

TELECOM ITALIA S P A  
Form 6-K  
November 04, 2016

**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 NOVEMBER 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-

**TELECOM ITALIA GROUP: INTERIM REPORT ON OPERATIONS TO 30 SEPTEMBER 2016  
APPROVED BY BOARD OF DIRECTORS**

- u GROUP REVENUES BACK TO GROWTH: IN THE THIRD QUARTER CONSOLIDATED REVENUES TOTALLED 4.8 BILLION EUROS, +1.4% COMPARED TO THE SAME PERIOD OF 2015, CONFIRMING THE IMPROVEMENT TREND STARTED IN THE SECOND QUARTER (Q1 -12.1%, Q2 -7.7%)**
  
- u GROUP EBITDA IN THE QUARTER WAS 2.2 BILLION EUROS, +8.5%, GROWING FOR THE SECOND CONSECUTIVE QUARTER**
  
- u THE DOMESTIC BUSINESS UNIT ACHIEVED BEST QUARTERLY RESULTS SINCE 2007: REVENUES +1%, EBITDA +7.9%**
  
- u EBITDA IN BRAZIL ALSO IMPROVED AFTER 6 QUARTERS (+0.5% COMPARED TO THE THIRD QUARTER OF 2015 IN HOMOGENEOUS TERMS, AFTER HAVING BEEN NEGATIVE BY 15% IN Q1 AND BY 6.7% IN Q2 VS. THE CORRESPONDING PERIODS OF 2015)**
  
- u PROFITS DUE TO THE PARENT COMPANY FOR THE THIRD QUARTER TOTALLED 477 MILLION EUROS (+42.8% COMPARED TO THE SAME PERIOD OF 2015). IN THE NINE MONTHS TO DATE, PROFITS TOTALLED 1.5 BILLION EUROS (367 MILLION IN THE SAME PERIOD OF 2015)**
  
- u GROUP ADJUSTED NET FINANCIAL DEBT STOOD AT 26.7 BILLION EUROS, DOWN BY 779 MILLION EUROS SINCE 30 JUNE 2016 THANKS TO SOLID OPERATING CASH GENERATION**
  
- u LOW SINGLE DIGIT ORGANIC GROWTH TARGET FOR DOMESTIC EBITDA CONFIRMED**
  
- u RECCHI: THE TURNAROUND IS PROCEEDING QUICKLY, WITH RESULTS AHEAD OF EXPECTATIONS**
  
- u CATTANEO: THE OUTCOME OF OUR WORK CONTINUES TO SHOW, 2016 FIXED AND MOBILE COVERAGE TARGETS ALREADY ACHIEVED**

CONSOLIDATED RESULTS FOR THE THIRD QUARTER 2016:

REVENUES OF 4.8 BILLION EUROS, 66 MILLION EUROS HIGHER THAN IN THE THIRD QUARTER 2015 (+1.4%), CONFIRMING THE IMPROVEMENT TREND STARTED IN THE SECOND QUARTER (Q1 - 12.1%, Q2 -7.7%). DOMESTIC BUSINESS REVENUES TOTALLED 3.8 BILLION EUROS (+1% COMPARED TO THE SAME PERIOD OF 2015)

EBITDA AT 2.2 BILLION EUROS, 8.5% HIGHER THAN IN THE SAME PERIOD OF 2015; DOMESTIC EBITDA TOTALLED 1.8 BILLION EUROS (+7.9% COMPARED TO THE SAME QUARTER OF 2015)

EBIT TOTALLED 1.1 BILLION EUROS (+6.2% COMPARED TO THE SAME QUARTER OF 2015)

PROFITS DUE TO THE PARENT COMPANY TOTALLED 477 MILLION EUROS (+42.8% COMPARED TO THE SAME QUARTER OF 2015)

CONSOLIDATED RESULTS FOR THE FIRST NINE MONTHS OF 2016:

CONSOLIDATED REVENUES TOTALLED 13.9 BILLION EUROS (-3.7% IN ORGANIC TERMS COMPARED TO THE FIRST NINE MONTHS OF 2015)

