



ASSOGESTIONI

associazione del risparmio gestito

Milan, 26 July 2017

Attn:
Mr Arnaud Roy de Puyfontaine
Chairman
Telecom Italia S.p.a.
Via Gaetano Negri, 1
20123 Milan

Cc:
the members of the Board of
Directors of Telecom Italia S.p.a.

Cc:
the Chairman and members of
the Board of Statutory Auditors of
Telecom Italia S.p.a.

Reg. No. 198/17

Dear Mr Chairman,

We are writing to you on behalf of the institutional investors that act as *stewards* of their clients. As such, we pay extremely close attention to the *governance* of our investee companies and we support the creation of value in the medium and long-term.

With these aims, we wish to bring the following points to the attention of the Board of Directors of Telecom Italia, regarding: i) the mandate and resignation of Flavio Cattaneo; ii) the search for the new CEO; iii) the corporate governance of the company, with particular reference to the allocation of executive functions.

Telecom Italia announced the termination of the contract with Mr Cattaneo and the conditions of the settlement agreement regarding his resignation as CEO and general manager of Telecom Italia. This agreement was approved only by the majority of the Board of Directors and in the absence of a favourable opinion from the Board of Statutory Auditors.

The Board of Statutory Auditors had already expressed an unfavourable opinion regarding Mr Cattaneo's *compensation package* (as proposed at the AGM of the Company in 2016) regarding the method of calculation of the variable component of



his remuneration (*special award*), based exclusively on the improvements with regard to the 2016-2018 industrial plan, previously approved by the Board of Directors.

In the report to the general meeting of 2016, the Board of Statutory Auditors had already highlighted that, even considering the urgency of appointing the new CEO, complete and adequate information had not been provided to the Nomination and Remuneration Committee and to the whole Board of Directors with reasonable advance notice.

In addition the Board of Statutory Auditors declared that, considering the agreed economic conditions, the above Committee had not provided an adequately grounded opinion to the Board of Directors regarding neither the Company's interest in executing the transaction, nor the appropriateness and substantial correctness of the agreement.

The AGM of May 2016 then registered the opposition of many institutional investors of the remuneration policy proposed by the Board and of the *special award* for Mr. Cattaneo. The position of institutional investors on the point was expressed in the analysis of *proxy advisors* and analysts: i) the performance period of the special award of only a year, even in the event of advance termination of the CEO's mandate; ii) the disproportion between the fixed remuneration and the *special award* and the excessive level of the latter; iii) the recognition criteria for remuneration, linked to the previous industrial plan, which was hence questionable; iv) the provision that in the absence of authorisation for a specific share issue, the *special award* would have been paid entirely in cash; v) the unfavourable opinion of the Board of Statutory Auditors.

The current situation is characterised by significant uncertainty regarding both the management of the company, following a series of news items and denials in the press, and its corporate governance, with particular reference to the incertitude of the future structure of executive powers.

In view of the above, we consider it necessary to express our wishes to you and to the entire Board of Directors on the following points:

- clarity on the figure of the head of the company on to whom the executive powers are to be bestowed for the entire group perimeter;
- definition of a remuneration policy for the executive directors and *management* focusing on the creation of value in the medium and long-term, on the basis of measurable objectives and a *vesting* phased over time which guarantees the sustainability of the results;
- implementation of a search process for the CEO, which, in the best interests of the company, permits the pursuit of every objective listed in the plans approved by the Board for the entire Company's group.



We will be grateful if you and the Board could give this communication your full consideration.

Best regards,

Tommaso Corcos
Chairman of Assogestioni

Andrea Ghidoni
Chairman of the Corporate Governance
Committee of Assogestioni