CORPORATE GOVERNANCE PRINCIPLES OF TELECOM ITALIA

MARCH 2020
1. Introduction

1.1 Telecom Italia complies with the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana, in the edition that is from time to time in force (hereafter: the Borsa Italiana Code).

1.2 This document departs from and/or supplements the set of applicable rules that refer to the duties and operation of the Company bodies. The principles and criteria of the Borsa Italiana Code shall apply to all matters not specified herein.

2. Rules of conduct

2.1 In carrying out their tasks, the members of the corporate bodies of the Company shall fully comply with applicable laws, the Code of Ethics of the Group, the company By-Laws and the Borsa Italiana Code. They are required to be loyal to the Company and to perform their roles diligently and responsibly, considering the interests of all stakeholders.

2.2 Members of the company bodies and committees shall make their choices freely, in the interests of the issuer and the shareholders as a whole, making prompt disclosure of any interest outside the company they might have with regard to the transactions submitted to their consideration for the purpose of resolutions, or as proposals, information, consultation or monitoring. If they have an interest, they shall declare:

- whether it is an interest on their own account, or on that of third parties (specifying the identity of the person, as well as the characteristics and origin of the relationship);
- the origin and nature (economic, regarding image or some other kind) of their interest;
- the terms of the interest, with particular regard to the terms of the relationship (and in particular, of the potential conflict) with the interest of the company;
- the qualitative and quantitative extent of the interest,

providing for this purpose all appropriate descriptive elements to enable their colleagues, individually and collectively, to always be able to operate in an aware and informed way.

3. Composition of the Board of Directors

3.1 The Board of Directors assesses the independence of its members based on elements communicated by the Directors or otherwise available to the Company. For this purpose, the Directors shall provide annually and, where necessary, promptly update – including on their own initiative, in the event of relevant circumstances – any information needed to carry out a full and adequate assessment.

3.2 In principle, serving as a director or member of a control body of more than five companies other than those subject to the management and coordination of Telecom Italia, that is, its subsidiary or affiliate companies, when the companies involved are (i) listed companies included in the FTSE/MIB index, or (ii) companies operating principally in the financial sector dealing with the public or (iii) companies that perform banking or insurance activities is not considered to be compatible with serving as a Director of Telecom Italia; nor is serving in more than three executive capacities in companies of the types indicated in (i), (ii) or (iii) above considered compatible for a Director of the Company. If a Director holds office in more than one company belonging to the same Group, only one appointment held within that Group shall be taken into account when calculating the number of appointments.
3.3 With regard to the accumulation of offices, the Board of Directors retains the right to make a different assessment on a case by case basis, taking account of the size and organisation of the different companies, as well as the shareholding relationships between them. This assessment shall be made public in the annual report on corporate governance.

4. Role of the Board of Directors

4.1 The role of the Board of Directors is to provide strategic supervision and direction, pursuing the primary objective of creating value for the shareholders, with a medium-long term perspective, also taking the legitimate interests of the remaining stakeholders into account.

4.2 The following are matters considered to have a major impact on the business of the Company and the Group, and as such are subject to approval by the Board:

a) agreements with competitors that, owing to the subject, the commitments, the conditionings and the limits that might derive from them, have a lasting influence on the freedom of strategic business choices (e.g. partnerships, joint ventures, etc.);

b) investments and disinvestments exceeding 250 million euros, and in any event purchases or sales of shareholdings, or businesses or business units that are of strategic significance in the overall framework of the business; transactions that, in their execution or upon their completion, can create commitments and/or purchases and/or sales of this nature and scale;

c) the acceptance of loans for amounts exceeding 500 euros million and the granting of loans and guarantees in favour of non-subsidiary companies for amounts exceeding euro 250 million; transactions that, in their execution or upon their completion, can create commitments and/or purchases or sales of this nature and scale;

d) any transaction, comprising those not included in the hypotheses set out in the above letters, the value of which is equal to 5% or more of the equity or (if more) of the capitalisation of the Company at the closure of the last day of trading in the reference period of the most recent periodic accounting document published;

e) the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe.

5. Organisation and operation of the Board of Directors

5.1 The Board of Directors shall establish an annual schedule of meetings, upon proposal by the Chair, with a long term work programme listing those topics that can be planned for. Each Director may propose matters for discussion in Board meetings; the Board shall decide if and when such matters are to be addressed.

5.2 As a matter of urgency and with the limitations set forth by law and by the Bylaws, the Chair of the Board of Directors shall exercise the powers in matters for which the Board of Directors is competent; in such cases the Chair shall report to the Board of Directors and to the Statutory Auditors on the action taken and the decisions adopted, in a specific communication and in any event at the first subsequent meeting, explaining why it was a matter of urgency.

5.3 The Board of Directors shall, as a rule:
a) appoint an independent Director as Lead Independent Director, with the attributes and prerogatives referred to in the Borsa Italiana Code;

b) organise itself by establishing permanent internal committees or committees set up for specific transactions or types of transaction.

5.4 The internal Committees shall not have exclusive attributes, but - where their intervention is prescribed by the Borsa Italiana Code or by this document – the Board of Directors shall explain any decisions it might make in the absence of their prior proposal and/or investigation. The Board of Directors is entitled to resolve that the additional safeguards be applied voluntarily, also in terms of the investigatory process assigned to board committees, of transactions for which it deems it advisable to strengthen the ordinary decision-making process.

5.5 The arrangements for the operation of the Board of Directors are disciplined by specific regulations approved by the Board itself.

6. Nomination and Remuneration Committee

6.1 The Board of Directors shall constitute a Nomination and Remuneration Committee, made up of independent Directors, including at least one elected from a slate presented by minority shareholders in accordance with the Bylaws. At least one member of this Committee shall possess adequate expertise in financial matters or remuneration policies.

6.2 Without prejudice to the tasks attributed to it by the Borsa Italiana Code and internal rules, the Committee shall:

a) to oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive Directors;

b) to share with the Executive Directors in advance the decisions concerning them in relation to the appointment of managers who report directly to them and the appointment of the Chief Executive Officers of the most important subsidiaries;

c) to establish the procedure and timeframe for the annual evaluation of the Board of Directors;

d) to propose the criteria for allocating the total annual compensation established by the Shareholders’ Meeting for the whole Board of Directors;

1 Pursuant to point 6.C.5. of the Borsa Italiana Code (July 2018 edition), the Remuneration Committee shall, in particular:

- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard
- submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

Moreover, point 5.C.1. of the Borsa Italiana Code assigns the following functions to the Nomination Committee:

- to express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board as well as with regard to the topics indicated by articles 1.C.3 (limit to the accumulation of offices) and 1.C.4 (derogations from the prohibition of competition pursuant to Article 2390 of the Italian Civil Code);
- to submit to the Board of Directors candidates for directors offices in case of co-optation, should the replacement of independent directors be necessary.
e) to perform other duties assigned to it by the Board of Directors.

6.3 The Committee’s operating procedures and the prerogatives acknowledged to it are governed by special regulations approved by the Board of Directors.

7. Control and Risk Committee

7.1 The Board of Directors shall constitute a Control and Risk Committee, made up of independent Directors, including at least one elected from a slate presented by minority shareholders in accordance with the Bylaws. At least one member of this Committee shall possess adequate expertise in accounting and finance or risk management.

7.2 Without prejudice to the tasks attributed to it by the Borsa Italiana Code and internal rules, the Committee shall:

a) monitors observance of the Company’s corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;

b) establishes financial and non-financial fiscal year disclosure, in view of examination by the full board;

c) performs other duties assigned to it by the Board of Directors.

7.3 The Committee’s operating procedures and the prerogatives acknowledged to it are governed by special regulations approved by the Board of Directors.

8. Related Parties Committee

8.1 The Board of Directors establishes a Related Parties Committee made up of independent directors, of which at least one (or 2 or 3 if the Committee has 5 or 7 or more members respectively) is appointed from the slate that achieved the second highest number of votes in the Shareholders’ Meeting that appointed the serving Board of Directors.

8.2 The Committee exercises the tasks and attributions established in the specific company Procedure for performing transactions with related parties.

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2 Pursuant to point 7.C.2. of the Borsa Italiana Code (July 2018 edition), the Control and Risk Committee, when assisting the Board of Directors, shall:

a) together with the executive responsible for preparing the company’s accounting documents, after having obtained the opinion of the external auditor and the Board of statutory auditors, assesses whether or not the accounting principles have been correctly applied, and, in the case of groups, their consistency for the purposes of preparing the consolidated financial statements;

b) expresses opinions on specific aspects relating to the identification of the principal business risks;

c) reviews the periodic reports that assess the internal control and risk management system, as well as those reports of the internal audit department that are particularly significant;

d) monitors the independence, adequacy, efficiency and effectiveness of the internal audit department;

e) may ask that the internal audit department review specific operational areas, giving immediate notice to the chairman of the Board of Statutory Auditors;

f) reports to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity it has carried out, as well as on the adequacy of the internal control and risk management system;

g) supports, with adequate investigatory activities, the Board of Directors’ assessments and decisions on the management of risks arising from prejudicial facts which the Board of Directors may have become aware of.
8.3 The Committee's operating procedures and the prerogatives acknowledged to it are governed by both the aforementioned Procedure and by regulations approved by the Board of Directors.

9. Strategies and Sustainability Committee

9.1 The Board of Directors constitutes a Strategies and Sustainability Committee comprised of the Chairman of the Board of Administrators, the Chief Executive Officer and non-executive directors with expertise in technology, organizational strategies and corporate finance.

9.2 The Committee
   a) assure support on matters of strategic importance;
   b) at the request of the Chairman of the Board of Directors and the Chief Executive Officer, and in coordination with the prerogatives of their respective offices and powers, carry out preliminary assessments on the strategic choices of the Group;
   c) provide opinions and formulate recommendations on strategic plan proposals to bring to the Board of Directors
   d) monitors the consistency of Telecom Italia's objectives and management with environmental, social and governance criteria.

9.3 The Committee's operating procedures and the prerogatives acknowledged to it are governed by special regulations approved by the Board of Directors.

10. Board of Statutory Auditors

10.1 The Board of Statutory Auditors performs the activities assigned to it by Italian regulations, as well as the duties of the audit Committee pursuant to the United States’ regulations, applicable to the Company by virtue of its status as a foreign issuer listed on the New York Stock Exchange. The Board of Statutory Auditors is assigned the functions of supervisory body pursuant to legislative decree no. 231/2001.

10.2 The Company assigns secretarial support to the Board of Statutory Auditors to organise meetings and keep the relative book of minutes, the faculty to ask control functions reporting directly to the Board of Directors to carry out specific audits, and access to external consultants of its choice.

10.3 The Board of Statutory Auditors shall have a procedure that disciplines the receipt, retention and processing of complaints, concerns and declarations, including those made by employees and anonymous communications.

11. Internal control and risk management system

11.1 The internal control and risk management system is an integral part of the general organisational structure of the Company and the Group, and involves several components that act in a coordinated way according to their respective responsibilities: the responsibility of the Board of Directors to direct and provide strategic supervision, the responsibility of the Executive Directors and the management for oversight and management, the responsibility of the Control and Risk Committee for monitoring and
providing support to the Board of Directors, and the responsibility of the Board of Statutory Auditors for supervision.

11.2 While meeting compliance requirements with applicable local regulations, the Board of Directors of Telecom Italia defines the system guidelines for the whole Group, to be instituted and maintained by the Executive Directors, in relation to the area delegated to him or her, and by the person responsible for the preparation of the company’s accounting documents for those matters within his or her sphere of competence. They are responsible for identifying risks and for the first and second level controls, excepting those specified in the following paragraph.

11.3 The Heads of Internal Audit, and of the Compliance and IT & Security Compliance Departments of the Parent Company (Heads of the Control Departments) report to the Board of Directors. They (i) work directly in Telecom Italia and those subsidiaries without corresponding structures of their own, acting also in their interest and reporting to their respective company bodies, (ii) liaise and collaborate with the structures of those subsidiaries that do have such structures of their own, with a view to coordinating, directing and harmonising, consistently with respect for applicable rules and for the responsibilities such structures have.

11.4 The Heads of Control Departments are appointed and dismissed by the Board of Directors, which also determines their remuneration and makes its decisions based on the opinion of the Control and Risk Committee, having consulted the Board of Statutory Auditors; and assures their independence from the operational areas.

11.5 The Chair of the Board of Directors is assigned the role of link between the Heads of Control Departments and the Board of Directors; or, when he/she is executive, this is assigned to the Chair of the Control and Risk Committee. However, the Chair of the Board of Directors is responsible for the day to day management of their employment relationship with the Company.