EBITDA TOTALLED 5.9 BILLION EUROS, 4.6% HIGHER THAN IN THE FIRST NINE MONTHS OF 2015 (+6.9% IN ORGANIC TERMS)

EBIT: 2.8 BILLION EUROS, +1.6% IN ORGANIC TERMS COMPARED WITH THE FIRST NINE MONTHS OF 2015

PROFITS DUE TO THE PARENT COMPANY TOTALLED 1.5 BILLION EUROS (0.4 BILLION EUROS IN THE FIRST NINE MONTHS OF 2015)

ADJUSTED NET FINANCIAL DEBT STOOD AT 26.7 BILLION EUROS, 779 MILLION EUROS LESS THAN AT 30 JUNE 2016 (27.5 BILLION EUROS), THANKS TO SOLID OPERATING CASH GENERATION, AND 0.5 BILLION EUROS LESS THAN THE FIGURE AT THE END OF 2015 (27.3 BILLION EUROS)

CAPITAL EXPENDITURE FOR THE PERIOD TOTALLED 3.1 BILLION EUROS; DOMESTIC INVESTMENTS, WORTH 2.4 BILLION EUROS, WERE FOCUSED ON THE DEVELOPMENT OF NEW GENERATION INFRASTRUCTURE

*The results of the first nine months of 2016 will be illustrated to the financial community during a conference call scheduled for 7 November at 12.00 a.m. (Italian time). Journalists may listen in to the presentation, without asking*

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*questions, by calling 0633168. The presentation slides will be available at: [www.telecomitalia.com/3Q2016/eng](http://www.telecomitalia.com/3Q2016/eng)*

*Those unable to connect live may follow the presentation until 14 November 2016 by calling 06334843 (access code 1018002#).*

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*With reference to the year 2016 Telecom Italia continues voluntarily to draft and publish its Interim Reports on Operations for the first and third quarters of the year. The Telecom Italia Group's Interim Report on Operations to 30 September 2016 also includes the abbreviated consolidated Financial Statements to 30 September 2016 prepared in accordance with IFRS accounting principles issued by IASB and endorsed by the EU and, in particular, with IAS 34 Interim Financial Reporting. The condensed consolidated Financial Statements to 30 September 2016 are not audited.*

*The accounting policies and consolidation principles adopted in the preparation of the condensed consolidated Financial Statements to 30 September 2016 are consistent with those adopted in the consolidated Financial Statements of the Telecom Italia Group at 31 December 2015, to which reference can be made, except for the application of the new Principles/Interpretations adopted by the Group starting from 1 January 2016, which, however, had no impact on the Group's Consolidated Financial Statements.*

*In the Brazil Business Unit, the management has identified an incorrect accounting entry made in previous years regarding the posting of service revenues from the sale of pre-paid traffic. Although this accounting error had no impact in terms of the net financial position or cash and cash equivalents, it meant that the recognition of revenues from traffic prepaid and not yet consumed was posted earlier. The company therefore revised the comparative data as at 31 December 2015 and for the third quarter of 2015 and the first nine months of 2015, with no significant impact on the economic data compared. Further details are provided in the Annex.*

*In addition to the conventional financial performance indicators contemplated under IFRS, the Telecom Italia Group uses certain alternative performance indicators in order to give a clearer picture of the trend of operations and the company's financial position. Specifically, the alternative performance indicators refer to: EBITDA; EBIT; organic change in revenues, in EBITDA and EBIT; EBITDA margin and EBIT margin; net financial debt carrying amount and adjusted net financial debt.*

*Note that the section Business Outlook for the 2016 financial year, contains forward-looking statements about the Group's intentions, beliefs and current expectations with regard to its financial results and other aspects of Group's operations and strategies. Readers of this Press Release should not place undue reliance on such forward-looking statements, as final results may differ significantly from those contained in the above-mentioned forecasts owing to a number of factors, the majority of which are beyond the Group's control.*

