

TELECOM ITALIA S P A  
Form 6-K  
June 03, 2016  
Table of Contents

**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)**

Edgar Filing: TELECOM ITALIA S P A - Form 6-K

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-\_\_\_\_\_

**Table of Contents**

INTERIM MANAGEMENT

REPORT

AT MARCH 31, 2016

**Table of Contents**

CONTENTS

INTERIM MANAGEMENT REPORT AT MARCH 31, 2016

<u>The Telecom Italia Group</u>	3
<u>Highlights – First Three Months of 2016</u>	5
<u>Consolidated Operating Performance</u>	8
<u>Financial and Operating Highlights – The Business Units of the Telecom Italia Group</u>	13
<u>Discontinued operations/Non-current assets held for sale</u>	23
<u>Consolidated Financial Position and Cash Flows Performance</u>	24
<u>Consolidated Financial Statements – Telecom Italia Group</u>	32
<u>Events Subsequent to March 31, 2016</u>	41
<u>Business Outlook for the Year 2016</u>	41
<u>Main risks and uncertainties</u>	43
<u>Corporate Boards at March 31, 2016</u>	46
<u>Macro-Organization Chart at March 31, 2016</u>	48
<u>Information for Investors</u>	49
<u>Significant non-recurring events and transactions</u>	51
<u>Positions or transactions resulting from atypical and/or unusual operations</u>	51
<u>Alternative Performance Measures</u>	52
<u>TELECOM ITALIA GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	

AT MARCH 31, 2016	53
<u>Contents</u>	55
<u>Consolidated Statements of Financial Position</u>	56
<u>Separate Consolidated Income Statements</u>	58
<u>Consolidated Statements of Comprehensive Income</u>	60
<u>Consolidated Statements of Changes in Equity</u>	61
<u>Consolidated Statements of Cash Flows</u>	62
<u>Notes to the Consolidated Financial Statements</u>	64
<u>Declaration by the Manager Responsible for Preparing the Corporate Financial Reports</u>	111

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

**Table of Contents**

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.

Interim Management Report  
at March 31, 2016

The Telecom Italia Group 3

**Table of Contents**

**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

Interim Management Report

Board of Directors and Board of Statutory Auditors 4

at March 31, 2016

of Telecom Italia S.p.A.



## Table of Contents

### 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.

Interim Management Report

Highlights First Three Months of 2016 5

at March 31, 2016

## Table of Contents

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.

at March 31, 2016

**Table of Contents**

## 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 .

Interim Management Report

Highlights First Three Months of 2016 7

at March 31, 2016

**Table of Contents**

## 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	%
<b>REPORTED REVENUES</b>	4,440	5,054	(614)	(12.1)
Foreign currency financial statements translation effect		(351)	351	
Changes in the scope of consolidation				
<b>ORGANIC REVENUES</b>	4,440	4,703	(263)	(5.6)

Exchange rate fluctuations<sup>(1)</sup> 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<sup>(2)</sup>.

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.

Interim Management Report

Consolidated Operating Performance 8

at March 31, 2016

**Table of Contents**

## 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 %
<b>REPORTED EBITDA</b>	1,712	2,033	(321)	(15.8)
Foreign currency financial statements translation effect		(103)	103	
Changes in the scope of consolidation				
<b>ORGANIC EBITDA</b>	1,712	1,930	(218)	(11.3)
of which non-recurring income/(expenses)	(75)	(1)	(74)	
<b>ORGANIC EBITDA excluding non-recurring component</b>	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	% of total	amount	% of total	amount	% organic
Domestic (*)	1,461	85.3	1,610	79.2	(149)	(9.3)
<i>EBITDA Margin</i>	41.2		44.3		(3.1)pp	(3.1)pp
Brazil	258	15.1	416	20.5	(158)	(38.0)
<i>EBITDA Margin</i>	28.7		29.5		(0.8)pp	(0.7)pp
Other Operations	(6)	(0.4)	7	0.3	(13)	
<i>Adjustments and eliminations</i>	(1)				(1)	
<b>Consolidated Total</b>	1,712	100.0	2,033	100.0	(321)	(15.8)
<i>EBITDA Margin</i>	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:

Interim Management Report

Consolidated Operating Performance 9

at March 31, 2016

**Table of Contents**

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
<b>Total</b>	<b>1,009</b>	<b>1,052</b>	<b>(43)</b>

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.

Interim Management Report

Consolidated Operating Performance 10

at March 31, 2016

**Table of Contents**

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 %
<b>REPORTED EBIT</b>	704	981	(277)	(28.2)
Foreign currency financial statements translation effect		(41)	41	
Changes in the scope of consolidation				
<b>ORGANIC EBIT</b>	704	940	(236)	(25.1)
of which non-recurring income/(expenses)	(74)	(1)	(73)	
<b>ORGANIC EBIT excluding non-recurring component</b>	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. );

Interim Management Report

Consolidated Operating Performance 11

at March 31, 2016

**Table of Contents**

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.

Interim Management Report

Consolidated Operating Performance 12

at March 31, 2016

**Table of Contents**

## 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	<sup>(1)</sup> 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) <sup>(1)</sup>	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) <sup>(2)</sup>	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) <sup>(3)</sup>	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).





**Table of Contents**

## 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 (%) <sup>(1)</sup>	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) <sup>(2)</sup>	56.6	182.6	39.4
Average monthly revenues per line (in euros) <sup>(3)</sup>	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)



**Table of Contents**

## 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	%
---------------------	---------------------	---------------------	------------------	---

Edgar Filing: TELECOM ITALIA S P A - Form 6-K

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)

Interim Management Report

Financial and Operating Highlights

The Business Units of the Telecom Italia 15  
Group

at March 31, 2016

Domestic Business Unit

**Table of Contents**

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	



**Table of Contents**

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:





**Table of Contents**

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 <sup>(1)</sup>	3,310	3,397	(87)	(2.6)
Consumer	1,758	1,724	34	2.0
Business <sup>(2)</sup>	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) <sup>(*)</sup>	52,039	<sup>(3)</sup> 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.

Interim Management Report      Financial and Operating Highlights      The Business Units of the Telecom Italia 18  
Group

at March 31, 2016

Domestic Business Unit

**Table of Contents**

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:

revenues from Mobile services fell by 23 million euros (-7.9% on the first quarter of 2015); specifically, the continuing decline in traditional mobile services (-18% in the voice and messaging component compared to the first quarter of 2015) was driven by the shift of customers towards bundled formulas with a lower overall ARPU level and the migration of Public Administration clients towards the new Consip offer (with lower unit prices), and was only partially recovered by the positive performance of new digital services (+2.5% compared to 2015);

revenues from Fixed-line services fell by 30 million euros (-3.8% compared to 2015): despite the steady growth in revenues from ICT services (+3.2%), particularly on Cloud services, the segment continued to be adversely affected by the slow economic recovery, the reduction in prices on traditional voice and data services, and the technological shift towards VoIP systems.

Wholesale: the Wholesale segment posted revenues of 433 million euros in the first quarter of 2016, showing a slight decrease compared to the same period of 2015 (-24 million euros, -5.3%), primarily due to the lowering of regulated prices; net of the price impact (equal to 18 million euros), the drop would have come to -1.5% compared to the same period of the previous year.

International Wholesale Telecom Italia Sparkle group

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change amount	Change %	Change % organic
Revenues	311	310	1	0.3	(0.3)
<i>of which third party</i>	255	247	8	3.2	2.4
EBITDA	42	43	(1)	(2.3)	(4.5)
<i>EBITDA Margin</i>	13.5	13.9		(0.4)pp	(0.6)pp
EBIT	14	17	(3)	(17.6)	(17.6)
<i>EBIT Margin</i>	4.5	5.5		(1.0)pp	(0.9)pp
Headcount at period end (number) <sup>(*)</sup>	674	<sup>(1)</sup> 645	29	4.5	

<sup>(1)</sup> Headcount at December 31, 2015

<sup>(\*)</sup> Includes employees with temp work contracts: 2 employees at 3/31/2016 (2 employees at 12/31/2015).

Revenues for the Telecom Italia Sparkle group International Wholesale in the first quarter 2016 totaled 311 million euros, substantially in line with the 2015 first quarter figure (+1 million euros, +0.3%). The result was shaped by growth in revenues from IP/Data services (+2 million euros, +2.8%) and the decline in revenues from Voice services (-1 million euros, -0.5%). All other business lines remained substantially stable.

Interim Management Report  
at March 31, 2016

Financial and Operating Highlights    The Business Units of the Telecom Italia 19  
Group

Domestic Business Unit

**Table of Contents**

## BRAZIL

	(millions of euros)		(millions of reais)		Change	
	1st Quarter		1st Quarter			
	1st Quarter 2016 (a)	2015 Revised (b)	1st Quarter 2016 (c)	2015 Revised (d)	amount (c-d)	% (c-d)/d
Revenues	897	1,412	3,854	4,551	(697)	(15.3)
EBITDA	258	416	1,107	1,341	(234)	(17.4)
<i>EBITDA Margin</i>	28.7	29.5	28.7	29.5		(0.8)pp
EBIT	49	165	210	531	(321)	(60.5)
<i>EBIT Margin</i>	5.4	11.7	5.4	11.7		(6.3)pp
Headcount at period end (number)			12,280	<sup>(1)</sup> 13,042	(762)	(5.8)

(1) Headcount at December 31, 2015

	1st Quarter 2016	1st Quarter 2015
Lines at period end (thousands) (*)	67,269	<sup>(1)</sup> 66,234
MOU (minutes/month) (**)	118.6	120.3
ARPU (reais)	17.2	16.7

(1) Number at December 31, 2015

(\*) Includes corporate lines.

(\*\*) Net of visitors.

Revenues

Revenues for the first quarter of 2016 amounted to 3,854 million reais and were down 697 million reais (-15.3%) year-on-year. Service revenues totaled 3,618 million reais, a decrease of 326 million reais compared to 3,944 million reais for the first quarter of 2015 (-8.3%). Mobile Average Revenue Per User (ARPU) was 17.2 reais in the first quarter of 2016 compared to 16.7 reais in the same period of the previous year (+3%).

Revenues from product sales came to 236 million reais (607 million reais in the first quarter of 2015, -61.1%), reflecting a commercial policy less focused on the sale of handsets, in addition to the impact of the Brazilian macroeconomic crisis on household spending.

The total number of lines at March 31, 2016 amounted to 67,269 thousand, a slight increase compared to December 31, 2015, and corresponding to a market share of approximately 26.1% (25.7% at December 31, 2015).

EBITDA

EBITDA amounted to 1,107 million reais, down 234 million reais on the first quarter of 2015 (-17.4%). The decline in EBITDA was attributable to the fall in revenues, which was only partially offset by the deployment of efficiency measures on cost items and the reduction in costs for revenues due to other operators and the cost of sales; employee benefits expenses, on the other hand, increased also due to the salary inflation adjustment, in addition to other net non-recurring costs for termination benefits of 33 million reais.

Interim Management Report

Financial and Operating Highlights

The Business Units of the Telecom Italia 20  
Group

at March 31, 2016

Brazil Business Unit

**Table of Contents**

The EBITDA margin stood at 28.7%, 0.8 percentage points lower than in the first quarter of 2015.

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

	(millions of euros)		(millions of reais)		
			1st Quarter		Change (c-d)
	1st Quarter 2016 (a)	1st Quarter 2015 (b)	1st Quarter 2016 (c)	1st Quarter 2015 (d)	
Acquisition of goods and services	475	827	2,043	2,666	(623)
Employee benefits expenses	88	97	379	313	66
Other operating expenses	111	140	479	449	30
Change in inventories	(9)	(38)	(40)	(122)	82

Acquisition of goods and services totaled 2,043 million reais (2,666 million reais in the first quarter of 2015), representing a reduction of 23.4% (-623 million reais), broken down as follows:

-486 million reais for purchases relating primarily to products for resale costs;

-77 million reais for revenues due to other TLC operators;

-78 million reais for external service costs;

+18 million reais for rent and lease costs.

Employee benefits expenses, amounting to 379 million reais, were up 66 million reais compared with the first quarter of 2015 (+21.1%). The average workforce changed from 11,745 employees in the first quarter of 2015 to 11,657 employees in the first quarter of 2016. In the first quarter of 2016, non-recurring costs for termination benefits totaled 33 million reais. The ratio of employee benefits expenses to total revenues rose to 9.8%, an increase of 3 percentage points over the same period of the previous year;

Other operating expenses amounted to 479 million reais, an increase of 6.7% on the first quarter of 2015, and were broken down as follows:

(millions of reais)	1st Quarter 2016	1st Quarter 2015	Change
Write-downs and expenses in connection with credit management	71	56	15
Provision charges	63	57	6
TLC operating fees and charges	324	308	16
Indirect duties and taxes	6	15	(9)







**Table of Contents**

## DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

On March 8, 2016, following the approval by the Enacom, the Argentinian communications regulatory authority, the Telecom Italia Group completed the sale of the entire remaining interest in the Sofora Telecom Argentina group.

A summary is provided below of the income statement impacts from the Sofora Telecom Argentina group and its sale; the figures for the first quarter of 2016 have been translated at the average exchange rate for the period January 1 March 8 (15.7981 pesos per euro), whereas the figures for the first quarter 2015 have been translated at the related average exchange rate (9.78805 pesos per euro):

(millions of euros)	1/1 3/8 2016	1st Quarter 2015
<b>Income statement effects from Discontinued operations/Non-current assets held for sale:</b>		
Revenues	504	906
EBITDA	133	268
<i>EBITDA Margin</i>	26.4	29.6
Operating profit (loss) (EBIT)	133	269
<i>EBIT Margin</i>	26.4	29.6
Finance income (expenses), net	(42)	(7)
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale	91	262
Income tax expense	(32)	(91)
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	(a) 59	171
Other minor entries	(b)	(2)
Profit (loss) from Discontinued operations/Non-current assets held for sale	(c=a+b) 59	169
<b>Income statement effects on the selling entities:</b>		
Net gains on disposal	307	
Transfer to the separate consolidated income statement of the Reserve for exchange differences on translating foreign operations	(304)	
Income tax expense relating to the disposal	(15)	
	(d) (12)	
Profit (loss) from Discontinued operations/Non-current assets held for sale	(c+d) 47	169
<b>Attributable to:</b>		
Owners of the Parent	(3)	24
Non-controlling interests	50	145

For more details, see the Note Discontinued operations/Non-current assets held for sale in the Condensed Consolidated Financial Statements of the Telecom Italia Group at March 31, 2016.

at March 31, 2016

Discontinued operations/Non-current assets held for  
sale

**Table of Contents**

CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

**Goodwill:** increased by 53 million euros, from 29,383 million euros at the end of 2015 to 29,436 million euros at March 31, 2016, due to positive changes of 45 million euros in foreign exchange rates applicable to the Group's Brazilian operations <sup>(1)</sup> and the recognition of the provisional goodwill, of 8 million euros, resulting from the acquisitions made by INWIT S.p.A. in January 2016.

Further details are provided in the Note "Goodwill" in the condensed consolidated financial statements at March 31, 2016 of the Telecom Italia Group.

**Other intangible assets:** were up 36 million euros, from 6,480 million euros at the end of 2015 to 6,516 million euros at March 31, 2016, representing the balance of the following items:

capex (+342 million euros);

amortization charge for the period (-418 million euros);

disposals, exchange differences, reclassifications and other changes (for a net positive balance of 112 million euros).

**Tangible assets:** were up 159 million euros, from 14,867 million euros at the end of 2015 to 15,026 million euros at March 31, 2016, representing the balance of the following items:

capex (+602 million euros);

changes in financial leasing contracts (+46 million euros);

depreciation charge for the period (-591 million euros);

disposals, exchange differences, reclassifications and other changes (for a net positive balance of 102 million euros).

## CONSOLIDATED EQUITY

Consolidated equity amounted to 20,216 million euros (21,249 million euros at December 31, 2015), of which 18,181 million euros attributable to Owners of the Parent (17,554 million euros at December 31, 2015) and 2,035 million euros attributable to non-controlling interests (3,695 million euros at December 31, 2015).

In greater detail, the changes in equity were the following:

(millions of euros)	3/31/2016
At the beginning of the period	21,333
Revised for errors	(84)
At the beginning of the adjusted period	21,249
Total comprehensive income (loss) for the period	746
Dividends approved by:	
<i>Telecom Italia S.p.A.</i>	
<i>Other Group companies</i>	
INWIT - effect of sale of the non-controlling interest	
Merger of TI Media S.p.A. into Telecom Italia S.p.A.	
Convertible bond issue maturing 2022 - equity component	
Issue of equity instruments	
Disposal of the Sofora Telecom Argentina group	(1,795)
Other changes	16
At the end of the period	20,216

- (1) The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 4.05181 at March 31, 2016 and 4.25116 at December 31, 2015.

Interim Management Report  
at March 31, 2016

Consolidated Financial Position and Cash Flows Performance 24

**Table of Contents**

## CASH FLOWS

Adjusted net financial debt stood at 27,139 million euros, down 139 million euros compared to December 31, 2015 (27,278 million euros). The decrease was partly attributable to the deconsolidation of the net financial debt of the Sofora Telecom Argentina group following the completion of its sale on March 8, 2016.

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt during the first quarter of 2016:

## Change in adjusted net financial debt

(millions of euros)	1st Quarter 2016	1st Quarter 2015	Change
EBITDA	1,712	2,033	(321)
Capital expenditures on an accrual basis	(944)	(964)	20
Change in net operating working capital:	(750)	(1,502)	752
<i>Change in inventories</i>	(87)	(40)	(47)
<i>Change in trade receivables and net amounts due from customers on construction contracts</i>	30	(345)	375
<i>Change in trade payables (*)</i>	(566)	(979)	413
<i>Other changes in operating receivables/payables</i>	(127)	(138)	11
Change in employee benefits	59	(6)	65
Change in operating provisions and Other changes	(52)	(16)	(36)
Net operating free cash flow	25	(455)	480
<i>% of Revenues</i>	0.6	(9.0)	9.6 pp
Sale of investments and other disposals flow	707	3	704
Share capital increases/reimbursements, including incidental costs		186	(186)
Financial investments flow	(9)		(9)
Dividends payment		(3)	3
Change in financial leasing contracts	(46)		(46)
Finance expenses, income taxes and other net non-operating requirements flow	(500)	(486)	(14)
Reduction/(Increase) in adjusted net financial debt from continuing operations	177	(755)	932
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	(38)	(24)	(14)
Reduction/(Increase) in adjusted net financial debt	139	(779)	918

(\*) Includes the change in trade payables for amounts due to fixed asset suppliers.

In addition to what has already been illustrated with reference to EBITDA, adjusted net financial debt in the first quarter of 2016 was particularly impacted by the following:

Interim Management Report

Consolidated Financial Position and Cash Flows Performance 25

at March 31, 2016



**Table of Contents**

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	1st Quarter 2016		1st Quarter 2015		Change
		% of total		% of total	
Domestic (*)	778	82.4	676	70.1	102
Brazil	166	17.6	287	29.8	(121)
Other Operations			1	0.1	(1)
<i>Adjustments and eliminations</i>					
Consolidated Total	944	100.0	964	100.0	(20)
<i>% of Revenues</i>		21.3		19.1	2.2 pp

(\*) Following the change in the business mission of Persidera, the Media Business Unit was incorporated into the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, the capital expenditure of the Domestic Business Unit for the first quarter of 2016 would have been 777 million euros.

Capital expenditure in the first quarter of 2016 totaled 944 million euros, down 20 million euros (-2.1%) on the first quarter of 2015. In particular:

the Domestic Business Unit posted capital expenditures of 778 million euros, an increase of 102 million euros compared to the first quarter of 2015. The increase was driven in particular by much higher innovation expenditure on the development of next-generation networks and services (+169 million euros), which accounted for 50% of all capital expenditure (33% in the same period of 2015).

the Brazil Business Unit recorded a decrease of 121 million euros (including a negative currency effect of 72 million euros) compared to the first quarter of 2015; these capital expenditures were mainly aimed at the development of the industrial infrastructure and at sales support platforms.

Change in net operating working capital

The change in net operating working capital for the first quarter 2016 was a decrease of 750 million euros (decrease of 1,502 million euros in the first quarter 2015). In particular:

the change in inventories generated a negative impact of 87 million euros whereas the management of trade receivables generated a positive impact of 30 million euros;

the change in trade payables (-566 million euros) reflected a seasonal peak in payments of bills payable. Capital expenditure and external costs generally peak in the final quarter of the year, however the related cash flows are largely postponed to the following quarter due to the normal payment terms and contractually applicable conditions;

the other changes in operating receivables/payables (-127 million euros) include a negative amount of 186 million euros, for levies on telecommunications operations paid by the Brazil Business Unit the taxes are normally paid every year by the end of March. This change was partly offset by the performance of other operating payables of the Domestic Business Unit.

Change in employee benefits, operating provisions and other changes

The change in employee benefits mainly reflected the non-recurring provisions for risk made during the first quarter of 2016.

Sale of investments and other disposals flow

This was positive by 707 million euros in the first quarter of 2016 (3 million euros in the first quarter of 2015) and related to the sale of the Sofora Telecom Argentina group for 704 million euros (545 million euros representing the price and 159 million euros for the deconsolidation of the related net financial debt), with the remaining amount relating to disposals of assets as part of normal operations.

Interim Management Report

Consolidated Financial Position and Cash Flows Performance 26

at March 31, 2016

**Table of Contents**

Share capital increases/reimbursements, including incidental costs

In the first quarter of 2016 this item amounted to zero.

In the first quarter of 2015, the item amounted to 186 million euros and related to the conversion option of the 1.125% unsecured equity-linked bond amounting to 2 billion euros, issued on March 26, 2015 and maturing on March 26, 2022.

Financial investments flow

In the first quarter of 2016 this item amounted to 9 million euros (zero in the first quarter of 2015) and consisted of around 6 million euros for the payment made by INWIT S.p.A., net of the cash acquired, for the acquisition of the investments in Revi Immobili S.r.l., Gestione Immobili S.r.l. and Gestione Due S.r.l., and around 3 million euros for the subscription of the capital increase in the company Northgate held as a non-controlling interest.

Change in financial leasing contracts

This item, amounting to 46 million euros, represents the higher value of tangible assets under financial lease, which is partly a reflection of the associated higher financial payables, posted mainly as a result of contractual renegotiations by Telecom Italia S.p.A. in the first quarter of 2016 within the real estate transformation project and the renegotiation of the car rental agreements.

Further details are provided in the Note "Tangible assets (owned and under finance leases)" of the Condensed Consolidated Financial Statements at March 31, 2016 of the Telecom Italia Group.

Finance expenses, income taxes and other net non-operating requirements flow

The item amounted to 500 millions euros and mainly included the payment, during the first quarter of 2016, of net finance expenses and income taxes, as well as the change in non-operating receivables and payables.

Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale

The item shows cash flow absorbed by the Sofora Telecom Argentina group, equal to 38 million euros, before the disposal of the investment and the consequent deconsolidation of the relative net financial debt as of March 8, 2016. In the first quarter of 2015, this item amounted to a negative 24 million euros.

Interim Management Report

Consolidated Financial Position and Cash Flows Performance 27

at March 31, 2016

**Table of Contents**

Net financial debt

Net financial debt is composed as follows:

(millions of euros)	3/31/2016 (a)	12/31/2015 (b)	Change (a-b)
<b>Non-current financial liabilities</b>			
Bonds	19,653	19,883	(230)
Amounts due to banks, other financial payables and liabilities	8,410	8,364	46
Finance lease liabilities	2,291	2,271	20
	30,354	30,518	(164)
<b>Current financial liabilities (*)</b>			
Bonds	2,640	3,681	(1,041)
Amounts due to banks, other financial payables and liabilities	1,644	2,390	(746)
Finance lease liabilities	156	153	3
	4,440	6,224	(1,784)
<b>Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>		348	(348)
<b>Total Gross financial debt</b>	<b>34,794</b>	<b>37,090</b>	<b>(2,296)</b>
<b>Non-current financial assets</b>			
Securities other than investments	(2)	(3)	1
Financial receivables and other non-current financial assets	(2,764)	(2,986)	222
	(2,766)	(2,989)	223
<b>Current financial assets</b>			
Securities other than investments	(735)	(1,488)	753
Financial receivables and other current financial assets	(395)	(352)	(43)
Cash and cash equivalents	(2,665)	(3,559)	894
	(3,795)	(5,399)	1,604
<b>Financial assets relating to Discontinued operations/Non-current assets held for sale</b>		(227)	227

Total financial assets	(6,561)	(8,615)	2,054
Net financial debt carrying amount	28,233	28,475	(242)
<i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i>	<i>(1,094)</i>	<i>(1,197)</i>	<i>103</i>
Adjusted net financial debt	27,139	27,278	(139)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	32,296	34,602	(2,306)
Total adjusted financial assets	(5,157)	(7,324)	2,167
<i>(*) of which current portion of medium/long-term debt:</i>			
<i>Bonds</i>	<i>2,640</i>	<i>3,681</i>	<i>(1,041)</i>
<i>Amounts due to banks, other financial payables and liabilities</i>	<i>1,047</i>	<i>1,482</i>	<i>(435)</i>
<i>Finance lease liabilities</i>	<i>156</i>	<i>153</i>	<i>3</i>

The financial risk management policies of the Telecom Italia Group are aimed at minimizing market risks, fully hedging exchange rate risk, and optimizing interest rate exposure through appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.

In addition, to determine its exposure to interest rates, the Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

**Table of Contents**

In managing market risks, the Group has adopted Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

To provide a better representation of the true performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a measure called Adjusted net financial debt has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 Fair Value Measurement from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

**Sales of receivables to factoring companies**

Sales of trade receivables to factoring companies finalized during the first quarter of 2016 resulted in a positive effect on net financial debt at March 31, 2016 of 777 million euros (1,106 million euros at December 31, 2015).

**Gross financial debt****Bonds**

Bonds at March 31, 2016 were recorded for a total of 22,293 million euros (23,564 million euros at December 31, 2015). Their nominal repayment amount was 21,848 million euros, down 1,099 million euros compared to December 31, 2015 (22,947 million euros).

Changes in bonds over the first quarter of 2016 are shown below:

<i>(millions of original currency)</i>	Currency	Amount	Issue date
<b>New issues</b>			
Telecom Italia S.p.A. 750 million euros 3.625% maturing 1/19/2024	Euro	750	1/20/2016
<b>Repayments</b>			
Telecom Italia S.p.A. 663 million euros 5.125% <sup>(1)</sup>	Euro	663	1/25/2016
Telecom Italia S.p.A. 708 million euros 8.250% <sup>(2)</sup>	Euro	708	3/21/2016

(1) Net of buybacks by the Company of 337 million euros during 2014 and 2015.

(2) Net of buybacks by the Company of 142 million euros during 2014.

With reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at March 31, 2016, the nominal amount was equal to 200 million euros and was unchanged compared to December 31, 2015.

**Revolving Credit Facility and Term Loan**

The following table shows the composition and the draw down of the committed credit lines available at March 31, 2016:

Interim Management Report	Consolidated Financial Position and Cash Flows Performance	29
at March 31, 2016		



**Table of Contents**

(billions of euros)		3/31/2016		12/31/2015	
		Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility	expiring May 2019	4.0		4.0	
Revolving Credit Facility	expiring March 2020	3.0		3.0	
<b>Total</b>		<b>7.0</b>		<b>7.0</b>	

Telecom Italia has two syndicated Revolving Credit Facilities for amounts of 4 billion euros and 3 billion euros expiring May 24, 2019 and March 25, 2020 respectively, both not yet drawn down. The beneficial changes to the economic terms of the Revolving Credit Facilities took effect from January 4, 2016, together with the two-year extension to those facilities.

Telecom Italia also has access to:

a bilateral Term Loan from Banca Regionale Europea expiring July 2019 for 200 million euros, drawn down for the full amount;

two bilateral Term Loans from Cassa Depositi e Prestiti respectively for 100 million euros expiring in April 2019 and 150 million euros expiring in October 2019, drawn down for the full amount;

two bilateral Term Loans from Mediobanca respectively for 200 million euros expiring in November 2019 and 150 million euros expiring in July 2020, drawn down for the full amount;

a bilateral Term Loan from ICBC expiring July 2020 for 120 million euros, drawn down for the full amount;

a bilateral Term Loan from Intesa Sanpaolo expiring August 2021 for 200 million euros, drawn down for the full amount.

*Maturities of financial liabilities and average cost of debt*

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.94 years.

The average cost of the Group's debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.3%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, see the Notes – Financial liabilities (non-current and current) in the Condensed Consolidated Financial Statements at March 31, 2016 of the Telecom Italia Group.

*Current financial assets and liquidity margin*

The Telecom Italia Group's available liquidity margin amounted to 10,400 million euros at March 31, 2016, corresponding to the sum of Cash and cash equivalents and Current securities other than investments, totaling 3,400 million euros (5,047 million euros at December 31, 2015), and the committed credit lines, mentioned above, of which a total of 7,000 million euros has not been drawn down. This margin is sufficient to cover Group financial liabilities due at least for the next 24 months.

In particular:

Cash and cash equivalents amounted to 2,665 million euros (3,559 million euros at December 31, 2015). The different technical forms of investing available cash at March 31, 2016 can be analyzed as follows:

Maturities: investments have a maximum maturity of three months;

Counterparty risk: investments by the European companies are made with leading banking, financial and industrial institutions with high credit quality. Investments by the companies in South America are made with leading local counterparties;

Country risk: deposits have been made mainly in major European financial markets.

Current securities other than investments amounted to 735 million euros (1,488 million euros at December 31, 2015): These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They include 259 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A., 6 million euros of Italian Treasury Certificates (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance

Interim Management Report

Consolidated Financial Position and Cash Flows Performance 30

at March 31, 2016



---

**Table of Contents****CONSOLIDATED FINANCIAL STATEMENTS TELECOM ITALIA GROUP**

*Following the adoption into Italian legislation of the changes to the Transparency Directive, the requirement, established in Article 154-ter (Financial reports) of Italian Legislative Decree 58/1998 (Consolidated Law on Finance), for listed Issuers, with Italy as their Member State of origin, to prepare interim financial reports for the first and third quarter of the year, has been removed. However, Consob has been given the power to order the publication, through specific regulations and after having verified their impact, of periodic financial disclosures in addition to the annual and half-year financial reports.*

*Pending the regulatory developments on this matter, and in order to ensure adequate continuity of information to the market, Telecom Italia shall continue on a transitional and voluntary basis to prepare and publish its interim management reports for the first and third quarter of the year. The Interim Report also includes the Condensed Consolidated Financial Statements at March 31, 2016, prepared in compliance with the IFRS issued by the IASB and endorsed by the EU and, specifically, IAS 34 Interim Reports. The Condensed Consolidated Financial Statements at March 31, 2016 have not been audited.*

*The accounting policies and consolidation principles adopted in the preparation of the condensed consolidated financial statements at March 31, 2016 are the same as those adopted in the Telecom Italia Group annual consolidated financial statements at December 31, 2015, to which reference can be made, except for the application of the new Standards/Interpretations adopted by the Group from January 1, 2016. However, as described in the notes to the condensed consolidated financial statements at March 31, 2016, the new Standards/Interpretations had no effects on the consolidated financial statements of the Group.*

*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 on the figures under comparison.*

*The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; and net financial debt carrying amount and adjusted net financial debt. Moreover, the part entitled Business Outlook for the Year 2016 contains forward-looking statements in relation to the Group's intentions, beliefs or current expectations regarding financial performance and other aspects of the Group's operations and strategies. Readers of the present Interim Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group's control.*

**MAIN CHANGES IN THE SCOPE OF CONSOLIDATION**

The following changes in the scope of consolidation occurred during the first quarter of 2016:

*Sofora - Telecom Argentina group*: classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale) was sold on March 8, 2016;

*Revi Immobili S.r.l., Gestione Due S.r.l. and Gestione Immobili S.r.l. (Domestic Business Unit)*: on January 11, 2016, INWIT S.p.A. purchased 100% of these companies, which therefore entered into the Group's scope of consolidation.

The following changes in the scope of consolidation occurred during 2015:

*INWIT S.p.A. (Domestic Business Unit)*: established in January 2015;

*Alfabook S.r.l. (Domestic Business Unit)*: on July 1, 2015, Telecom Italia Digital Solution S.p.A. (now merged into Olivetti S.p.A.) acquired 100% of the company, which consequently entered the Group's scope of consolidation;

*TIM Real Estate S.r.l. (Domestic Business Unit)*: established in November 2015.

Interim Management Report

Consolidated Financial Statements    Telecom Italia 32  
Group

at March 31, 2016

**Table of Contents**

## Separate Consolidated Income Statements

(millions of euros)	1st Quarter 2016 (a)	1st Quarter 2015 Revised (b)	Change (a-b) amount	%
Revenues	4,440	5,054	(614)	(12.1)
Other income	47	53	(6)	(11.3)
Total operating revenues and other income	4,487	5,107	(620)	(12.1)
Acquisition of goods and services	(1,923)	(2,171)	248	11.4
Employee benefits expenses	(848)	(833)	(15)	(1.8)
Other operating expenses	(247)	(265)	18	6.8
Change in inventories	85	47	38	80.9
Internally generated assets	158	148	10	6.8
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	1,712	2,033	(321)	(15.8)
Depreciation and amortization	(1,009)	(1,052)	43	4.1
Gains/(losses) on disposals of non-current assets	3		3	
Impairment reversals (losses) on non-current assets	(2)		(2)	
Operating profit (loss) (EBIT)	704	981	(277)	(28.2)
Share of losses (profits) of associates and joint ventures accounted for using the equity method				
Other income (expenses) from investments		2	(2)	
Finance income	1,120	1,512	(392)	(25.9)
Finance expenses	(1,146)	(2,329)	1,183	50.8
Profit (loss) before tax from continuing operations	678	166	512	
Income tax expense	(221)	(74)	(147)	
Profit (loss) from continuing operations	457	92	365	
Profit (loss) from Discontinued operations/Non-current assets held for sale	47	169	(122)	(72.2)
Profit (loss) for the period	504	261	243	93.1
Attributable to:				
Owners of the Parent	433	82	351	
Non-controlling interests	71	179	(108)	(60.3)

Interim Management Report

Consolidated Financial Statements Telecom Italia 33  
Group

at March 31, 2016

**Table of Contents**

## Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (*Presentation of Financial Statements*), the following consolidated statements of comprehensive income include the Profit (loss) for the period as shown in the Separate Consolidated Income Statements and all non-owner changes in equity.

(millions of euros)	1st Quarter 2016	1st Quarter 2015 Revised
Profit (loss) for the period	(a) 504	261
Other components of the Consolidated Statements of Comprehensive Income		
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements		
Remeasurements of employee defined benefit plans (IAS 19):		
Actuarial gains (losses)		
Income tax effect	(b)	
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:		
Profit (loss)		
Income tax effect	(c)	
Total other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	(d=b+c)	
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements		
Available-for-sale financial assets:		
Profit (loss) from fair value adjustments	87	39
Loss (profit) transferred to the Separate Consolidated Income Statements	(82)	(4)
Income tax effect	(4)	(7)
	(e) 1	28
Hedging instruments:		
Profit (loss) from fair value adjustments	(679)	539
Loss (profit) transferred to the Separate Consolidated Income Statements	382	(455)
Income tax effect	88	(22)
	(f) (209)	62
Exchange differences on translating foreign operations:		
Profit (loss) on translating foreign operations	146	(158)
	304	

Loss (profit) on translating foreign operations transferred to the  
Separate Consolidated Income Statements

Income tax effect	(g)	450	(158)
-------------------	-----	-----	-------

Share of other profits (losses) of associates and joint ventures accounted  
for using the equity method:

Profit (loss)

Loss (profit) transferred to the Separate Consolidated Income  
Statements

Income tax effect

(h)

Total other components that subsequently will be reclassified to the  
Separate Consolidated Income Statements

(i=e+f+g+h) 242 (68)

Total other components of the Consolidated Statements of  
Comprehensive Income

(k=d+i) 242 (68)

Total comprehensive income (loss) for the period

(a+k) 746 193

Attributable to:

Owners of the Parent

638 (44)

Non-controlling interests

108 237

Interim Management Report

Consolidated Financial Statements Telecom Italia 34  
Group

at March 31, 2016



**Table of Contents**

## Consolidated Statements of Financial Position

(millions of euros)	3/31/2016 (a)	12/31/2015 Revised (b)	Change (a-b)	1.1.2015 Revised
<b>Assets</b>				
<b>Non-current assets</b>				
<b>Intangible assets</b>				
Goodwill	29,436	29,383	53	29,943
Intangible assets with a finite useful life	6,516	6,480	36	6,827
	35,952	35,863	89	36,770
<b>Tangible assets</b>				
Property, plant and equipment owned	12,816	12,659	157	12,544
Assets held under finance leases	2,210	2,208	2	843
	15,026	14,867	159	13,387
<b>Other non-current assets</b>				
Investments in associates and joint ventures accounted for using the equity method	41	41		36
Other investments	41	45	(4)	43
Non-current financial assets	2,766	2,989	(223)	2,445
Miscellaneous receivables and other non-current assets	1,899	1,778	121	1,614
Deferred tax assets	894	853	41	1,118
	5,641	5,706	(65)	5,256
<b>Total Non-current assets</b>	(a) 56,619	56,436	183	55,413
<b>Current assets</b>				
Inventories	341	254	87	313
Trade and miscellaneous receivables and other current assets	5,534	5,112	422	5,617
Current income tax receivables	26	163	(137)	101
<b>Current financial assets</b>				
Securities other than investments, financial receivables and other current financial assets	1,130	1,840	(710)	1,611
<i>Cash and cash equivalents</i>	2,665	3,559	(894)	4,812
	3,795	5,399	(1,604)	6,423
<b>Current assets sub-total</b>	9,696	10,928	(1,232)	12,454
<b>Discontinued operations/Non-current assets held for sale</b>				
of a financial nature		227	(227)	165
of a non-financial nature		3,677	(3,677)	3,564
		3,904	(3,904)	3,729
<b>Total Current assets</b>	(b) 9,696	14,832	(5,136)	16,183
<b>Total Assets</b>	(a+b) 66,315	71,268	(4,953)	71,596

Interim Management Report  
at March 31, 2016

Consolidated Financial Statements    Telecom Italia 35  
Group

**Table of Contents**

(millions of euros)	12/31/2015		Change (a-b)	1.1.2015 Revised
	3/31/2016 (a)	Revised (b)		
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Equity attributable to Owners of the Parent	18,181	17,554	627	18,068
Non-controlling interests	2,035	3,695	(1,660)	3,516
<b>Total Equity</b>	<b>(c) 20,216</b>	<b>21,249</b>	<b>(1,033)</b>	<b>21,584</b>
<b>Non-current liabilities</b>				
<b>Non-current financial liabilities</b>				
Non-current financial liabilities	30,354	30,518	(164)	32,325
Employee benefits	1,459	1,420	39	1,056
Deferred tax liabilities	367	323	44	438
Provisions	551	551		720
Miscellaneous payables and other non-current liabilities	1,140	1,110	30	697
<b>Total Non-current liabilities</b>	<b>(d) 33,871</b>	<b>33,922</b>	<b>(51)</b>	<b>35,236</b>
<b>Current liabilities</b>				
<b>Current financial liabilities</b>				
Current financial liabilities	4,440	6,224	(1,784)	4,686
<b>Trade and miscellaneous payables and other current liabilities</b>				
Trade and miscellaneous payables and other current liabilities	7,701	7,882	(181)	8,536
Current income tax payables	87	110	(23)	36
<b>Current liabilities sub-total</b>	<b>12,228</b>	<b>14,216</b>	<b>(1,988)</b>	<b>13,258</b>
<b>Liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>				
of a financial nature		348	(348)	43
of a non-financial nature		1,533	(1,533)	1,475
		1,881	(1,881)	1,518
<b>Total Current Liabilities</b>	<b>(e) 12,228</b>	<b>16,097</b>	<b>(3,869)</b>	<b>14,776</b>
<b>Total Liabilities</b>	<b>(f=d+e) 46,099</b>	<b>50,019</b>	<b>(3,920)</b>	<b>50,012</b>
<b>Total Equity and Liabilities</b>	<b>(c+f) 66,315</b>	<b>71,268</b>	<b>(4,953)</b>	<b>71,596</b>

Interim Management Report  
at March 31, 2016

Consolidated Financial Statements  
Telecom Italia 36  
Group

**Table of Contents**

## Consolidated Statements of Cash Flows

(millions of euros)	1st Quarter 2016	1st Quarter 2015 Revised
Cash flows from operating activities:		
Profit (loss) from continuing operations	457	92
Adjustments for:		
Depreciation and amortization	1,009	1,052
Impairment losses (reversals) on non-current assets (including investments)	2	3
Net change in deferred tax assets and liabilities	90	(11)
Losses (gains) realized on disposals of non-current assets (including investments)	(4)	
Share of losses (profits) of associates and joint ventures accounted for using the equity method		
Change in employee benefits	59	(6)
Change in inventories	(87)	(40)
Change in trade receivables and net amounts due from customers on construction contracts	30	(345)
Change in trade payables	(25)	(605)
Net change in current income tax receivables/payables	96	51
Net change in miscellaneous receivables/payables and other assets/liabilities	(279)	(45)
Cash flows from (used in) operating activities	(a) 1,348	146
Cash flows from investing activities:		
<i>Purchase of intangible assets</i>	(342)	(429)
<i>Purchase of tangible assets</i>	(648)	(535)
Total purchase of intangible and tangible assets on an accrual basis	(990)	(964)
<i>Change in amounts due for purchases of intangible and tangible assets</i>	(494)	(374)
Total purchase of intangible and tangible assets on a cash basis	(1,484)	(1,338)
Acquisition of control in subsidiaries or other businesses, net of cash acquired	(6)	
Acquisitions/disposals of other investments	(3)	
Change in financial receivables and other financial assets	862	(1,631)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of	492	
Proceeds from sale/repayment of intangible, tangible and other non-current assets	3	3
Cash flows from (used in) investing activities	(b) (136)	(2,966)
Cash flows from financing activities:		
Change in current financial liabilities and other	(522)	1,327
Proceeds from non-current financial liabilities (including current portion)	931	3,015
Repayments of non-current financial liabilities (including current portion)	(2,157)	(965)
Share capital proceeds/reimbursements (including subsidiaries)		186
Dividends paid		(3)

Changes in ownership interests in consolidated subsidiaries			
Cash flows from (used in) financing activities	(c)	(1,748)	3,560
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)	(45)	9
Aggregate cash flows	(e=a+b+c+d)	(581)	749
Net cash and cash equivalents at beginning of the period	(f)	3,216	4,910
Net foreign exchange differences on net cash and cash equivalents	(g)	26	(57)
Net cash and cash equivalents at end of the period	(h=e+f+g)	2,661	5,602

Interim Management Report

Consolidated Financial Statements

Telecom Italia 37  
Group

at March 31, 2016

**Table of Contents**

## Additional Cash Flow Information

(millions of euros)	1st Quarter 2016	1st Quarter 2015 Revised
Income taxes (paid) received	(26)	(18)
Interest expense paid	(721)	(771)
Interest income received	165	149
Dividends received		

## Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Quarter 2016	1st Quarter 2015 Revised
Net cash and cash equivalents at beginning of the period		
Cash and cash equivalents - from continuing operations	3,559	4,812
Bank overdrafts repayable on demand from continuing operations	(441)	(19)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	98	117
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	3,216	4,910