fixed component, they will be focused on cases where the resource is of high quality and there is a great lack of alignment with the benchmark market. In parallel with the remuneration interventions on the fixed component, it is possible to envisage additional interventions using the variable remuneration component as leverage, even as a one-off bonus. Adjustments, both up and down, to the Variable Remuneration (MBO) in relation to positioning as regards Total Annual Remuneration (TAR), which is the sum of Gross Annual Remuneration (GAR) plus Variable Remuneration (MBO), measured in comparison with practices found in the remuneration benchmark market may be considered.

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Individual remuneration components are examined below:

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## FIXED REMUNERATION

The breadth and strategic nature of the role are measured through a system of evaluation of positions, using internationally recognised and certified methods. Every year TIM checks its remuneration positioning through market benchmarks which analyse both the national and international context. The trend towards aligning the fixed remuneration with the market references will be pursued with the necessary gradualness.

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## SHORT TERM VARIABLE REMUNERATION

### The Short Term Incentive System (MBO)

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The MBO system in 2016 included the presence of a "gate" objective consisting of the company indicator (Group EBITDA) applied to all participants in the plan. In particular:

- for the Chair and the Chief Executive Officer, failure to achieve the minimum level of the gate objective would have resulted in the curtailment, by 50%, of the target bonus on which the evaluation of the remaining objectives is calculated
- for all the other beneficiaries the gate had been defined as an access condition solely to achieving the company objectives.

In 2017 the gate – Group EBITDA objective – will constitute an access condition for the bonus linked to all the objectives rewarded.

For those reporting directly to the Executive Directors, the target values for the bonus will be set in continuity with 2016 and at up to 50% of the fixed component. For the remaining staff on incentive schemes, the target values will be set - on the basis of the complexity of the role performed - at up to 30% of the fixed component.

There will be Group, departmental and individual targets, with weightings differentiated by company Department. The Performance Management objective, which is also specified for 2017 for all beneficiaries of MBOs (except for the Executive Directors) will have a relative weight fixed at 30%; it will continue to be based on the overall result of the assessment, taking equal account of both individual objectives and conduct in relation to the leadership model.

This measure is subject to settlement entirely in cash, upon verification of the results achieved, without deferral.

For 2017, in view of the current business viability, TIM has decided it must maintain the current set up of the short-term incentive system. Therefore, the policy of not proceeding with forms of deferring the short-term incentive is confirmed; the matter may be reconsidered from 2018.

Finally, during salary reviews, other variable remuneration tools may be adopted (One-off Bonus) to reward significant performance or for particularly outstanding results relating to extraordinary initiatives that cannot be classified as ordinary activities.

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## LONG TERM VARIABLE REMUNERATION

The ongoing profound corporate turnaround process, which involves the entire company population, the risk of the redundancy of incentive tools for the same managerial segment, and the need for company management that ensures internal fairness in compliance with overall economic sustainability, have led to the evaluation of the advisability to launch a new Long Term Plan being postponed until next year.

As reported later on, as part of the Remuneration of the Chief Executive Officer in the Long-Term Variable Component paragraph, for the anticipated participation of Mr Cattaneo should his office of Director be renewed and his role as Chief Executive Officer confirmed, a 2017-2019 long-term measure will be introduced, hypothesized at the time he was initially identified as Chief Executive Officer of TIM.

### Special Award

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When the Chief Executive Officer, Flavio Cattaneo, was appointed (30 March 2016), it was decided to introduce an incentive instrument to support the company turnaround objective: the Special Award, submitted for the approval of the Shareholders' Meeting of 25 May 2016.

The recipients of the Special Award are the Chief Executive Officer and certain Company managers to be identified by the Chief Executive Officer himself.

The Special Award is an extraordinary remuneration measure, which runs for four years (2016-2019, with settlement in 2020), directed towards the achievement of an overall company turnaround objective deemed to be a priority for the stakeholders in TIM as a whole. Just as the need for a turnaround is exceptional, the Special Award is equally exceptional, and is indeed configured as an add-on to:

- the compensation package of Mr Cattaneo
- the reward for the management, which the Chief Executive Officer will recognize (with broad powers of discretion, that also extend to the amount awarded) as strategic for the achievement of the aforementioned objective.

The Special Award provides for an annual bonus to be set aside amounting to a total of a maximum of 5.5% of the difference between the result achieved and the planned result, only for over-performance in each of the years 2016, 2017, 2018 and 2019 on the targets of Group EBITDA, Opex Reduction and Net Financial Position (with weights of 50%, 25% and 25% respectively), as defined in the 2016-2018 Strategic Plan (approved on 15 February 2016), and using for 2019 the same values as the plan for the 2018 financial year. This bonus will be calculated on the same corporate perimeter, and applying the same accounting, fiscal, tax, economic and financial criteria in force at the time the 2016-2018 Strategic Plan was approved, net of payments that could not be foreseen deriving from the management prior to 30 March 2016 (the date of appointment of Mr Cattaneo as Chief Executive Officer) or of changes to the share capital that affect the results of the calculation parameters.

Each annual bonus will consist of 80% in TIM ordinary shares (the number of which will be determined by dividing 80% of the bonus accrued in the financial year by the normal value of the shares on the date the performance is ascertained) and 20% in cash. After approval by the Board of the 2019 financial statements (year 2020), the sum of the annual bonuses accrued over the whole incentive period will be paid, with a maximum gross total amount (for the whole four year period of reference, and relative to 5.5% of the overperformance) of 55,000,000 euros.

A portion of each Annual Bonus, corresponding to 4% of the overperformance, shall be entirely reserved for the bonus of the Chief Executive Officer, while the remaining part (corresponding to 1.5% of the overperformance matured) shall be discretionally assigned as bonuses to the employees and/or directors of the Company and/or its subsidiaries who have contributed to achieving such result, as identified by the Chief Executive Officer, who will also define the amount of the bonus attributed to each.

Payment of the bonus is conditional on the conservation of the Beneficiary continuing to be employed by TIM or another Subsidiary (even if different from the entity by which the Beneficiary was employed at the time the bonus was and/or is assigned), without prejudice to the application of the regulations on early termination. According to the latter, without prejudice to the different conditions laid down for the Chief Executive Officer, the entitlement to payment remains applicable in case of termination of the employment due to:

- retirement and/or having reached the end of the employment contract/office as Director in force at the time the bonus was assigned;
- cessation by agreement of the employment contract/office as Director with the Company (or with a Subsidiary);
- dismissal or removal from office on the initiative of the company without just cause;
- total or permanent invalidity.

In case of premature death, the bonus shall be paid without deferral and wholly in cash, in its nominal value as per the notification, to the heirs. In the event of the company of which the Beneficiary is an employee or director being placed outside the Group perimeter, any rights to the bonus previously accrued shall remain valid.

The information document on the Special Award is available on the website [www.telecomitalia.com](http://www.telecomitalia.com).

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## BENEFITS AND WELFARE

Benefits and welfare represent the non-monetary elements of the remuneration; for 2017 too, the Company confirms the significant investment in terms of the economic resources dedicated to it.

In particular:

- **Benefits** are assets and services made available to the beneficiaries, based on the role held, aimed at improving corporate well-being; these services generate an economic value distinct from both the fixed remuneration and from the other forms of variable remuneration
- **Welfare** is the set of non-monetary services made available to the entire company population regardless of the role held, aimed at increasing the individual and family welfare of all employees

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With respect to the analyses performed, in 2017 no economic sustainability conditions were found warranting the launch of a new Broad-Based Share Ownership Plan; the advisability of renewing this initiative will be assessed in the years ahead.

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## SEVERANCE PAY

In light of the best practices on “Termination Provisions” for the Executive Directors, it is company policy that the severance allowance, in the event of the early termination of the office as Director, be no greater than 24 months of the total remuneration.

For the remaining Key Managers with Strategic Responsibilities, the settlements set out in law, in the Collective Employment Agreement and in supplementary company agreements apply.

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## CLAWBACK CLAUSE

A contractual clawback mechanism exists which will enable the recovery of the variable remuneration allocated to Executive Directors and Key Managers with Strategic Responsibilities starting from 2016. The *clawback* clause may be activated in the three years after the disbursement of payments in cases where said disbursement occurs following wilful misconduct or gross negligence on the part of the Executives concerned or in the case of an error in the formulation of the data, which resulted in the restatement of the Financial Statements.

# REMUNERATION OF THE CHAIR OF THE BOARD OF DIRECTORS, THE CHIEF EXECUTIVE OFFICER, THE KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES AND BOARD OF DIRECTORS

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## CHAIRMAN'S REMUNERATION

The remuneration of the Chair of the Board of Directors appointed by the Shareholders' Meeting called for 4 May 2017 will in due course be established by the board in view of the powers conferred and the organisational structures actually adopted.

The compensation (if necessary broken down into a fixed component and a short-term variable component, the general architecture of which was described earlier) will be resolved on pursuant to article 2389, subsection 3 of the Italian Civil Code, as proposed by the Nomination and Remuneration Committee, after hearing the opinion of the Board of Statutory Auditors.

As is standard practice, it will be an all-inclusive compensation, renouncing participation in the division of the remuneration established by the Shareholders' Meeting for the Board as a whole pursuant to article 2389, subsection 1 of the Italian Civil Code (including for participation in the Strategy Committee), and it will be accompanied by benefits similar to those envisaged for the key managers of the Company. Like all the Company's management, the Chair will be covered by a "professional risks policy", known as a Directors & Officers policy.

Any severance pay will be subject to limits set in the company policy which provide for compensation in the case of early termination of the relationship without just cause, equal to a maximum of 24 months' salary.

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## CHIEF EXECUTIVE OFFICER'S REMUNERATION

Similarly to that reported for the Chair of the Board of Directors, it will be the Board of Directors, as renewed by the Shareholders' Meeting, that establishes the compensation for the Chief Executive Officer, in line with the role assigned to him.

Mr Flavio Cattaneo is, in any case, part of the contract already disclosed before the Shareholders' Meeting of 25 May 2016, which governs – among other things – the office as Director for the three-year period 2017-2019, as well as the case of non-renewal of the office as Chief Executive Officer and the non-re-attribution of the current powers, in the absence of just cause, at the expiry of the Board of Directors whose term of office shall come to an end with the approval of the financial statements as at 31 December 2016.

Said contract entitles Mr Cattaneo to the following compensation package:

- **Gross annual fixed remuneration**  
An annual gross sum of € 1,400,000 euros, gross, has been set for the management employment, with the duties of General Manager.
- **Fixed remuneration (pursuant to article 2389 subsection I of the Italian Civil Code)**  
The Chief Executive Officer does not receive fixed compensation for the office of Director (pursuant to Art. 2389, subsection 1 of the Italian Civil Code), nor for participation in the Strategy Committee.
- **Short Term Variable Component (pursuant to art. 2389 subsection III of the Italian Civil Code)**  
For each year of service correlated with the achievement of the targets set annually by the Board of Directors, in the target amount (100%) of 1,400,000 euros gross; a parametrised scale will be applied that awards a bonus of 50% of the target amount if the minimum level is achieved, up to a bonus equal to 150% of the target amount if the maximum level is achieved.  
Each target is measured individually, so different combinations are possible of the levels of achievement of the targets; to assess these, the linear interpolation mechanism will be adopted.

The Board of Directors on 23 March 2017 prepared – as proposed by the Nomination and Remuneration Committee and in keeping with the general architecture - the following incentive targets for the 2017 MBO:

	Objectives	Weight	Min vs Tgt	Tgt:	Max vs Tgt
A	TIM Group EBITDA ( <i>Gate</i> )	50%		bdq	+ 5%
B	TIM Group Service Revenues	15%	-2%	bdg	+2%
C	TIM Group Net Financial Position	10%	+1%	bdg	-5%
D	<p>TRANSFORMING PROGRAM:</p> <ol style="list-style-type: none"> <li>Domestic UltraBB Coverage</li> <li>Brazilian UltraBB Coverage</li> <li>Efficiency</li> </ol>	25%	2 objectives out of 3 at target	3 objectives out of 3 at target	at least 2 obj. out of 3 above target and 1 at target

The mechanism of application of the TI Group EBITDA objective has changed from that of the previous year: while in 2016 the non-achievement of the minimum level of the Group EBITDA objective would have decreased by 50% the target bonus on which the remaining assigned objectives would be determined, for the 2017 MBO the achievement of the budget target level constitutes a gate condition for access to all the incentivised objectives, with the consequent that non-achievement of this means that the bonus cannot be paid. To further accentuate the challenging nature of the objective, there is no minimum level of achievement of the objective below the EBITDA budget target.

Regarding the remaining economic and financial objectives of the MBO 2017, it should be noted that the percentage parameters of reference for the Group Service Revenues objective, and for the Group Net Financial Position objective have been defined in continuity with the definition used for the 2016 MBO cycle (respectively, -2% for the minimum and +2% for the maximum for Group Service Revenues, and +1% for the minimum and -5% for the maximum for Group Net Financial Position); the interval between these minimum and maximum values is considered to be coherent with the turnaround process undertaken by the Company.

It should be noted that reaching the minimum level of the Net Financial Position target, a priority for the Group, is, in fact, challenging in itself, since the indicator is affected by both the acceleration of the investments in the new generation networks and the expenditure to acquire licences included in the 2017 budget.

The clause to claw back the sums paid out may be activated in the three years following payment of the bonus, as set out in the policy.

In case of early termination as a good leaver (namely, after revocation, dismissal or non-renewal in the absence of just cause, or resignation for just cause or for revocation or reduction of powers, or their extension to other directors or caused by changes in control, and any operation that produces the same substantial effect) the bonus for the fraction of a year will be payable.

- **Long term variable component**

Long Term Incentive 2017-2019

Mr Cattaneo is entitled, under his contract, to participate in the 2017/2019 Stock Option Plan or another long-term incentive plan at conditions overall and substantially no less favourable than those envisaged in the 2014/2016 Stock Option Plan, under which he may accrue a bonus the target value of which is equal to 100% (and up to a maximum of 150%) of the fixed annual remuneration for each year of the three-year period 2017-2019. Considering that this plan was not approved for 2017, the aforementioned settlement will be replaced with another monetary incentive of equal financial content.

The right to participate in the 2017/2019 Stock Option Plan (or equivalent) shall be maintained in the event of Mr Cattaneo's early termination as a good leaver, before the end of the three-year term, with possible substitution with a monetary payment, of essentially equivalent financial content, if satisfaction in kind proves impossible.

Mr Cattaneo has hereby stated his intention to renounce receipt of the aforementioned form of remuneration, against devolution of the corresponding gross amount by the Company to categories of employees of the Group, proposed by Mr Cattaneo himself.

#### Special Award

Always within the total cap set at 40,000,000 euros (to be paid in equity and cash, as described above), 4% of the overperformance in the consolidated results for the 2016, 2017, 2018 and 2019 years compared to the consolidated targets of EBITDA (weight 50%), Opex reduction (weight 25%) and Net Financial Position (weight 25%), as specified in the 2016-2018 Strategic Plan, and applying the 2018 targets for 2019, will be reserved for the Chief Executive Officer.

The sum of the annual bonuses accrued over the course of the entire incentive period will be paid after the board has approved the documentation relating to the 2019 financial statements (year 2020), as better described in the paragraph “ Long-Term Variable Remuneration – Special Award”, to which reference is made.

Should Mr Cattaneo cease to hold the office of Chief Executive Officer (also after non-appointment as a member of the Board of Directors when the board is renewed), as a good leaver before payment of any bonus, he will be paid (i) the annual bonuses already accrued, and (ii) the Special Award he would have been entitled to, according to a linear projection to the end of the incentive period of the mean results already obtained (without prejudice to the limit of 40,000,000 euros).

The clawback mechanisms in force at the time shall be applicable to both the cash and equity components of the bonus actually paid.

- **Severance pay**

In the case of termination of the employment and directorship as a good leaver, an agreed amount will be paid – distinct from and in addition to the MBO and the stock option plans (or equivalent monetary measure) and the Special Award – equal to the sum of the payment in lieu of notice, as specified in the collective employment agreement, and severance pay equal to 24 months' salary, considering both the fixed gross annual remuneration and the mean of the amounts received or accrued as MBO in the preceding 36 months (or lesser period of duration of employment as Chief Executive Officer of the Company).

- **Benefits**

In relation to the managerial role, the Chief Executive Officer enjoys the benefits specified for the management of the Company (health insurance cover through the Telecom Italia Group Executive supplementary healthcare assistance; supplementary pension cover through membership of the Telecom Italia Group Executive complementary pension fund; insurance cover for work-related and non-work-related accidents, life and invalidity benefit due to illness; a company car for mixed use; check-up). Like all the Company's management, the Chief Executive Officer is covered by a "professional risks policy", known as a Directors & Officers policy.

## REMUNERATION OF KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

Key Managers with Strategic Responsibilities, namely those persons having authority and responsibility for planning, directing and controlling the activities of the Telecom Italia Group, directly or indirectly, including directors, are at present identified as follows:

<i>Directors:</i>	
<b>Giuseppe Recchi</b>	Executive Chair of Telecom Italia S.p.A
<b>Flavio Cattaneo</b>	Managing Director and Chief Executive Officer di Telecom Italia S.p.A. General Manager
<i>Executives:</i>	
<b>Stefano De Angelis</b>	Diretor Presidente Tim Participações S.A.
<b>Lorenzo Forina</b>	Head of Business & Top Clients
<b>Stefano Ciurli</b>	Head of Wholesale Department
<b>Agostino Nuzzolo</b>	Head of Legal Affairs
<b>Stefano Azzi</b>	Head of Consumer & Small Enterprise
<b>a.i. Francesco Micheli</b>	Head of Human Resources & Organizational Development
<b>Cristoforo Morandini</b>	Head of Regulatory Affairs and Equivalence
<b>Giovanni Ferigo</b>	Head of Technology
<b>Piergiorgio Peluso</b>	Head of Administration, Finance and Control
<b>a.i. Piergiorgio Peluso</b>	Head of Business Support Office

The structuring of the remuneration package for 2017 for Key Managers with Strategic Responsibilities, excluding the Chair and the Chief Executive officer, is described below:

- Fixed component**  
 The strategy for 2017 is basically to maintain remuneration in line with the market, while providing for selective criteria for alignment of the fixed remuneration.
- Short Term Variable Component (MBO)**  
 The 2017 incentive plan is linked to the achievement of a combination of predefined targets:
  - company targets generally of an economic and financial nature;
  - departmental targets related to the specific activities of the Department;
  - individual targets, contained in the Performance Management, in keeping with 2016.

The division of the corporate and departmental targets varies according to the organisational structure to which they belong, as described in the table:

Structures	Objectives	Weight
COMMERCIAL + OPERATIONS Structures	GROUP/COMPANY	40%
	DEPARTMENTAL	30%
	PERFORMANCE MANAGEMENT	30%
STAFF structures	GROUP/COMPANY	50%
	DEPARTMENTAL	20%
	PERFORMANCE MANAGEMENT	30%

A gate objective is also set, consisting of the budget target for Group EBITDA, which constitutes an access condition for the entire incentive system.

For the remaining objectives, there is a parametrised scale that recognises a bonus that varies from a

minimum of 70% of the assigned target to a maximum of 140% of the target.  
The MBO system for Key Managers with Strategic Responsibilities provides an annual target value up to a maximum of 50 % of fixed remuneration.

The clause to claw back the sums paid out may be activated in the three years following payment, as set out in the specific company Regulations.

- **Special Award**

The Key Managers with Strategic Responsibilities may be among the beneficiaries of the Special Award – as instructed by the Chief Executive Officer. The Special Award will in any case be subject to a clawback clause.

- **Benefits**

Benefits are granted similar to those provided for all other company managers: company car for mixed use, insurance policies (workplace accidents, life and invalidity caused by illness), complementary health insurance cover, complementary pension fund and check-up.

Like all the Company's management, the Key Managers with Strategic Responsibilities are covered by a "professional risks policy", known as a Directors & Officers policy.

- **Severance pay**

Settlements applicable by virtue of legal provisions, the national collective labour agreement and supplementary company agreements, are specified (always excluding cases of dismissal with just cause).

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## REMUNERATION OF THE BOARD OF DIRECTORS

The Shareholders' Meeting has been called for 4 May 2017 to resolve, inter alia, on the renewal of the Board of Directors.

In doing so, subject to determination of the number of members of the board in question (from 7 to 19 Directors, as per the Bylaws), it will also establish their compensation (net of compensation for special offices: see below) which, according to consolidated practice, is established as a maximum total amount, subject to subsequent division among the members, after evaluation by the Nomination and Remuneration Committee, based on the work distribution and according to the internal organization that the Board of Directors wishes to set up. In accordance with established practice, and in keeping with the provisions of the Corporate Governance Code to which the company adheres, the compensation structured in this way does not include variable remuneration measures or severance payments.

It is stressed that the amount authorized will in any case represent a maximum amount, which over the last three years has never been used in full. It should also be recalled that, according to the Bylaws, the Directors of TIM are entitled to reimbursement of expenses incurred in the exercise of their functions; the Company adopts the policy of aligning these with the provision made for top management.

For completeness, it should be noted that members of the Board benefit from civil liability (professional risks) insurance, drawn up as a "claim first made" policy, which is renewed annually and covers all managers and members of the management bodies of the companies of the Group (Parent Company and subsidiaries).

# SECTION II – IMPLEMENTATION OF REMUNERATION POLICIES AND COMPENSATION PAID IN 2016

This section describes the remuneration interventions in favour of Board of Directors, the Executive Chair, Chief Executive Officer and Key Managers with Strategic Responsibilities in 2016.

## REMUNERATION OF THE BOARD OF DIRECTORS

The compensation of the Board of Directors is set out below, as established by the Shareholders' Meeting of 15 December 2015, following the change in the composition of the Board itself from 13 to 17 Directors.

The overall annual compensation of the Board of Directors pursuant to art. 2389, subsection 1, of the Italian Civil Code – until the expiry of the current term of office (approval of the financial statements as at 31 December 2016: Shareholders' Meeting of 4 May 2017) – amounts to 2,484,615 euros gross.

The Board of Directors divided up the compensation thus established, allocating 110,000 euros, gross per annum to each Director (excluding the Chair and the Chief Executive Officer); this sum is fixed. compensation. Non-executive Directors are not entitled to any remuneration linked to the company results, nor any severance allowance. The following additional compensation will be also paid to the Directors who are members of Committees:



(\*) Ms Herzog joined the Control and Risk Committee on 15 February 2016.

The Board of Directors resolved to assign to the Chair of the Control and Risk Committee the role of director "linking" the full board and the heads of Internal Audit and Compliance departments that report directly to the Board of Directors. For this role, additional emoluments of 45,000 euros per year are paid.

(\*) Mr Puyfontaine and Mr Roussel joined the Nomination and Remuneration Committee on 15 February 2016 (following the resignation of Mr Fitoussi).

(\*) Mr Valerio joined the Nomination and Remuneration Committee on 20 June 2016 (following the resignation of Baroness Kingsmill).



For completeness, it should be noted that with a resolution dated 27 April 2016 the Vice Chairman, Arnaud Roy de Puyfontaine, was awarded an additional remuneration of € 45,000 as per article 2389 subsection 3.

## EXECUTIVE CHAIRMAN

In 2016 the compensation of the Chairman, Giuseppe Recchi, consisted of an emolument pursuant to Art. 2389, subsection III of the Italian Civil Code, made up of a fixed part amounting to 700,000 euros per annum (which did not change during 2016) and a variable part in the form of an MBO. This was re-calculated as the target amount of 700,000 euros during the definition of the objectives scorecard for 2016 (board meeting of 27 April 2016).

The table below illustrates in detail the degree of achievement of the targets assigned for the 2016 MBO short-term variable component and the results of the two previous years (characterised by a different approach to the incentive targets).

Objectives	2016			2015	2014
	Weight	% achievement	Weighted Score		
TIM GROUP EBITDA ( <i>Gate</i> )	20%	102.95%	20.59%		
TIM GROUP Net Financial Position <i>Adjusted</i>	20%	128.16%	25.63%		
TIM GROUP Services Revenues	20%	78.80%	15.76%		
MEDIA: EIKON TRACKING weight 10% IPSOS TRACKING weight 10%	20%	110.00% 100.00%	21.00%		
ASSESSMENT OF EFFICIENCY IN MANAGING BoD	20%	150.00%	30.00%		
<b>WEIGHTED TOTAL</b>			<b>112.98%</b>	<b>101.36%</b>	<b>120.0%</b>

According to the percentage achievement given above, the Chairman has been paid a bonus for the short-term variable component in the amount of 790,860.00 euros gross.

The detailed analysis of the compensation received during the period for which he held the office (01.01.2016/31.12.2016), is shown in Table 1 of the second part of this section.

## CHIEF EXECUTIVE OFFICER (Marco Patuano)

On 22 March 2016 the Company and the CEO at the time, Marco Patuano, reached an agreement to terminate his employment and directorship, with immediate effect.

For the detail of the exit package, see the previous Report on Remuneration 2015, approved by the Board of Directors in its meeting on 27 April 2016 and submitted to the Shareholders' Meeting on 25 May 2016 (cf. document available at [www.telecomitalia.com](http://www.telecomitalia.com)).

The detailed analysis of the compensation received by Mr Patuano in 2016 (01.01.2016/22.03.2016) is shown in Table 1 of the second part of this section.

## CHIEF EXECUTIVE OFFICER (FLAVIO CATTANEO)

In relation to the period in which, in 2016, he only held the office of Director (01.01.2016/29.03.2016), Flavio Cattaneo received compensation (pursuant to Art. 2389, subsection I of the Italian Civil Code) of 110,000.00 euros on an annual basis.

Starting from the date he assumed office (12.04.2016), the fixed compensation of Flavio Cattaneo comprises the gross annual remuneration in respect of his contract of employment, in the sum of 1,400,000 euros gross on an annual basis.

By way of compensation pursuant to Art. 2389, subsection 3 of the Italian Civil Code, the Chief Executive Officer is also paid a short-term variable component (MBO), in the measure at target of 1,400,000, with a scorecard approved by the Board of Directors on 27 April 2016.

The table below illustrates in detail the degree of achievement of the objectives assigned for the 2016 MBO short-term variable component.

Objectives	2016		
	Weight	% Achiev.nt	Weighted Score
TIM GROUP EBITDA ( <i>Gate</i> )	20%	102.95%	20.59%
TIM GROUP <i>Adjusted</i> Net Financial Position	20%	128.16%	25.63%
TIM GROUP Services Revenues	30%	105.50%	31.65%
STRATEGIC INITIATIVES IN 2016: a) New Turnaround Plan for the Domestic Market b) Update the Turnaround Plan for Brazil c) Update the Broadband Plan d) Rates and Authority	30%	150.00%	45.00%
<b>WEIGHTED TOTAL</b>			<b>122.87%</b>

According to the percentage of 2016 achievement given above, the Chief Executive Officer has been paid a bonus for the short-term variable component in the amount of 1,720,180.00 euros gross.

In relation to the loss of opportunity caused to him due to the early cessation of his previous employment, it was agreed that Mr Flavio Cattaneo would also be paid a sign-up bonus of 2,500,000 euros, gross, in line with corporate practice in such situations. Said sum would be repayable if Mr Cattaneo should resign before 30 April 2017, unless the resignation is for just cause (including resignation caused by revocation or reduction of powers, extension of powers to other directors, or change of control).

At the time of appointment, the Chief Executive Officer was included in the 2014-2016 Stock Options Plan to be exercised for the third year of the incentive plan. For this long-term variable component, he was assigned a number of options equal, at target level, to 4,468,085, with a strike price of 0.9 euros per share. As a result of achieving the sole share performance objective (the Company came 8<sup>th</sup> in the ranking of 11 peers, giving right to the accrual of 40% of the options linked to the objective), 20% of the allocated options became exercisable (893,617 options) for a period of three years.

The Chief Executive Officer is also the beneficiary of the amount of the 2016-2019 Special Award, the calculation mechanism for which is set out in section I – Special Award.

On the basis of the level of achievement of the 2016 objectives, ascertained by the Board of Directors on 23 March 2017, the bonus of the Chief Executive Officer for the year 2016 amounts to 9,344,842.00 euros gross.

Year	Indicator	Weight	% over-performance
2016	Over-performance EBITDA	50%	2,00%
	Over-performance Opex	25%	1,00%
	Over-performance PFN	25%	1,00%
	<b>TOTAL</b>		<b>4,00%</b>

For the year 2016 the bonus is determined as follows:

- 80% as equity, through the free allocation of 9,584,453 TIM ordinary shares (calculated by dividing said amount by the normal value of TIM ordinary shares at the time of the approval of the 2016 financial statements equal to € 0,78);
- the remaining 20% in cash in the amount of 1.868.968,00 euros grosses.

The sum of the annual bonuses accrued over the course of the entire incentive period will be paid, if the conditions are met, after the board has approved the documentation relating to the 2019 financial statements (year 2020), as better described in the paragraph “Long-Term Variable Remuneration – Special Award”, to which reference is made.

The detailed analysis of the compensation received by Mr Cattaneo in the period 01.01.2016/31.12.2016 is shown in Table 1 of the second part of this section.

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## KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

The fixed compensation of the Key Managers with Strategic Responsibilities comprises the gross annual remuneration in respect of their employment.

The table below shows the average pay out for the 2016 MBO short-term variable component compared with the average values for the previous period:



Based on ascertainment of the level of achievement of the 2014/2016 Stock Option Plan objectives, 1,853,085 options of the 9,265,438 options already assigned at target level to the Key Managers with Strategic Responsibilities can be exercised for a period of three years.

Moreover, Key Managers with Strategic Responsibilities may also be potential beneficiaries - wholly or in part - of the share of the year 2016 component of the Special Award reserved for the collaborators of the Chief Executive Officer, for a total value amounting to € 3,504,316 (represented as € 2,803,453 for 3,594,170 TIM ordinary shares, calculated as above)

The total compensation received by Key Managers with Strategic Responsibilities is shown in Table 1 of the second part of this section.

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## 2014/2016 STOCK OPTION PLAN

The 2014-2016 Stock Option Plan (cf. information document available at [www.telecomitalia.com](http://www.telecomitalia.com)) closed with 2016. This was approved by the Shareholders' Meeting of Telecom Italia S.p.A on 16 April 2014 and it was launched after the resolution by the company's Board of Directors on 26 June 2014.

The aim of the Plan was to get management holding organizational positions that are critical for the company's business to focus on increasing the value of the Share in the medium to long-term, and it was intended for the Chief Executive Officer, Top Management (including *Key Managers with Strategic Responsibilities*) and a select part of the Management of the Telecom Italia Group.

The strike price set by the Board of Directors at the start of the plan was 0.94 euros per option. For the allocations that occurred thereafter, in 2015 and 2016, the strike price was calculated as the higher of the price established at first allocation and the price resulting from the application of the same criteria at the time the options were allocated.

The performance conditions of the 2014/2016 Stock Option Plan were measured using two parameters:

- **Adjusted Free Cash Flow** from the 2014/2016 Strategic Plan (**weight 50%**)
- **Relevant TSR (weight 50%)**

The parameter measures the positioning of the TSR of Telecom Italia in the ranking of the TSRs of the Reference Panel, comprised of: *AT&T, Verizon, Telefonica, Deutsche Telekom, Orange, Telekom Austria, KPN, Swisscom, British Telecom, Vodafone, Telecom Italia*.

Upon closure of the vesting period (three-year period 2014-2016), the degree to which the performances of the two objectives were achieved ascertained by the Board of Directors on 23 March 2017 is set out below:

- the parameter relating to the **Free Cash Flow adjusted** did not achieve the minimum level, therefore no rights were accrued in relation to the objective (50% of the total assigned at target);
- the **relative TSR** of TI came 8th in the ranking of 11 peers, giving right to the accrual of 40% of the options linked to the objective (50% of the total assigned at target) as per the rules of the Plan.

The option rights can be exercised for three years from the time the achievement of the performance conditions is ascertained by the Board of Directors of the Company.

The number of options accrued overall by the 2014/2016 Stock Option Plan held by the Executive Directors and management at the end of 2016 amounted to 15,280,446 and they are detailed in the table of compensation plans based on financial instruments in the Appendix.

# COMPENSATION PAID IN 2016

**TABLE 1: COMPENSATION PAID TO MEMBERS OF THE MANAGEMENT AND CONTROL BODY AND TO KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES**

The compensation due to all the individuals who, during the financial year 2016, or a part thereof, held the position of member of the Board of Directors, of member of the management and control body, or Key Manager with Strategic Responsibilities (for this last category the information is shown in aggregate form) are shown below.

(in thousands of euros)

Notes	A Name and surname	B Position	C Period for which the position was held (dd.mm)	D Expiry of term of office (mm.yy)	1 Fixed compensation	2 Compensation for involvement in committees	3 Variable compensation non-equity			5 Other compensation	6 Total	7 Fair Value of compensation equity	8 Compensation for loss of office or termination of employment
							Bonuses and other incentives	Profit sharing	Non-monetary benefits				
<b>Board of Directors</b>													
1	Giuseppe Recchi	Executive Chair	01.01 31.12	12.16	700		792		80		1,572		
2	Marco Patuano	CEO	01.01 22.03	12.16	550		2		10		562		6,000
3	Flavio Cattaneo	Director/CEO	01.01 31.12	12.16	1,032		4,222		2	1,869*	1,869*	8,712**	
4	Arnaud Roy de Puyfontaine	Director/Vice Chairman	01.01 31.12	12.16	140	52					192		
5	Tarak Ben Ammar	Director	01.01 31.12	12.16	110						110		
6	Davide Benello	Director	01.01 31.12	12.16	110	71					181		
7	Lucia Calvosa	Director	01.01 31.12	12.16	155	65					220		
8	Laura Cioli	Director	01.01 31.12	12.16	110	56					166		
9	Francesca Cornelli	Director	01.01 31.12	12.16	110	45					155		
10	Jean Paul Fitoussi	Director	01.01 31.12	12.16	110	5					115		
11	Giorgina Gallo	Director	01.01 31.12	12.16	110	45					155		
12	Félicité Herzog	Director	15.12 31.12	12.16	110	39					149		
13	Denise Kingsmill	Director	01.01 31.12	12.16	110	18					128		
14	Luca Marzotto	Director	01.01 31.12	12.16	110	40					150		
15	Hervé Philippe	Director	15.12 31.12	12.16	110						110		
16	Stephane Roussel	Director	15.12 31.12	12.16	110	35					145		
17	Giorgio Valerio	Director	01.01 31.12	12.16	110	66					176		
<b>Board of Statutory Auditors</b>													
18	Roberto Capone	Chairman	01.01 31.12	12.17	135						135		
19	Vincenzo Cariello	Standing Auditor	01.01 31.12	12.17	95						95		
20	Paola Maiorana	Standing Auditor	01.01 31.12	12.17	95						95		
21	Gianluca Ponzellini	Standing Auditor	01.01 31.12	12.17	95						95		
22	Ugo Rock	Standing Auditor	01.01 31.12	12.17	95						95		
<b>Key Managers with Strategic Responsibilities ***</b>													
Compensation in the company drawing up the financial statements					3,732		1,413		108		5,253	279	5,435
Remuneration from subsidiaries ****					464		682				1,146	218	599
<b>Total</b>					<b>4,196</b>		<b>2,095</b>		<b>108</b>		<b>6,399</b>	<b>497</b>	<b>6,034</b>
<b>TOTAL</b>					<b>8,608</b>	<b>537</b>	<b>7,111</b>		<b>200</b>	<b>1,869</b>	<b>18,325</b>	<b>9,209</b>	<b>12,034</b>

## Notes

- \* The amount is subject to the conditions of the Special Award and the relative payment is deferred to 2020.
- \*\* See next note 3 col. 7.
- \*\*\* The compensation refers to all the individuals who held the position of Key Managers with Strategic Responsibilities during the 2016 financial year, or any part thereof (15 managers).
- \*\*\*\* Amounts relating to local work contracts have been converted into euros at the average exchange rate in 2016, at 30/06/2016 (€ 4.13001), at 31/12/2016 (€ 3.85935) and at 31/03/2017 (€ 3.34707).
- 1 Giuseppe Recchi – Executive Chairman of the Board of Directors**
- col. 1 This amount includes the fixed compensation, pursuant to article 2389, subsection 3, of the Italian Civil Code, resolved by the Board of Directors;
- col. 3 The amount, pursuant to article 2389, subsection 3, of the Italian Civil Code, refers to the “bonus” for the financial year for targets achieved in the year itself (€/000 791), as well as reimbursements for membership of clubs and associations (€/000 1).
- 2 Marco Patuano – Chief Executive Officer**
- col. 1 The amount includes the remuneration for work as employee (€/000 321), travel expenses (€/000 1) and payments for accrued holiday pay (€/000 228);
- col. 3 The amount, relating to employment, refers to reimbursements for membership of clubs and associations (€/000 1) as well as miscellaneous/taxed reimbursements (€/000 1);
- col. 8 For the severance pay refer to the previous 2015 Report on Remuneration approved by the Board of Directors at the meeting of 27 April 2016 available on the website [www.telecomitalia.com](http://www.telecomitalia.com)
- 3 Flavio Cattaneo – Director and Chief Executive Officer**
- col. 1 This amount includes the fixed compensation (pursuant to article 2389, subsection 1, of the Italian Civil Code) received in the period 1/1 – 29/3/2016 as a member of the Board of Directors (€/000 27), remuneration for work as an employee (€/000 1,003) and travel expenses (€/000 2) set forth by the collective agreements for industrial company managers in the period in which he held the office of Chief Executive Officer 30/3 – 31/12/2016;
- col. 3 The amount, pursuant to article 2389, subsection 3, of the Italian Civil Code, refers to the “bonus” for the financial year for objectives achieved in the year itself (€/ 000 1,720), the sign-up bonus (€/000 2,500) as well as reimbursements for membership of clubs and associations (€/000 2);
- col. 5 The amount refers to the cash component (20%) of the Special Award for the year 2016; this amount will be paid, if the conditions are met, after the board has approved the documentation relating to the 2019 financial statements (year 2020), as better described in the paragraph “Long-Term Variable Remuneration – Special Award”, to which reference is made
- col. 7 The amount refers to the equity component (80%) of the Special Award for the year 2016 (€/000 8,422), as well as the equity component relating to the 2014/2016 Stock Option Plan, only accrued for the 2016 financial year (€/000 290). The shares will be allocated in a lump sum in 2020.
- 4 Arnaud Roy de Puyfontaine – Director**
- Col. 1 This amount refers to the compensation received as a member of the Board of Directors (€/000 110) and the accrued income received as compensation for the office of Vice Chairman for the period 27/4 – 31/12/2016 (€/000 30)
- Col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 15/2 – 31/12/2016 (€/000 35) and accrued income received as a compensation for the role of member and Chairman of the Strategy Committee for the period 26/7 – 31/12/2016 (€/000 17). The compensation for the office of Chair of the Strategy Committee is due for the period 30/9 (appointment date) to 31/12/2016 and would have amounted to 3,813.00 euros. The difference will be recovered with the payment of compensation relating to the first quarter of 2017.
- 5 Tarak Ben Ammar – Director**
- col. 1 This amount refers to the compensation received as member of the Board of Directors
- 6 Davide Benello – Director**
- col. 1 This amount refers to the compensation received as member of the Board of Directors
- col. 2 This amount refers to the compensation received as member of the Nomination and Remuneration Committee (€/000 40), Chairman of the Nomination and Remuneration Committee (€/000 20) and member of the Strategy Committee for the period 26/7 – 31/12/2016 (€/000 11)
- 7 Lucia Calvosa – Director**
- col. 1 This amount refers to the compensation received as a member of the Board of Directors (€/000 110) and as a Director acting as a link between the Board of Directors and the corporate control departments which report directly to the Board (€/000 45)
- col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (€/000 45) and Chairman of the Nomination and Remuneration Committee (€/000 20)
- 8 Laura Cioli – Director**
- col. 1 This amount refers to the compensation received as member of the Board of Directors
- col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (€/000 45) and member of the Strategy Committee for the period 26/7 – 31/12/2016 (€/000 11)
- 9 Francesca Cornelli – Director**
- col. 1 This amount refers to the compensation received as member of the Board of Directors
- col. 2 This amount refers to the compensation received as member of the Control and Risk Committee
- 10 Jean Paul Fitoussi – Director**
- col. 1 This amount refers to the compensation received as member of the Board of Directors
- col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 1/1 - 15/02/2016

- 11 **Giorgina Gallo – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the compensation received as member of the Control and Risk Committee
- 12 **Félicité Herzog – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 15/2 - 31/12/2016
- 13 **Denise Kingsmill – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 1/1 - 15/06/2016
- 14 **Luca Marzotto – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the compensation received as member of the Nomination and Remuneration Committee
- 15 **Hervé Philippe – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors
- 16 **Stephane Roussel – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 15/2 - 31/12/2016
- 17 **Giorgio Valerio – Director**  
col. 1 This amount refers to the compensation received as member of the Board of Directors  
col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (€/000 45) and to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 20/6 - 31/12/2016 (€/000 21)
- 18 **Roberto Capone – Standing Auditor**  
col. 1 This amount refers to the compensation received as Chair of the Board of Statutory Auditors
- 19 **Vincenzo Cariello – Standing Auditor**  
col. 1 This amount refers to the compensation received as Standing Auditor
- 20 **Paola Maiorana – Standing Auditor**  
col. 1 This amount refers to the compensation received as Standing Auditor
- 21 **Gianluca Ponzellini – Standing Auditor**  
col. 1 This amount refers to the compensation received as Standing Auditor
- 22 **Ugo Rock – Standing Auditor**  
col. 1 This amount refers to the compensation received as Standing Auditor
-

**TABLE 2: STOCK OPTIONS ASSIGNED TO MEMBERS OF THE MANAGEMENT AND CONTROL BODIES AND TO OTHER KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES.**

Date: 31/12/2016

		In the company drawing up the financial statements			In subsidiaries and associates				TOTAL	
Name and surname	A	Marco Patuano	Flavio Cattaneo	Key Managers with Strategic Responsibilities	Key Managers with Strategic Responsibilities					
Position	B	CEO								
Plan and respective resolution	1	Stock Option Plan 2014 16/04/2014	Plan 2014 Stock Option 16/04/2014	Plan Stock Option 2014 16/04/2014	Stock Option Plan 2013 30/07/2013	Stock Option Plan 2014 29/09/2014	Stock Option Plan 2015 16/10/2015	Stock Option Plan 2016 08/11/2016		
Options held at the beginning of the financial year	2	Number of options	20,106,382	31,072,008	412,781	338,601	780,144		<b>52,709,916</b>	
	3	Strike price	€0.94	€0.94	R\$ 8.1349 <sup>(1)</sup>	R\$ 13.4184 <sup>(1)</sup>	R\$ 8.4526 <sup>(1)</sup>			
	4	Possible exercise period (from/to)	2017-2019	2017-2020	2014-2019	2015-2020	2016-2021			
Options allocated during the financial year	5	Number of options		6,702,127	586,956			948,276	<b>8,237,359</b>	
	6	Strike price		€0.99	€1.15			R\$ 8.0977 <sup>(1)</sup>		
	7	Possible exercise period (from/to)		2017/2020	2017-2020			2017-2022		
	8	Fair value on allocation date		€723,830	€87,652			€593,796 <sup>(3)(4)</sup>	<b>€1,405,278</b>	
	9	Allocation date		26/04/2016	04/01/2016			08/11/2016		
	10	Market price of underlying options on allocation of options		€0.866	€1.127			R\$ 8.0977 <sup>(5)</sup>		
Options exercised during the financial year	11	Number of options								
	12	Strike price								
	13	Market price of underlying options on exercise date								
Options expired * during the financial year	14	Number of options	20,106,382	5,808,510	29,805,879	137,595	225,734	780,144	<b>56,864,244</b>	
Options held at the end of the financial year	15	(15)=(2)+(5)-(11)-(14)		893,617	1,853,085	275,186	112,867	0	948,276	<b>4,083,031</b>
Options for the year	16	Fair value		€289,532	€279,228	€17,238 <sup>(2)</sup>	€36,468 <sup>(2)</sup>	€81,890 <sup>(2)</sup>	€82,770 <sup>(1)</sup>	<b>€787,126</b>

\* The options that expired during the year refer to the loss of rights resulting from transfers and the level of achievement of the objectives.

(1) The strike price can be corrected in relation to the conditions laid down in the plan

(2) Amounts relating to local Stock Option Plans have been converted into euros at the average exchange rate in 2016, at 30/06/2016 (4.13001 Real/€)

(3) Amounts relating to local Stock Option Plans have been converted into euros at the average exchange rate in 2016, at 31/12/2016 (Reais/€3.85935)

(4) Fair Value at allocation date for each option equal to 2.4167 Reais

(5) The market price (same value as the strike price) is calculated on the basis of the share price weighted for the volume of trading in the 30 days prior to 29/09 of each year

## TABLE 3A: INCENTIVE PLANS BASED ON FINANCIAL INSTRUMENTS, OTHER THAN STOCK OPTIONS, FOR MEMBERS OF THE MANAGEMENT BODY AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

Date: 31/12/2016

		In the company drawing up the financial statements	In subsidiaries and associates	TOTAL
Name and surname	A	Flavio Cattaneo	Key Managers with Strategic Responsibilities	
Position	B	CEO		
Plan and respective resolution	1	Special Award year 2016 component		
Financial instruments assigned in previous financial years not vested during the financial year	2	Number and type of financial instruments		
	3	Vesting Period		
Financial instruments assigned during the financial year	4	Number and type of financial instruments	Right to the free allocation of TIM ordinary shares with a value amounting to 80% of the maximum bonus of 40,000.000 euros	
	5	Fair value on allocation date	€33,688,636	<b>€33,688,636</b>
	6	Vesting Period	Financial year 2016	
	7	Allocation date	12 April 2016	
	8	Market price on allocation	€0.857	
Financial instruments vested during the financial year and not assigned	9	Number and type of financial instruments		
Financial instruments vested during the financial year and assigned	10	Number and type of financial instruments	9,584,453 (1)	9,584,453
	11	Value on accrual date	€7,475,873	<b>€7,475,873</b>
Financial instruments for the year	12	Fair value	€8,422,159 (2)	<b>€8,422,159</b>

(1) Corresponding to 80% of the bonus accrued, at the normal value of TIM ordinary shares (€ 0,78) on 23 March 2017, the day it was ascertained. The normal value of the shares is understood as the arithmetic mean of the official share price recorded from the dealing day prior to the reference date up until thirty calendar days prior, calculated using as a denominator only those days to which the prices used for the basis of the calculation apply, calculated to two decimal places.

(2) The amount was estimated for the purposes of the 2016 Financial Statements at 8,398,168 euros; the final accounting, taking into account the normal value of TIM ordinary share at the time the Draft Financial Statements were approved (23 March 2017), amounts to 8,422,159 euros, the difference of 23,991 euros will be posted to the accounts for 2017.

## TABLE 3B: MONETARY INCENTIVE PLANS FOR MEMBERS OF THE MANAGEMENT AND CONTROL BODIES

(in thousands of euros)

A	B	1	2			3		4
Name and surname	Position	Plan	Bonus for the year			Bonus for previous years		Other Bonuses
			(a)	(b)	(c)	(a)	(b)	(c)
			Payable/ Paid	Deferred	Deferral period	No longer payable	Payable/ Paid	Still Deferred
Giuseppe Recchi	Chairman Executive	MBO 2016 BoD Resolution 27/04/2016	791					
							1	
Marco Patuano	CEO							2
Flavio Cattaneo	Managing Director	MBO 2016 BoD Resolution 27/04/2016	1,720					
		Special Award – year 2016 component AGM 25/05/2016		1,869 (1)	2020			
								2,502
Compensation in the company drawing up the financial statements			2,511	1,869				2,505
Compensation in subsidiaries and associates								
<b>TOTAL</b>			<b>2,511</b>	<b>1,869</b>				<b>2,505</b>

(1) The amount is subject to the conditions of the Special Award and the relative payment is deferred to 2020

## TABLE 3B: MONETARY INCENTIVE PLANS FOR KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

(in thousands of euros)

A	B	1	2			3		4
Name and surname	Position	Plan	Bonus for the year			Bonus for previous years		Other Bonuses
			(a)	(b)	(c)	(a)	(b)	(c)
			Payable/ Paid	Deferred	Deferral period	No longer payable	Payable/ Paid	Still Deferred
<b>Key Managers with Strategic Responsibilities</b>								
Remuneration in the company drawing up the financial statements		MBO 2016 BoD 27/04/2016	1,410					
							3	
Compensation in subsidiaries and associates		MBO 2016	314 (1)					
		Special Award	368					
<b>TOTAL</b>			<b>2,092</b>					<b>3</b>

(1) The amount refers to the local bonus of 455,556 Reais converted into euros at the average exchange rate for 2016, on 30/06/2016 (Real/€4.13001) and the local bonus of 680,090 Reais converted into euros at the average exchange rate for 2017, on 31/03/2017 (Real/€3.,34707).

## CHART NO. 7-TER CHART CONTAINING INFORMATION ON THE SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES.

The table below shows the shareholdings held by all the individuals who during the financial year 2016, or a part thereof, held the position of member of the Board of Directors, of member of the Board of Statutory Auditors, or key manager with strategic responsibilities (for this last category the information is shown in aggregate form).

Name and surname	Position	Investee Company	Category of shares	Number of shares owned at the end of the 2015 financial year (or on the date of appointment)	Number of shares bought during the 2016 financial year	Number of shares sold during the 2016 financial year	Number of shares owned at the end of the 2016 financial year (or on the date of termination of office if earlier)
<b>Board of Directors</b>							
Giuseppe Recchi	Chairman	Telecom Italia S.p.A.	Ordinary	320,000	680,000		1,000,000
Marco Patuano	Director	Telecom Italia S.p.A. Telecom Italia S.p.A.	Ordinary Savings	70,000 30,000			70,000 30,000
Flavio Cattaneo	Director	Telecom Italia S.p.A.	Ordinary		1,500,000		1,500,000
Arnaud Roy de Puyfontaine	Vice Chairman						
Tarak Ben Ammar	Director						
Davide Benello	Director						
Lucia Calvosa	Director						
Laura Cioli	Director						
Francesca Cornelli	Director						
Jean Paul Fitoussi	Director						
Giorgina Gallo	Director						
Félicité Herzog	Director						
Denise Kingsmill	Director						
Luca Marzotto	Director	Telecom Italia S.p.A.	Savings	200,798			200,798
Hervé Philippe	Director	Telecom Italia S.p.A.	Ordinary		12,500		12,500
Stephane Roussel	Director						
Giorgio Valerio	Director						
<b>Board of Statutory Auditors</b>							
Roberto Capone	Chairman						
Vincenzo Cariello	Standing Auditor						
Paola Maiorana	Standing Auditor						
Gianluca Ponzellini	Standing Auditor						
Ugo Rock	Standing Auditor						
<b>Key Managers with Strategic Responsibilities</b>							
15		Telecom Italia S.p.A. Tim Participacoes	Ordinary ON (**)	54,245 (*) 11,310	30,000		84,245 11,310

(\*) Including 3,460 shares owned indirectly.

(\*\*) "Ordinary" shares listed on the NYSE and BOVESPA markets

## APPENDIX – TABLE OF COMPENSATION PLANS

### COMPENSATION PLANS BASED ON FINANCIAL INSTRUMENTS TABLES NO.1 OF CHART 7 OF APPENDIX 3A OF THE REGULATIONS NO.11971/1999

Date: 31/12/2016

		PANEL 1						
		Financial instruments other than stock options						
		Section 1						
		Instruments relating to currently valid plans, approved on the basis of previous resolutions of the Shareholders' Meeting						
Name or category	Position	Date of Shareholders' Meeting resolution	Type of financial instruments	Number of financial instruments allocated	Allocation date	Purchase price, if applicable, of the instruments	Market price on date of allocation	Vesting Period
Flavio Cattaneo	Managing Director	Special Award year 2016 component 25/05/2016	Rights to the free allocation of TIM ordinary shares in a number reflecting the over performance of the financial year	Countervalue equal to 80% of the maximum bonus of 40,000,000 euros	12/04/2016	N.A.	€0.857	Financial year 2016 (1)

(1) The shares will be allocated in a lump sum in 2020.

Date: 31/12/2016

		FRAMEWORK 2							
		Stock Option							
		Section 1							
		Options relating to currently valid plans, approved on the basis of previous resolutions of the Shareholders' Meeting							
Name or category	Position	Date of resolution by the Shareholders' Meeting	Description of instrument	Options held	Options exercised	Date of Assignment	Strike price	Market price of underlying shares on date of allocation	Possible exercise period (from-to)
Flavio Cattaneo	CEO	SOP 2014/2016 16/04/14	Options to subscribe TIM ordinary shares are conditional upon achieving the three-year performance objectives	893,617	=	26/04/2016	€0.99	€0.866	2017-2020
Key Managers with Strategic Responsibilities		SOP 2014/2016 16/04/14	Options to subscribe TIM ordinary shares are conditional upon achieving the three-year performance objectives	1,477,796	=	26/06/2014	€0.94	€0.93	2017-2020
				297,029	=	02/03/2015	€1.01	€1.08	2017-2020
				78,260	=	04/01/2016	€1.15	€1.127	2017-2020
Other Executives of the Telecom Italia Group		SOP 2014/2016 16/04/14	Options to subscribe TIM ordinary shares are conditional upon achieving the three-year performance objectives	12,284,408	=	26/06/2014	€0.94	€0.93	2017-2020
				194,554	=	02/03/2015	€1.01	€1.08	2017-2020
				54,782	=	04/01/2016	€1.15	€1.127	2017-2020