## **MAIN VARIATIONS TO THE TELECOM ITALIA GROUP CONSOLIDATION SCOPE**

*The following changes in consolidation scope occurred in the first nine months of 2016:*

*Flash Fiber S.r.l. (Domestic Business Unit): established on 28 July 2016;*

*Sofora - Telecom Argentina Group: classified under Discontinued operations (discontinued operations/non-current assets held for sale) was sold on 8 March 2016;*

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

*The following changes to the consolidation scope occurred during 2015:*

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

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

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

*Milan, 4 November 2016* The Board of Directors of Telecom Italia met today, chaired by Giuseppe Recchi, to approve the Interim Report on Operations to 30 September 2016.

Over the course of the third quarter, the initiatives for the turnaround of TIM continued, to guarantee the structural growth of the company in terms of both turnover and EBITDA. In particular, activities continued to recover efficiency, key to ensuring the necessary flexibility for growth, and new quadruple play commercial offers were launched that met with good commercial success, confirming the validity of our strategic choices.

As a result, in the third quarter of 2016 the TIM **Domestic Business Unit** recorded **its best result since 2007**, with both **revenues and reported EBITDA** higher than the same period of the previous year (+1% and +7.9% respectively). In particular, the trend in **revenues** in each quarter, compared with the same period of the previous year, shows continuous improvement: -2.3% in the first quarter, -1.2% in the second and +1.0% in the third quarter of 2016.



At **consolidated** level, there was an increase (+1.4%) in revenues in the quarter, to a total of 4.8 billion euros, confirming the trend already evident for Domestic revenues, with the first quarter's figure 12.1% down on the same period of 2015, a second quarter 7.7% down and a third quarter 1.4% up.

**EBITDA** grew by 8.5%, while profits attributable to the Parent Company rose 42.8% to 477 million euros.

The investments in fibre for Fixed services enabled coverage of the population to be accelerated sharply: over 785 thousand homes are now reached by FTTH alone, an increase of over 250 thousand in 30 towns and cities in Italy in the third quarter of 2016 (16 more towns than at June 2016). Sales of fibre lines also grew during the quarter, 31% higher than in the same period of 2015. On the other hand, line losses (fixed lines lost by TIM) fell: after reducing at a steady rate throughout the year, a total of 100 thousand were lost in the third quarter, almost half the 173 thousand lost in the same period of 2015.

The results in the Mobile sector were also significant, with over half (51%) of TIM's customer base now using LTE technology.

In the period January-September 2016, the Profit due to the Parent Company reached 1.5 billion euros (compared to 367 million euros for the same period of 2015).

**Capital expenditure** in the first nine months of the year totalled 3.1 billion euros at consolidated level, while in Italy it totalled 2.4 billion, for the most part concentrated on the development of new ultrabroadband technologies.

At the end of September 2016 **adjusted net financial debt** totalled 26.7 billion euros, 779 million lower than at 30 June 2016.

*TIM's turnaround is proceeding quickly, and we are achieving excellent results, ahead of expectations, confirming the soundness of the initiatives undertaken. We are investing in our country like no-one else, aware of the role that TIM plays for the economic development of Italy*, emphasised **Executive Chairman Giuseppe Recchi**.

*The outcome of our work continues to show and therefore one understands how efficiency leads to beneficial effects also on revenues. Efficiency will affect all areas and the whole management is making an effort to provide increasingly better results to all shareholders. In October, 4G mobile network reached over 95% of the population, while 56% of the population had access to fibre, reaching the targets set for the end of 2016 well ahead of schedule in both cases*, added **Chief Executive Officer Flavio Cattaneo**.

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**Performance in the third quarter of 2016**

|   | 3rd Quarter  |              | 3rd Quarter   |             |              |
|---|--------------|--------------|---------------|-------------|--------------|
|   | 2016         | 2015         | absolute      | %           | % organic    |
| (million euros)   |              |              |               |             |              |
| <b>Revenues</b>   | <b>4,843</b> | <b>4,777</b> | <b>66</b>     | <b>1.4</b>  | <b>(1.2)</b> |
| <b>EBITDA</b>   | <b>2,152</b> | <b>1,983</b> | <b>169</b>    | <b>8.5</b>  | <b>6.7</b>   |
| <i>EBITDA margin</i>  | <i>44.4%</i> | <i>41.5%</i> | <i>2.9 pp</i> |             |              |
| <i>Organic EBITDA margin</i>  | <i>44.4%</i> | <i>41.1%</i> | <i>3.3 pp</i> |             |              |
| <b>EBIT</b>   | <b>1,081</b> | <b>1,018</b> | <b>63</b>     | <b>6.2</b>  | <b>3.1</b>   |
| <i>EBIT margin</i>  | <i>22.3%</i> | <i>21.3%</i> | <i>1.0 pp</i> |             |              |
| <i>Organic EBIT margin</i>  | <i>22.3%</i> | <i>21.4%</i> | <i>0.9 pp</i> |             |              |
| <b>Profit (loss) before tax from continuing operations</b>                          | <b>715</b>   | <b>541</b>   | <b>174</b>    | <b>32.2</b> |              |
| <b>Profit (loss) from continuing operations</b>                                     | <b>505</b>   | <b>345</b>   | <b>160</b>    | <b>46.4</b> |              |
| Profit (loss) from Discontinued operations/Non-current assets held for sale         |              | 150          | (150)         |             |              |
| <b>Profit (loss) for the period</b>   | <b>505</b>   | <b>495</b>   | <b>10</b>     | <b>2.0</b>  |              |
| <b>Profit (loss) for the period attributable to the Parent Company Shareholders</b> | <b>477</b>   | <b>334</b>   | <b>143</b>    | <b>42.8</b> |              |

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**TELECOM ITALIA GROUP RESULTS**

**Revenues** in the first nine months of 2016 totalled to 13,939 million euros, 6.3% lower than in the first nine months of 2015 (14,878 million euros). The 939 million euros fall is attributable primarily to the Brazil Business Unit, for 777 million euros, and for 91 million euros to the Domestic Business Unit.

In terms of organic change, calculated by excluding the effect of changes in exchange rates and consolidation scope, consolidated revenues were down 3.7% (-529 million euros).

Revenues by operating segment, were as follows:

|                                     | 1.1 - 30.9 2016 |              | 1.1 - 30.9 2015 |              | Changes      |              |              |
|-------------------------------------|-----------------|--------------|-----------------|--------------|--------------|--------------|--------------|
|                                     |                 | % of total   |                 | % of total   | absolute     | %            | % organic    |
| (million euros)                     |                 |              |                 |              |              |              |              |
| Domestic (*)                        | 11,036          | 79.2         | 11,127          | 74.8         | (91)         | (0.8)        | (0.8)        |
| <i>Core Domestic (**)</i>           | <i>10,239</i>   | <i>73.5</i>  | <i>10,390</i>   | <i>69.8</i>  | <i>(151)</i> | <i>(1.5)</i> | <i>(1.5)</i> |
| <i>International Wholesale</i>      | <i>1,003</i>    | <i>7.2</i>   | <i>971</i>      | <i>6.5</i>   | <i>32</i>    | <i>3.3</i>   | <i>3.3</i>   |
| Brazil                              | 2,922           | 21.0         | 3,699           | 24.9         | (777)        | (21.0)       | (11.2)       |
| Other assets                        | 10              | 0.1          | 90              | 0.6          | (80)         |              |              |
| <i>Adjustments and eliminations</i> | <i>(29)</i>     | <i>(0.3)</i> | <i>(38)</i>     | <i>(0.3)</i> | <i>9</i>     |              |              |
| <b>Consolidated Total</b>           | <b>13,939</b>   | <b>100.0</b> | <b>14,878</b>   | <b>100.0</b> | <b>(939)</b> | <b>(6.3)</b> | <b>(3.7)</b> |

(\*) After the change to Persidera's mission, the Media Business Unit was incorporated into the Domestic Business Unit (Domestic Core) from 1 January 2016; without this change, Domestic revenues for the first nine months of 2016 would have been 10,982 million euros.

(\*\*) Includes the Olivetti company since 1 January 2016. The data for the comparative period have been changed accordingly.

**EBITDA** in the first nine months of 2016 totalled 5,878 million euros (5,622 million euros in the first nine months of 2015), 256 million euros (+4.6%) higher than in the first nine months of 2015, with an EBITDA margin of 42.2% (37.8% in the first nine months of 2015, 4.4 percentage points up).

In organic terms there was a 6.9% increase compared to the first nine months of 2015.

| (million euros)   | 1.1          | 30.9         | 1.1        | 30.9 | Changes |            |
|---|--------------|--------------|------------|------|---------|------------|
|   | 2016         | 2015         | absolute   |      |         | %          |
| <b>REPORTED EBITDA</b>                                  | <b>5,878</b> | 5,622        | <b>256</b> |      |         | <b>4.6</b> |
| <i>Margin</i>   | 42.2         | 37.8         |            |      |         | 4.4 pp     |
| Foreign currency translation                            |              | (123)        | 123        |      |         |            |
| Changes in the consolidation scope                      |              |              |            |      |         |            |
| <b>ORGANIC EBITDA</b>                                   | <b>5,878</b> | <b>5,499</b> | <b>379</b> |      |         | <b>6.9</b> |
| <i>Margin</i>   | 42.2         | 38.0         |            |      |         | 4.2 pp     |
| of which non-recurring Income/(Charges)                 | (153)        | (460)        | 307        |      |         |            |
| <b>ORGANIC EBITDA excluding non-recurring component</b> | <b>6,031</b> | <b>5,959</b> | <b>72</b>  |      |         | <b>1.2</b> |
| <i>Margin</i>   | 43.3         | 41.2         |            |      |         | 2.1 pp     |

EBITDA for the first nine months of 2016 reflected the negative impact of non-recurring charges for a total of 153 million euros (460 million euros in the first nine months of 2015). Without these, the organic change in EBITDA would have been +1.2%, with a margin of 43.3%, 2.1 percentage points higher than in the first nine months of 2015.

Third quarter 2016 EBITDA totalled **2,152 million euros**, 169 million euros higher (+8.5%) than the same period last year (1,983 million euros). The margin was 44.4%, up 2.9 percentage points on the third quarter of 2015.

In organic terms, and in the absence of non-recurring charges (62 million euros in the third quarter of 2016 and 61 million euros in the same period of 2015), the increase over the third quarter 2015 figure would have been +6.6%, with a margin of 45.7%, an improvement over the previous quarters of 2016 (2.1 percentage points higher than the second quarter and 5.5 percentage points higher than the first).

The positive trend in EBITDA, in both absolute terms and in terms of margin on revenues, benefited from the actions implementing the cost recovery plan that started in the second quarter of 2016 in the Domestic Business Unit and in the third quarter in the Brazil Business Unit and will continue throughout the life of the Plan. In addition, in the second quarter of 2016, EBITDA benefited from some non-structural events, particularly in relation to labour costs, connected to the reversal of the 66 million euro provision made in the 2015 financial statements, after the conditions for the payment of the performance bonus to employees were not met.

The following table shows a breakdown of EBITDA and EBITDA margin by operating segment:

| (million euros)                     | 1.1 - 30.9 2016 |              | 1.1 - 30.9 2015 |              | Changes    |            |            |
|-------------------------------------|-----------------|--------------|-----------------|--------------|------------|------------|------------|
|                                     |                 | % of total   |                 | % of total   | absolute   | %          | % organic  |
| Domestic (*)                        | 4,995           | 85.0         | 4,525           | 80.5         | 470        | 10.4       | 10.4       |
| <i>Margin</i>                       | 45.3            |              | 40.7            |              |            | 4.6 pp     | 4.6 pp     |
| Brazil                              | 900             | 15.3         | 1,108           | 19.7         | (208)      | (18.8)     | (8.6)      |
| <i>Margin</i>                       | 30.8            |              | 30.0            |              |            | 0.8 pp     | 0.9 pp     |
| Other assets                        | (15)            | (0.3)        | (8)             | (0.1)        | (7)        |            |            |
| <i>Adjustments and eliminations</i> | (2)             |              | (3)             | (0.1)        | 1          |            |            |
| <b>Consolidated Total</b>           | <b>5,878</b>    | <b>100.0</b> | <b>5,622</b>    | <b>100.0</b> | <b>256</b> | <b>4.6</b> | <b>6.9</b> |
| <i>Margin</i>                       | 42.2            |              | 37.8            |              |            | 4.4 pp     | 4.2 pp     |

(\*) After the change to the mission of Persidera, the Media Business Unit was incorporated into the Domestic Business Unit (Domestic Core) from 1 January 2016; in the absence of this change, Domestic EBITDA for the

first nine months of 2016 would have been 4,967 million euros.

**EBIT** in the first nine months of 2016 totalled 2,768 million euros(2,806 million euros for the first nine months of 2015), down 38 million euros (-1.4%) compared with the first nine months of 2015, with a margin of 19.9% (18.9% in the first nine months of 2015, 1.0 percentage points up).

Organic EBIT increased by 44 million euros (+1.6%), with a margin of 19.9% (18.8% in the first nine months of 2015).

EBIT in the first nine months of 2016 suffered the negative impact of non-recurring net charges for a total of 144 million euros (161 million euros in the first nine months of 2015 considering the same exchange rate). Without these non-recurring items organic change in EBIT would have been 27 million euros (+0.9%), with a margin of 20.9%, (19.9% in the first nine months of 2015, +1.0 percentage points up).

**Profits from discontinued operations/non-current assets held for sale** in the first nine months of 2016 totalled **47 million euros** (480 million euros in the first nine months of 2015) and refer to the positive contribution made to the consolidated results by the Sofora - Telecom Argentina group for the period 1 January - 8 March (59 million euros), to which were added the effects of the sale that, when the related income taxes are included, had a negative impact of 12 million euros.

**Profits for the first nine months of 2016 attributable to Parent Company Shareholders** totalled **1,495 million euros** (367 million euros in the first nine months of 2015) and benefit not only by the improvement in the margins, but also from some items of a purely accounting and valuation nature, which do not generate any financial adjustments, connected principally with the valuation at fair value of the implicit option included in the Mandatory Convertible Bond issued at the end of 2013 with maturity at three years (positive for 611 million euros). In the absence of these impacts, the profits for the first nine months of 2016 attributable to the Parent Company Shareholders would have totalled almost 1,200 million euros, an improvement of approximately 150 million euros compared to the same period of 2015, reconstructed on homogeneous terms.

Group **headcount** at 30 September 2016 was **62,205**, including 52,007 in Italy (65,867 at 31 December 2015, including 52,555 in Italy).

**Capital expenditure** totalled **3,107 million euros**, 126 million euros less than in the first nine months of 2015. In the third quarter, investment was again more selective, identifying the most profitable projects, focussed on innovation and transformation, that did not affect UBB coverage levels and service quality.

The investments by operating segment are as follows:

| (million euros)                     | 1.1 - 30.9 2016 |              | 1.1 - 30.9 2015 |              | Change       |
|-------------------------------------|-----------------|--------------|-----------------|--------------|--------------|
|                                     |                 | % of total   |                 | % of total   |              |
| Domestic (*)                        | 2,398           | 77.2         | 2,297           | 71.0         | 101          |
| Brazil                              | 709             | 22.8         | 930             | 28.8         | (221)        |
| Other assets                        |                 |              | 6               | 0.2          | (6)          |
| <i>Adjustments and eliminations</i> |                 |              |                 |              |              |
| <b>Consolidated Total</b>           | <b>3,107</b>    | <b>100.0</b> | <b>3,233</b>    | <b>100.0</b> | <b>(126)</b> |
| <i>Margin</i>                       |                 | 22.3         |                 | 21.7         | 0.6 pp       |

(\*) After the change to the mission of Persidera, the Media Business Unit was incorporated into the Domestic Business Unit (Domestic Core) from 1 January 2016; in the absence of this change, Domestic investments in the first nine months of 2016 would have been 2,394 million euros.

The **Domestic Business Unit** posted investments for **2,398 million euros**, 101 million euros higher than in the first nine months of 2015. This increase was entirely attributable to the acceleration and growth of investments for the development of innovative networks and platforms for new generation services (+209 million euros), which accounted for 49% of total investments (43% in the same period of 2015).

The investments of the **Brazil Business Unit** posted a reduction of 221 million euros (including a negative foreign exchange effect of 103 million euros) compared with the figure in the first nine months of 2015; these investments were focused mainly on the evolution of the business infrastructure and the sales support platforms.

**Cash flow from Group operations** is positive by **1,908 million euros** (positive by 1,551 million euros in the first nine months of 2015).

**Adjusted net financial debt** totalled 26,735 million euros at 30 September 2016, 543 million euros less than at the end of 2015 (27,278 million euros). In the first nine months of 2016, the benefits obtained from completion of the sale of the Sofora Telecom Argentina group, with the receipt of the sale price and the deconsolidation of the related financial debt, together with the positive trend in operations, covered the requirement deriving from finance management, from the property project and the renegotiation of the leasing agreements, from the payment of dividends and from the effect of some disputes and the payment of regulatory fines. The level of debt was also negatively affected by the change in the exchange rate of the Brazilian real.

Net financial debt carrying amount at 30 September 2016 totalled 27,411 million euros (28,475 million euros at 31 December 2015).

The **liquidity margin** at 30 September 2016 was 12,767 million euros, equivalent to the sum of Cash and cash equivalents and Securities other than investments for a total of 5,767 million euros (5,047 million euros at 31 December 2015) and unused committed lines of credit for a total of 7,000 million euros. This margin covers the financial liabilities of the Group falling due for at least the next 24 months.

In the third quarter of 2016, adjusted net financial debt fell by 779 million euros from the 30 June 2016 figure (27,514 million euros), due to the positive trend in operations.

## **BUSINESS UNIT RESULTS**

### **DOMESTIC**

Revenues for the first nine months of 2016 totalled 11,036 million euros, 91 million euros less (-0.8%) than in the same period of 2015, showing a trend of structural improvement, whereby the result achieved in the third quarter was better than the result for same period of the previous year (+1.0%, second quarter -1.2% and first quarter -2.3%). Service revenues presented a similar trend to total revenues, with a reduction of 134 million euros compared to the first nine months of 2015 (-1.3%), but with a significant recovery in the third quarter (-0.4%), supported, in particular, by a structural improvement in Mobile revenues, which were positive for the fourth consecutive quarter.

In particular, it should be noted that:

Revenues from Mobile market services totalled 3,360 million euros, with an increase of 27 million euros compared to the corresponding period of the previous year (+0.8%); the steady growth dynamic observed in the preceding quarters (third quarter +1.1%, second quarter +0.7%, first quarter +0.6%, and fourth quarter 2015, +0.1%), thanks to an improvement in competitive dynamics and the ever increasing expansion of the Mobile Internet and the consequent development of digital services;

Fixed market service revenues totalled 7,471 million euros in the first nine months, a contraction of 330 million euros from the figure for the same period in 2015 (-4.2%). This downward trend is wholly correlated with the reduction in revenues from voice services (-420 million euros due to the loss of traditional accesses, although the trend is significantly attenuated, compared to the preceding periods), only partially offset by continued growth in Broadband and Ultra-Broadband customers, which leads growth in innovative services (+106 million euros, +6.1%). The reduction in prices for wholesale services also affects the Fixed business results.

Revenues from product sales, including changes to works in progress, totalled 690 million euros in the first nine months of 2016, an improvement compared to the first nine months of 2015 (+43 million euros), of note in particular is the appreciable growth in revenue from sales of smartphones (+48 million euros, entirely attributable to the sale of 4G network enabled LTE devices), which supports the development of digital services (internet connectivity and entertainment services).

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The Domestic Business Unit operates separately in two different reference environments, and an analysis of these revenues is provided below:



u **Core Domestic Revenues**

**Revenues** totalled **10,239 million euros** a fall of 1.5% (10,390 million euros in the first nine months of 2015).

The performance of the individual market segments compared with the first nine months of 2015 is as follows:

**Consumer:** the revenues of the Consumer segment in the first nine months of 2016 totalled 5,404 million euros, 31 million euros (+0.6%) higher than the same period in 2015; this confirmed the recovery trend already underway in 2015, thanks to the structural improvement in Mobile revenues, as an effect of retention of our market share and the stabilisation of ARPU levels.

In particular, the following should be noted:

Mobile revenues totalled 2,710 million euros, with a dynamic of constant and significant growth, compared to the first nine months of 2015 (+112 million euros, +4.3%). Service revenues increased by 75 million euros (+3.2% compared to the same period of 2015), again confirming in the third quarter a positive result in terms of trends and of comparison with the previous year, which may be attributed to an improvement in the competitive dynamics, with progressive stabilisation of market share and the constant growth of mobile internet and digital services to support ARPU levels;

Fixed revenues totalled 2,660 million euros, a reduction of 143 million euros compared to the first nine months of 2015 (-5.1%). This contraction in turnover continued and accentuated the slowdown trend of previous quarters (third quarter -3.2%, second quarter -6.0%, first quarter -6.0%). This recovery may be attributed to lower losses of voice-only lines, accompanied by development of Broadband customers and the growing penetration of Fibre offers.

**Business:** the revenues of the Business segment totalled 3,299 million euros, 234 million euros lower than in the first nine months of 2015 (-6.6%), 159 million euros (-5.0%) of which in the service component and 74 million euros (-21.3%) in the product component.

Regarding the service revenues:

Mobile service revenues fell by 51 million euros (-6.0% than the same period last year) with the trend showing appreciable recovery in the third quarter of 2016 (-1.4% in the third quarter, -7.6% in the second quarter and -9.4% in the first quarter) . In particular, the contraction in traditional mobile services continued (-15.7% of the voice and messaging component, compared to the first nine months of 2015), caused by the trend for customers to reposition on bundles with a lower overall ARPU, and the migration of Government customers to the new Consip offer (the unit prices of which have been lowered), and still only marginally recovered, thanks to the positive performance of the new digital services (+3.4% compared to 2015);

Fixed service revenues fell by 109 million euros (-4.6% compared to the first nine months of 2015), despite constant growth in ICT services (+2.2%), particularly Cloud services. In fact, the segment continues to be affected by the slow recovery in the broader economy, the fall in the prices of traditional voice and data services, and the technological shift towards VoIP systems.

**Wholesale:** the Wholesale segment posted revenues of 1,370 million euros for the first nine months of 2016, higher than the corresponding period of 2015 (+3 million euros, +0.2%), despite the reduction in regulated prices which had a negative impact of 50 million euros on revenues, more than offset by the contribution of some infrastructure capacity sale deals.

The revenues of Telecom Italia Sparkle Group - International Wholesale for the first nine months of 2016 totalled 1,003 million euros, significantly higher than in the first nine months of 2015 (+32 million euros, +3.3%). This result is due to growth in revenues for Voice services (+27 million euros, 3.9%) and growth in revenues from IP/Data services including Cloud and Data Center services (+5 million euros, +2.1%). The other lines of business remained substantially stable.

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**The EBITDA** of the Domestic Business Unit in the first nine months of 2016 totalled **4,995 million euros**, 470 million euros more than the same period of 2015 (+10.4%), with a margin of 45.3% (+4.6 percentage points compared with the same period of 2015). This result was affected by the negative impact of non-recurring charges totalling 139 million euros, of which: