

TELECOM ITALIA S P A
Form 6-K
June 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF JUNE 2016

TELECOM ITALIA S.p.A.
(Translation of registrant's name into English)

Via Gaetano Negri 1
20123 Milan, Italy
(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F FORM 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

YES NO

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____

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INTERIM MANAGEMENT

REPORT

AT MARCH 31, 2016

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This document has been translated into English solely for the convenience of the readers. In the event of discrepancy, the Italian language prevails.

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THE TELECOM ITALIA GROUP

THE BUSINESS UNITS

DOMESTIC

The Domestic Business Unit operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators.

In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

Olivetti, which is now part of the Business segment of Core Domestic, operates in the area of office products and services for Information Technology.

INWIT S.p.A. operates in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for Telecom Italia and other operators.

BRAZIL

The Brazil Business Unit (Tim Brasil group) provides services in the area of UMTS, GSM and LTE technologies. Moreover, with the acquisitions and subsequent integrations into the group of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.

CORE DOMESTIC

Consumer

Business

Wholesale

Other (INWIT S.p.A. and support structures)

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle group

Telecom Italia Sparkle S.p.A.

Lan Med Nautilus group

Tim Brasil Serviços e Participações S.A.

Tim Participações S.A.

Intelig Telecomunicações Ltda

Tim Celular S.A.

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BOARD OF DIRECTORS

Chairman	Giuseppe Recchi
Chief Executive Officer	Flavio Cattaneo
Directors	Tarak Ben Ammar
	Davide Benello (independent)
	Lucia Calvosa (independent)
	Laura Cioli (independent)
	Francesca Cornelli (independent)
	Arnaud Roy de Puyfontaine
	Jean Paul Fitoussi
	Giorgina Gallo (independent)
	Félicité Herzog (independent)
	Denise Kingsmill (independent)
	Luca Marzotto (independent)
	Hervé Philippe
	Stéphane Roussel
	Giorgio Valerio (independent)
Secretary to the Board	Antonino Cusimano

BOARD OF STATUTORY AUDITORS

Chairman	Roberto Capone
Acting Auditors	Vincenzo Cariello
	Paola Maiorana
	Gianluca Ponzellini
	Ugo Rock
Alternate Auditors	Francesco Di Carlo
	Gabriella Chersicla

Piera Vitali

Riccardo Schioppo

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Board of Directors and Board of Statutory Auditors 4

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of Telecom Italia S.p.A.

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HIGHLIGHTS FIRST THREE MONTHS OF 2016

In 2015, Telecom Italia initiated a fundamental process of renewal of its identity and corporate structure, aimed at consolidating its leadership and above all supporting the future growth of the Group; that process continued in the first quarter of 2016.

The fixed-mobile convergence, resulting from the increasing diffusion of smart handsets and the development of digital platforms and infrastructure, is at the center of the TLC industry. In response to this phenomenon, Telecom Italia has converged its entire commercial offering under TIM – the single brand of the Group from the beginning of 2016 – which combines Telecom Italia’s solidity and TIM’s innovation to provide a high quality customer experience through digital services and content.

On the technology side, since 2015, there has been a sharp increase in the development of the mobile and fixed ultra-broadband networks, as a result of overall capital expenditure of 3 billion euros, thanks to which Telecom Italia/TIM has confirmed its status as the lead player in the digitization of Italy.

The base of the capital expenditure program implemented is the diffusion of premium digital content and services with a particular focus on the video sector. This included a strong boost to TIMvision, the integrated platform operated by TIM, which had over 600,000 customers at the end of March 2016, also thanks to the agreement signed with major producers of international content.

A renewed portfolio of offerings has been launched to support the development and diffusion of services and content, with a focus on bundle and lock-up deals aimed at stabilizing the customer base through the steady growth in consumption of fixed and mobile broadband data.

The first quarter of 2016 also witnessed the sale, on March 8, 2016, of the controlling interest still held in the Sofora Telecom Argentina Group, classified under Discontinued Operations.

THE MARKET

The domestic market in the first quarter of 2016 showed a slowdown in negative growth, in line with the trend recorded in previous quarters, driven by a slower decline in traditional services and growth in innovative services. In the Mobile segment in particular, the Group’s competitiveness showed further improvement, with revenues posting growth for a second consecutive quarter, driven by the greater penetration of mobile Internet services and the stability of the Group’s market share. In the Fixed-line segment, stable growth in revenues was driven by the positive trend in broadband ARPU, steady growth in ADSL customers with premium bundle/flat deals, and growth in ICT services.

In Brazil, the market was affected by a further deterioration in the macroeconomic scenario, which caused a contraction in internal demand, higher inflation and the depreciation of the reais from 3.22 reais per euro for the first quarter of 2015 to 4.30 reais per euro for the first quarter of 2016. These factors contributed to a general slowdown in growth in the mobile market compared to the previous quarters.

In this environment, the TIM Brasil group maintained a substantially steady market share in the Mobile segment, with an increase in the postpaid customer base. However, at the same time, revenues fell as a result of a drop in sales of

handsets and lower revenues from services. This latter trend was driven by a faster decline in traditional voice and messaging services, which was only partially offset by growth in revenues from innovation, data and value-added services. Fixed-line revenues posted growth, especially in the wholesale business segment of the subsidiary Intelig and the broadband segment of Tim Live, which, however, only make up a marginal share of total revenues.

In the first quarter of 2016, the Telecom Italia Group recognized non-recurring operating expenses connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. These include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses.

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The impacts of non-recurring income/expenses on the main interim results are outlined below in this Report.

FINANCIAL HIGHLIGHTS

In terms of equity and income, for the first quarter of 2016:

Consolidated revenues amounted to 4.4 billion euros, down by 12.1% on the first quarter of 2015 (-5.6% in organic terms).

EBITDA amounted to 1.7 billion euros, down by 15.8% on the first quarter of 2015 (-11.3% in organic terms). The organic EBITDA margin stood at 38.6%, 2.4 percentage points lower than the corresponding period of the previous year. EBITDA in the first quarter of 2016 was pulled lower by a total of 75 million euros in non-recurring expenses, without which the organic change in EBITDA would have been -7.5%, with an EBITDA margin of 40.2%, down 0.9 percentage points compared to the first quarter of 2015.

Operating profit (EBIT) was 0.7 billion euros, down 28.2% compared to the first quarter of 2015 (-25.1% in organic terms), pulled down by net non-recurring expenses of 74 million euros, without which the organic change in EBIT would have been -17.3%.

The profit for the quarter attributable to Owners of the Parent amounted to 433 million euros (82 million euros in the first quarter of 2015).

Capital expenditures in the first quarter of 2016 amounted to 944 million euros (964 million euros in the first quarter of 2015), continuing the acceleration envisaged in the industrial plan. In Italy, the strong boost given to the capital expenditure program for developing next-generation network (NGN) infrastructure enabled the fiber-optic coverage to reach 45% of the population, while the 4G (LTE) network now covers 92% of the population.

Adjusted net financial debt amounted to 27,139 million euros at March 31, 2016, down 139 million euros compared December 31, 2015 (27,278 million euros). The completion of the sale of the Sofora Telecom Argentina group with the collection of its price and the consequent deconsolidation of the relative net financial debt, together with the cash inflow from business operations, was sufficient to cover the cash requirements arising from financial operations, the real estate project and the renegotiation of lease contracts and, also, to reduce the debt position.

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Financial highlights (*)

<u>(millions of euros)</u>		1st Quarter	1st Quarter	% Change	
		2016	2015	Reported	Organic
Revenues		4,440	5,054	(12.1)	(5.6)
EBITDA	(1)	1,712	2,033	(15.8)	(11.3)
<i>EBITDA Margin</i>		38.6%	40.2%	(1.6)pp	
<i>Organic EBITDA Margin</i>		38.6%	41.0%	(2.4)pp	
EBIT	(1)	704	981	(28.2)	(25.1)
<i>EBIT Margin</i>		15.9%	19.4%	(3.5)pp	
<i>Organic EBIT Margin</i>		15.9%	20.0%	(4.1)pp	
Profit (loss) from Discontinued operations/Non-current assets held for sale		47	169	(72.2)	
Profit (loss) for the period attributable to owners of the Parent		433	82		
Capital expenditures (CAPEX)		944	964	(2.1)	
		3/31/2016	12/31/2015	Change Amount	
Adjusted net financial debt	(1)	27,139	27,278	(139)	

(*) Within the Brazil Business Unit, Management recently identified that incorrect accounting entries were made in prior years in connection with the recognition of service revenues from the sale of prepaid traffic. Such incorrect accounting entries, which did not have any impact either in terms of net financial position nor on cash and cash equivalents, resulted in the early recognition of revenues with respect to prepaid traffic not yet consumed. The comparative financial information as of December 31, 2015 and for the three-month period ended March 31, 2015, have been therefore revised, with no material impact.

(1) Details are provided under Alternative Performance Measures .

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CONSOLIDATED OPERATING PERFORMANCE

REVENUES

Revenues amounted to 4,440 million euros in the first quarter of 2016, down 12.1% from 5,054 million euros in the first quarter of 2015. The decrease of 614 million euros was mainly attributable to the Brazil Business Unit (515 million euros) and the Domestic Business Unit (83 million euros). In terms of organic change, consolidated revenues fell by 5.6% (-263 million euros), and were calculated as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change	
			amount	%
REPORTED REVENUES	4,440	5,054	(614)	(12.1)
Foreign currency financial statements translation effect		(351)	351	
Changes in the scope of consolidation				
ORGANIC REVENUES	4,440	4,703	(263)	(5.6)

Exchange rate fluctuations⁽¹⁾ were attributable to the Brazil Business Unit (-353 million euros) and the Domestic Business Unit (+2 million euros). No changes arose in the scope of consolidation⁽²⁾.

The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Quarter 2016		1st Quarter 2015		Change		
	amount	% of total	amount	% of total	amount	%	% organic
Domestic (*)	3,548	79.9	3,631	71.8	(83)	(2.3)	(2.3)
Core Domestic (**)	3,310	74.5	3,397	67.2	(87)	(2.6)	(2.6)
International Wholesale	311	7.0	310	6.1	1	0.3	(0.3)
Brazil	897	20.2	1,412	27.9	(515)	(36.5)	(15.3)
Other Operations	6	0.1	21	0.4	(15)		
Adjustments and eliminations	(11)	(0.2)	(10)	(0.1)	(1)		
Consolidated Total	4,440	100.0	5,054	100.0	(614)	(12.1)	(5.6)

(*) Following the change in the mission of Persidera, the Media Business Unit was included in the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, the revenues of the Domestic Business Unit for the first quarter of 2016 would have totaled 3,530 million euros.

(**) From January 1, 2016, this also includes the company Olivetti. Figures for the period under comparison have been changed accordingly.

The Domestic Business Unit (consisting of the Core Domestic and International Wholesale segments) posted a drop in revenues in the first quarter of 2016 of 83 million euros (-2.3%) over the same period of 2015. The trend was in line with the previous quarter (fourth quarter 2015: -2.3%) although positive signs were seen in the Mobile market, in terms of both total revenues (+3.0% on the first quarter of 2015) and revenues from services (+0.6% on the first

quarter of 2015).

The improvement was driven by sales campaigns targeted at progressively stabilizing the customer base, with the Mobile market share remaining stable and growth in revenues recorded in the Fixed Broadband, ICT and Mobile Internet segments.

The Brazil Business Unit recorded revenues for the first quarter of 2016 amounting to 3,854 million reais, down 697 million reais over the same period of the prior year (-15.3%). The decrease was attributable to lower revenues from sales of handsets (-371 million reais), which were influenced by a commercial policy less focused on the sale of these items, in addition to lower consumer spending among Brazilian households; the fall in revenues from services fell (-326 million reais) still reflected the latest reduction in the mobile termination rate and lower revenues from traditional voice and SMS services, only partially offset by the increase in revenue generated by the innovative component.

A more detailed analysis of revenue performance by individual Business Unit is provided in the section Financial and Operating Highlights - The Business Units of the Telecom Italia Group .

- (1) The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.10220 for the US dollar in the first quarter of 2016 and 1.12752 in the first quarter of 2015. For the Brazilian real, the average exchange rates used were 4.29753 in the first quarter of 2016 and 3.22251 in the first quarter of 2015. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.
- (2) The change in the scope of consolidation has been calculated by excluding the contribution of the companies that have exited from the comparison figure and adding in the estimated contribution of any companies entering the scope of consolidation.

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EBITDA

EBITDA totaled 1,712 million euros (2,033 million euros in the first quarter of 2015), decreasing by 321 million euros compared to the corresponding period of 2015; the EBITDA margin was 38.6% (40.2% in the first quarter of 2015).

Organic EBITDA was down 218 million euros (-11.3%) compared to the first quarter of 2015; the EBITDA margin fell by 2.4 percentage points, from 41.0% in the first quarter of 2015 to 38.6% in the first quarter of 2016.

EBITDA in the first quarter of 2016 reflected the negative impact of non-recurring expenses totaling 75 million euros. Without these expenses the organic change in EBITDA would have been -7.5%, with an EBITDA margin of 40.2%, down 0.9 percentage points on the first quarter of 2015. Further details are provided in the section Significant non-recurring events and transactions in this Interim Management Report.

Organic EBITDA is calculated as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change amount	Change %
REPORTED EBITDA	1,712	2,033	(321)	(15.8)
Foreign currency financial statements translation effect		(103)	103	
Changes in the scope of consolidation				
ORGANIC EBITDA	1,712	1,930	(218)	(11.3)
of which non-recurring income/(expenses)	(75)	(1)	(74)	
ORGANIC EBITDA excluding non-recurring component	1,787	1,931	(144)	(7.5)

Exchange rate fluctuations relate to the Brazil Business Unit (-104 million euros) and the Domestic Business Unit (+1 million euros).

Details of EBITDA and EBITDA Margins by operating segment are as follows:

(millions of euros)	1st Quarter 2016		1st Quarter 2015		Change amount	Change %	Change % organic
	amount	% of total	amount	% of total			
Domestic (*)	1,461	85.3	1,610	79.2	(149)	(9.3)	(9.3)
EBITDA Margin	41.2		44.3			(3.1)pp	(3.1)pp
Brazil	258	15.1	416	20.5	(158)	(38.0)	(17.4)
EBITDA Margin	28.7		29.5			(0.8)pp	(0.7)pp
Other Operations	(6)	(0.4)	7	0.3	(13)		
Adjustments and eliminations	(1)				(1)		
Consolidated Total	1,712	100.0	2,033	100.0	(321)	(15.8)	(11.3)
EBITDA Margin	38.6		40.2			(1.6)pp	(2.4)pp

(*)

Following the change in the mission of Persidera, the Media Business Unit was included in the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change the EBITDA of the Domestic Business Unit for the first quarter of 2016 would have totaled 1,451 million euros.

EBITDA was particularly impacted by the change in the line items analyzed below:

Acquisition of goods and services (1,923 million euros; 2,171 million euros in the first quarter of 2015). The decrease of 248 million euros was mainly attributable to lower acquisitions of goods and services by the Brazil Business Unit (down by 352 million euros, including a negative exchange rate effect of 207 million euros), partially offset by higher acquisitions of goods and services by the Domestic Business Unit (109 million euros), mainly due to higher purchases of equipment and handsets.

Employee benefits expenses (848 million euros; 833 million euros in the first quarter of 2015). Employee benefits expenses increased by 15 million euros on the first quarter of 2015. The main factors that drove this change were:

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a decrease of 41 million euros in the Italian component of ordinary employee expenses, mainly due to the reduction in several operational items. The average salaried workforce increased by 16 average employees (+207 average employees related to Solidarity Contracts : the solidarity contracts of the Parent and Telecom Italia Information Technology of the first three months of 2015 were offset by a new contract started in January 2016 in the only Parent, former agreement of October 27, 2015).

the recognition of non-recurring expenses (provisions to Employee benefits and other minor items) from domestic companies totaling 65 million euros. In particular, the Parent recognized expenses of 38 million euros relating to the acceptance of the expression of interest by management personnel regarding the application of Article 4, paragraphs 1-7ter, of Law N. 92 of 28 June 2012, the Fornero law (former agreement of June 19, 2015) and the commencement of a managerial restructuring plan linked to the revision of the company organizational structures underway. In addition, Telecom Italia Information Technology and Olivetti made a provision totaling 27 million euros for agreements with trade unions being finalized relating to the application of Article 4 of the Fornero law for non-management personnel.

a decrease of 9 million euros in the component outside Italy of employee benefits expenses. The lower cost related to the reduction in the average workforce (-84 average employees) and the negative exchange rate effect of around -24 million euros, mainly relating to the Brazil Business Unit, was offset by the recognition of non-recurring expenses, of 8 million euros, for the implementation of the corporate restructuring plan initiated by the Brazil Business Unit.

Other operating expenses (247 million euros; 265 million euros in the first quarter of 2015). This item fell by 18 million euros compared to the first quarter of 2015.

In particular:

write-downs and expenses in connection with credit management (85 million euros; 77 million euros in the first quarter of 2015) consisting of 68 million euros for the Domestic Business Unit (59 million euros in the first quarter of 2015) and 17 million euros for the Brazil Business Unit (18 million euros in the first quarter of 2015);

provision charges (21 million euros; 24 million euros in the first quarter of 2015), consisting of 15 million euros for the Brazil Business Unit (18 million euros in the first quarter of 2015) and 6 million euros for the Domestic Business Unit (6 million euros in the first quarter of 2015);

TLC operating fees and charges (88 million euros; 106 million euros in the first quarter of 2015), consisting of 76 million euros for the Brazil Business Unit (96 million euros in the first quarter of 2015) and 12 million euros for the Domestic Business Unit (11 million euros in the first quarter of 2015).

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change
Amortization of intangible assets with a finite useful life	418	463	(45)
Depreciation of property, plant and equipment owned and leased	591	589	2
Total	1,009	1,052	(43)

The decrease of 43 million euros was mainly attributable to the Brazil Business Unit (-40 million euros, net of a negative exchange rate effect of 63 million euros). Without this exchange rate effect, the depreciation and amortization of the Brazil Business Unit would have increased by 23 million euros.

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Gains/(losses) on disposals of non-current assets

In the first quarter of 2016, this item amounted to 3 million euros (zero in the first quarter of 2015).

Impairment reversals (losses) on non-current assets

In the first quarter of 2016, this item amounted to 2 million euros (zero in the first quarter of 2015).

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually. At March 31, 2016, no external or internal events were identified giving reason to believe a new impairment test was required and amounts of goodwill allocated to the individual Cash Generating Units were therefore confirmed.

EBIT

EBIT totaled 704 million euros (981 million euros in the first quarter of 2015), decreasing by 277 million euros (-28.2%) compared to the first quarter of 2015; the EBIT margin was 15.9% (19.4% in the first quarter of 2015).

Organic EBIT was down 236 million euros, with an organic EBIT margin of 15.9% (20.0% in the first quarter of 2015).

EBIT in the first quarter of 2016 reflected the negative impact of non-recurring net expenses totaling 74 million euros; without these non-recurring net expenses, the organic change in EBIT would have been -17.3%, with an EBIT margin of 17.5%. Further details are provided in the section **Significant non-recurring events and transactions** in this Interim Management Report.

Organic EBIT is calculated as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change amount	Change %
REPORTED EBIT	704	981	(277)	(28.2)
Foreign currency financial statements translation effect		(41)	41	
Changes in the scope of consolidation				
ORGANIC EBIT	704	940	(236)	(25.1)
of which non-recurring income/(expenses)	(74)	(1)	(73)	
ORGANIC EBIT excluding non-recurring component	778	941	(163)	(17.3)

Exchange rate fluctuations were attributable to the Brazil Business Unit.

Finance income (expenses), net

Finance income (expenses) showed a decrease in net expenses of 791 million euros, from 817 million euros in March 2015 to 26 million euros in March 2016. This change reflected:

the positive impact of 328 million euros (negative impact of 297 million euros in the first quarter of 2015) relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros (Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.);

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the effects of the changes in several non-monetary items of a valuation and accounting nature, linked in particular to derivatives;

the positive impact of the bond buybacks carried out in the previous year.

Income tax expense

Income tax expense amounted to 221 million euros, up 147 million euros on the first quarter of 2015 (74 million euros), largely due to the higher taxable base of the Parent Telecom Italia and partially offset by lower taxes on the Brazil Business Unit, which benefited from investment incentives in the north-east of the country.

PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

In the first quarter of 2016 this item was positive by 47 million euros (169 million euros in the first quarter of 2015), consisting of the positive contribution (59 million euros) to consolidated earnings from the Sofora Telecom Argentina group for the period January 1 to March 8, the negative impact from the sale of the equity interest and relative income taxes totaling 12 million euros.

More details are provided in the section Discontinued operations/Non-current assets held for sale of this Report on Operations and in the Note Discontinued operations/Non-current assets held for sale in the Condensed Consolidated Financial Statements at March 31, 2016 of the Telecom Italia Group.

PROFIT (LOSS) FOR THE PERIOD

This item was broken down as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015
Profit (loss) for the period	504	261
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	436	58
Profit (loss) from Discontinued operations/Non-current assets held for sale	(3)	24
Profit (loss) for the period attributable to owners of the Parent	433	82

Non-controlling interests:		
Profit (loss) from continuing operations	21	34
Profit (loss) from Discontinued operations/Non-current assets held for sale	50	145
Profit (loss) for the period attributable to non-controlling interests	71	179

Profit for the first quarter of 2016 attributable to Owners of the Parent amounted to 433 million euros (82 million euros in the first quarter of 2015), impacted by non-recurring net expenses of 64 million euros. A positive effect was instead had from a series of items tied to accounting valuations that generate no financial settlement, connected in particular with the measurement at fair value of the embedded option in the three-year mandatory convertible bond issued at the end of 2013. Without those items, profit for the first quarter of 2016 attributable to Owners of the Parent would have totaled approximately 260 million euros, showing substantially no change on the figure for the first quarter of 2015.

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FINANCIAL AND OPERATING HIGHLIGHTS THE BUSINESS UNITS OF THE TELECOM ITALIA GROUP

DOMESTIC

(millions of euros)	1st Quarter 2016	1st Quarter 2015	amount	Change %	% organic
Revenues	3,548	3,631	(83)	(2.3)	(2.3)
EBITDA	1,461	1,610	(149)	(9.3)	(9.3)
<i>EBITDA Margin</i>	<i>41.2</i>	<i>44.3</i>		<i>(3.1)pp</i>	<i>(3.1)pp</i>
EBIT	662	814	(152)	(18.7)	(18.7)
<i>EBIT Margin</i>	<i>18.7</i>	<i>22.4</i>		<i>(3.7)pp</i>	<i>(3.7)pp</i>
Headcount at period end (number)	52,713	⁽¹⁾ 52,644	69	0.1	

(1) Headcount at December 31, 2015.

Fixed

	3/31/2016	12/31/2015	3/31/2015
Physical accesses at period end (thousands) ⁽¹⁾	19,145	19,209	19,581
<i>of which Retail physical accesses at period end (thousands)</i>	<i>11,602</i>	<i>11,742</i>	<i>12,283</i>
Broadband accesses at period end (thousands) ⁽²⁾	8,955	8,890	8,784
<i>of which Retail broadband accesses at period end (thousands)</i>	<i>7,067</i>	<i>7,023</i>	<i>6,945</i>
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection)	115.6	115.6	115.3
access and carrier network in optical fiber (millions of km fiber)	10.9	10.4	8.6
Total traffic:			
Minutes of traffic on fixed-line network (billions):	18.2	76.9	20.3
Domestic traffic	14.8	62.5	16.7
International traffic	3.4	14.4	3.6
Broadband traffic (PBytes) ⁽³⁾	1,312	4,126	947

(1) Does not include full-infrastructured OLOs and Fixed Wireless Access (FWA).

(2) Does not include LLU and NAKED, satellite and full-infrastructured OLOs and Fixed Wireless Access (FWA).

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Mobile

	3/31/2016	12/31/2015	3/31/2015
Lines at period end (thousands)	29,846	30,007	30,140
Change in lines (%)	(0.5)	(1.1)	(0.7)
Churn rate (%) ⁽¹⁾	5.6	23.4	6.4
Total traffic:			
Outgoing retail traffic (billions of minutes)	11.0	43.6	10.8
Incoming and outgoing retail traffic (billions of minutes)	16.9	66.1	16.2
Browsing Traffic (PBytes) ⁽²⁾	56.6	182.6	39.4
Average monthly revenues per line (in euros) ⁽³⁾	11.6	12.1	11.3

(1) The data refer to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.

(2) National traffic excluding roaming.

(3) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

The Media Business Unit was incorporated into the Domestic Business Unit as of January 1, 2016.

One of the key strategic drivers for growth identified in the Telecom Italia Group 2016 - 2018 Industrial Plan is the development of 4 Play convergent services through the offer of a rich range of diversified video content, to be realized both in partnership with key content providers and through Tim Vision, the Group's own platform of services. Within this framework, Persidera will play an important role in supporting the development of Tim Vision services, building on its distinctive Head End expertise (management and distribution of TV signals via cable platform) and Play Out experience (television program broadcasting operations). Other key synergies to help guarantee the medium-term stability/growth of revenues from bandwidth rental for Persidera will come from the development of strategic partnerships between Telecom Italia and content providers that do not have proprietary broadcasting channels (multiplexes) for free-to-air television broadcasting and which instead pursue a multi-platform distribution strategy.

The framework of the 2016 - 2018 Industrial Plan and the new governance structure of Persidera are consistent with this future scenario, based on the increasingly closer link between the TLC industry and Media/Content providers to underpin the growth of ultra-broadband services in the Consumer segment.

Following the change in scope, the table below shows the performance of the Domestic Business Unit in the first quarter of 2016, reported on a like-for-like basis with the previous year, thus excluding the contribution of the Media Business Unit:

(millions of euros)	1st Quarter	1st Quarter	amount	Change	
	2016	2015		%	% organic
Revenues	3,530	3,631	(101)	(2.8)	(2.8)
EBITDA	1,451	1,610	(159)	(9.9)	(9.9)

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Revenues

Revenues in the first quarter of 2016 amounted to 3,548 million euros, a drop of 83 million euros (-2.3%) on the first quarter of 2015; the negative performance trend was in line with the figure for the first quarter of 2015 (-2.3%). Compared to the same period of 2015, revenues from services showed essentially the same trend as total revenues (-83 million euros, -2.4%), but with weaker signs of recovery, due in particular to the worsening performance of the Fixed-line segment; the solid, structural recovery of Mobile revenues was instead reconfirmed, thanks to market share regained and the stabilization of ARPU levels.

In detail:

revenues from Fixed-line services amounted to 2,483 million euros in the first quarter 2016, down by 112 million euros compared to the first quarter of 2015 (-4.3%); the decline was driven entirely by the fall in revenues from voice services (-129 million euros due to the loss of traditional accesses, quantifiable in a loss of around a million lines), which was only partially offset by continued growth in the Broadband and Ultra-broadband customer base which is driving growth in innovative services (+32 million euros, +5.8%). Fixed-line performance was also affected by lower prices on wholesale services; net of the price impact (equal to 18 million euros), revenues would have dropped by -3.7% on the first quarter of 2015;

revenues from services in the Mobile business came to 1,059 million euros, an increase of 6 million euros compared to the previous year (+0.6%); the trend confirms the continuous improvement posted in previous quarters (+0.1% in the fourth quarter of 2015; -1.5% in the third quarter of 2015; -2.5% in the second quarter 2015 and -4.2% in the first quarter 2015).

Revenues from product sales, including the change in work in progress, amounted to 196 million euros in the first quarter of 2016, in line with the first quarter of 2015.

EBITDA

EBITDA for the Domestic Business Unit totaled 1,461 million euros at March 31, 2016, decreasing by 149 million euros compared to the first quarter of 2015 (-9.3%), with an EBITDA margin of 41.2% (-3.1 percentage points compared to the same period of the previous year). The first quarter 2016 figure reflected the negative impact of non-recurring net expenses as already described in the Highlights section of this Report totaling 67 million euros. Without these expenses the organic change in EBITDA would have been -5.2%, with an EBITDA margin of 43.1%, down 1.3 percentage points on the figure at March 31, 2015.

Organic EBITDA is calculated as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change amount	%
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REPORTED EBITDA	1,461	1,610	(149)	(9.3)
Foreign currency financial statements translation effect		1	(1)	
Changes in the scope of consolidation				
ORGANIC EBITDA	1,461	1,611	(150)	(9.3)
of which non-recurring income/(expenses)	(67)	(1)	(66)	
ORGANIC EBITDA excluding non-recurring component	1,528	1,612	(84)	(5.2)

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With regard to the change in the main costs, the following is noted:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change
Acquisition of goods and services	1,450	1,341	109
Employee benefits expenses	756	734	22
Other operating expenses	138	123	15

Acquisition of goods and services rose by 109 million euros (+8.1%) compared to the first quarter of 2015. The increase was linked to higher volumes of products sold and the stronger emphasis on sales campaigns, only partially recovered through policies for the rationalization and recovery of indirect costs and operating expenses. The increase in acquisition costs was mainly driven by higher costs for devices and handsets (+37 million euros), ICT content and services (+11 million euros) and customer management (+20 million euros);

Employee benefits expenses increased by 22 million euros compared to the first three months of 2015. The main factors that drove this change were:

a decrease of 43 million euros in ordinary employee expenses, mainly due to the reduction in several operational items. The average salaried workforce increased by 11 average employees (+207 average employees related to Solidarity Contracts : the solidarity contracts of the Parent and Telecom Italia Information Technology for the first three months of 2015 were offset by a new contract started in January 2016 in the Parent, as per the agreement of October 27, 2015);

the recognition of non-recurring charges (provisions to Employee benefits and other minor items) totaling 65 million euros. In particular, the Parent recognized expenses of around 38 million euros relating to the acceptance of the expression of interest by management personnel for the application of Article 4, paragraphs 1-7ter, of Law N. 92 of 28 June 2012, the Fornero law (former agreement of June 19, 2015) and the commencement of a managerial restructuring plan linked to the revision of the company organizational structures underway. In addition, Telecom Italia Information Technology and Olivetti allocated provisions totaling around 27 million euros for agreements with trade unions being finalized relating to the application of Article 4 of the Fornero Law for non-management personnel;

Other operating expenses amounted to 138 million euros, showing an increase of 15 million euros over the first quarter of 2015. The breakdown of the item is reported in the table below:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change
Write-downs and expenses in connection with credit management	68	59	9
Provision charges	6	6	

TLC operating fees and charges	12	11	1
Indirect duties and taxes	23	25	(2)
Sundry expenses	29	22	7
Total	138	123	15

EBIT

EBIT for the first quarter of 2016 came to 662 million euros (814 million euros in the same period of 2015), down 152 million euros (-18.7%), with an EBIT margin of 18.7% (22.4% in the first quarter of 2015). The EBIT performance reflected the reduction in EBITDA described above.

EBIT for the first quarter of 2016 was pulled down by a total of 67 million euros in non-recurring expenses, without which the organic change in EBIT would have been -10.6%, with an EBIT margin of 20.5%.

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Organic EBIT is calculated as follows:

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change amount	%
REPORTED EBIT	662	814	(152)	(18.7)
Foreign currency financial statements translation effect				
Changes in the scope of consolidation				
ORGANIC EBIT	662	814	(152)	(18.7)
of which non-recurring income/(expenses)	(67)	(1)	(66)	
ORGANIC EBIT excluding non-recurring component	729	815	(86)	(10.6)

Financial highlights of the Domestic Cash Generating Units

The main financial and operating highlights of the Domestic Business Unit are reported according to two Cash Generating units (CGU):

Core Domestic: includes all telecommunications activities pertaining to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU's results, excluding intrasegment transactions. The sales market segments established on the basis of the customer centric organizational model are as follows:

Consumer: the segment consists of all Fixed and Mobile voice and Internet services and products managed and developed for individuals and families and of public telephony; customer care, operating credit support, loyalty and retention activities, sales within its remit, and administrative management of customers; the segment includes the companies 4G and Persidera;

Business: the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets; following the merger of Telecom Italia Digital Solutions in Olivetti, the latter was incorporated into the Business segment as of 1 January 2016;

Wholesale: the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market and Open Access operations connected with delivery and assurance processes for customer services;

Other (INWIT S.p.A. and support structures): includes:

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INWIT S.p.A.: from April 2015 the company has been operating within the Operations area in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for Telecom Italia and other operators;

Other Operations units: covering technological innovation and the processes of development, engineering, building and operating network infrastructures, real estate properties and plant engineering; development of the information technology strategy, guidelines and plan;

Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group, also offered to the market and other Business Units.

International Wholesale Telecom Italia Sparkle group: includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets;

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Key results for the first quarter of 2016 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to the first quarter of 2015.

Core Domestic

(millions of euros)	1st Quarter	1st Quarter	Change	
	2016	2015	amount	%
Revenues ⁽¹⁾	3,310	3,397	(87)	(2.6)
Consumer	1,758	1,724	34	2.0
Business ⁽²⁾	1,085	1,181	(96)	(8.1)
Wholesale	433	457	(24)	(5.3)
Other	35	35		
EBITDA	1,422	1,570	(148)	(9.4)
EBITDA Margin	43.0	46.2		(3.2)pp
EBIT	648	797	(149)	(18.7)
EBIT Margin	19.6	23.5		(3.9)pp
Headcount at period end (number) ^(*)	52,039	⁽³⁾ 51,741	298	0.6

- (1) Following the change in the mission of Persidera, the Media Business Unit was included in the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, Core Domestic revenues would have totaled 3,292 million euros, compared to 3,397 million euros in the first quarter of 2015.
- (2) As result of the new organizational view, as of January 1, 2016 the Business segment also includes Olivetti. Figures for the period under comparison have been changed accordingly.
- (3) Headcount at December 31, 2015.
- (*) Without the change resulting from the aforementioned inclusion of the Media Business Unit into the Domestic Business Unit (Core Domestic), the headcount for the Core Domestic segment for the reporting period would have totaled 51,976 employees.

In detail:

Consumer: revenues for the Consumer segment for the first quarter of 2016 amounted to a total of 1,758 million euros, an increase of 34 million euros compared to the same period of 2015 (+2.0%). The trend confirms the recovery already witnessed in 2015, driven in particular by the solid, structural improvement in the Mobile segment, underpinned by market share regained and the stabilization of ARPU levels.

In particular:

revenues for the Mobile business came to 855 million euros, showing growth over the first quarter of 2015 (+70 million euros, +8.9%) and continuing the positive performance posted in previous quarters (fourth quarter 2015: +2.5%; third quarter: +3.3%; second quarter: -1.6%; first quarter: -1.5%). Revenues from services recorded an increase of 35 million euros (+4.9% compared to the first quarter of 2015), confirming

the recovery witnessed in the second half of 2015 (fourth quarter 2015: +1.5%; third quarter: -0.3%; second quarter: -2.1%; first quarter: -4.3%), attributable to the easing of competition pressure, the progressive stabilization of market share and the steady growth in Internet mobile and digital services, supporting the stabilization of the ARPU;

revenues from the Fixed-line segment totaled 890 million euros, showing a drop of 57 million euros on the first quarter of 2015 (-6.0%) and continuing the slowdown witnessed in the last quarter of 2015 (-6.7%), driven down by the loss of voice-only accesses and greater pressures on ARPU levels, which were only partially offset by growth in innovative services, in particular positive growth in the Broadband customer base.

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Business: revenues for the Business segment amounted to 1,085 million euros, decreasing by 96 million euros compared to the first quarter of 2015 (-8.1%), of which -58 million euros (-5.5%) were attributable to the services component. In detail: