TELECOM ITALIA S P A
Form 6-K
October 03, 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 OCTOBER 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)

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 x 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 x

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

Table of Contents

HALF-YEAR FINANCIAL

REPORT AT

JUNE 30, 2016

Table of Contents

CONTENTS

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.

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

BRAZIL

The Brazil Business Unit (Tim Brasil group) provides services in the area of UMTS, GSM and LTE

Tim Brasil Serviços e Participações S.A.

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.

Tim Participações S.A.

Intelig Telecomunicações Ltda

Tim Celular S.A.

Table of Contents

BOARD OF DIRECTORS

Chairman	Giuseppe Recchi
Deputy Chairman	Arnaud Roy de Puyfontaine
Chief Executive Officer	Flavio Cattaneo
Directors	Tarak Ben Ammar
	Davide Benello (independent)
	Lucia Calvosa (independent)
	Laura Cioli (independent)
	Francesca Cornelli (independent)
	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

Table of Contents

HIGHLIGHTS HALF-YEAR 2016

The second quarter of 2016 saw the revision and acceleration of the Cost Recovery Plan, relating to the Domestic Business Unit, and already envisaged in the 2016 2018 Strategic Plan, aimed at improving efficiency and business performance and providing the Company greater operating and financial flexibility. This plan is based on a significant change in approach to controlling costs, simplifying and transforming all the processes and production sectors, and optimizing sourcing policies, through continuously monitored programs and action plans. Specifically, the efficiency savings, totaling 1.6 billion euros in the three-year period, will be achieved in terms of operating costs, by:

- optimizing purchasing and advertising costs, while maintaining the same level of purchasing performance, quality, presence and visibility in the media;
- increasing productivity and simplifying the network and IT platforms;
- simplifying the organization and the processes through digitization and by encouraging the use of automation tools, with the reassignment of personnel to insource activities that have been outsourced;
- containing energy, support and lease expenditure, by optimizing spaces and implementing a zero based budget approach;
- reducing labor costs, also by reviewing rewarding policies.

The efficiency savings on capital expenditure, while maintaining the levels of Ultra BroadBand coverage and the quality of the service, will be achieved by simplifying the network architectures to optimize the expenditure through targeted allocation based on return on investment.

The effects of this plan were already seen in the second quarter of 2016, and will strengthen in the second half of 2016, to then continue over the entire duration of the 2016 2018 Plan.

On July 25, 2016 the Tim Brasil group announced that it had updated its 2016-2018 Industrial Plan, which has set an efficiency savings target, expressed in terms of the reduction in cash costs by 2018 compared to 2015, of 1.5 billion reais (of which 0.6 billion reais of lower operating expenses and 0.9 billion reais of lower capital expenditures), an improvement of 1.6 billion reais compared to the old plan. An overall reduction of the cash costs is envisaged within the three-year plan period, which differs from the previous plan and amounts to 4.5 billion reais (of which 3.4 billion reais of lower operating expenses and 1.1 billion reais of lower capital expenditures). The main efficiency improvement actions will involve organizational adaptation, improving E2E processes and systems, and digitizing a number of commercial processes. In terms of the offering, the focus will continue on the Mobile segment, supported by innovative and differentiated offerings, and by the enhancement of mobile broadband coverage.

In the first half of 2016 and 2015, 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. They include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

The impacts of the following non-recurring income/expenses on the main lines of result are detailed below.

Table of Contents

(millions of euros)	1st half 2016	1st half 2015
Employee benefits expenses		
Expenses related to restructuring and rationalization	(75)	(30)
Sundry expenses and provisions		
Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	(16)	(369)
Impact on EBITDA	(91)	(399)
Gain from Brazil Towers disposal	9	277
Impact on EBIT	(82)	(122)

Lastly, you are reminded that on March 8, 2016 the sale was completed of the controlling interest still held in the Sofora Telecom Argentina Group, classified under Discontinued Operations.

FINANCIAL HIGHLIGHTS

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

Consolidated revenues amounted to 9.1 billion euros, down by 9.9% on the first half of 2015 (-4.9% in organic terms).

EBITDA amounted to 3.7 billion euros, up by 2.4% on the first half of 2015 (+7.0% in organic terms). The organic EBITDA margin stood at 41.0%, 4.6 percentage points higher than the corresponding period of the previous year. EBITDA in the first half of 2016 was pulled lower by a total of 91 million euros in non-recurring expenses (399 million euros in the first half of 2015), without which the organic change in EBITDA would have been -1.7%, with an EBITDA margin of 42.0%, up 1.4 percentage points compared to the first half of 2015.
EBITDA amounted to 2 billion euros in the second quarter of 2016, up 25.4% on the second quarter of 2015 and 17.6% on the first quarter of 2016.

Operating profit (EBIT) came to 1.7 billion euros, down 5.6% compared to the first half of 2015 (+0.7% in organic terms), pulled down by non-recurring net expenses of 82 million euros (122 million euros in the first half of 2015), without which the organic change in EBIT would have been -1.6%, with an EBIT margin of 19.4%, up 0.6 percentage points on the first half of 2015.

The profit for the period attributable to Owners of the Parent amounted to 1 billion euros (33 million euros in the first half of 2015).

Capital expenditures in the first half of 2016 amounted to 1,983 million euros (2,146 million euros in the first half of 2015). The efficiency program for capital expenditures, which will significantly improve the effectiveness of the capital expenditures for maintaining the levels of UBB coverage and the quality of the service, was launched in the second quarter. In domestic market, the capital expenditure program for developing next-generation network (NGN) infrastructure enabled the fiber-optic coverage to reach 51% of the population, while the 4G (LTE) network now covers 94% of the population.

Adjusted net financial debt amounted to 27,514 million euros at June 30, 2016, up 236 million euros compared to December 31, 2015 (27,278 million euros). In the first half of 2016, the benefits from the completion of the sale of the Sofora Telecom Argentina group with the receipt of the sale proceeds and the consequent deconsolidation of the relative net financial debt, together with the cash inflow from business operations, only partially offset the cash requirements arising from financial operations, the payment of dividends and the effect of several disputes, the payment of regulatory penalties, the real estate project and the renegotiation of lease contracts. The level of debt was also negatively affected by the exchange rate fluctuation of the Brazilian real.

Table of Contents

Financial highlights (*)

(millions of euros)		2nd Quarter 2016	2nd Quarter 2015	1st Half 2016 (a)	1st Half 2015 (b)	% Change Reported (a/b)	% Change Organic
Revenues		4,656	5,047	9,096	10,101	(9.9)	(4.9)
EBITDA	(1)	2,014	1,606	3,726	3,639	2.4	7.0
EBITDA Margin		*43.3%*	*31.8%*	*41.0%*	*36.0%*	*5.0pp*	
Organic EBITDA Margin		*43.3%*	*31.9%*	*41.0%*	*36.4%*	*4.6pp*	
EBIT	(1)	983	807	1,687	1,788	(5.6)	0.7
EBIT Margin		*21.1%*	*16.0%*	*18.5%*	*17.7%*	*0.8pp*	
Organic EBIT Margin		*21.1%*	*15.1%*	*18.5%*	*17.5%*	*1.0pp*	
Profit (loss) from Discontinued operations/Non-current assets held for sale			161	47	330	(85.8)	
Profit (loss) for the period attributable to owners of the Parent		585	(49)	1,018	33		
Capital expenditures (CAPEX)		1,039	1,182	1,983	2,146	(7.6)	

		6/30/2016	12/31/2015	Change Amount
Adjusted net financial debt	(1)	27,514	27,278	236

(*) 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 six-month period ended June 30, 2015, have been therefore revised, with no material impact.

(1) Details are provided under Alternative Performance Measures .

at June 30, 2016

Table of Contents

CONSOLIDATED OPERATING PERFORMANCE

REVENUES

Revenues amounted to 9,096 million euros in the first half of 2016, down 9.9% from 10,101 million euros in the first half of 2015. The decrease of 1,005 million euros was mainly attributable to the Brazil Business Unit (833 million euros) and the Domestic Business Unit (128 million euros).

In terms of organic change, consolidated revenues fell by 4.9% (-472 million euros), and were calculated as follows:

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %
REPORTED REVENUES	9,096	10,101	(1,005)	(9.9)
Foreign currency financial statements translation effect		(533)	533	
Changes in the scope of consolidation				
ORGANIC REVENUES	9,096	9,568	(472)	(4.9)

Exchange rate fluctuations [(1)] were attributable to the Brazil Business Unit. No changes arose in the scope of consolidation [(2)].

The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Half 2016	1st Half 2016 % of total	1st Half 2015	1st Half 2015 % of total	Change amount	Change %	Change % organic
Domestic [(*)]	7,247	79.7	7,375	73.0	(128)	(1.7)	(1.7)
Core Domestic [(**)]	*6,736*	*74.1*	*6,893*	*68.2*	*(157)*	*(2.3)*	*(2.3)*
International Wholesale	*649*	*7.1*	*635*	*6.3*	*14*	*2.2*	*2.2*
Brazil	1,858	20.4	2,691	26.6	(833)	(31.0)	(13.9)
Other Operations	9	0.1	57	0.6	(48)		
Adjustments and eliminations	*(18)*	*(0.2)*	*(22)*	*(0.2)*	*4*		
Consolidated Total	9,096	100.0	10,101	100.0	(1,005)	(9.9)	(4.9)

(*) 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 revenues of the Domestic Business Unit for the first half of 2016 would have totaled 7,210 million euros.

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

EBITDA

EBITDA totaled 3,726 million euros (3,639 million euros in the first half of 2015), up 87 million euros compared to the first half of 2015; the EBITDA margin was 41.0% (36.0% in the first half of 2015, +5.0 percentage points).

Organic EBITDA was up 243 million euros (+7.0%) compared to the first half of 2015; the organic EBITDA margin was up 4.6 percentage points, from 36.4% in the first half of 2015 to 41.0% in the first half of 2016.

EBITDA in the first half of 2016 reflected the negative impact of non-recurring expenses totaling 91 million euros (399 million euros in the first half of 2015). Without these expenses the organic change in EBITDA would have been -1.7%, with an EBITDA margin of 42.0%, up 1.4 percentage points on the first half of 2015. For further details, see the Note Significant non-recurring events and transactions in the Half-Year Condensed Consolidated Financial Statements at June 30, 2016 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 1.11572 for the US dollar in the first half of 2016 and 1.11609 in the first half of 2015. For the Brazilian real, the average exchange rates used were 4.13001 in the first half of 2016 and 3.31144 in the first half 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.

Table of Contents

EBITDA for the second quarter of 2016 amounted to 2,014 million euros, up 408 million euros (+25.4%) on the same period of the previous year (1,606 million euros). In organic terms and without non-recurring expenses, the increase would have been 79 million euros, up 4% compared to the second quarter of 2015.

The positive performance of EBITDA, both in terms of amount and EBITDA margin, benefited from the start of the actions of the cost recovery plan, already announced in recent months, which will be strengthened during the second half of 2016 and then continued over the entire life of the Plan. In addition, during the second quarter of 2016, EBITDA benefited from several non-structural events, relating in particular to the labor costs, detailed below.

Organic EBITDA is calculated as follows:

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %
REPORTED EBITDA	3,726	3,639	87	2.4
Foreign currency financial statements translation effect		(156)	156	
Changes in the scope of consolidation				
ORGANIC EBITDA	3,726	3,483	243	7.0
of which non-recurring income/(expenses)	(91)	(399)	308	
ORGANIC EBITDA excluding non-recurring component	3,817	3,882	(65)	(1.7)

Exchange rate fluctuations were attributable to the Brazil Business Unit.

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

(millions of euros)	1st Half 2016	1st Half 2016 % of total	1st Half 2015	1st Half 2015 % of total	Change amount	Change %	Change % organic
Domestic (*)	3,184	85.5	2,846	78.2	338	11.9	11.9
EBITDA Margin	*43.9*		*38.6*			*5.3pp*	*5.3pp*
Brazil	556	14.9	790	21.7	(234)	(29.6)	(12.3)
EBITDA Margin	*29.9*		*29.4*			*0.5pp*	*0.5pp*
Other Operations	(11)	(0.3)	2	0.1	(13)		
Adjustments and eliminations	*(3)*	*(0.1)*	*1*		*(4)*		
Consolidated Total	3,726	100.0	3,639	100.0	87	2.4	7.0
EBITDA Margin	*41.0*		*36.0*			*5.0pp*	*4.6pp*

(*) 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 EBITDA of the Domestic Business Unit for the first half of 2016 would have totaled 3,164 million euros.

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

Acquisition of goods and services (3,783 million euros; 4,372 million euros in the first half of 2015).

(millions of euros)	1st Half 2016	1st Half 2015	Change
Purchases of goods	752	994	(242)
Revenues due to other TLC operators and interconnection costs	978	1,077	(99)
Commercial and advertising costs	586	711	(125)
Power, maintenance and outsourced services	591	648	(57)
Rent and leases	339	365	(26)
Other service expenses	537	577	(40)
Total acquisition of goods and services	3,783	4,372	(589)
EBITDA Margin	*41.6*	*43.3*	*(1.7)pp*

Table of Contents

Employee benefits expenses (1,551 million euros; 1,705 million euros in the first half of 2015): employee benefits expenses decreased by 154 million euros on the first half of 2015.

(millions of euros)	1st half 2016	1st half 2015	Change
Employee benefits expenses - Italy	1,377	1,498	(121)
Ordinary employee expenses and costs	1,310	1,468	(158)
Restructuring and other expenses	67	30	37
Employee benefits expenses Outside Italy	174	207	(33)
Ordinary employee expenses and costs	166	207	(41)
Restructuring and other expenses	8		8
Total employee benefits expenses	1,551	1,705	(154)
EBITDA Margin	*17.1*	*16.9*	*0.2*

The main factors that drove this change were:

a decrease of 158 million euros in the Italian component of ordinary employee expenses. The average salaried workforce decreased by 1,253 average employees (with 1,004 average employees related to the application of Solidarity Contracts). In addition, the second quarter of 2016 benefited from several non-structural events connected in particular to the reversal of the provision, made in the 2015 financial statements for 66 million euros, following the failure to achieve the conditions for payment of the Results Bonus to employees. The amount reversed for the Parent was 58 million euros;

the recognition of non-recurring expenses (provisions to Employee benefits and other costs) from domestic companies totaling 67 million euros. In particular, the Parent recognized expenses of around 40 million euros essentially relating to the acceptance of the expression of interest by management personnel for the application of Article 4, paragraphs 1-7ter, of Italian Law No. 92 of June 28, 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 the application of Article 4 of the Fornero law for non-management personnel. You are reminded that in 2015 non-recurring expenses were recognized for a total of 30 million euros, related to the application of Article 4 Fornero law for management personnel and the corporate restructuring of Olivetti;

a decrease of 33 million euros in the component outside Italy of employee benefits expenses, including a negative currency effect of 38 million euros. Excluding this impact, the increase of 5 million euros was essentially related to the recognition of non-recurring expenses of 8 million euros for the implementation of the corporate restructuring plan initiated by the Brazil Business Unit, which was offset by the effects of the decrease in the average salaried workforce (-383 average employees).

Other income (107 million euros; 131 million euros in the first half of 2015).

(millions of euros)	1st half 2016	1st half 2015	Change
Late payment fees charged for telephone services	27	31	(4)
Recovery of employee benefit expenses, purchases and services rendered	18	15	3
Capital and operating grants	8	14	(6)
Damage compensation, penalties and sundry recoveries	10	14	(4)
Other income	44	57	(13)
Total	107	131	(24)

Table of Contents

Other operating expenses (501 million euros; 888 million euros in the first half of 2015): these expenses fell by 387 million euros compared to the first half of 2015, when the figure included non-recurring expenses of 369 million euros.

(millions of euros)	1st Half 2016	1st Half 2015	Change
Write-downs and expenses in connection with credit management	161	160	1
Provision charges	70	404	(334)
TLC operating fees and charges	168	198	(30)
Indirect duties and taxes	50	56	(6)
Penalties, settlement compensation and administrative fines	22	43	(21)
Association dues and fees, donations, scholarships and traineeships	8	9	(1)
Sundry expenses	22	18	4
Total	501	888	(387)

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Half 2016	1st Half 2015	Change
Amortization of intangible assets with a finite useful life	843	930	(87)
Depreciation of tangible assets owned and leased	1,204	1,200	4
Total	2,047	2,130	(83)

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

In the first half of 2016 this item stood at 13 million euros, mainly attributable to the non-recurring gain realized by the Brazil Business Unit of 37 million reais (approximately 9 million euros) following the conclusion of the sale of the fourth tranche of telecommunications towers to American Tower do Brasil.

In the first half of 2015 this item stood at 279 million euros and mainly consisted of the non-recurring gain realized of 918 million reais (approximately 277 million euros), from the sale of the first tranche of telecommunications towers to American Tower do Brasil.

Impairment reversals (losses) on non-current assets

Impairment reversals (losses) on non-current assets amounted to 5 million euros in the first half of 2016 (zero in the first half of 2015) and related to non-current tangible assets.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually or more frequently, whenever specific events or circumstances occur that may indicate an impairment.

At June 30, 2016, Telecom Italia s market capitalization was less than the value of its equity. Accordingly, the Group carried out an impairment test for the Core Domestic Cash Generating Unit. This process did not identify any impairment, as the recoverable amount of the CGU estimated was higher than its carrying amount.

With regard to the other Cash Generating Units, at June 30, 2016 no events were identified that could result in significant changes with respect to the recoverable amount determined for the annual financial statements at December 31, 2015, and it was therefore not considered necessary to conduct a new impairment test. The amounts of Goodwill assigned to the individual Cash Generating Units with therefore confirmed.

Table of Contents

EBIT

EBIT totaled 1,687 million euros (1,788 million euros in the first half of 2015), decreasing by 101 million euros (-5.6%) compared to the first half of 2015; the EBIT margin was 18.5% (17.7% in the first half of 2015, +0.8 percentage points).

Organic EBIT was up 12 million euros (+0.7%), with an organic EBIT margin of 18.5% (17.5% in the first half of 2015).

EBIT in the first half of 2016 reflected the negative impact of non-recurring net expenses totaling 82 million euros (122 million euros in the first half of 2015. Without those non-recurring net expenses the organic change in EBIT would have been -1.6%, with an EBIT margin of 19.4%, up 0.6 percentage points on the first half of 2015. For further details, see the Note Significant non-recurring events and transactions in the Half-Year Condensed Consolidated Financial Statements at June 30, 2016 of the Telecom Italia Group.

Organic EBIT is calculated as follows:

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %
REPORTED EBIT	1,687	1,788	(101)	(5.6)
Foreign currency financial statements translation effect		(113)	113	
Changes in the scope of consolidation				
ORGANIC EBIT	1,687	1,675	12	0.7
of which non-recurring income/(expenses)	(82)	(122)	40	
ORGANIC EBIT excluding non-recurring component	1,769	1,797	(28)	(1.6)

Exchange rate fluctuations were attributable to the Brazil Business Unit.

Finance income (expenses), net

Finance income (expenses) showed a decrease in net expenses of 1,337 million euros, moving from 1,482 million euros for the first half of 2015 to 145 million euros for the first half of 2016. The figure for the first half of 2016 reflected the:

- positive impact of 620 million euros (negative impact of 360 million euros in the first half 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.);

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

- positive impact of the bond buybacks carried out in the previous year, which had generated a negative effect of 275 million euros in the first half of 2015, resulting from the buyback price net of the benefits from the consequent termination of several hedging derivatives associated with the securities bought back.

Income tax expense

Income tax expense amounted to 489 million euros, up 294 million euros on the first half of 2015 (195 million euros), largely due to the higher tax base of the Parent Telecom Italia, partially offset by the lower tax base of the Brazil Business Unit.

Table of Contents

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

In the first half of 2016 this item was positive by 47 million euros (330 million euros in the first half 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 tax expense totaling 12 million euros.

More details are provided in the section Discontinued operations/Non-current assets held for sale of this Interim Management Report and in the Note Discontinued operations/Non-current assets held for sale in the Half-Year Condensed Consolidated Financial Statements at June 30, 2016 of the Telecom Italia Group.

PROFIT (LOSS) FOR THE PERIOD

This item was broken down as follows:

(millions of euros)	1st Half 2016	1st Half 2015
Profit (loss) for the period	1,105	445
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	1,021	(15)
Profit (loss) from Discontinued operations/Non-current assets held for sale	(3)	48
Profit (loss) for the period attributable to owners of the Parent	1,018	33
Non-controlling interests:		
Profit (loss) from continuing operations	37	130
Profit (loss) from Discontinued operations/Non-current assets held for sale	50	282
Profit (loss) for the period attributable to non-controlling interests	87	412

The profit attributable to Owners of the Parent for the first half of 2016 amounted to 1,018 million euros (33 million euros in the first half of 2015), benefiting, in addition to the performance of the margins, from the items described above, of a merely valuation and accounting nature that do not entail any financial settlement, and in particular the fair value measurement of the embedded option included in the three-year mandatory convertible bond issued at the end of 2013. Without those items, profit for the first half of 2016 attributable to Owners of the Parent would have totaled approximately 650 million euros, in line with the same period of 2015 restated on a like-for-like basis.

Table of Contents

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

DOMESTIC

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %	% organic
Revenues	7,247	7,375	(128)	(1.7)	(1.7)
EBITDA	3,184	2,846	338	11.9	11.9
EBITDA Margin	*43.9*	*38.6*		*5.3pp*	*5.3pp*
EBIT	1,581	1,222	359	29.4	29.4
EBIT Margin	*21.8*	*16.6*		*5.2pp*	*5.2pp*
Headcount at period end (number)	52,622	(1)52,644	(22)		

(1) Headcount at December 31, 2015.

Fixed

	6/30/2016	12/31/2015	6/30/2015
Physical accesses at period end (thousands)[1]	19,074	19,209	19,455
of which Retail physical accesses at period end (thousands)	*11,468*	*11,742*	*12,080*
Broadband accesses at period end (thousands) [2]	8,992	8,890	8,821
of which Retail broadband accesses at period end (thousands)	*7,088*	*7,023*	*6,971*
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection) [3]	115.6	115.6	115.4
	11.7	10.4	9.0

access and carrier network in optical fiber (millions of km - fiber)			
Total traffic:			
Minutes of traffic on fixed-line network (billions):	35.9	76.9	40.3
Domestic traffic	29.0	62.5	33.0
International traffic	6.9	14.4	7.3
Broadband traffic (PBytes) (4)	2,690	4,126	1,927

(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).
(3) The figure refers to December 31, 2015.
(4) DownStream and UpStream traffic volumes

Table of Contents

Mobile

	6/30/2016	12/31/2015	6/30/2015
Lines at period end (thousands)	29,742	30,007	30,075
Change in lines (%)	(0.9)	(1.1)	(0.9)
Churn rate (%) [(1)]	10.9	23.4	11.9
Total traffic:			
Outgoing retail traffic (billions of minutes)	22.2	43.6	21.8
Incoming and outgoing retail traffic (billions of minutes)	34.3	66.1	32.8
Browsing Traffic (PBytes) [(2)]	119.2	182.6	81.2
Average monthly revenues per line (in euros) [(3)]	11.8	12.1	11.6

(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 2016 2018 Industrial Plan is the development of quadruple 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 plays 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 half 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 Half 2016	1st Half 2015	Change amount	%	% organic
Revenues	7,210	7,375	(165)	(2.2)	(2.2)
EBITDA	3,164	2,846	318	11.2	11.2
EBITDA Margin	*43.9*	*38.6*		*5.3pp*	*5.3pp*
EBIT	1,571	1,222	349	28.6	28.6
EBIT Margin	*21.8*	*16.6*		*5.2pp*	*5.2pp*
Headcount at period end (number)	52,559	[1]52,644	(85)	(0.2)	

(1) Headcount at December 31, 2015.

Table of Contents

Revenues

Revenues for the first half of 2016 amounted to 7,247 million euros, a decrease of 128 million euros compared to the first half of 2015 (-1.7%), but with an improvement on the first part of the year (-1.2% in the second quarter and -2.3% in the first quarter). Compared to the same period of 2015, revenues from services showed essentially the same trend as total revenues (-120 million euros, -1.7%; -1.1% in the second quarter and -2.4% in the first quarter), also showing a recovery driven in particular by the structural improvement in Mobile revenues.

In particular:

- revenues from services in the Mobile business came to 2,176 million euros, an increase of 14 million euros compared to the previous year (+0.6%); the trend confirms the continuous improvement seen in previous quarters (+0.7% in the second quarter, +0.6% in the first quarter, and +0.1% in the fourth quarter of 2015), thanks to improvement in competition conditions.

- revenues from Fixed-line services for the first half of 2016 amounted to 4,971 million euros, down by 238 million euros compared to the first half of 2015 (-4.6%); the decline was driven entirely by the fall in revenues from voice services (-279 million euros due to the loss of traditional accesses), but with a slow down compared to the previous periods. The decrease was partially offset by the continued increase in the Broadband and Ultra-broadband customer base, which is driving growth in innovative connectivity services (+59 million euros, +5.2%). Fixed-line performance was also affected by lower prices on wholesale services; net of the price impact (equal to 35 million euros), revenues from services would have dropped by 3.9% on the first half of 2015.

Revenues from product sales, including the change in work in progress, amounted to 426 million euros in the first half of 2016, essentially stable compared to the first half of 2015 (-8 million euros). Also of note was the significant growth in revenues from smartphone sales (+46 million euros, driven entirely by the sale of LTE devices, +69 million euros) supporting the growth of digital services (Internet connectivity and entertainment services).

EBITDA

EBITDA for the Domestic Business Unit totaled 3,184 million euros in the first half of 2016, increasing by 338 million euros compared to the first half of 2015 (+11.9%), with an EBITDA margin of 43.9% (+5.3 percentage points compared to the same period of the previous year). The first half 2016 figure reflected the negative impact of non-recurring net expenses as already described in the Highlights section of this Report totaling 83 million euros, of which:

- 67 million euros for employee benefits expenses (24 million euros for the first half of 2015), 16 million euros for expenses related to disputes and regulatory penalties and the associated liabilities, and expenses related to disputes with former employees and liabilities with customers and/or suppliers (369 million euros in the first half of 2015).

Without these expenses the organic change in EBITDA would have been +0.9%, with an EBITDA margin of 45.1%, up 1.2 percentage points on the first quarter of 2015, representing a positive reversal of the trend with respect to the first quarter (+6.9% in the second quarter of 2016 compared to the same period of 2015, against -5.2% in the first quarter of 2016 compared to the same period of 2015).

Organic EBITDA is calculated as follows:

			Change	
(millions of euros)	1st Half 2016	1st Half 2015	amount	%
REPORTED EBITDA	3,184	2,846	338	11.9
Foreign currency financial statements translation effect				
Changes in the scope of consolidation				
ORGANIC EBITDA	3,184	2,846	338	11.9
of which non-recurring income/(expenses)	(83)	(393)	310	
ORGANIC EBITDA excluding non-recurring component	3,267	3,239	28	0.9

This performance improvement was attributable to the significant reduction in operating expenses, broken down as follows with reference to the main cost items.

(millions of euros)	1st Half 2016	1st Half 2015	Change
Acquisition of goods and services	2,812	2,838	(26)
Employee benefits expenses	1,384	1,494	(110)
Other operating expenses	276	608	(332)

This performance reflected the positive impacts achieved by the already mentioned Cost Recovery Plan, aimed at improving efficiency and providing greater operational and financial flexibility for the business, which was boosted, particularly in the second quarter of 2016. In particular:

Acquisition of goods and services recorded a decrease of 26 million euros (-0.9%) compared to the first half of 2015, mainly due to lower costs for advertising (-29 million euros), office space (-44 million euros) and professional and consulting services (-16 million euros), only partially offset by higher costs for handsets and products (+50 million euros), in relation to the higher volumes of products sold and the stronger emphasis on sales campaigns;

Employee benefits expenses amounted to 1,384 million euros in the first half of 2016, down 110 million euros, due to the same factors that affected the Employee benefits expenses at Group level, details of which can be found in that section;

Other operating expenses, totaling 276 million euros in the first half of 2016, fell by 332 million euros on the same period of 2015, mainly due to lower provisions and non-recurring costs for regulatory disputes and fines. The breakdown of the item is reported in the table below:

(millions of euros)	1st Half 2016	1st Half 2015	Change
Write-downs and expenses in connection with credit management	127	122	5
Provision charges	35	359	(324)
TLC operating fees and charges	24	18	6
Indirect duties and taxes	48	49	(1)
Sundry expenses	42	60	(18)
Total	276	608	(332)

Other income amounted to 98 million euros, down 13 million euros on the first half of 2015.

EBIT

EBIT for the first half of 2016 totaled 1,581 million euros (1,222 million euros in the same period of 2015), increasing 359 million euros (+29.4%); the EBIT margin was 21.8% (16.6% in the first half of 2015). The EBIT performance reflected the positive performance of EBITDA reported above, as well as the reduction in depreciation and amortization, of 26 million euros.

EBIT in the first half of 2016 was pulled lower by a total of 83 million euros in non-recurring expenses, without which the organic change in EBIT would have been +3.0%, with an EBIT margin of 23%.

Table of Contents

Organic EBIT is calculated as follows:

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %
REPORTED EBIT	1,581	1,222	359	29.4
Foreign currency financial statements translation effect				
Changes in the scope of consolidation				
ORGANIC EBIT	1,581	1,222	359	29.4
of which non-recurring income/(expenses)	(83)	(393)	310	
ORGANIC EBIT excluding non-recurring component	1,664	1,615	49	3.0

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 January 1, 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:

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

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

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

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

Table of Contents

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

Core Domestic

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %
Revenues [1]	6,736	6,893	(157)	(2.3)
Consumer	*3,572*	*3,523*	*49*	*1.4*
Business [2]	*2,203*	*2,380*	*(177)*	*(7.4)*
Wholesale	*866*	*910*	*(44)*	*(4.8)*
Other	*95*	*80*	*15*	*18.7*
EBITDA	3,093	2,759	334	12.1
EBITDA Margin	*45.9*	*40.0*		*5.9pp*
EBIT	1,540	1,181	359	30.4
EBIT Margin	*22.9*	*17.1*		*5.8pp*
Headcount at period end (number) [(*)] [(**)]	51,876	[3]51,741	135	0.3

(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 6,700 million euros, compared to 6,893 million euros in the first half 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
(*) Includes employees with temp work contracts: 1 at 6/30/2016 (none at 12/31/2015).
(**) 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 51,813 employees.

In detail:

Consumer: revenues for the Consumer segment for the first half of 2016 amounted to a total of 3,572 million euros, an increase of 49 million euros compared to the same period of 2015 (+1.4%). This performance continues the recovery that had already began in 2015, driven in particular by the structural improvement in Mobile revenues, due to the steady market share, as well as the stabilization of ARPU levels.

The following is noted in particular:

revenues for the Mobile business came to 1,777 million euros, showing significant growth over the first half of 2015 (+121 million euros, +7.3%), and continuing the positive performance seen in previous quarters (+5.8% in the second quarter, +8.9% in the first quarter, and +2.5% in the fourth quarter of 2015). Revenues from services increased by 61 million euros (+4.1% on the first half of 2015), continuing the significant recovery that had already started last year (+3.4% in the second quarter, +4.9% in the first quarter, and +1.5% in the fourth quarter of 2015), attributable to the improvement in competition conditions, with the progressive stabilization of market share and the steady growth in Internet mobile and digital services supporting the ARPU levels;

revenues for the Fixed-line business came to 1,772 million euros, down 113 million euros on the first half of 2015 (-6.0%), with a stabilization in the slowdown recorded in the previous quarters (-6.0% in the second quarter, -6.0% in the first quarter). This decline, in line with previous quarters, was again attributable to the loss of voice-only accesses (although this trend has eased off, particularly in the last two quarters) and the greater pressure on ARPU levels, partially offset by the growth in innovative services, thanks to the positive performance of the broadband customer base and the growing penetration of the Fiber offering.

Table of Contents

Business: revenues for the Business segment amounted to 2,203 million euros, decreasing by 177 million euros compared to the first half of 2015 (-7.4%), of which 104 million euros (-4.9%) were attributable to the services component and 73 million euros (-28.6%) to the products component.

With regard to revenues from services:

revenues from Mobile services fell by 39 million euros (-6.7% on the first half of 2015). Specifically, the continuing decline in traditional mobile services (-16.2% in the voice and messaging component compared to the first half 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 marginally offset by the positive performance of new digital services (+2.6% compared to 2015);

revenues from Fixed-line services fell by 66 million euros (-4.2% compared to the first half of 2015); despite the steady growth in revenues from ICT services (+1.8%), 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 866 million euros in the first half of 2016, showing a slight decrease compared to the same period of 2015 (-44 million euros, -4.8%), almost entirely attributable to a lowering of regulated prices. Net of the price impact (equal to 35 million euros), the drop would have come to -0.9% compared to the same period of the previous year.

International Wholesale Telecom Italia Sparkle group

(millions of euros)	1st Half 2016	1st Half 2015	Change amount	Change %	% organic
Revenues	649	635	14	2.2	2.2
of which third party	*539*	*509*	*30*	*5.9*	*5.9*
EBITDA	97	93	4	4.3	4.3
EBITDA Margin	*14.9*	*14.6*		*0.3pp*	*0.3pp*
EBIT	41	40	1	2.5	2.5
EBIT Margin	*6.3*	*6.3*			
Headcount at period end (number)(*)	746	(1)645	101	15.7	

(1) Headcount at December 31, 2015
(*) Includes employees with temp work contracts: 2 employees at 6/30/2016 (2 employees at 12/31/2015).

Revenues for the first half of 2016 of the Telecom Italia Sparkle group International Wholesale totaled 649 million euros, up on the first half of 2015 (+14 million euros, +2.2%). The result was shaped by the increase in revenues from Voice services (+8 million euros, +1.9%) and the growth in revenues from IP/Data services including cloud and data center services (+5.3 million euros, +3.6%). All other business lines remained substantially stable.

Table of Contents

BRAZIL

	(millions of euros)		(millions of reais)			
		1st Half 2015		1st Half 2015	Change	
	1st Half 2016	Revised	1st Half 2016	Revised	amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	1,858	2,691	7,674	8,912	(1,238)	(13.9)
EBITDA	556	790	2,296	2,617	(321)	(12.3)
EBITDA Margin	*29.9*	*29.4*	*29.9*	*29.4*		*0.5 pp*
EBIT	121	574	498	1,902	(1,404)	(73.8)
EBIT Margin	*6.5*	*21.3*	*6.5*	*21.3*		*(14.8pp)*
Headcount at period end (number)			12,087	(1)13,042	(955)	(7.3)

(1) Headcount at December 31, 2015

	1st Half 2016	1st Half 2015
Lines at period end (thousands) (*)	63,988	(1)66,234
MOU (minutes/month) (**)	118.4	119.5
ARPU (reais)	17.2	16.4

(1) Number at December 31, 2015
(*) Estimate. Includes corporate lines.
(**) Net of visitors.
Revenues

Revenues for the first half of 2016 amounted to 7,674 million reais and were down 1,238 million reais (-13.9%) year-on-year. Revenues from services totaled 7,189 million reais, a decrease of 547 million reais compared to 7,736 million reais for the first half of 2015 (-7.1%). Mobile Average Revenue Per User (ARPU) was 17.2 reais in the first half of 2016 compared to 16.4 reais in the same period of the previous year (+4.9%).

Revenues from product sales came to 485 million reais (1,176 million reais in the first half of 2015, -58.8%), 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 Business Unit s total number of lines at June 30, 2016 was 64 million, representing a decrease of 2.2 million (-3.4%) compared to December 31, 2015; the market share at the end of May 2016 was 25.6% (25.7% at December 31, 2015).

EBITDA

EBITDA amounted to 2,296 million reais, down 321 million reais on the first half of 2015 (-12.3%). The decline in EBITDA was attributable to the fall in revenues, partly offset by the deployment of efficiency measures and the reduction in costs for revenues due to other operators, as well as other costs; employee benefits expenses increased (+3.4%) mainly due to the salary inflation adjustment, in addition to other net non-recurring costs for termination benefits of 34 million reais.

The EBITDA margin stood at 29.9%, 0.5 percentage points higher than in the first half of 2015.

Table of Contents

The changes in the main costs are shown below:

	(millions of euros)		(millions of reais)		
	1st Half 2016 (a)	1st Half 2015 (b)	1st Half 2016 (c)	1st Half 2015 (d)	Change (c-d)
Acquisition of goods and services	978	1,514	4,041	5,014	(973)
Employee benefits expenses	161	194	663	641	22
Other operating expenses	224	272	925	902	23
Change in inventories	(8)	(20)	(31)	(64)	33

EBIT

EBIT came to 498 million reais, down 1,404 million reais compared to the first half of 2015. This result reflected the lower contribution from EBITDA, the effect of the higher depreciation and amortization (+217 million reais) and the lower benefit from the sale of telecommunication towers, which in 2015 resulted in a gain of 918 million reais compared to a gain of 37 million reais in the first half of 2016.

Agreement for the sale of telecommunication towers

You are reminded that the agreement is being implemented, which was signed by TIM Celular with American Tower do Brasil on November 21, 2014, for the sale of part of the mobile infrastructure (6,481 telecommunication towers) for a total value of around 3 billion reais. The sales agreement was signed in conjunction with a master lease agreement lasting 20 years and, accordingly, the transaction is to be considered as a partial sale and lease back.

During the second quarter of 2016, the fourth partial sale of 270 towers was completed at a price of 110 million reais, corresponding to around 27 million euros. The final realized gain, already net of transaction costs, was 37 million reais (around 9 million euros at the average exchange rate at June 30, 2016). The amount of non-current assets reacquired under finance leases came to 74 million reais (around 18 million euros at the average exchange rate at June 30, 2016).

The sales of the first three blocks, for a total of 5,483 towers, were completed in 2015, as described in the Consolidated Financial Statements of the Telecom Italia Group at December 31, 2015.

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 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 half of 2015 have been translated at the related average exchange rate (9.83978 pesos per euro).

(millions of euros)		1/1 3/8 2016	1st Half 2015
Income statement effects from Discontinued operations/Non-current assets held for sale:			
Revenues		504	1,880
EBITDA		133	520
EBITDA Margin		*26.4*	*27.6*
Operating profit (loss) (EBIT)		133	520
EBIT Margin		*26.4*	*27.7*
Finance income (expenses), net		(42)	(7)
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale		91	513
Income tax expense		(32)	(179)
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	(a)	59	334
Other minor entries	(b)		(4)
Profit (loss) from Discontinued operations/Non-current assets held for sale	(c=a+b)	59	330
Income statement effects on the selling entities:			
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	330
Attributable to:			
Owners of the Parent		(3)	48
Non-controlling interests		50	282

For more details, see the Note Discontinued operations/Non-current assets held for sale in the Half-Year Condensed Consolidated Financial Statements of the Telecom Italia Group at June 30, 2016.

Table of Contents

CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: increased by 183 million euros, from 29,383 million euros at the end of 2015 to 29,566 million euros at June 30, 2016, due to positive changes of 175 million euros in foreign exchange rates applicable to the Group s Brazilian operations [(1)] 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 half-year condensed consolidated financial statements at June 30, 2016 of the Telecom Italia Group.

Other intangible assets: increased by 297 million euros, from 6,480 million euros at the end of 2015 to 6,777 million euros at June 30, 2016, representing the balance of the following items:

capex (+702 million euros);

depreciation charge for the period (-842 million euros);

disposals, exchange differences, reclassifications and other changes (for a net positive balance of 437 million euros).

Tangible assets: increased by 642 million euros, from 14,867 million euros at the end of 2015 to 15,509 million euros at June 30, 2016, representing the balance of the following items:

capex (+1,281 million euros);

changes in financial leasing contracts (+116 million euros);

depreciation charge for the period (-1,204 million euros);

disposals, exchange differences, reclassifications and other changes (for a net positive balance of 449 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 21,327 million euros (21,249 million euros at December 31, 2015), of which 19,106 million euros attributable to Owners of the Parent (17,554 million euros at December 31, 2015) and 2,221 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)	6/30/2016
At the beginning of the period	21,333
Adjustment for errors	(84)
At the beginning of the period revised	21,249
Total comprehensive income (loss) for the period	1,860
Dividends approved by:	(192)
Telecom Italia S.p.A.	*(166)*
Other Group companies	*(26)*
Issue of equity instruments	3
Disposal of the Sofora Telecom Argentina group	(1,582)
Other changes	(11)
At the end of the period	21,327

Table of Contents

CASH FLOWS

Adjusted net financial debt stood at 27,514 million euros, up 236 million euros compared to December 31, 2015 (27,278 million euros). The change 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 half of 2016:

Change in adjusted net financial debt

(millions of euros)	1st Half 2016	1st Half 2015	Change
EBITDA	3,726	3,639	87
Capital expenditures on an accrual basis	(1,983)	(2,146)	163
Change in net operating working capital:	(1,078)	(1,124)	46
Change in inventories	*(40)*	*(54)*	*14*
Change in trade receivables and net amounts due from customers on construction contracts	*(130)*	*(128)*	*(2)*
Change in trade payables (*)	*(635)*	*(912)*	*277*
Other changes in operating receivables/payables	*(273)*	*(30)*	*(243)*
Change in employee benefits	40	19	21
Change in operating provisions and Other changes	(34)	313	(347)
Net operating free cash flow	671	701	(30)
% of Revenues	*7.4*	*6.9*	*0.5pp*
Sale of investments and other disposals flow	732	1,379	(647)
Share capital increases/reimbursements, including incidental costs		186	(186)
Financial investments flow	(9)	(24)	15

Dividends payment	(227)	(204)	(23)
Change in financial leasing contracts	(123)	(984)	861
Finance expenses, income taxes and other net non-operating requirements flow	(1,242)	(1,217)	(25)
Reduction/(Increase) in adjusted net financial debt from continuing operations	(198)	(163)	(35)
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	(38)	(178)	140
Reduction/(Increase) in adjusted net financial debt	(236)	(341)	105

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

In addition to what has already been described with reference to EBITDA, net financial debt during the first half of 2016 has been particularly impacted by the following items:

Table of Contents

Capital expenditures on an accrual basis

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

(millions of euros)	1st Half 2016	% of total	1st Half 2015	% of total	Change
Domestic (*)	1,575	79.4	1,506	70.2	69
Brazil	408	20.6	637	29.7	(229)
Other Operations			3	0.1	(3)
Adjustments and eliminations					
Consolidated Total	1,983	100.0	2,146	100.0	(163)
% of Revenues	*21.8*		*21.2*		*0.6pp*

(*) 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 half of 2016 would have been 1,572 million euros.

Capital expenditures in the first half of 2016 totaled 1,983 million euros, down 163 million euros (-7.6%) on the first half of 2015. The efficiency program for capital expenditures was launched in the second quarter of 2016, which will significantly improve the effectiveness of the capital expenditures for maintaining the levels of UBB coverage and the quality of the service. In particular:

- the Domestic Business Unit posted capital expenditures of 1,575 million euros, an increase of 69 million euros compared to the first half of 2015. The increase was driven in particular by much higher innovation expenditure on the development of next-generation networks and services (+184 million euros), which accounted for 49% of all capital expenditure (39% in the same period of 2015).

- the Brazil Business Unit recorded a decrease of 229 million euros (including a negative currency effect of 127 million euros) compared to the first half 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 half of 2016 was a decrease of 1,078 million euros (decrease of 1,124 million euros in the first half of 2015). In particular:

- the change in inventories and the management of trade receivables generated negative impacts of 40 million euros and 130 million euros, respectively;

- the change in trade payables (-635 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 (-273 million euros) include a negative amount of around 144 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.

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 half of 2016.

Sale of investments and other disposals flow

This was positive by 732 million euros in the first half of 2016 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.

In the first half of 2015 it was positive by 1,379 million euros and mainly related to the proceeds of 784 million euros, already net of transaction costs, from the placement on the market of 36.33% of the share capital of Infrastrutture Wireless Italiane S.p.A. (INWIT), and the proceeds of 1,897 million reais (corresponding to around 585 million euros) realized by the Brazil Business Unit from the sale of the first tranche of telecommunications towers to American Tower do Brasil.

Table of Contents

Share capital increases/reimbursements, including incidental costs

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

In the first half 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 half of 2016 this item amounted to 9 million euros 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.

In the first half of 2015, the item amounted to 24 million euros and essentially related to the outlay for the acquisition of 50% of the share capital of the company Alfiere S.p.A., a real estate company that owns several buildings in the EUR district of Rome.

Change in financial leasing contracts

This item, amounting to 123 million euros, essentially 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 half of 2016 within the real estate transformation project and the renegotiation of the car rental agreements.

In the first half of 2015 this item amounted to 984 million euros and consisted of 676 million euros for Telecom Italia S.p.A. and 977 million reais (around 301 million euros) for the Tim Brasil group from part of the telecommunications towers sold and subsequently reacquired under finance lease. Further details are provided in the Note Tangible assets (owned and under finance leases) of the Half-Year Condensed Consolidated Financial Statements at June 30, 2016 of the Telecom Italia Group.

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

The item amounted to 1,242 millions euros and mainly included the payment, during the first half 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 half of 2015, this item amounted to a negative 178 million euros.

Table of Contents

Net financial debt

Net financial debt is composed as follows:

(millions of euros)	6/30/2016 (a)	12/31/2015 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	20,692	19,883	809
Amounts due to banks, other financial payables and liabilities	7,944	8,364	(420)
Finance lease liabilities	2,391	2,271	120
	31,027	30,518	509
Current financial liabilities (*)			
Bonds	2,246	3,681	(1,435)
Amounts due to banks, other financial payables and liabilities	1,796	2,390	(594)
Finance lease liabilities	167	153	14
	4,209	6,224	(2,015)
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		348	(348)
Total Gross financial debt	35,236	37,090	(1,854)
Non-current financial assets			
Securities other than investments	(1)	(3)	2
Financial receivables and other non-current financial assets	(3,128)	(2,986)	(142)
	(3,129)	(2,989)	(140)
Current financial assets			
Securities other than investments	(1,083)	(1,488)	405
Financial receivables and other current financial assets	(247)	(352)	105
Cash and cash equivalents	(2,707)	(3,559)	852
	(4,037)	(5,399)	1,362

Financial assets relating to Discontinued operations/Non-current assets held for sale		(227)	227
Total financial assets	(7,166)	(8,615)	1,449
Net financial debt carrying amount	28,070	28,475	(405)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(556)*	*(1,197)*	*641*
Adjusted net financial debt	27,514	27,278	236
Breakdown as follows:			
Total adjusted gross financial debt	32,920	34,602	(1,682)
Total adjusted financial assets	(5,406)	(7,324)	1,918

(*) of which current portion of medium/long-term debt:

Bonds	*2,246*	*3,681*	*(1,435)*
Amounts due to banks, other financial payables and liabilities	*1,206*	*1,482*	*(276)*
Finance lease liabilities	*167*	*153*	*14*

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.

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 completed during the first half of 2016 resulted in a positive effect on net financial debt at June 30, 2016 of 826 million euros (1,106 million euros at December 31, 2015).

Gross financial debt

Bonds

Bonds at June 30, 2016 were recorded for a total of 22,938 million euros (23,564 million euros at December 31, 2015). Their nominal repayment amount was 22,466 million euros, down 481 million euros compared to December 31, 2015 (22,947 million euros).

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

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 3.625% maturing 1/19/2024	Euro	750	1/20/2016
Telecom Italia S.p.A. 1,000 million euros 3.625% maturing 5/25/2026	Euro	1,000	5/25/2016

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 663 million euros 5.125% (1)	Euro	663	1/25/2016
Telecom Italia S.p.A. 708 million euros 8.250% (2)	Euro	708	3/21/2016
Telecom Italia S.p.A. 400 million euros, Euribor 3M+ 0.79%	Euro	400	6/7/2016

(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.

Bond Name	Outstanding nominal amount prior to the buyback (GBP)	Repurchased nominal amount (GBP)	Buyback price	Buyback date
Buybacks				
Telecom Italia S.p.A. - 400 million British pounds, maturing May 2023, coupon 5.875%	400,000,000	25,000,000	111.000%	6/29/2016

With reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at June 30, 2016, the nominal amount was equal to 200 million euros and remained unchanged compared to December 31, 2015.

Table of Contents

Revolving Credit Facility and Term Loan

The following table shows the composition and the drawdown of the committed credit lines available at June 30, 2016:

		6/30/2016		12/31/2015	
(billions of euros)		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	
Total		7.0		7.0	

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;
- a bilateral Term Loan from Cassa Depositi e Prestiti expiring April 2019, for 100 million euros, 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;
- an overdraft facility with Banca Popolare dell Emilia Romagna expiring July 2016 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 5.1%.

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 Half-Year Condensed Consolidated Financial Statements at June 30, 2016 of the Telecom Italia Group.

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin amounted to 10,790 million euros at June 30, 2016, corresponding to the sum of Cash and cash equivalents and Current securities other than investments , totaling 3,790 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 2,707 million euros (3,559 million euros at December 31, 2015). The different technical forms used for the investment of liquidity as of June 30, 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.

Table of Contents

Current securities other than investments amounted to 1,083 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. and 126 million euros of Italian treasury bonds purchased by Telecom Italia Finance S.A.; 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of 12/3/2012), and 555 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of the above government bonds and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group since August 2012. In addition, the Brazil Business Unit made an investment for an equivalent value of 138 million euros in a monetary fund that invests almost entirely in instruments in US dollars.

In the second quarter of 2016, the adjusted net financial debt increased by 375 million euros compared to March 31, 2016 (27,139 million euros), due to the payment of dividends, several regulatory disputes and fines, and the performance of the exchange rate for the Brazilian real.

(millions of euros)	6/30/2016 (a)	3/31/2016 (b)	Change (a-b)
Net financial debt carrying amount	28,070	28,233	(163)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(556)*	*(1,094)*	*538*
Adjusted net financial debt	27,514	27,139	375
Breakdown as follows:			
Total adjusted gross financial debt	32,920	32,296	624
Total adjusted financial assets	(5,406)	(5,157)	(249)

Table of Contents

CONSOLIDATED FINANCIAL STATEMENTS TELECOM ITALIA GROUP

The Half-Year Financial Report at June 30, 2016 of the Telecom Italia Group has been prepared in compliance with Article 154-ter (Financial Reports) of Italian Legislative Decree no. 58/1998 (Consolidated Law on Finance - TUF) and subsequent amendments and supplements and presented in accordance with the international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS) as well as with the regulations issued to implement Article 9 of Italian Legislative Decree no. 38/2005.

The Half-year Financial Report includes:

(1) the Interim Management Report;

(2) the Half-Year Condensed Consolidated Financial Statements;

(3) the certification of the Half-Year Condensed Consolidated Financial Statements pursuant to Article 81-ter of the Consob Regulation 11971 dated May 14, 1999, with Amendments and Additions.

The accounting policies and consolidation principles adopted in the preparation of the half-year condensed consolidated financial statements at June 30, 2016 are the same as those adopted in the annual consolidated financial statements at December 31, 2015 to which the reader is referred, except for the new standards and interpretations adopted by the Group since January 1, 2016, which however did not have any impact on the Group s consolidated financial statements.

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 six-month period ended June 30, 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; EBITDA margin and EBIT margin; 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 Half-year financial 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 half 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.

Table of Contents

Separate Consolidated Income Statements

(millions of euros)	1st Half 2016 (a)	1st Half 2015 Revised (b)	Change (a-b) amount	%
Revenues	9,096	10,101	(1,005)	(9.9)
Other income	107	131	(24)	(18.3)
Total operating revenues and other income	9,203	10,232	(1,029)	(10.1)
Acquisition of goods and services	(3,783)	(4,372)	589	13.5
Employee benefits expenses	(1,551)	(1,705)	154	9.0
Other operating expenses	(501)	(888)	387	43.6
Change in inventories	33	58	(25)	(43.1)
Internally generated assets	325	314	11	3.5
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	3,726	3,639	87	2.4
Depreciation and amortization	(2,047)	(2,130)	83	3.9
Gains/(losses) on disposals of non-current assets	13	279	(266)	(95.3)
Impairment reversals (losses) on non-current assets	(5)		(5)	
Operating profit (loss) (EBIT)	1,687	1,788	(101)	(5.6)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(2)		(2)	
Other income (expenses) from investments	7	4	3	75.0
Finance income	2,012	1,581	431	27.3
Finance expenses	(2,157)	(3,063)	906	29.6
Profit (loss) before tax from continuing operations	1,547	310	1,237	

Income tax expense	(489)	(195)	(294)	
Profit (loss) from continuing operations	1,058	115	943	
Profit (loss) from Discontinued operations/Non-current assets held for sale	47	330	(283)	(85.8)
Profit (loss) for the period	1,105	445	660	
Attributable to:				
Owners of the Parent	1,018	33	985	
Non-controlling interests	87	412	(325)	(78.9)

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 Half 2016	1st Half 2015 Revised
Profit (loss) for the period	(a)	1,105	445
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)		(118)	56
Income tax effect		32	(15)
	(b)	(86)	41
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)	(86)	41
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		76	(21)
Loss (profit) transferred to the Separate Consolidated Income Statements		(69)	(63)
Income tax effect		(4)	18
	(e)	3	(66)

Hedging instruments:			
Profit (loss) from fair value adjustments		(327)	1,168
Loss (profit) transferred to the Separate Consolidated Income Statements		245	(812)
Income tax effect		(2)	(98)
	(f)	(84)	258
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		618	(380)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		304	(1)
Income tax effect			
	(g)	922	(381)
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)	841	(189)
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	755	(148)
Total comprehensive income (loss) for the period	(a+k)	1,860	297
Attributable to:			
Owners of the Parent		1,726	(13)
Non-controlling interests		134	310

Table of Contents

Consolidated Statements of Financial Position

(millions of euros)		6/30/2016 (a)	12/31/2015 Revised (b)	Change (a-b)	1/1/2015 Revised
Assets					
Non-current assets					
Intangible assets					
Goodwill		29,566	29,383	183	29,943
Intangible assets with a finite useful life		6,777	6,480	297	6,827
		36,343	35,863	480	36,770
Tangible assets					
Property, plant and equipment owned		13,211	12,659	552	12,544
Assets held under finance leases		2,298	2,208	90	843
		15,509	14,867	642	13,387
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method		39	41	(2)	36
Other investments		38	45	(7)	43
Non-current financial assets		3,129	2,989	140	2,445
Miscellaneous receivables and other non-current assets		2,048	1,778	270	1,614
Deferred tax assets		735	853	(118)	1,118
		5,989	5,706	283	5,256
Total Non-current assets	(a)	57,841	56,436	1,405	55,413
Current assets					
Inventories		294	254	40	313
Trade and miscellaneous receivables and other current assets		5,683	5,112	571	5,617
Current income tax receivables		69	163	(94)	101

Current financial assets					
Securities other than investments, financial receivables and other current financial assets		*1,330*	*1,840*	*(510)*	*1,611*
Cash and cash equivalents		*2,707*	*3,559*	*(852)*	*4,812*
		4,037	5,399	(1,362)	6,423
Current assets sub-total		10,083	10,928	(845)	12,454
Discontinued operations/Non-current assets held for sale					
of a financial nature			227	(227)	165
of a non-financial nature			3,677	(3,677)	3,564
			3,904	(3,904)	3,729
Total Current assets	(b)	10,083	14,832	(4,749)	16,183
Total Assets	(a+b)	67,924	71,268	(3,344)	71,596

Table of Contents

(millions of euros)		6/30/2016 (a)	12/31/2015 Revised (b)	Change (a-b)	1/1/2015 Revised
Equity and Liabilities					
Equity					
Equity attributable to Owners of the Parent		19,106	17,554	1,552	18,068
Non-controlling interests		2,221	3,695	(1,474)	3,516
Total Equity	(c)	21,327	21,249	78	21,584
Non-current liabilities					
Non-current financial liabilities		31,027	30,518	509	32,325
Employee benefits		1,580	1,420	160	1,056
Deferred tax liabilities		434	323	111	438
Provisions		569	551	18	720
Miscellaneous payables and other non-current liabilities		1,207	1,110	97	697
Total Non-current liabilities	(d)	34,817	33,922	895	35,236
Current liabilities					
Current financial liabilities		4,209	6,224	(2,015)	4,686
Trade and miscellaneous payables and other current liabilities		7,445	7,882	(437)	8,536
Current income tax payables		126	110	16	36
Current liabilities sub-total		11,780	14,216	(2,436)	13,258
Liabilities directly associated with Discontinued operations/Non-current assets held for sale					
of a financial nature			348	(348)	43
of a non-financial nature			1,533	(1,533)	1,475
			1,881	(1,881)	1,518
Total Current Liabilities	(e)	11,780	16,097	(4,317)	14,776
Total Liabilities	(f=d+e)	46,597	50,019	(3,422)	50,012
Total Equity and Liabilities	(c+f)	67,924	71,268	(3,344)	71,596

Table of Contents

Consolidated Statements of Cash Flows

(millions of euros)		1st Half 2016	1st Half 2015 Revised
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,058	115
Adjustments for:			
Depreciation and amortization		2,047	2,130
Impairment losses (reversals) on non-current assets (including investments)		5	4
Net change in deferred tax assets and liabilities		257	3
Losses (gains) realized on disposals of non-current assets (including investments)		(13)	(279)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		2	
Change in employee benefits		40	19
Change in inventories		(40)	(54)
Change in trade receivables and net amounts due from customers on construction contracts		(130)	(128)
Change in trade payables		(141)	(564)
Net change in current income tax receivables/payables		95	132
Net change in miscellaneous receivables/payables and other assets/liabilities		(687)	390
Cash flows from (used in) operating activities	(a)	2,493	1,768
Cash flows from investing activities:			
Purchase of intangible assets		*(709)*	*(879)*
Purchase of tangible assets		*(1,397)*	*(2,251)*
Total purchase of intangible and tangible assets on an accrual basis		(2,106)	(3,130)
Change in amounts due for purchases of intangible and tangible assets		*(371)*	*637*

Total purchase of intangible and tangible assets on a cash basis		(2,477)	(2,493)
Acquisition of control in subsidiaries or other businesses, net of cash acquired		(6)	
Acquisitions/disposals of other investments		(3)	(24)
Change in financial receivables and other financial assets		364	(639)
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		29	595
Cash flows from (used in) investing activities	(b)	(1,601)	(2,561)
Cash flows from financing activities:			
Change in current financial liabilities and other		(262)	696
Proceeds from non-current financial liabilities (including current portion)		2,061	3,325
Repayments of non-current financial liabilities (including current portion)		(3,094)	(3,931)
Share capital proceeds/reimbursements (including subsidiaries)			186
Dividends paid		(227)	(204)
Changes in ownership interests in consolidated subsidiaries			784
Cash flows from (used in) financing activities	(c)	(1,522)	856
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)	(45)	21
Aggregate cash flows	(e=a+b+c+d)	(675)	84
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)	159	(106)
Net cash and cash equivalents at end of the period	(h=e+f+g)	2,700	4,888

Table of Contents

Additional Cash Flow Information

(millions of euros)	1st Half 2016	1st Half 2015 Revised
Income taxes (paid) received	(104)	(33)
Interest expense paid	(1,327)	(1,485)
Interest income received	516	573
Dividends received	7	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Half 2016	1st Half 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
Net cash and cash equivalents at end of the period		
Cash and cash equivalents - from continuing operations	2,707	4,752
Bank overdrafts repayable on demand - from continuing operations	(7)	(2)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale		138
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale		

2,700	4,888

Table of Contents

OTHER INFORMATION

Average salaried workforce

(equivalent number)		1st half 2016	1st half 2015	Change
Average salaried workforce	Italy	47,448	48,701	(1,253)
Average salaried workforce	Outside Italy	11,688	12,071	(383)
Total average salaried workforce (1)		59,136	60,772	(1,636)
Non-current assets held for sale - Sofora - Telecom Argentina group		5,161	15,515	(10,354)
Total average salaried workforce - including Non-current assets held for sale		64,297	76,287	(11,990)

1) Includes employees with temp work contracts: 4 in the first half of 2016 (2 in Italy and 2 outside Italy). In the first half of 2015 it included 3 employees (2 in Italy and 1 outside Italy).

Headcount at period end

(number)		6/30/2016	12/31/2015	Change
Headcount	Italy	52,498	52,555	(57)
Headcount	Outside Italy	12,354	13,312	(958)
Total headcount at period end (1)		64,852	65,867	(1,015)
Non-current assets held for sale -				
Sofora - Telecom Argentina group			16,228	(16,228)
Total headcount at period end - including Non-current assets held for sale		64,852	82,095	(17,243)

1) Includes employees with temp work contracts: 4 at 6/30/2016 and 3 at 12/31/2015.

Headcount at period end Breakdown by Business Unit

(number)	6/30/2016	12/31/2015	Change
Domestic (*)	52,622	52,644	(22)
Brazil	12,087	13,042	(955)
Media	0	64	(64)
Other Operations	143	117	26
Total	64,852	65,867	(1,015)

(*) 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 headcount at the end of the period of the Domestic Business Unit would have been 52,559.

Table of Contents

EVENTS SUBSEQUENT TO JUNE 30, 2016

For details of subsequent events see the specific Note Events Subsequent to June 30, 2016 in the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2016.

BUSINESS OUTLOOK FOR THE YEAR 2016

As forecast in the Industrial Plan, there was a constant and gradual improvement in operating performance in the Domestic perimeter in 2016, combined with a progressive reduction of the debt, thanks in part to the conversion of the Mandatory Convertible Bond (contractually set for November 2016 in the amount of 1.3 billion euros).

These dynamics of commercial and business development, accompanied by a strengthening and sharp acceleration of the efficiency and cost cutting program, represent the foundations for a further improvement in operating performance, with the aim of achieving the objective of low single digit organic growth in domestic EBITDA in the year 2016.

More specifically, Telecom Italia is continuing its transformation and transition from traditional Telco to Digital Telco, enabler of the country s digital life: a business model based on the development of innovative infrastructure and an excellent quality of customer service, increasingly aimed at disseminating premium services and digital content.

- In the Domestic Mobile segment, in a competitive environment where pricing pressure has steadily eased off and greater attention is being paid to level of service, combined with strong, continuous growth in data consumption, Telecom Italia will be focusing on the ever-greater adoption of 4G by its customers, fostered by the growing penetration of smartphones and bundle offers with distinctive digital contents. This will enable the Company to increase ARPU and strengthen its market leadership.

- In the Domestic Fixed segment, Telecom Italia expects to reduce the decline in the number of customers as from 2016, thanks to the acceleration in the dissemination of fiber, convergence and the strengthening of the positioning of services with digital content (Video, Music, Gaming and Publishing). Telecom Italia will also continue to work with Italian businesses in their digital transformation process, with its ICT and Cloud services, taking a differentiated approach depending on customer base characteristics, aiming to achieve a distinctive positioning in the vertical markets deemed to be of greatest interest.

In Brazil, the Plan considers and suffers the major changes to the macroeconomic, political and market context seen in recent months.

In this context, TIM Brasil has set itself the objective of increasing its market share on revenues and improving its profitability (EBITDA margin), due to a major investment plan (in particular in 4G, where TIM is already leader today), and to a renewed commercial and competitive positioning and great attention to efficiency as a structural element necessary to give balance and financial sustainability to the Plan.

In particular, the latest forecasts on the economic outlook show a further, progressive deterioration for the whole of 2016 of its main indicators. A downturn of almost 4% is expected in the GDP and an inflation rate - also following a series of interventions raising tariffs in regulated sectors - that will remain high and very volatile. This acceleration in inflation may have an increasing impact on the purchasing power of households, consequently worsening financial conditions, particularly for the low income brackets. The exchange rate with the dollar also reached and exceeded 4.0

Real/USD in 2015, with growth forecast during the Plan up to 4.20 Real/USD.

The whole of the telecommunications segment (and prepaid Mobile in particular) is very exposed to this scenario, with a decline in the comprehensive market value also as a result of its substantial maturity and saturation. In this environment, Oi, the fourth largest telecommunications group in Brazil, with over 65 billion Reais of debt and unable to reach an agreement with its creditors, filed for bankruptcy in June, entering into receivership, with repercussions on competition and the market that are still uncertain.

The market is showing a continuing trend of constant, strong growth in data use, at even greater pace than in the other major countries. This phenomenon goes hand-in-hand with a simultaneous reduction of voice traffic and messaging, driven by the aim of optimizing and reducing customer spending, as customers privilege use of the services offered by the OTTs as an alternative to traditional methods of using services.

Table of Contents

MAIN RISKS AND UNCERTAINTIES

The business outlook for 2016 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

In such a scenario, risk management becomes a strategic tool for value creation. The Telecom Italia Group has adopted an Enterprise Risk Management Model based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report), which enables the identification and management of risk in a uniform manner within the Group companies, highlighting potential synergies between the actors involved in the assessment of the Internal Control and Risk Management System. The ERM process is designed to identify potential events that may affect the business, to manage risk within acceptable limits and to provide reasonable assurance regarding the achievement of corporate objectives.

The main risks affecting the business activities of the Telecom Italia Group, which may impact, even significantly, the ability to achieve the pre-set objectives are presented below.

STRATEGIC RISKS

Risks related to macro economic factors

The Group s economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates. The expected results may be affected, in the domestic market, by the struggling economic recovery associated with a high rate of unemployment and the consequent reduction in income available for consumption. In the Brazilian market, the expected results may be affected by the further deterioration of the macroeconomic environment, with the country currently in economic recession, and the accompanying deterioration in operating conditions. These factors mean that the possibility of consequent goodwill impairment losses cannot be ruled out.

In addition, the Telecom Italia Group is currently undertaking projects and transactions, including corporate and extraordinary transactions, whose feasibility and completion could be affected by factors outside the control of management, such as political and regulatory factors, currency exchange restrictions, bureaucratic regulations etc.. As a result, the financial outcomes of these project and transactions may differ, even significantly, from expectations.

Risks related to competition

The telecommunications market is characterized by strong competition that may reduce our share in the geographical areas we operate in as well as lower prices and margins. Competition is focused, on one hand, on innovative products and services and, on other hand, on the price of traditional services. In addition, in the area of infrastructure competition, the growth of alternative operators could represent a threat for Telecom Italia, particularly in the years of the plan after 2016 and also beyond the Plan period. In the Brazilian market the trend in the telecommunications industry is changing rapidly, amplifying the deterioration in the macroeconomic environment. The competition risk consists of the increased acceleration in the process of replacement of traditional services with innovative services, and the downsizing of consumption by customers (e.g. reduction in multi-SIM customers). In this scenario, the Tim Brasil group may be further impacted in the short term to a greater extent than its main competitors, due to the higher proportion of customers with prepaid services, which are more affected by the current macroeconomic situation.

Table of Contents

OPERATIONAL RISKS

Operational risks inherent in our business relate to possible inadequacies in internal processes, external factors, frauds, employee errors, errors in properly documenting transactions, loss of critical or commercially sensitive data and failures in systems and/or network platforms.

Risks related to business continuity

Our success depends heavily on the ability to deliver the services we provide through the IT infrastructure and network on a continuous and uninterrupted basis. The infrastructure is susceptible to interruptions due to failures of information and communication technologies, lack of electricity, floods, storms and human errors. Unexpected problems in installations, system failures, hardware and software failures, computer viruses or cyber attacks could affect the quality of services and cause service interruptions. Each of these events could result in a reduction in traffic and a reduction in revenues and/or in an increase of restoration costs, with an adverse impact on the level of customer satisfaction and number of customers, as well as our reputation.

Risks related to the development of fixed and mobile networks

To maintain and expand our customer portfolio in each of the markets in which we operate, it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high quality network is necessary to maintain the customer base and minimize the terminations to protect the Company s revenues from erosion. The maintenance and improvement of existing installations depend on our ability to:

- upgrade the capabilities of the networks to provide customers with services that are closer to their needs; in the regard the Group may be engaged in the participation in tenders for broadcasting frequencies whose outcomes, in terms of financial requirements, may differ, even significantly, from expectations;
- increase the geographical coverage of innovative services;
- upgrade the structure of the systems and the networks to adapt it to new technologies.

Risks of internal/external fraud

The Group has adopted an organizational model to prevent fraud. However, the implementation of this model cannot ensure the total mitigation of the risk. Dishonest activities and illegal acts committed by people inside and outside the organization could adversely affect the Company s operating results, financial position and image.

Risks related to disputes and litigation

The Group has to deal with disputes and litigation with tax authorities, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of settlement unfavorable to the Group, these issues may, individually or as whole, have an adverse effect, which may even be significant, on its operating results, financial position and cash flows.

FINANCIAL RISKS

The Telecom Italia Group may be exposed to financial risks such as risks arising from fluctuations in interest rates and exchange rates, credit risk, liquidity risk and risks related to the performance of the equity markets in general, and more specifically risks related to the performance of the share price of the Group companies. The result of the Brexit referendum in the United Kingdom increases the probability of systemic risk. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, Telecom Italia Group has established guidelines, at

Table of Contents

central level, which must be followed for operational management, identification of the most suitable financial instruments to meet set goals, and monitoring the results achieved. In particular, in order to mitigate the liquidity risk, the Group aims to maintain an adequate level of financial flexibility , in terms of cash and syndicated committed credit lines, enabling it to cover refinancing requirements at least for the next 12 -18 months.

REGULATORY AND COMPLIANCE RISKS

Regulatory risks

The telecommunications industry is highly regulated. In this context, new decisions by the regulator and changes in the regulatory environment may affect the expected results of the Group. More specifically, the elements which introduce uncertainty are:

- lack of predictability in the timing of the introduction and consequent results of new processes;
- decisions with retroactive effect (i.e. revision of prices relating to prior years as a result of an administrative judgment) with potential impact on the timing of return on investment;
- decisions that can influence the technological choices made and to be made, with potential impact on the timing of return on investment.

Telecom Italia is currently implementing the project, launched in 2015, to further improve the guarantees for equal treatment of retail and wholesale customers. This project is aimed at improving both the equivalence model and the tools used to assess the process of providing wholesale services. The project and the related implementation roadmap were approved by the Board of Directors of Telecom Italia on November 5, 2015. The risk is associated with the assessment of the effectiveness of Telecom Italia s project by the designated organizations (AGCOM and AGCM). The positive assessment of the implementation of the equivalence project is a necessary condition for the termination of the A428 proceedings for failure to provide services, with consequent removal of the associated sanction risk.

Compliance risks

The Telecom Italia Group may be exposed to risks of non-compliance due to non-observance/ breach of internal (self-regulation such as, for example, bylaws, code of ethics) and external rules (laws and regulations), with consequent judicial or administrative penalties, financial losses or reputational damage.

The Group aims to ensure that processes, procedures, systems and corporate conduct comply with legal requirements. The risk is associated with potential time lags in making the processes compliant when non-conformity has been identified.

Table of Contents

MAIN CHANGES IN THE REGULATORY FRAMEWORK

DOMESTIC

Wholesale fixed markets

Telecom Italia Reference Offers

At the end of the public consultations initiated by the Authority in 2015, the Telecom Italia Reference Offers for 2014 were all finally approved and published. The Reference Offers for the year 2015 are still in the process of being approved.

Wholesale access services

In December 2015 (see Resolution 623/15/CONS), the Authority set out the framework of rules for the access to the copper and fiber fixed-line network for the years 2015-17, which confirms the national scope of the obligations imposed on Telecom Italia, despite the increasing growth in infrastructured competition in certain areas of the country.

The most significant measures adopted by the Authority involve:

- the substantial stability of ULL prices associated with a reduction in SLU prices;
- the unbundled provision of line maintenance and activation services under unbundling and sub-loop unbundling arrangements, with operating procedures established in an ad hoc process that is still underway;
- the introduction of new equivalence measures (in line with the New Equivalence Model);
- stricter requirements regarding the quality of wholesale services (SLAs and penalties);
- AGCom s commitment to set out the switch-off rules for Telecom Italia s copper network that incentivize the shift to fiber.

In addition, the Authority has removed Telecom Italia s qualification as an SMP operator (an operator with Significant Market Power in the market of retail access to the fixed telephone line network), canceling the existing obligations *ex ante*, except those relating to the verification of the replicability of the retail offers (price test) and the prior authorization for commercial launch.

On June 17 the public consultation, initiated by the Authority to assess the proposals submitted in February by Telecom Italia, was completed in relation to the: (i) extension of the Single System (SS) model and (ii) strengthening of the guarantees of equal treatment (New Equivalence Model), which also includes voluntary measures, aimed at ensuring that the wholesale access to Telecom Italia (TI) fixed-line network, by TI and the other Operators, takes place at the same terms and conditions and using the same processes. AGCom s proposed measure will need to be sent to the European Commission before its final approval.

Next Generation Networks

On April 22, 2016, by Resolution 120/16/CONS, AGCom published the guidelines on the wholesale access conditions to the networks benefiting from public grants.

In particular, the Authority s guidelines establish the wholesale access conditions to the subsidized ultrabroadband networks, both in terms of services provided and received. Indeed, according to the EU Commission s guidelines on state aid, the subsidized networks must be made available to third parties with the maximum level of unbundling of the services.

With specific reference to the direct intervention model, which the Government has chosen for the implementation of the Ultrabroadband plan, AGCom established that the access prices must be set by the entity awarding the contract based on a formula that provides for the total remuneration of solely the operating expenses, to which the concessionary costs, established on each occasion by that awarding entity, must be added.

Interconnection services on the fixed network

On April 20, 2015, the Authority initiated the procedure for the 3rd cycle of market analysis of interconnection services on the fixed-line telephone network and, on May 4, 2016, Telecom Italia sent its contribution to the public consultation. AGCom s proposed measure will need to be sent to the European Commission before its final approval.

Infratel Tender for the subsidizing of the Ultra Broadband networks

On June 3, 2016, Infratel Italia published a tender call for the construction of networks enabling the offering of Ultra Broadband services (from 30 to 100 Mbit/s) in the so-called White Areas of the municipalities of several Italian regions (Abruzzo, Molise, Emilia Romagna, Lombardy, Tuscany and Veneto). The tender involves over 3 million property units and around 6.5 million people, with a total public investment of around 1.4 billion euros. The infrastructure will remain as public property and will be given in concession 20 years. The tender will take place in two stages: in Stage 1 (pre-qualification of the competitors, lasting 45 days), the operators interested must provide information on the minimum requirements for participation and the infrastructures they intend to use. The deadline for the submission of the applications for participation was July 18, 2016. In Stage 2 (assessment of the bids), the competitors admitted to participate in the tender will submit their technical and financial bids.

Retail fixed markets

Price test

At the end of 2015, following the completion of the analyses of the fixed-line markets (Resolution 623/15/CONS), AGCom re-initiated the process for the update of the price test for verifying the replicability of the retail offers for fixed line services (stand alone or in bundles).

The test under consultation envisages two alternatives: (i) confirmation of the current methods or (ii) update. AGCom s proposed measure with the new methods will need to be sent to the European Commission before its final approval, due to be given by the end of 2016.

Universal Service

The re-examination of the universal service obligations, initiated by the Ministry of Economic Development (MISE) during 2014, is still on hold.

In March 2016, the Authority initiated a process aimed at providing the MISE a technical opinion on the possibility of adding broadband access to the Universal Service obligations. The results of the public consultation will be sent to the MISE for the related decisions.

Also in March 2016, the Authority initiated a process examining the affordability of the prices of the fixed-line telephone Universal Service, aimed at identifying the most effective and suitable method for ensuring it is provided at an affordable price.

For information on the pending dispute relating to the remuneration of the net costs of the Universal Service, incurred by Telecom Italia for the years 1999-2003, see the Note Contingent liabilities, other information, commitments and guarantees of the Half-Year Condensed Consolidated Financial Statements of the Telecom Italia Group at June 30, 2016.

Wholesale mobile markets

International roaming

The provisions of Regulation EC 2015/2120 of November 25, 2015, the Telecom Single Market Regulation (TSM) on roaming within the European Union, became applicable from April 30, 2016. The TSM Regulation has introduced the Roam-Like-At-Home principle, which requires the application of national tariffs for voice/SMS/data traffic generated in the member states of the EU from June 15, 2017. The Regulation also provides for a transitional period (from April 30, 2016 to June 14, 2017), during which the suppliers of roaming services can continue to apply a surcharge on the national prices for the provision of retail roaming services. To that end, on May 31 last year, the Authority issued a guideline document on the correct application of the rules on roaming within the European Union contained in this EU Regulation.

Table of Contents

AGCom contribution fee

AGCom continued to use the existing methods for the calculation of the contribution fee for 2016, despite the ruling of the Lazio Administrative Court and the subsequent ruling of the *Consiglio di Stato*, published in 2015. In particular, the Authority continued to use the total revenues from sales and services recorded in the income statement as the tax base and raised the contribution fee rate to 0.0014 from 0.00115 for 2015 (Decision 668/15/CONS of December 2015 and Decision 34/16/CONS). On April 1, 2016, Telecom Italia paid an amount of 19.8 million euros, with reservation, for the 2016 AGCom contribution fee, and at the same time filed an appeal against the resolutions concerned.

Antitrust

For information on the pending disputes relating to proceedings A428, I757 and I761 see the Note Contingent liabilities, other information, commitments and guarantees of the Half-year condensed consolidated financial statements of the Telecom Italia Group at June 30, 2016.

Table of Contents

CORPORATE BOARDS AT JUNE 30, 2016

BOARD OF DIRECTORS

The shareholders meeting held on April 16, 2014 appointed the Board of Directors of the Company for the three years 2014-2016, until the approval of the financial statements for the year ended December 31, 2016, to be composed of 13 directors. The same shareholders meeting also appointed Giuseppe Recchi as Chairman of the Company s Board of Directors.

Subsequently, the Shareholders Meeting of December 15, 2015 resolved to increase the number of members of the Board of Directors from 13 to 17, appointing four new directors proposed by the shareholder Vivendi S.A. (Arnaud Roy de Puyfontaine, Stéphane Roussel, Hervé Philippe and Félicité Herzog), with the same term in office as the existing directors.

The Chief Executive Officer, Marco Patuano, (who had been appointed on April 18, 2014) resigned with effect from March 22, 2016. On March 30, 2016, the Board of Directors appointed Flavio Cattaneo, already a board director of the Company, to replace him as Chief Executive Officer.

On April 27, 2016, the Board of Directors appointed the director Arnaud de Puyfontaine as Vice Chairman of the Company, without assigning him any delegated powers.

As a result, the Board of Directors of the Company at June 30, 2016 was composed as follows:

Chairman	Giuseppe Recchi
Deputy Chairman	Arnaud Roy de Puyfontaine
Chief Executive Officer	Flavio Cattaneo
Directors	Tarak Ben Ammar
	Davide Benello (independent)
	Lucia Calvosa (independent)
	Laura Cioli (independent)
	Francesca Cornelli (independent)
	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

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Via G. Negri 1.

The following board committees were in place at June 30, 2016:

- Control and Risk Committee: composed of the Directors: Lucia Calvosa (Chair appointed in the meeting of May 8, 2014), Laura Cioli, Francesca Cornelli, Giorgina Gallo, and Félicité Herzog (appointed by the Board of Directors on February 15, 2016, which also decided to increase the number of members of the committee from 5 to 6) and Giorgio Valerio;

- Nomination and Remuneration Committee: composed of the Directors: Davide Benello (Chair appointed in the meeting of May 9, 2014), Luca Marzotto, Arnaud de Puyfontaine and Stéphane Roussel (appointed by the Board of Directors on February 15, 2016, which accepted the resignation of Jean Paul Fitoussi and decided to increase the number of members of the committee from 4 to 5), and Giorgio Valerio (appointed by the Board of Directors on June 20, 2016, to replace the director Denise Kingsmill, who resigned on June 15, 2016).

Table of Contents

The Board of Directors meeting of July 26, 2016, in support of the turnaround program initiated by the Company, approved the creation of a Strategy Committee, to be composed of the Chairman of the Board of Directors Giuseppe Recchi, the Chief Executive Officer Flavio Cattaneo, together with the Vice Chairman Arnaud Roy de Puyfontaine and Directors Davide Benello and Laura Cioli.

The new Committee will:

- provide support on matters of strategic importance;
- perform preliminary assessments concerning the strategic choices of the Group at the request of the Chairman of the Board of Directors and of the Chief Executive Officer, and in accordance with the priorities of their duties and powers;
- provide opinions and make recommendations regarding the industrial plan proposals to be submitted to the Board of Directors.

The updated version of the Corporate Governance Principles of the Company and the Regulations for the operation of the Strategy Committee are in the process of being published on the company website www.telecomitalia.com.

The Board of Directors has also appointed the Lead Independent Director for the current year, selecting Davide Benello to succeed the outgoing Lead Independent Director, Giorgio Valerio.

As has been the case for the last two years, the term of office of the Lead Independent Director is one year, expiring at the Shareholders Meeting called to approve the financial statements of the corresponding year.

BOARD OF STATUTORY AUDITORS

The ordinary shareholders meeting of May 20, 2015 appointed the Company s Board of Statutory Auditors with a term up to the approval of the 2017 financial statements.

The Board of Statutory Auditors of the Company is now composed as follows:

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

Gabriella Chersicla
Piera Vitali
Riccardo Schioppo

INDEPENDENT AUDITORS

The shareholders meeting held on April 29, 2010 appointed the audit firm PricewaterhouseCoopers S.p.A. to audit the Telecom Italia financial statements for the nine-year period 2010-2018.

MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE FINANCIAL REPORTS

At the meeting of April 18, 2014, the Board of Directors confirmed Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) as the manager responsible for preparing Telecom Italia s financial reports.

Table of Contents

MACRO-ORGANIZATION CHART AT JUNE 30, 2016

Table of Contents

INFORMATION FOR INVESTORS

The Group attaches great importance to the quality of the information on its activities provided to the financial markets, investors and all its stakeholders. Subject to the requirements of confidentiality dictated by the running of the business and statutory obligations, this communication takes place in full compliance with the criteria of transparency, fairness, clarity, timeliness and equality of access. The Company has also established specific communication channels for shareholders, bondholders and other stakeholders who are interested in obtaining financial and non-financial information on the Group.

TELECOM ITALIA S.P.A. SHARE CAPITAL AT JUNE 30, 2016

Share capital	10,740,236,908.50 euros
Number of ordinary shares (without nominal value)	13,499,911,771
Number of savings shares (without nominal value)	6,027,791,699
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	126,082,374
Percentage of ordinary treasury shares held by the Group to total share capital	0.84%
Market capitalization (based on June 2016 average prices)	14,553 million euros

Regarding the trading of shares issued by Group companies on regulated markets, the ordinary and savings shares of Telecom Italia S.p.A. are listed in Italy (FTSE index), as well as the ordinary shares of INWIT S.p.A., whereas the ordinary shares of Tim Participações S.A. are listed in Brazil (BOVESPA index).

The ordinary and savings shares of Telecom Italia S.p.A., and the ordinary shares of Tim Participações S.A. are also listed on the NYSE (New York Stock Exchange); trading occurs through ADS (American Depositary Shares) that respectively represent 10 ordinary shares and 10 savings shares of Telecom Italia S.p.A. and 5 ordinary shares of Tim Participações S.A..

SHAREHOLDERS

Composition of Telecom Italia S.p.A. shareholders at June 30, 2016 according to the Shareholders Book, supplemented by communications received and other available sources of information (ordinary shares):

Table of Contents

With effect from June 17, 2015, the shareholder agreement in place between the shareholders of Telco S.p.A. was dissolved, as disclosed by public notices in accordance with the applicable regulations. As a result, there are no longer any significant shareholder agreements for Telecom Italia pursuant to Article 122 of Italian Legislative Decree 58/1998.

MAJOR HOLDINGS IN SHARE CAPITAL

At June 30, 2016, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Italian Legislative Decree 58 of February 24, 1998, Article 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are:

Holder	Type of ownership	Percentage of ownership
Vivendi S.A.	Direct	24.68%
JPMorgan Chase & Co.	Indirect	(*)2.14%
People s Bank of China	Direct	2.07%

(*) plus an additional 2.69% without voting rights.

On March 12, 2014, Blackrock Inc. notified Consob that, as an asset management company, it indirectly held a quantity of ordinary shares equal to 4.78% of the total ordinary shares of Telecom Italia S.p.A. at June 30, 2016.

J.P.Morgan Chase & Co. announced that on July 1, 2016 it had reduced its indirect stake to an interest of 0.82% in the ordinary share capital of Telecom Italia.

COMMON REPRESENTATIVES

The special meeting of the savings shareholders held on June 16, 2016 renewed the appointment of Dario Trevisan as the common representative for three financial years, up to the approval of the financial statements for the year ended December 31, 2018.

By decree of April 11, 2014, the Milan Court confirmed the appointment of Enrico Cotta Ramusino (already appointed by decree of March 7, 2011) as the common representative of the bondholders for the Telecom Italia

S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired , with a mandate for the three-year period 2014-2016.

By decree of June 12, 2015, the Milan Court appointed Monica Iacoviello as the common representative of the bondholders for the Telecom Italia S.p.A. 1,250,000,000 euros 5.375 percent. Notes due 2019 up to the approval of the 2017 Annual Report.

RATING AT JUNE 30, 2016

At June 30, 2016, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated Telecom Italia as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Stable
MOODY S	Ba1	Negative
FITCH RATINGS	BBB-	Stable

WAIVER OF THE OBLIGATION TO PUBLISH DISCLOSURE DOCUMENTS FOR EXTRAORDINARY OPERATIONS

On January 17, 2013, the Board of Directors of Telecom Italia S.p.A. resolved to exercise the option, as per article 70 (8) and article 71 (1 bis) of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

Table of Contents

RELATED PARTY TRANSACTIONS

In accordance with Article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning related party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, no significant transactions were entered into in the first half of 2016 as defined by Article 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group for the first half of 2016.

Furthermore, there were no changes or developments regarding the related party transactions described in the 2015 Report on operations which had a significant effect on the financial position or on the results of the Telecom Italia Group in the first half of 2016.

Related party transactions, when not dictated by specific laws, were conducted at arm s length. In addition, the transactions were subject to an internal procedure (available for consultation on the Company s website at the following address: www.telecomitalia.com, section Group channel governance system) which establishes procedures and time scales for verification and monitoring.

The information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Note Related party transactions in the Half-year condensed consolidated financial statements at June 30, 2016 of the Telecom Italia Group.

Table of Contents

ALTERNATIVE PERFORMANCE MEASURES

In this Half-year Financial Report at June 30, 2016 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain *alternative performance measures* are presented for purposes of a better understanding of the trend of operations and financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

The alternative performance measures used are described below:

EBITDA: this financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level), in addition to EBIT. These measures are calculated as follows:

Profit (loss) before tax from continuing operations

+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT - Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization

EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

Organic change in Revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation and exchange differences.

Telecom Italia believes that the presentation of the organic change in revenues, EBITDA and EBIT allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level). This method of presenting information is also used in presentations to analysts and investors. This Half-Year Financial Report provides a reconciliation between the reported figure and the organic figure .

EBITDA margin and EBIT margin: Telecom Italia believes that these margins represent useful indicators of the Group s ability, as a whole and at Business Unit level, to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analyzing the percentage of revenues that are converted, respectively, into EBITDA and EBIT. Such indicators are used by Telecom Italia in internal presentations (business plans) and in external presentations (to analysts and investors) in order to illustrate the results from operations also through the comparison of the operating results of the reporting period with those of the previous periods.

Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Half-Year Financial Report includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.

To better represent the real performance of Net Financial Debt, in addition to the usual indicator (called Net financial debt carrying amount), Adjusted net financial debt is also shown, which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

Table of Contents

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	Gross financial debt
+	Non-current financial assets
+	Current financial assets
+	Financial assets relating to Discontinued operations/Non-current assets held for sale
B)	Financial assets
C=(A - B)	Net financial debt carrying amount
D)	Reversal of fair value measurement of derivatives and related financial assets/liabilities
E=(C + D)	Adjusted net financial debt

Table of Contents

SUSTAINABILITY SECTION

In 2016 the Group has continued the process of integrating Corporate Shared Value (CSV), adopted in 2014, into the Company strategy to create economic and social value by responding to the needs expressed by the sectors in which the Group operates, identifying three areas of intervention:

- digitisation, connectivity and social innovation,
- environmental protection,
- digital culture.

In a coordinated and complementary manner with respect to the path for the development of the Country s technological infrastructure, the Group has therefore implemented a Corporate Shared Value plan that aims to increase the digital literacy of the population and enhance excellence in the Country through the potential offered by the Internet.

Digital skills have a crucial role to play in our society and have been one of the key factors in allowing economies to achieve a competitive advantage over the past twenty years, as shown by much of the work carried out by the OECD or promoted by the European Commission. In this respect as well, the Digital Agenda asks member States to take action to broaden knowledge of digital tools and increase the number of people with evolved digital skills, particularly by disseminating ICT technologies in schools. In this context, schools must make a radical change in the way they plan and provide education, and in the way pupils, teachers and parents relate to one another. Because of the importance of this subject, the European Commission constantly monitors the speed with which digital technologies are being introduced in schools and in teaching processes.

The common denominator of all the projects is the establishment of participatory, equitable and stable relationships and replicable intervention models both inside and outside.

DIGITISATION, CONNECTIVITY AND SOCIAL INNOVATION

The activities of WithYouWeDo, the crowdfunding platform that receives requests for donations from public and private entities intending to implement projects in the fields of social innovation, environmental protection and digital culture, continued over the six months. In order to promote crowdfunding, the Group, in addition to making the technological platform available as necessary for on-line collections (withyouwedo.telecomitalia.com), undertakes to contribute 25% (up to a maximum of 10,000 euros) towards the financing of projects that reach their collection target (10 in the first half of 2016 for the sum of around 64,000 euros) and supports, in communication terms, both aspiring designers (approximately 1,500 were involved in the tour that involved 22 Italian cities up until June 2016) and projects selected to enter the platform, also through a partnership in a national radio broadcast.

Social innovation is also the star feature of Start!, a television programme with 10 episodes broadcast on Rai2. A factual entertainment programme that revolves around the protagonists, with opinions and different levels of knowledge on digital aspects and the changes taking place in this world, who have to tackle big and small daily problems and decide to do so by testing and understanding the ideas, projects and services that have been developed thanks to the Internet and new Networks, which really improve people s lives.

RESEARCH AND DEVELOPMENT

The telecommunications sector has undergone a quick, but major transformation in recent years, characterised by the decline in traditional voice and text messaging services and the ever-greater growth of fixed and mobile broadband and the new services enabled by it, thereby contributing towards the rapid digitisation of the life of consumers and business processes.

In recent years the Group has started its own evolution path, confirming its role as a systems company in the supply of services and platforms as well as a supplier of connectivity with innovative digital services.

Innovation, both technological and business-based, is confirmed as the central element to respond to the change in the technological, market and competitive context and adopts the Open Innovation principles. Open Innovation, in fact, enables the innovation contributions generated within to be integrated with external sources of innovative ideas. Consequently, the flows of ideas coming from the ecosystem are flanked by activities of:

- co-innovation, co-creation and generation of ideas and values by means of new partnership models with the most important global players;
- activation of a flow of innovative ideas from the academic world, developing Joint Open Labs with some of the most important Italian universities;
- catalysing of the innovation capacities of start-ups through the TIM #Wcap acceleration programme and investments in equity through TIM Venture;
- simplification of the process of activating supplies made by innovative start-ups through the so-called Albo Veloce (Fast Supplier List), which enables the qualification on the list of suppliers of a start-up with a simplified, faster procedure, and Basket Innovazione (Innovation Basket), a budget dedicated to encouraging the purchase of solutions from the start-ups included on the Albo Veloce partially covering the costs.

Internally, the Group has strengthened the company laboratories, bringing alongside the traditional infrastructural innovation a focus on digital innovation, which is met by the activities of the Innovation Centre and TIM Foundry, places where partnerships with the lead players become innovative services that can be developed and tested.

The Joint Open Labs (JOLs) are physical places of open innovation where the Group - together with universities, start-ups and SMEs - works for the co-development of innovative solutions on matters of the Internet of Things, Big Data & Personal Data, Wellness & Digital Health, Smart Spaces, Connected Robotics, Mobile Services Design and Interaction, in co-location in five Italian universities. With this model named Company on Campus , frontier matters of innovation are intercepted with a multidisciplinary approach that involves talents of the faculties of engineering, mathematics, psychology, design and management. Over ten innovative ideas of the JOLs were transformed into business propositions and commercial opportunities for TIM, including CitySensing (a platform for managing large events in urban areas based on the collection of Big Data from social media and mobile networks), Cloud Robotics and Virgil (solutions involving drones and remote presence robots connected through the TIM 4G network), Internet of Things systems, including Smart Agriculture (developed with Olivetti). In addition to contributing to internal developments within the Company, the JOLs have also developed spin-up models, start-up launches that have received assets and the rights to use patents in exchange for equity options.

In the last three years the Group has obtained over 5 million euros in European funds and, only in 2015, it filed 33 patents originating from the activities of the JOLs; moreover, collaboration has been pursued with some of the most important European and North American universities and centres of excellence. Again under the scope of the relationship with universities, in the last four years 133 PhDs have been financed, sponsoring first level masters degrees at the Scuola Superiore Sant Anna di Pisa (Management, Innovation and Engineering of Services and Digital Life & Smart Living) and Tor Vergata university (Big Data in business), and the TIM Chair in Market Innovation at Milan s Bocconi University.

In order to support the growth of a true ecosystem of innovation in our country, the Group has expanded upon the Working Capital activities (now renamed TIM #Wcap), the business accelerator that, over the years, has become best in class in Europe . Since 2013, TIM #WCAP has launched 4 accelerators in the nerve centres of Italian digital innovation: Rome, Milan, Bologna and Catania. Approximately 4,000 m2 of spaces offered to the dozens of start-ups selected each year through a

Table of Contents

call for ideas , which receive a loan and are guided by consultants and experts in their growth path, which ranges from product development to launch on the market. Thanks to this process, since 2009 a total of 268 projects have been supported. In the last two years, the Group has started 25 collaboration activities with start-ups from TIM #Wcap, which have generated turnover for the young businesses and represent successful open innovation models for the Group. Moreover, again in the same period, 215 jobs have been created.

In November 2014, TIM Ventures, - the Group s corporate venture capital - began operating. The company, entirely and directly controlled by Telecom Italia, aims to acquire minority shares in the capital of the most innovative digital start-ups, appropriately selected in close connection with the Group s strategy. TIM Ventures has already made 13 investments and taken part in two subsequent follow-on rounds. It was included among the most active European Venture Capital investors in the second quarter of 2015 and among the 40 most active corporate venture capitals in 2015 .

With reference to technological innovation, the following are the projects most worthy of note:

e2Call: broadband mobile communication technologies represent a platform enabling new functions and services for road safety; in this context the real time communication of information on the situation of the roads and localization techniques which allow the position of vehicles to be identified with high precisions are particularly important. This is the basis on which the e2Call project has been created, with the aim of searching for innovative solutions on board vehicles and on the Internet. The scientific responsibility for the study has been assigned to a joint work group guided by the Centro Ricerche Fiat and TIMLAb of Trento, co-financed by the Autonomous Province of Trento. The project closed on 31 May 2016 with a workshop to present the results held in Palazzo della Regione Trentino-Alto Adige, in Trento.

TIM Personal: the Group wants to play an increasingly important role in clients trusted digital lives , i.e. for sensitive services for the citizen (transport, ticketing, payments, etc.) for which it is important to have a strong user identification mechanism. The TIM Personal service combines the solidity of a digital authentication mechanism based on the mobile terminal and on the SIM (Digital Identity) with the possibility of making secure payments, all via a single app.

TIM Market Place: the so-called Network APIs , which allow interoperability between modules and platforms, mean the smart network can be opened up to the applications of external providers. The TIM Market Place is a tool which, using a coordinated approach with the latter, combines the intelligence and functionality of the network with external services/content, and therefore forms part of TIM s path of transformation into a Platform Company, based on a new shared business model.

TIM City forecast: given their pervasive nature, mobile terminals can be compared to a capillary network of sensors able to provide accurate data in real time on the distribution of the population over the territory and on its movements (Mobility Patterns). Mobility Patterns enable applications linked to the monitoring and management of the territory, related services and mobility infrastructures, all in respect of privacy legislation, by means of a suitable anonymous, aggregated processing of data. For example, the City forecast service predicts the real time distribution of people (by unit of area) over the territory, even where there are specific events, for example enabling the quantification of tourist presence. The solutions developed in the TIM City forecast project are used by the Mobility Services Agency, a Roma Capitale company, as an analysis tool for monitoring the presence and mobility of the population and Italian and foreign visitors, in particular in the areas of religious and tourism interest, also in connection with the Jubilee.

Advertising Hub: Mobile Advertising is perhaps the area that has been most influenced by new technologies. The pervasive nature of the mobile terminal in users lives makes it the ideal tool for advertising and proposing new products. Thanks to super-fast broadband (LTE), the routes of high resolution video are opened up, with a more fluid use of contents and a satisfactory user experience . The Advertising Hub represents a link between companies operating on the Digital Advertising market and the Group in order to best enhance the corporate assets providing enabling solutions and support to the players in the market.

As mentioned previously, as regards the innovation of business, the Group aims to supplement its offer of connectivity with innovative services that satisfy the new digital needs.

In particular, the business innovation enriches the traditional one, both by developing prototyping and experimentation options for solutions based on an in-depth understanding and meeting of new digital service needs internally, through the Innovation Centre, and by opening up to external sources of ideas, which can help construct an open innovation model based on a valuable network of players (Joint Open Lab, TIM #Wcap, TIM Ventures, TIM Foundry, partnerships, etc.).

Table of Contents

The partnerships, which represent a business development method based on the optimisation of the Group s assets, are worthy of separate mention. In these terms, a partnership programme has been developed, which, starting out from the Company s strategic inputs and aiming to achieve business objectives, has classified the main categories of partners to develop an optimised approach, consisting of negotiations and collaborations. In this context, the Group oversees the various areas of digital services, including:

Cognitive Computing: TIM Foundry stipulated an important collaboration agreement with IBM, which makes the Cognitive Computing platform, called IBM Watson , available to the Group. Cognitive computing is a branch of computing that aims to equip machines with the capacity to reason and interact with humans in a natural manner. Watson is the leading technology in this sector and is currently being used in the USA in analysing imaging diagnostics, as well as in the development of automatic agents, referred to as chatbots that can dialogue with clients in caring contests on matters that the system has learnt previously. The cognitive computing systems learn by reading documents and interacting with human beings and the environment: TIM Foundry and IBM have, together with Customer Care and Open Access Departments of the Group, created two projects that intend to make cognitive computing available to technical assistance and commercial customer care processes. The operative projects aim to develop two chatbots that guide clients towards the solution of technical problems connected with Fibre, in one case and a more suitable response to queries on mobile offers, in the other. The results of the testing, which will be completed by the end of the year, will allow us to deduce important indicators for the extensive use of this technology.

e-Commerce (Amazon): in a partnership with Amazon, an innovative business model has been developed, which optimises the proximity asset intended as the capacity to reach the client. In this case, the collaboration is based on a shared remuneration with the partner, reason for which this partnership is considered an important example of the Group s entrance into the value chain of an OTT .

Participation in The Next Nest project : the Group has designed the interactive component of the work, developing a digital abstraction of a canvas by Daniele Galliano, on display at The Next Nest exhibition open from April to September 2016 as part of the XXI International Exhibition of the Milan Triennale, which allows visitors to interact in a gestural manner, creating new digital versions of the work that are unique and unrepeatable, downloadable thereafter from the installation site. The way in which visitors interact with the work has a great deal of affinity with the ways in which, by means of the telecommunications services, the Group helps the people to live and share social life, home and city, making interaction as natural and simple and helping improve the quality of domestic, social and urban life.

Big Data: along this route of Open Innovation and Evolution, learning to collect and effectively analyse the huge amounts of structured and destructured data, created by its own company systems or available from external sources, has become essential for TIM to constantly improve the quality of services and/or stay ahead of demand requirements. For data management to have a positive influence and enable value to be extracted, a radical transformation is necessary that is not only technological but above all organisational, procedural, as well as cultural and of talents. In this logic, the Group has therefore started an evolutionary path based on several design sites . Within these sites, various initiatives have already been launched in 2015 and are being completed in 2016, with the development of the first internal applications (aimed at improving the customer experience), the launch of the first services for the Business market on anonymous data, the start-up of the TIM Competence Center that will aim to train the internal competences and scout and search for new Big Data technologies and applications, working in an open logic with the industry s main players. Moreover, during the first few months of 2016, additional initiatives were also started, aimed in particular at aggregating different industry players and managers of large quantities of data to construct data partnership models with the aim of developing innovative applications intended for both digital cities (Living Lab project with Turin municipality) and to create innovative services to support private businesses in different fields (e.g. from the insurance world to that of the connected car).

Table of Contents

ENVIRONMENTAL PROTECTION

Energy

The technological developments the Group is pursuing for the transmission network (like FTTCab, LTE, OPM/EDGE/OPB) and the new installations on the domestic and external market in the IT area entail a significant increase in energy consumption in both fixed and mobile, estimated, for this year, at around 190 GWh (equal to an increase of 9% of overall electricity consumption in Italy compared to 2015), of which approximately 90% is linked to network developments. During the first half a number of previously launched actions were completed and new actions were taken regarding energy efficiency, with the aim of reducing the said growth to zero and, in the meantime, cutting down on the increase in consumption.

The self-generation of electricity accounts for a small, but not negligible, percentage of the total demand. The first half of 2016 was characterised by an increase in self-generation of around 10% as compared with the same period of 2015, as a consequence of the coming into full operation of certain plants of a significant size.

Cogeneration and trigeneration systems use around 30% less energy than traditional electricity generation systems, and play an increasingly important role for the Group, particularly in industrial sites, typically data processing centres (DPCs), which have notable energy requirements and high heating/cooling requirements, allowing losses due to transfer from production site to consumption site to be minimised.

During the first half of the year, a number of efficiency measures were taken while work continues on previously launched multiannual projects. At the same time, new action has been taken to reduce energy consumption.

In the industrial area, we note:

- Fixed network: projects for the virtualisation and increased efficiency of the network servers continue. The benefits deriving from these initiatives, which started in 2015, are:
  - a reduction in the energy consumed by the appliances of approximately 2.5 GWh,
  - the reduction of other operative management costs,
  - the recovery of IPV4 addresses,
  - the limitation of the risk of faults for obsolescence.

The SuperSGU plan also continues; it was launched in 2015 and envisages the disposal of the Urban Group Stages (SGU), by means of their grouping together in order to significantly reduce electricity consumption. In 2016, 25 SGUs will be affected.

Mobile network: the projects for the technological modernisation and increased efficiency of the systems used by the telephone exchanges and radio base stations, continue. In addition to the solutions that have already been launched to ensure increased energy efficiency for the GSM radio base stations installed on the network, during the second part of the half-year, the activity was increased to include solutions for 3G and 4G, for all the suppliers of the Group. The modernisation of the nodes of the mobile access network also continues, through the adoption of new, multi-standard technologies with integrated stations.

Lighting Plan: the plan to replace conventional neon light fittings in the fixed network exchanges with LED technology tubes continues. This project, which was launched in 2015, has already resulted in the replacement of around 100,000 tubes, with energy savings in the region of 7 GWh. During the first half of 2016, approximately 45% of the plan was achieved, which sets an annual target of 108,000 tubes. It is important to underline that the use of LED tubes, which produce a cold light, also allows energy used for air conditioning to be saved.

Power supply systems: work, which began in 2014, is being completed to replace the largest power stations (PS) with the lowest performances, which have been operating for over 20 years, with new higher performance equipment: in 2016 the plan will involve 235 PSs as part of the fixed network. Retrofitting works are being carried out on another 253 PSs that have been operating for between 5 and 20 years, involving the sole replacement of the rectifiers with new high efficiency modules, maintaining the existing structure and cabling. During the first half, approximately 60% of the 2016 plan was achieved.

Table of Contents

Air conditioning systems: the first plan to replace the obsolete cooling units and air conditioners, started in 2014, with new, higher-performance appliances has been completed; during the first half of the year, 100% of the 2016 target was achieved, which included 215 air conditioners and 83 cooling units as part of the fixed network. Moreover, the project is currently being completed for the management of calibration set points using the well-being button, which allows the temporary improvement of room temperature for the duration of the work being carried out by engineers; during the first half of the year, 60% of the 2016 plan was achieved. In general, the works envisaged in 2016 on the power supply and air conditioning systems should make it possible to achieve an overall reduction in consumption of around 20 GWh; where possible, the relative Energy Efficiency Certificates (white certificates) will be requested.

Exchanges: in order to minimise energy collections in the summer period, interventions were performed on around 400 exchanges. These interventions include the application of reflective films on glass, the total internal darkening of the windows, the insulation of free cooling boxes, ceilings and walls, the closure of the holes and cable ducts used for systems, the installation of hydraulic door closures and monitoring instruments. The estimated energy saving by the end of this year is 9 GWh.

In the offices, the following action was carried out:

LED Lighting Project: the plan started in previous years, is drawing to a close to replace conventional neon light fittings in the main office premises with new LED lights fitted with motion sensors and intensity adjustment depending on the amount of daylight. During the first half, 100% of the 2016 plan was achieved.

Uninterruptible power supplies (UPS) : the project for the optimisation of air conditioning in offices stems from the need to renew machines with an average service life of over 10-15 years and from the need to comply with current regulations. During the first half of the year, 100% of the 2016 target was achieved, with 15 UPSs replaced.

The analyses also continue aimed at identifying new areas of energy efficiency.

During the first six months, 2 of the 4 solar cooling plants envisaged for 2016 in Apulia were developed with the aim of covering the entire thermal demand, in terms of cooling, of the plants using a combination of solar panels and cooling machines, in this case lithium bromide absorption chillers.

On a European level, the Group is involved in various projects and standardisation entities aiming to reduce the consumption and environmental impact of the fixed and mobile telecommunications networks. The general aim of these participations is to speed up the availability of lower energy consumption equipment and systems, while allowing suppliers to achieve greater economies of scale thanks to common energy efficiency requirements, no longer differentiated by country.

Finally, in order to promote renewed sensibility with respect to the natural environment, the Group is the technical partner of the Italian Limes project, which analyses the effects of climatic change on the melting of the Alpine glaciers and the consequent shift of the watersheds which defined the national boundaries. The project includes an interactive installation at the ZKM museum in Karlsruhe, Germany, which provides a real time representation of the shifting boundaries, and an online platform with the complete documentation of the research.

DIGITAL CULTURE

The Group is participating, as the Founding Sponsor partner, in Programme the Future, a MIUR initiative that favours the introduction of computational thought and coding in the educational programmes of schools of all levels. The project is implemented by CINI (Consorzio Interuniversitario Nazionale per Informatica - National Inter-University Consortium for Information Technology) and supports all the activities in three ways: economic support, communication and company volunteering, with over 400 voluntary employees offering support and tutoring to teachers and students. The TIM Ambassadors are also key figures in TIM4Coding, an additional initiative promoted directly by the Group, which sees voluntary employees supporting teachers from all over Italy to implement Hour of Code and contribute to the training of the professionals of the future.

Programme the Future and TIM4Coding are part of the broader national project EducaTI, which actively contributes to the achievement of the objectives of the government s Good Schooling plan. All the initiatives are in fact carried out in collaboration with the Ministry of Education, Universities and Research (MIUR) and with some Institutional Partners of excellence.

Table of Contents

#TIMgirlsHackathon aims to help to close the gender gap in the scientific culture. A marathon lasting around 7 hours to introduce school girls to coding. The challenge is to create a real App on a pre-established topic in one day and without any expertise. A training day outside the classroom in a stimulating and challenging environment where there is the opportunity to meet exceptional mentors, a tribute to female leadership that has been able to tear down prejudices and cultural constraints. The topic of #TIMgirlsHackathon was cyber bullying and the informed use of the web.

The digital culture is also the scope of projects aimed at bringing high quality cultural content and digital languages together, making the most of the interaction opportunities offered by the Web. In so doing, the Company is asserting itself as an innovative partner in the Italian cultural and artistic world, assuming a role recognised by stakeholders who work alongside it in the various cultural sectors in which digital dissemination initiatives are run.

The partnership with Accademia Nazionale di Santa Cecilia takes the form of the PappanoinWeb project. Conceived for the purpose of bringing great classical music to the Internet audiences. The initiative, now in its 6th edition in 2016, is enriched this year by the experience of WebArena, a space technologically equipped by TIM for young people under 30. Over the six years of the programme, the concerts offered have been watched by over 200,000 users in streaming on telecomitalia.com/pappanoinweb, thanks to the listening guides, exclusive interviews and the opportunities to interact with an expert musicologist at the Accademia during direct broadcasts. A big open air rehearsal also allowed around 2,000 employees to experience the excitement backstage, with the protagonists, and to view the real difficulties of a high level musical performance.

As part of the storytelling & performing arts, note the partnership with Scuola Holden of Turin, founded by Alessandro Baricco, which tests new ways of teaching and sharing ideas, knowledge, and creativity through digital technology. The Web becomes a vehicle for providing lessons with great masters and special events happening in the school. The collaboration has allowed a pioneering multimedia laboratory to be set up, and it also supports, with a working group comprised of the best students, the communication of some of the Group s sustainability projects.

TELECOM ITALIA PEOPLE

At the start of June 2016, as part of the actions aimed at containing the costs and improving corporate efficiency and productivity, which can even be achieved through the streamlining of organizational structures, the People Value Function has be renamed Human Resources & Organizational Development.

On this basis, some of the initiatives planned by the previous People Strategy may be altered in the second part of the year.

People Caring

In the first half of 2016 the following initiatives were continued:

Work-Life Balance

20 daycare centres: over 9 company daycare centres (in 8 cities) and special agreements with 11 external daycare centres plus a new company nursery school opened in Rome;

Time-saving - handling of official formalities, laundry/shoe repairs, newsagents, wellness area and special agreements (relating to property, travel and holidays, banks and financial institutes, pay TV, car hire, transport and miscellaneous);

Table of Contents

41 summer camp stays for employees children (7,650 teenagers);

Mobility management to assist people with commuting between home and work through car pooling, company shuttles and bicycle racks at the offices;

Motivational initiatives: involvement and participation by colleagues and their families in sport, art, culture, music, entertainment and historical events. Since the beginning of 2016, almost 9,000 tickets and invitations have been assigned to access events in exclusive areas;

Orientation webinar for employees children: the Group signed up to Push to open , a programme that introduces teenagers to the world of work through direct and interactive discussion with professionals and experts from companies and testimonies from young people in online mode through webcasts and social networks. One session of 5 meetings was held in 2016, involving 140 young people.

Employee volunteering initiatives

Programma il Futuro (Programme the future), a Ministry of Education initiative aimed at introducing computer programming in primary schools. The initiative is being implemented by CINI (Consorzio Interuniversitario Nazionale per Informatica - National Inter-University Consortium for Information Technology) and Telecom Italia is the sponsor partner. For this project, Telecom Italia provided volunteers from among its staff: over 400 colleagues from the whole of Italy worked in particular in over 2,000 classes for a maximum of 2 days each;

Long-distance child adoption - approximately 1,000 employees have renewed their commitment to help CIAI (Centro Italiano Aiuti all Infanzia), Comunità di Sant Egidio and Save the Children, subscribing to long-distance adoption programmes;

Telecom Italia Blood Donors Group - 70 blood donation days were organised;

93 banchetti della solidarietà (solidarity stalls) were set up by charities in company premises, with the involvement of employees; a stalls roadshow was organised to support the Vietato Mollare (Don t Let Go) Tour, a motorbike tour of Italy organised by a colleague who suffers from multiple sclerosis with a Ducati pilot to raise funds for AISM (Associazione Italiana Sclerosi Multipla - Italian Association for Multiple sclerosis).

Diversity Management

In Rome, TIM Factory continued its activities as a physical as well as conceptual place dedicated to sharing views which, almost every day, hosts various types of events on diversity: book presentations, training, working groups, performances, and seminars. It is also a site where programmes and memorandums of understanding with the local authorities and municipalities can be arranged. Over 60 events dedicated to diversity were organised during the six months.

A research and intervention project was launched, as a partnership with the Humanitas Consortium and LUMSA University, divided into several stages:

desk analysis of all the projects run so far,

listening to a sample of managers,

holding of 5 interfunctional local improvement groups, in as many cities, with the involvement of 40 colleagues per group, in order to continue and broaden the listening phase, start planning initiatives from the bottom up, verify the link between diversity management and motivation,

involvement of the diversity board in assessing and selecting the projects proposed.

On the subject of disability , an e-learning training course entitled managing disability was launched to improve understanding of how to relate to colleagues or employees with disabilities.

A training module was implemented in Action Learning Program mode, dedicated to 15 talents in action with a specific focus on ageing. The course produced two specific projects for which a feasibility assessment is taking place.

Various activities were carried out to promote female management:

a cycle of 4 role model meetings entitled LeadHERship al femminile (Feminine leadHERship) in which some Group female managers were able to talk to managers from other companies to tell them about their career development path and highlight opportunities and the obstacles they still face;

close collaboration with Valore D, an association of over 150 companies, of which we are members of the Board of Directors and which we organised:

¨ participation in the Smart Working labs, Welfare Plan 2.0, Beyond Welfare: Total Welfare

Table of Contents

- Welfare Day;
- participation in the cross-company mentoring project, sending one of our managers to be a mentor and a female colleague as a mentee;
- 36 female colleagues attended the course organised by Valore D.

With a specific focus on disability, initiatives were carried out aimed at achieving better inclusion in work and social life, including:

a policy that provides for the mandatory adaptation of workstations, whether fixed or mobile, for disabled colleagues;

the Comunico-IO Project - which aims to promote communication between people affected by deafness and other employees, improving their ability to operate independently using evolved technological tools - has allowed deaf people at Telecom Italia to be integrated in more evolved work processes, thus giving rise to the Banche Dati Sordi (Deaf Databases) Project, which involves the use of these resources in the Databases department;

in the field of communication:

e-conventions are delivered in a sign language version as well;

new videos published on the Intranet are always subtitled;

live events involving deaf colleagues (including training, the assignment and review of objectives) always provide for the presence of a LIS interpreter (an Italian Sign Language interpreter, indicate in a footnote);

mailboxes have been set up for deaf colleagues to allow them to communicate with the company s main services (ASSILT, Telemaco, CRALT);

TIM #Wcap: the Working Capital accelerators host various start-ups dedicated to disability: Marioway (which patented an innovative means of transport for disabled people), Pedius (a communication service for deaf people), Horus (which is designing a device that can be fitted to any pair of glasses and makes it easier for blind and partially-sighted people to perform their daily activities).

On the subject of sexual orientation and gender identity, our collaboration continues with the PARKS Liberi e Uguali association of companies, of which we are members of the Board of Directors.

Updating of our policies on permits, leave, use of benefits and welfare services available on an equal basis for LGBTI and heterosexual couples, and the extension to children in the employee s household of services aimed at children and teenagers.

To promote psychological and physical well-being, the People Caring Centre (PCC) counselling service continued, provided by professional psychologists across the Country. Since the service began to operate (January 2011), 420 employees have asked for information on how the service works, either by telephone or email. In total, 370 people have used the CPC service: 300 have started a counselling process and 70 have been put in contact with the People Caring department manager and their cases have been taken over by the HR department.

In the Intranet area of the People Caring Centre (PCC), information, advice and bibliographical suggestions have been published to improve mental well-being. Furthermore, a new well-being area has been created on the intranet that brings together all the services offered by Telecom Italia relating to health, prevention and the physical well-being of individuals, in collaboration with the TIM Foundation and the Veronesi Foundation.

Development

The Telecom Italia development model

Through the integration of all the assessment processes (recruiting, performance, potential, motivation, knowledge), the Model aims to ensure accurate knowledge of people in order to create individual development plans fine-tuned to the characteristics of each person and aimed at managerial and professional improvement and growth. The Development Model (starting with the Leadership Model) is constantly updated and takes account of the evolution of our business strategy keeping its ultimate purpose unvaried, namely to improve the enterprise contribution of each person.

Table of Contents

The model mainly focuses on the following areas:

Recruiting and selection: in February 2016 the new recruitment and selection procedure was issued, aimed at integrating the processes for the internal and external scouting of professional and managerial skills. This has made it possible to launch the deployment phase of the new process, which is governed in implementation terms by the control room, aimed at ensuring the job mobility process through the continuous refinement of the numerical variation plan. Again as part of the re-engineering of the process, in March the recruiting module was issued on the new HR platform, called PeoplePlace. Over time the platform will enable the management of all the selection, development and training processes of the people in the Company.

The definition of the development of new capabilities has made it possible to work in a targeted and systematic way on the employer branding initiatives and on the partnerships with the world of education and academia in order to steer the training investments so they fit with the company requirements. In this sense, from the start of 2016 the following were set up: 20 training internship positions, of which 14 were closed, and 16 employer branding initiatives, through which it was possible to meet over 3,700 young people from secondary schools and the academic world.

As for External Recruiting, steps were taken in the early months of 2016 to complete the skills requirement laid down in the 2015 Plan, through the assimilation of 32 new graduates/professionals. The selection process involved 330 candidates.

With reference to Internal Recruiting, 42 professional profile searches were carried out through job posting, 22 of which were closed; these job postings led to a pool of over 730 applications being received from professionals motivated to increase their employability.

Onboarding programmes, to accelerate the time to perform of people joining the Company, encouraging engagement and motivation, which are basic elements for an enduring relationship. In May an onboarding training group was set up for 75 new hires in the period late 2015-May 2016.

Performance Management: in the first four months of 2016 the Performance Management process was concluded which involved the entire Domestic Business Unit (around 50,000 people). The process included an assessment of the objectives and behaviours and concerned the entire population of managers, professionals and employees. The Performance Management included various phases, from the assignment of objectives to feedback and development plans. In the first six months of the year the evaluation phase and the feedback phase were concluded in the set time; the development plans definition phase is currently being launched. As for the feedback phase, 99% of people received feedback from their manager and 93.8% stated they agreed with the assessment.

Creation of individual development plans: an analysis and data processing system was designed, the Playbook, which, based on the results of the performance management, motivation and professional experience of the people, supports managers in defining an individual development plan for each collaborator comprised of training initiatives, in-the-field actions and job rotation. The development plans are currently in the launch phase.

Managerial Development, the potential assessment system, aimed at constructing and/or consolidating the individual leadership development plans, was on the one hand simplified by the definition of clearer and more transparent process rules and on the other differentiated based on the different types and possibilities for managerial growth in organizational terms. With a view to transparency and engagement, the entire pre- and post-assessment process has also be redefined up to the preparation of a development plan and the monitoring timing and procedures.

Career paths/Motivation Review/Knowledge Review: models relating to the three different processes were designed (Career paths, Motivation Review, Knowledge Review), and the relative pilots were created/designed. At present there are works in progress for the appropriate refinement and updating of the three models, also taking into account the repositioning of our Business Strategy.

Training

With regard to training, the most significant event in the first half of 2016 was the launch of the Corporate University: TIM Academy, set up with the objective of facilitating the digital transformation process and developing an innovative approach to learning and the sharing of know-how.

TIM Academy:

offers programmes, courses and training in the classroom, online and on the job.

encourages the sharing of know-how and skills through the community, workshops, seminars, and think tanks with teachers and endorsers qualified at national and international level;

- designs and provides new formats of learning using digital means: web-based training, videos, webinars, virtual learning, and a multidevice catalogue of training solutions that are always available and accessible.

As a whole, Telecom Italia s training activities have the following main purposes:

- to strengthen leadership styles in order to provide managerial skills that can support the strategic development of the Company in the coming years;
- to enhance the individual and collective skills needed to compete in the new business scenarios, paying particular attention to the specialised skills needed in the sector;
- to provide people with the capacity to cope with everyday challenges;
- to accompany and support the transformation of organisational identity and culture;
- increase digital skills and social collaboration also to support the evolution and digitisation of the national system;
- lower the environmental impact of training activities through the use of e-learning solutions which reduce the CO_2 footprint of the use of classrooms, accommodation and transport. These innovative formats also represent the Group s commitment to enhancing the quality of life of its employees and contributing to the correct balancing of their personal and professional lives.

They are divided into four macro-categories:

- Management education,
- Development of role-based and specialized skills, and new capabilities,
- Development and empowerment,
- Institutional and corporate culture.

For each of the above mentioned areas the main activities carried out in the first half of 2016 are set out below.

Management education

Training on the managerial target is essential for the deployment of the corporate strategic guidelines and for the implementation of technological and organizational change processes.

- SALP - Social Action Learning Program : the main objectives of the training course are learning, collaboration and the generation of ideas.

- Online Library : allows all managers to benefit from videos, webinars and materials from national and international speakers on - amongst others - business, finance, technology and leadership topics.

Development of role-based and specialized skills, and new capabilities

Training to develop role-based and specialized skills as well as new capabilities is essential for the implementation of the strategic drivers, and therefore occupies a central role in Telecom Italia s training investments plan.

- Single Front End : the training accompanies the complex transformation of the Front End in the Network context, ensuring the operating effectiveness of people also by measuring the effectiveness of the training itself.

- Open Access on-the-field technicians skills improvement : blended training for around 9,000 in-the-field technicians aimed at bridging the gaps in the technical skills that emerged from the skill assessment.

- Line Digital Educator : the project, arising from Open Access need to train 92 line trainers to improve the skills of the in-the-field technicians was also extended to other departments involving Technology and Health, Safety & Environment colleagues.

- Induction training/onboarding , already described, induction programme for people coming from the external market or from companies of the Group.

- Maintenance and Development of corporate Certifications : measures to enable participation in tenders and contracts in the private, Central and Local Public Administration sectors.

- Business Offer of ICT and Digital Market services : activities aimed at developing a digital culture to bring out the potential demand for ICT services and make the customer experience a competitive lever.

Table of Contents

Development and empowerment

This type of education allows people to enhance their capacities in relation to the evolution of the skills required by the business and by the organizational context.

- New Development, Leadership and Performance Management Models : aimed at all people in the Group and divided into different initiatives that aim to increase people s knowledge of the change introduced in the Company by the New Models, to promote the culture necessary to guide behaviour and to reinforce the maturity of the assessment.

- Smart Working : training course aimed at strengthening people s awareness of the change process generated by the Smart Working project as well as developing new cultural models and new working methods.

- Post Performance Ttraining : the new Performance Management system seeks to define individual development plans for each person (in-the-field actions and e-learning training activities).

- Talent In Action : a development and training project intended for one specific segment of the population talent in action of around 1,000 people, which seeks to define individual action plans. A structured training offer, tailored to the needs of individuals, consisting of around 80 different initiatives is available to the beneficiaries as part of this project. The activities, which started in November 2014, will end in 2016.

Institutional and corporate culture

This training aims at supporting the transformation of the organization culture in line with the evolution of the social, environmental and economic context and at disseminating knowledge of the contents required by the legal formalities.

The training initiatives promoted by the following functions and departments are included as part of this activity : Compliance (aimed at increasing knowledge and respect for the Group s value, improving the skills in processes and procedures, as well as in the methodologies and the tools used for Compliance purposes), Health, Safety & Environment (aimed at ensuring compliance with the reference regulations on Safety in the workplace), and Regulatory and Equivalence (for topics relating to the Antitrust and Equivalence).

Moreover, the following activities were carried out:

- Compliance Day: the Compliance department has organized study days on compliance issues for specific company departments.

- Human rights: for the Corporate Shared Value function an online product to raise awareness about the respect and promotion of Human Rights was created to protect the vulnerable categories.

Antitrust: a blended course, online and in the classroom, has been created with the aim of making employees aware of the correct application of the antitrust regulations in the different operational departments of the Company to ensure the maximum dissemination and awareness of the penalty and compensation risks above all for the departments that carry out sensitive activities.

Safety: as regards the obligations involved in the implementation of company prevention and protection measures deriving from current regulations, a series of actions were taken in keeping with previous years aimed at ensuring the protection of all professionals that make use of the workplaces of Telecom Italia. All the employees were involved in the mandatory modules on safety; training was also given for specific knowledge on the average risk and specific risks linked to the role of in-the-field technicians (electrical plants, first aid, fire prevention road signs, load handling, confined spaces and environments, and the operating of mobile elevated work platforms (MEWP).

Knowledge Management

In 2016 the deployment of Telecom Italia s Knowledge Management Model, which was launched in the early months of 2015 was strengthened and improved.

The model guided the creation of a platform that ensures and supports:

capitalization, the transmission and development of people knowledge,

research and innovation,

competitiveness on the markets.

In particular the model is comprised of a learning matrix, a governance system and a set of social and in-person collaboration tools that allow the mapping and dynamic enhancement of knowledge.

Table of Contents

Moreover, at the same time as the launch of the TIM Academy s technological platform, a social collaboration area was opened for training courses that allow teachers and participants of the individual courses to share materials, content and conversations on the topics covered in the training.

This space will include interaction with participants external to the company who make up part of the ecosystem of business processes (e.g. retail partners, external contact centres, PhD students, etc.).

Collaboration with universities

The Group has started a new relationship model with leading universities and national and international research centres, which emphasizes the enhancement of talent to transfer innovation to the Company. The goal is to strengthen and accelerate the Group s ability to innovate while at the same time contributing to the development of young people by offering them the opportunity to gain new skills and experiences.

Initiatives include:

collaboration with secondary schools as part of the School Business Network project, which was launched in 2009 with the aim of creating a structured relationship with high schools, particularly in order to enhance our internal skills, get in touch with young people across the country and promote the company s image;

financing of scholarships to help young engineering and economics graduates achieve a postgraduate qualification: from 2011 to 2016, 166 doctorate scholarships have been assigned for the development of specific research projects of interest to the company, the subjects of which range from cloud computing to geomarketing, from big data to e-health, from LTE to robotics, including issues related to web law and economics. For the three year period 2017-2019 academic year, another 6 doctoral scholarships are envisaged;

collaboration with postgraduate study courses: through 4 Master s courses closely linked to business, with which a close partnership with great added value was formed:

Master in Digital Life and Smart Living and Master in Management, Innovation and Engineering of Services MAINS, with the Scuola Superiore Sant Anna di Pisa

the Master in Big Data in Business: discovering & leveraging for Value Creation in partnership with Ericsson and Tor Vergata University is entirely dedicated to training new professionals with solid and innovative skills as required by the business;

a permanent national and European observatory on issues connected with the transition from school to work and the development of new skills for young people;

- the sponsorship of the TIM Chair in Market Innovation , at Milan s Bocconi University, as previously described;

- initiatives to disseminate in the company sources of cutting-edge knowledge on the topic of digital transformation with the purpose of transferring knowledge aimed at supporting digital transformation and evolution, fostering the monitoring of new capabilities through participation and sharing events, think tanks with other companies, meetings with experts, and the dissemination of research on the topic.

Internal communication

The internal communication process undertaken, in line with the constantly evolving reference context, has led to a shift from conventional communication channels towards more innovative forms based on web-centric logic, in order to foster bilateralism and the exchange of ideas and discussion among all members of the corporate community.

The preferred environment (web-centric) chosen to provide formal and informal opportunities for people to meet and listen is confirmed as the company Intranet and portal: fundamental tools for providing information and creating opportunities for open dialogue.

The guiding criterion continues to be engaging people in order to count on their energy, motivation and creativity. And to promote positive stories and new styles of storytelling (positive tellers, Archimede project, Values contest).

Table of Contents

The specific communication objectives achieved in the first half of 2016 are as follows:

- new publishing process defined and structured, establishing a new diffused publishing structure, expanded to include the various areas of the business, planning and drafting of news published on the TIM PEOPLE NET Social Intranet home page;

- internally managed rebranding process implemented for both Italy and Brazil;

- the work of positive teller colleagues continued through targeted meetings and specific activities to supplement corporate communication with opportunities for discussion and dissemination of information among colleagues;

- Idea Sharing internal crowdsourcing contest was launched, addressed to all colleagues in Caring Services, Customer Management & Relations, Strategy & Innovation, Wholesale and TILab. The context offers the opportunity to share ideas and have the opportunity to see them realized. The idea judged as the best will be rewarded with the UT Special Award for the author and the supporting team. Furthermore, the author of the idea will have an opportunity to take a sabbatical time from his usual activity for the amount of time required to realise it;

- Smart Corners Project, an initiative to share knowledge. Based on an idea suggested by seven new recruits who took part in the #giocalenergiaXtutti competition, Smart Corners are places where professional knowledge can be exchanged: meeting rooms, auditoriums, open spaces in which colleagues tell other colleagues about business-related matters they feel particularly knowledgeable about. Without the need to travel, thanks to dedicated Smart Corners, topics such as the Internet of Things, Fibre, Public Digital Identity System, Smart Cities, and User Experience are explored, providing an opportunity to learn new skills from expert colleagues and to find synergies between different areas of the Company.

- Web TV was launched, updated and sporting new graphics, consistent with TIMPEOPLENET. A high quality Web TV, practical and easy to use, even on the move.

Health and Safety

Telecom Italia S.p.A.

During the first half of 2016, the main areas of action in the field of health and safety at work related to planning and developing a series of information and awareness-building initiatives to strengthen safety culture in the Company.

In particular, the contents of a communication campaign were defined that provides for initiatives to reduce accidents, particularly by making improvements aimed at changing individual behaviour and the work process.

Campaigns of targeted measures related to vibrations, noise, electromagnetic fields and micro-climates continue to ensure accurate monitoring of risk control measures.

Also in the first half of 2016, the Company continued to provide safety training to its staff: in this context it implemented safe driving courses for staff who drive company cars.

A programme of safety moments continues in the presence of staff from the Health, Safety & Environment department, during which managers and employees deal with issues regarding accidents that have occurred, health monitoring, equipment and PPE , for which possible improvement actions are defined. 60 meetings are planned for 2016, 15 for each local area and involving all the company s departments and functions.

As regards strengthening awareness of health and safety matters, particularly in the supply chain, 16 checks on principal suppliers were carried out during the first half of 2016.

During the first half of the year, benchmarking activities on health and safety promoted by Telecom Italia with the involvement of the main Italian network companies (Enel, Poste Italiane, Ferrovie dello Stato, Terna, Anas, Autostrade per l Italia, Vodafone, etc.) continued with regular meetings, in addition to workshops, organised by each company, with the participation of sector experts and institutional entities. In particular, the issues tackled during the first half of the year related to measures for monitoring and reducing accidents at work and specific aspects of health checks.

Table of Contents

Industrial relations

Telecom Italia S.p.A.

The first half of 2016 was characterised by numerous sessions of comparison of ideas and information with the trade union parties, regarding various company departments.

During these meetings, the Company and the trade union representatives identified agreed solutions for the introduction of new work shifts for people working in the Fraud Operations area, which will contribute to manning the service more intensively and fulfilling the needs of the relevant customers.

Significant discussions with the trade union parties also regarded the company departments in charge of supervising the network platforms and services, as well as technical service, to establish hours of operation that were in line with the organisational changes and the desire to offer better services and quality to customers.

More specifically, for the Network department, agreements have been stipulated relating to the shifts of the newly-established Single Front End, which concentrated the activities up to that point assured by several territorial units, in just the two poles of Rome and Milan, with the entire baggage of competences having been recovered by means of a structured professional reconversion manoeuvre that guaranteed the re-use of all resources.

Moreover, both nationally and locally, specific agreements have been signed to allow the staff concerned to take a day s paid leave as an alternative to the payment awarded under their contract for national holidays and patron saint days falling on a Sunday in 2016.

In June, the Company and trade union organisations renewed, in signing a specific protocol, the structure of the Telecom Industrial Relations model, in order to further optimise the discussions in the area of information, consultation and negotiation, both on a national and local level.

In line with the relations model developed over time, aimed at seeking dialogue and a constructive comparison of ideas, the importance of the company office has been confirmed, as the perfect place within which to identify solutions able to accompany the organisational evolution processes, including through a greater involvement of local representatives.

The unitary trade union representatives, recently re-elected, are present in a capillary fashion throughout all regions of Italy; with the new Protocol, the basis is laid to further develop relations on a local level, seeking suitable opportunities for a decentralised discussion in order to better grasp and combine, in respect of the reciprocal roles, the specific needs and opportunities marking the various territorial contexts.

Remuneration policy

The Group remuneration policy is established in such a way as to guarantee the necessary levels of competitiveness of the Company on the employment market. Competitiveness translates into supporting the strategic objectives, pursuing sustainability of results in the long-term and striking a correct balance between the unitary needs of the Group and the differentiation of the various reference markets. The result is a remuneration structure that seeks to guarantee the correct balance between fixed and variable components, both short and long-term, alongside benefit and welfare systems with Total Rewarding in mind.

More specifically, the fixed component reflects the breadth and strategic nature of the position held and is dictated by performance in the reference markets.

The short term variable remuneration (MBO) on the other hand aims to establish a transparent link between pay and the degree of fulfilment of annual targets. To this end, the targets are fixed according to qualitative and quantitative indicators that represent and are consistent with the strategic priorities and business plan, measured according to pre-established and objective criteria. In 2015, the gate mechanism was the threshold applied only to the Company s macro objectives: if the gate objective is not achieved, this mechanism prevented the bonus associated with the company s other macro targets being accrued.

Table of Contents

In 2016, the mechanism s operation was changed:

- for the CEO, a failure to achieve the minimum level of the gate objective will result in a 50% cut to the target bonus on which the remaining objective values are calculated;
- for the Chairman, as of 2016, the gate mechanism is the same as the one applied to the CEO;
- for all other recipients, the gate will remain a condition for access to bonuses for the company macro objectives only.

The long-term variable component aimed at achieving consistency between the interests of management and those of shareholders, by sharing in the business risk, with positive effects on the 2014-2016 stock option plan, which involved the Chief Executive Officer, the top management and a selection of managers.

With Total Rewarding in mind, the traditional monetary instruments have been combined with non-monetary instruments, including benefits and welfare, financed by moving economic resources from the monetary remuneration components without any change in the total cost to the Company.

When the current CEO, Flavio Cattaneo, was appointed on 30 March 2016, a decision was taken to introduce a new, additional bonus aimed at pursuing the aim of corporate discontinuity and turnaround. The Special Award provides for the CEO and some of the executives selected by him, based on over-performance in some defined economic and financial KPIs, to accrue a bonus consisting of 80% shares and 20% cash.

THE COMMITMENT OF FONDAZIONE TIM

The first half of 2016 was a very important period for FTIM, full of changes and activities. The Lessons on progress continued in 2016: a project involving 9 stages (3 in 2015) intended to introduce young people to scientific culture. The idea for this format arose from a desire to create a new way of talking about science in a more accessible way, contrasting the technical explanations of a scientist with the more direct ones of a person far removed from the academic world and able to bring scientific subjects and messages closer to a young target audience. The themes chosen for the lessons are among the most topical, delicate and hotly debated in the scientific and technological field, in particular, the first six of 2016 were the following:

- The Robot Society: new friends or ancient slaves? : the key figures of this lesson were Giorgio Metta, Director of the iCub Facility at the Italian Institute of Technology of Genoa and the singer Elio. The topic discussed was the interaction, in the near future, between humans and robots, the latter increasingly sophisticated in both cognitive and emotional aspects.

Ever better! How genetics continue to improve human life: but at what price? Giuseppe Novelli, Rector of Tor Vergata University in Rome and geneticist and actress Francesca Reggiani discussed genetics which, after having substantially transformed the approach to simple illnesses, is helping us to understand the heritability of complex diseases. In the immediate future this knowledge will be used to have an impact on public health by personalizing medicine, making it possible to identify individual genetic susceptibilities, creating personalized drugs and providing indications about the most suitable lifestyles.

Will everyone be healthy in the future? : this lesson features the opinions of Luca Pani, physician specialized in psychiatry, expert in pharmacology and molecular biology, Director General of the General Medicines Agency (AIFA) and Carlo Verdone, director, actor and screenwriter fascinated by medicine. Luca Pani took the public on a journey into the human mind, describing the mechanisms that manage emotions, as well as those that produce obsessions, insomnia, depression and the substances that help us to deal with them.

Emotions and choices: the biological basis of the moral sense. No more excuses for our mistakes : Pietro Pietrini, Director of the IMT School for Advanced Studies Lucca and professor of clinical biochemistry and molecular biology and the actor Francesco Montanari discussed moral dilemmas. In this lesson the biological basis of the moral sense, the link between choices and genetics and the authentic meaning of free will, were explained.

Table of Contents

- The drone and the bicycle, moving on levels: will we avoid accidents? Paolo Santi, scientific researcher at MIT s Senseable City Lab and head researcher at the Institute of Informatics and Telematics of the National Research Centre (CNR), and Vittorio Brumotti, extreme bike trial riding champion, gave their view of what might be the future means of transport, even from the perspective of reducing road accidents.

- Stem cells: cures or clones? : Elena Cattaneo, pharmacologist, biologist and senator of the Italian Republic and Virginia Raffaele, actress, discussed stem cell research, outlining a scenario of its possible evolution in terms of studies and use.

Other projects

Dyslexia 2.0 Digital Solution

At the start of 2016, Fondazione TIM launched the Dyslexia 2.0 Digital Solution project: an innovative integrated digital project for the creation of technological tools in response to specific requirements for dyslexia, accessible to families, teachers, students and paediatricians via a single portal.

Fondazione TIM has been a leader in Dyslexia since 2009, with a multi-year programme which has allowed the creation of screening protocols, IT campuses, digital books and the dissemination of a more inclusive approach in schools.

The project is formed of three initiatives developed by the Fondazione TIM in collaboration with the National Institute of Health, the Bambino Gesù Children s Hospital and the Italian Dyslexia Association (AID):

- Smart@pp: through the portal and a special App, developed by the National Institute of Health in collaboration with the Institute of Applied Sciences and Intelligent Systems of the CNR, families will be able to undergo very early screening for communication disorders and it will be possible, by obtaining accurate data, to identify cases of children at risk using standard protocols.

- Online Dyslexia: children of school age, teenagers and adults will be able, again by accessing the same platform, to undergo an evaluation at a distance prepared by the Bambino Gesù Children s Hospital, a possible online recovery course for reading difficulties and a final session to assess what has been learnt.

- Dislessia Amica (My friend Dyslexia): in continuity with the actions already carried out in collaboration with AID, special e-learning sessions will be held for teachers and school staff, based on a standard protocol prepared with the Italian Ministry of Education, which will involve around 30% of educational institutions.

In addition to the specific issue of dyslexia, Fondazione TIM is heavily committed in the broader context of communication and neurodevelopment disorders. In the first half of 2016 the results of two important projects for autism were presented to the community: SI DO RE MI , set up with the ISTI CNR [Information Science and Technology Institute - National Research Council] of Pisa, and Tecnologia fa breccia [Technology Makes Inroads], set up with the Una breccia nel muro [An Opening in the Wall] association. Further details on the two projects are set out below.

SI DO RE MI

Autism affects 1 in 150 children in Italy. There are over 6.2 million children currently between the ages of 1 and 12 years old. The number of children interested by the project is therefore estimated to be more than 41,000. The project provides for the development of a system that uses cloud computing to control sound and music generated by the gestures of children affected by autism. The acoustic feedback thus created is intended to emphasise and stimulate interaction with the surrounding world. The data related to children interacting with the system is monitored remotely by specialists to analyse trends in the disorder.

Tecnologia Fa Breccia (Technology Makes Inroads)

Software was created to allow parents to send information relating to the development of their autistic child in a natural environment (home, school, etc) in real time to the supervision centre in order to facilitate and increase communication between families and children affected by autism, therapists and supervisors. Moreover, a set of 80 Apps was created to supplement the therapeutic work done every day. The use of the Apps on a tablet increases autistic children s motivation to learn some skills that are typically in deficit due to the syndrome (communication, social interaction, sphere of interests). The data collected will be analysed and used to refine the therapeutic treatment of individual children, offering them increasingly efficient individualized stimuli.

Furthermore, during the first half of the year, two important projects were completed in the field of education: Curriculum Mapping and I linguaggi della contemporaneità (Contemporary languages).

The Curriculum Mapping project involves the creation of a platform to map curricula: a useful tool to facilitate the sharing of programmes between teachers of the same subject and between schools in the same education network, their supervision by head teachers, the orderly and integrated use of digital educational content by students, as well as the monitoring, updating and adapting of disciplinary planning in real time.

Mapping the curriculum means making the school curriculum and its component parts intelligible, shareable and transparent.

Curriculum Mapping provides a synoptic view of the school s fundamental educational values, the relevant skills and their application in different cultural contexts and at different levels or grades of education, annual planning for every education year and cycle, the structuring of education units forming the programme. Originating as an innovative approach in the USA, where it is widespread, Curriculum Mapping is combined with the skill-based programme launched in Italian and European schools.

The I linguaggi della contemporaneità (Contemporary languages) project is intended to reinvigorate and update the teaching of contemporary history in secondary schools, moving beyond the combination of text book and classroom lesson to integrate narrative strategies drawn from sources including television, cinema, theatre, photography and literature.

Table of Contents

Table of Contents

CONTENTS

TELECOM ITALIA GROUP HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2016

Table of Contents

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(millions of euros)	*note*	6/30/2016	*of which related parties*	12/31/2015 Revised	*of which related parties*	1/1/2015 Revised	*of which related parties*
Non-current assets							
Intangible assets							
Goodwill	4)	29,566		29,383		29,943	
Intangible assets with a finite useful life	5)	6,777		6,480		6,827	
		36,343		35,863		36,770	
Tangible assets	6)						
Property, plant and equipment owned		13,211		12,659		12,544	
Assets held under finance leases		2,298		2,208		843	
		15,509		14,867		13,387	
Other non-current assets							
Investments in associates and joint ventures accounted for using the equity method	7)	39		41		36	
Other investments	7)	38		45		43	
Non-current financial assets	8)	3,129	*601*	2,989	*549*	2,445	*374*
Miscellaneous receivables and other non-current assets		2,048		1,778		1,614	
Deferred tax assets		735		853		1,118	
		5,989		5,706		5,256	
Total Non-current assets	(a)	57,841		56,436		55,413	
Current assets							
Inventories		294		254		313	

Trade and miscellaneous receivables and other current assets		9)	5,683	*140*	5,112	*137*	5,617	*152*
Current income tax receivables			69		163		101	
Current financial assets		8)						
Securities other than investments, financial receivables and other current financial assets			*1,330*	*65*	*1,840*	*63*	*1,611*	*66*
Cash and cash equivalents			*2,707*	*255*	*3,559*	*72*	*4,812*	*174*
			4,037	*320*	5,399	*135*	6,423	*240*
Current assets sub-total			10,083		10,928		12,454	
Discontinued operations/Non-current assets held for sale		10)						
of a financial nature					227		165	
of a non-financial nature					3,677	*23*	3,564	*19*
					3,904		3,729	
Total Current assets	(b)		10,083		14,832		16,183	
Total Assets	(a+b)		67,924		71,268		71,596	

Table of Contents

Equity and Liabilities

(millions of euros)	note	6/30/2016	*of which related parties*	12/31/2015 Revised	*of which related parties*	1/1/2015 Revised	*of which related parties*
Equity	11)						
Share capital issued		10,740		10,740		10,723	
less: Treasury shares		(90)		(90)		(89)	
Share capital		10,650		10,650		10,634	
Additional Paid-in capital		1,731		1,731		1,725	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the period		6,725		5,173		5,709	
Equity attributable to Owners of the Parent		19,106		17,554		18,068	
Non-controlling interests		2,221		3,695		3,516	
Total Equity	(c)	21,327		21,249		21,584	
Non-current liabilities							
Non-current financial liabilities	12)	31,027	*1,047*	30,518	*937*	32,325	*469*
Employee benefits	16)	1,580		1,420		1,056	
Deferred tax liabilities		434		323		438	
Provisions	17)	569		551		720	
Miscellaneous payables and other non-current liabilities		1,207		1,110		697	*1*
Total Non-current liabilities	(d)	34,817		33,922		35,236	
Current liabilities							
Current financial liabilities	12)	4,209	*70*	6,224	*168*	4,686	*107*
	18)	7,445	*204*	7,882	*217*	8,536	*213*

Trade and miscellaneous payables and other current liabilities							
Current income tax payables			126	110		36	
Current liabilities sub-total			11,780	14,216		13,258	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		10)					
of a financial nature				348		43	
of a non-financial nature				1,533	*16*	1,475	*16*
				1,881		1,518	
Total Current Liabilities	(e)		11,780	16,097		14,776	
Total Liabilities	(f=d+e)		46,597	50,019		50,012	
Total Equity and Liabilities	(c+f)		67,924	71,268		71,596	

Table of Contents

SEPARATE CONSOLIDATED INCOME STATEMENTS

(millions of euros)	*note*	1st Half 2016	*of which: with related parties*	1st Half 2015 Revised	*of which: with related parties*
Revenues		9,096	*164*	10,101	*234*
Other income		107	*2*	131	
Total operating revenues and other income		9,203		10,232	
Acquisition of goods and services		(3,783)	*(110)*	(4,372)	*(143)*
Employee benefits expenses		(1,551)	*(66)*	(1,705)	*(54)*
Other operating expenses		(501)		(888)	
Change in inventories		33		58	
Internally generated assets		325		314	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		3,726		3,639	
of which: impact of non-recurring items	26)	*(91)*		(399)	
Depreciation and amortization		(2,047)		(2,130)	
Gains/(losses) on disposals of non-current assets		13		279	
Impairment reversals (losses) on non-current assets		(5)			
Operating profit (loss) (EBIT)		1,687		1,788	
of which: impact of non-recurring items	26)	*(82)*		(122)	
Share of losses (profits) of associates and joint ventures accounted for using the equity method		(2)			
Other income (expenses) from investments		7		4	
Finance income	20)	2,012	*60*	1,581	*72*
Finance expenses	20)	(2,157)	*(67)*	(3,063)	*(47)*

Profit (loss) before tax from continuing operations		1,547		310	
of which: impact of non-recurring items	26)	*(93)*		(139)	
Income tax expense		(489)		(195)	
Profit (loss) from continuing operations		1,058		115	
Profit (loss) from Discontinued operations/Non-current assets held for sale	10)	47	*9*	330	*39*
Profit (loss) for the period	21)	1,105		445	
of which: impact of non-recurring items	26)	*(78)*		(111)	
Attributable to:					
Owners of the Parent		1,018		33	
Non-controlling interests		87		412	

(euros)		1st Half 2016	1st Half 2015 Revised
Earnings per share:			
Earnings per share (Basic)	22)		
Ordinary Share		0.05	0.00
Savings Share		0.06	0.00
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		0.05	0.00
Savings Share		0.06	0.00
Earnings per share (Diluted)			
Ordinary Share		0.03	0.00
Savings Share		0.04	0.00
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		0.03	0.00
Savings Share		0.04	0.00

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Note 11

(millions of euros)		1st Half 2016	1st Half 2015 Revised
Profit (loss) for the period	(a)	1,105	445
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)		(118)	56
Income tax effect		32	(15)
	(b)	(86)	41
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)	(86)	41
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		76	(21)
Loss (profit) transferred to the Separate Consolidated Income Statements		(69)	(63)
Income tax effect		(4)	18
	(e)	3	(66)
Hedging instruments:			
Profit (loss) from fair value adjustments		(327)	1,168

Loss (profit) transferred to the Separate Consolidated Income Statements		245	(812)
Income tax effect		(2)	(98)
	(f)	(84)	258
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		618	(380)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		304	(1)
Income tax effect			
	(g)	922	(381)
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)	841	(189)
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	755	(148)
Total comprehensive income (loss) for the period	(a+k)	1,860	297
Attributable to:			
Owners of the Parent		1,726	(13)
Non-controlling interests		134	310

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes from January 1, 2015 to June 30, 2015

(millions of euros)	Equity attributable to Owners of the Parent										
	Share capital	Additional Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	Total	Non-controlling interests	Total equity
Balance at December 31, 2014	10,634	1,725	75	(637)	(350)	(96)		6,794	18,145	3,554	21,699
Revised for errors					28			(105)	(77)	(38)	(115)
Adjusted Balance at December 31, 2014	10,634	1,725	75	(637)	(322)	(96)		6,689	18,068	3,516	21,584
Changes in equity during the period:											
Dividends approved								(166)	(166)	(84)	(250)
Total comprehensive income (loss) for the period			(66)	258	(279)	41		33	(13)	310	297
Inwit - effect of sale of the non-controlling interest								253	253	509	762
Convertible bond issue maturing 2022 - equity component								186	186		186

Issue of equity instruments								17	17		17
Other changes								(1)	(1)	(3)	(4)
Balance at June 30, 2015	10,634	1,725	9	(379)	(601)	(55)		7,011	18,344	4,248	22,592

Changes from January 1, 2016 to June 30, 2016 Note 11

	Equity attributable to Owners of the Parent										
(millions of euros)	Share capital	Additional Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	Total	Non-controlling interests	Total equity
Balance at December 31, 2015	10,650	1,731	32	(249)	(1,459)	(87)		6,992	17,610	3,723	21,333
Revised for errors					46			(102)	(56)	(28)	(84)
Adjusted Balance at December 31, 2015	10,650	1,731	32	(249)	(1,413)	(87)		6,890	17,554	3,695	21,249
Changes in equity during the period:											
Dividends approved								(166)	(166)	(26)	(192)
Total comprehensive income (loss) for the period			3	(84)	875	(86)		1,018	1,726	134	1,860
Disposal of the Sofora Telecom Argentina group										(1,582)	(1,582)
Issue of equity instruments								3	3		3
Other changes								(11)	(11)		(11)
Balance at June 30, 2016	10,650	1,731	35	(333)	(538)	(173)		7,734	19,106	2,221	21,327

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Consolidated Statements of Cash Flows

(millions of euros)	note	1st Half 2016	1st Half 2015 Revised
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,058	115
Adjustments for:			
Depreciation and amortization		2,047	2,130
Impairment losses (reversals) on non-current assets (including investments)		5	4
Net change in deferred tax assets and liabilities		257	3
Losses (gains) realized on disposals of non-current assets (including investments)		(13)	(279)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		2	
Change in employee benefits		40	19
Change in inventories		(40)	(54)
Change in trade receivables and net amounts due from customers on construction contracts		(130)	(128)
Change in trade payables		(141)	(564)
Net change in current income tax receivables/payables		95	132
Net change in miscellaneous receivables/payables and other assets/liabilities		(687)	390
Cash flows from (used in) operating activities	(a)	2,493	1,768
Cash flows from investing activities:			
Purchase of intangible assets	5)	*(709)*	*(879)*
Purchase of tangible assets	6)	*(1,397)*	*(2,251)*

Total purchase of intangible and tangible assets on an accrual basis (*)			(2,106)	(3,130)
Change in amounts due for purchases of intangible and tangible assets			*(371)*	*637*
Total purchase of intangible and tangible assets on a cash basis			(2,477)	(2,493)
Acquisition of control in subsidiaries or other businesses, net of cash acquired			(6)	
Acquisitions/disposals of other investments			(3)	(24)
Change in financial receivables and other financial assets			364	(639)
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			29	595
Cash flows from (used in) investing activities	(b)		(1,601)	(2,561)
Cash flows from financing activities:				
Change in current financial liabilities and other			(262)	696
Proceeds from non-current financial liabilities (including current portion)			2,061	3,325
Repayments of non-current financial liabilities (including current portion)			(3,094)	(3,931)
Share capital proceeds/reimbursements (including subsidiaries)				186
Dividends paid (*)			(227)	(204)
Changes in ownership interests in consolidated subsidiaries				784
Cash flows from (used in) financing activities	(c)		(1,522)	856
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)	10)	(45)	21
Aggregate cash flows	(e=a+b+c+d)		(675)	84
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)		159	(106)
Net cash and cash equivalents at end of the period	(h=e+f+g)		2,700	4,888
(*) of which related parties				
Total purchase of intangible and tangible assets on an accrual basis			63	69

Dividends paid

Additional Cash Flow Information

(millions of euros)	1st Half 2016	1st Half 2015 Revised
Income taxes (paid) received	(104)	(33)
Interest expense paid	(1,327)	(1,485)
Interest income received	516	573
Dividends received	7	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Half 2016	1st Half 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
Net cash and cash equivalents at end of the period		
Cash and cash equivalents - from continuing operations	2,707	4,752
Bank overdrafts repayable on demand from continuing operations	(7)	(2)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale		138
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	2,700	4,888

NOTE 1

FORM, CONTENT AND OTHER GENERAL INFORMATION

FORM AND CONTENT

Telecom Italia S.p.A. (the Parent) and its subsidiaries form the Telecom Italia Group or the Group .

Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, Telecom Italia, are located in Milan, Italy at Via Gaetano Negri 1.

The duration of Telecom Italia S.p.A., as stated in the company s bylaws, extends until December 31, 2100.

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2016 have been prepared on a going concern basis (further details are provided in the Note Accounting policies) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS), as well as the laws and regulations in force in Italy.

In particular, the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2016 have been prepared in accordance with IAS 34 (*Interim Financial Reporting*) and, as permitted by that standard, do not include all the information that would be required in annual financial statements; accordingly, these financial statements should be read together with the 2015 Telecom Italia Group consolidated financial statements.

For purposes of comparison, the consolidated statement of financial position at December 31, 2015 and the separate consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of cash flows, as well as the consolidated statements of changes in equity for the first half of 2015.

The Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2016 are expressed in euro (rounded to the nearest million unless otherwise indicated).

Publication of the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2016 was approved by resolution of the Board of Directors meeting held on July 26, 2016.

CORRECTION OF ERRORS

Within the Brazil Business Unit, Tim Brasil s 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 were attributable to the business model used in Brazil for recognizing prepaid traffic revenues in non-recent years, resulted in the early recognition of revenues and consequently the underestimation of deferred revenue liabilities for prepaid traffic not yet consumed. The incorrect accounting entries did not have any impact either in terms of net financial position nor on cash and cash equivalents.

In assessing the level of significance of the error for the purposes of the related financial statement presentation in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), Management also considered US accounting standards and related guidance.

In particular, this analysis indicated that the impact of the error was not material with respect to consolidated results of operations for each of the years ended December 31, 2015, 2014 and 2013 but the correction of the cumulative error as of December 31, 2015 would have a material impact on full-year consolidated results of operations for 2016, if entirely recognized at charge of such year.

In light of the above and for the purposes of the Half-Year Financial Report as of June 30, 2016, the Company s Management decided to revise the comparative financial information as of December 31, 2015 and for the first half of 2015, segment reporting included. In accordance with IAS 1 and IAS 8, the revised consolidated statements of financial position as of January 1, 2015 are also presented.

Table of Contents

Impacts of correction of errors are detailed below:

Separate Consolidated Income Statements

(millions of euros)	1st Half 2015 Historical (a)	Adjustments (b)	1st Half 2015 Revised (a+b)
Revenues	10,097	4	10,101
Acquisition of goods and services	(4,374)	2	(4,372)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	3,633	6	3,639
Operating profit (loss) (EBIT)	1,782	6	1,788
Finance income	1,579	2	1,581
Profit (loss) before tax from continuing operations	302	8	310
Income tax expense	(193)	(2)	(195)
Profit (loss) from continuing operations	109	6	115
Profit (loss) for the period	439	6	445
Attributable to:			
Owners of the Parent	29	4	33
Non-controlling interests	410	2	412

Earnings per share

The correction of errors did not have any impact on the calculation of the Basic and Diluted Earnings Per Share.

Consolidated Statements of Comprehensive Income

(millions of euros)	1st Half 2015	Adjustments (b)	1st Half 2015

	Historical (a)		Revised (a+b)
Profit (loss) for the period	439	6	445
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations	(389)	9	(380)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements	(1)		(1)
Income tax effect			
Total comprehensive income (loss) for the period	282	15	297
Attributable to:			
Owners of the Parent	(23)	10	(13)
Non-controlling interests	305	5	310

Table of Contents

Consolidated Statements of Financial Position

(millions of euros)	12/31/2015 Historical (a)	Adjustments (b)	12/31/2015 Revised (a+b)	1/1/2015 Historical (a)	Adjustments (b)	1/1/2015 Revised (a+b)
Assets						
Non-current assets						
Miscellaneous receivables and other non-current assets	1,744	34	1,778	1,571	43	1,614
Current assets						
Trade and miscellaneous receivables and other current assets	5,110	2	5,112	5,615	2	5,617
Total Assets	71,232	36	71,268	71,551	45	71,596
Equity and Liabilities						
Equity						
Equity attributable to Owners of the Parent	17,610	(56)	17,554	18,145	(77)	18,068
Non-controlling interests	3,723	(28)	3,695	3,554	(38)	3,516
Total Equity	21,333	(84)	21,249	21,699	(115)	21,584
Current liabilities						
Trade and miscellaneous payables and other current liabilities	7,762	120	7,882	8,376	160	8,536
Total Equity and Liabilities	71,232	36	71,268	71,551	45	71,596

The increase in the item Trade and miscellaneous payables and other current liabilities was mainly attributable to the higher liability for prepaid traffic not yet used recorded to correct the error resulting from the early recognition of that traffic within revenues. In addition, the related changes in indirect and direct taxes have been taken into account and costs for commissions and associated liabilities have also been recalculated.

Consolidated Statements of Cash Flows

The correction of errors did not have any impact on the Aggregate cash flows of the Telecom Italia Group Consolidated Statements of Cash Flows and, in particular, on the Cash flows from (used in) operating activities .

FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the consolidated statements of financial position have been prepared by classifying assets and liabilities according to the current and non-current criterion;

- the separate consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with Telecom Italia Group s industrial sector.

In addition to EBIT or Operating profit (loss), the separate consolidated income statements include the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

In particular, besides EBIT, EBITDA is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level). EBIT and EBITDA are calculated as follows:

Table of Contents

Profit (loss) before tax from continuing operations

+ Finance expenses

- Finance income

+/- Other expenses (income) from investments

+/- Share of losses (profits) of associates and joint ventures accounted for using the equity method

EBIT - Operating profit (loss)

+/- Impairment losses (reversals) on non-current assets

+/- Losses (gains) on disposals of non-current assets

+ Depreciation and amortization

EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

the consolidated statements of comprehensive income include the profit or loss for the period as shown in the separate consolidated income statements and all other non-owner changes in equity;

the consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate consolidated income statements, income and expenses relating to transactions which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impacts on the main intermediate levels have been shown separately, when they are significant. Specifically, non-recurring income/(expenses) include, for instance: income/expenses arising from the sale of properties, plant and equipment, business segments and investments; expenses stemming from company reorganization and streamlining processes and projects, also in connection with corporate transactions (mergers, spin-offs, etc.); expenses resulting from litigation and regulatory fines and related liabilities; other provisions and related reversals; costs for the settlement of disputes; and impairment losses on goodwill and/or other intangible and tangible assets).

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the consolidated financial statements.

SEGMENT REPORTING

An operating segment is a component of an entity:

that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

- whose operating results are regularly reviewed by the entity s chief operating decision maker to make decisions about resources (for the Telecom Italia Group, the Board of Directors of the Parent) to be allocated to the segment and assess its performance; and

- for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical location for the telecommunications business (Domestic and Brazil).

The Sofora - Telecom Argentina group, which was sold on March 8, 2016, has been recognized under Discontinued operations.

The term operating segment is considered synonymous with Business Unit .

The operating segments of the Telecom Italia Group are as follows:

- Domestic: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), the operations of Olivetti (products and services for Information Technology), as well as INWIT S.p.A. (a company operating in the electronic communications infrastructure business) and the units supporting the Domestic sector.

Following the change in Persidera s business mission, the Media Business Unit was incorporated into the Domestic Business Unit as of January 1, 2016. See the section Financial and Operating Highlights of the Business Units of the Telecom Italia Group Domestic Business Unit of the Interim Management Report for more details.

Table of Contents

Brazil: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;

Other Operations: include finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Table of Contents

NOTE 2

ACCOUNTING POLICIES

GOING CONCERN

The half-year condensed consolidated financial statements at June 30, 2016 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than 12 months).

In particular, the following factors have been taken into consideration:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - changes in the general macroeconomic situation in the Italian, European and Brazilian markets, as well as the volatility of financial markets in the Eurozone also as a result of the Brexit referendum in the United Kingdom;
  - variations in business conditions, also related to competition;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group s credit rating by rating agencies);
- the mix between equity and debt capital considered optimal as well as the policy for the remuneration of equity, described in the 2015 consolidated financial statements in the paragraph devoted to the Share capital information under the Note Equity ;
- the policy for financial risk management (market risk, credit risk and liquidity risk) as described in the Note Financial risk management in the annual consolidated financial statements at December 31, 2015.

Based on these factors, the Management believes that, at the present time, there are no elements of uncertainty regarding the Group s ability to continue as a going concern.

ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

The accounting policies and principles of consolidation adopted in the preparation of the half-year condensed consolidated financial statements at June 30, 2016 have been applied on a basis consistent with those used for the annual consolidated financial statements at December 31, 2015, to which reference should be made, except for:

- the use of the new standards and interpretations adopted by the Group since January 1, 2016, hereinafter described;
- the changes required because of the nature of interim financial reporting.

Furthermore, in the half-year condensed consolidated financial statements at June 30, 2016, income taxes for the period of the individual consolidated companies are calculated according to the best possible estimate based on available information and on a reasonable forecast of performance up to the end of the tax period. Conventionally, the income tax liabilities (current and deferred) on the profit for the interim period of the individual consolidated companies are recorded net of advances and tax receivables (excluding receivables for which refunds have been requested) as well as deferred tax assets, and classified as an adjustment to Deferred tax liabilities ; if the balance between deferred tax assets and deferred tax liabilities is an asset it is conventionally recognized in Deferred tax assets .

Table of Contents

USE OF ESTIMATES

The preparation of the half-year condensed consolidated financial statements at June 30, 2016 and related disclosure requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the period. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

With regard to the most important accounting estimates, please refer to those illustrated in the annual consolidated financial statements at December 31, 2015.

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2016

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the following is a brief description of the IFRS in force from January 1, 2016.

Amendments to IFRS 11 (Joint Arrangements): Accounting for acquisitions of interests in joint operations

On November 24, 2015, Regulation EC 2015/2173 was issued, applying some minor amendments to IAS 11 (Joint Arrangements) at EU level.

IFRS 11 addresses the accounting for interests in Joint Ventures and Joint Operations. These amendments add new guidance on how to account for the acquisition of an interest in a Joint Operation that constitutes a business (as defined in IFRS 3 - Business Combinations).

These amendments specify the appropriate accounting treatment for such acquisitions.

The adoption of these amendments had no impact on the half-year condensed consolidated financial statements at June 30, 2016.

Amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets)

On December 2, 2015, Regulation EC 2015/2231 was issued, applying some minor amendments to IAS 16 (Property, plant and equipment) and IAS 38 (Intangible assets) at EU level.

IAS 16 and IAS 38 both establish the principle of the expected pattern of consumption of the future economic benefits of an asset as the basis for depreciation and amortization.

The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. For intangible assets, this indication is considered as a relative assumption, that may only be overcome in one of the following circumstances: (i) the right to use an intangible asset is related to the achievement of a set revenue threshold; or (ii) when it can be demonstrated that the generation of the revenues and the use of the economic benefits of the asset are highly correlated.

The adoption of these amendments had no impact on the half-year condensed consolidated financial statements at June 30, 2016.

Improvements to the IFRS (2012-2014 cycle)

On December 15, 2015, Regulation EC 2015/2343 was issued, applying several improvements to the IFRS for the 2012-2014 cycle, at EU level. These amendments included:

- IFRS 5 Non-current assets held for sale and discontinued operations: these amendments relate to changes in the methods of disposal (from held for sale to held for distribution to owners and vice versa);
- IFRS 7 Financial Instruments - Disclosures: these amendments relate to the disclosure on servicing contracts, in terms of continuing involvement , and the applicability of the disclosure provided for by IFRS 7 concerning the offsetting of financial assets and financial liabilities in the interim financial statements;
- IAS 19 Employee Benefits: this amendment relates to the discount rate (with reference to the market area);
- IAS 34 Interim Financial Reporting: these amendments specify how the information included in the interim financial statements may be supplemented by other available information contained in other sections of the Interim Report (e.g. the Interim Management Report) through the incorporation by cross-reference.

The adoption of these amendments had no impact on the half-year condensed consolidated financial statements at June 30, 2016.

Amendments to IAS 1 (Presentation of Financial Statements) Disclosure Initiative

On December 18, 2015, Regulation EC 2015/2406 was issued, applying some amendments to IAS 1 (Presentation of Financial Statements - Disclosure Initiative) at EU level.

In particular, the amendments, which are part of a wider initiative to improve the presentation and disclosure of financial statements, include updates in the following areas:

- materiality: it is clarified that the concept of materiality applies to the financial statements as a whole and that the inclusion of immaterial information can affect the usefulness of the financial reporting;
- disaggregation and subtotals: it is clarified that the specific items of the separate income statements, the statements of comprehensive income and the statements of financial position can be disaggregated. New requirements for the use of subtotals have also been introduced;
- structure of the notes: it is clarified that the companies have a certain degree of flexibility regarding the order of presentation of the notes. In establishing this order, the companies must take into account the requirements of understandability and comparability of the financial statements;

investments accounted for using the equity method: the Other Comprehensive Income (OCI) relating to investments in associates and joint ventures accounted for using the equity method must be divided in the income statement between reclassifiable and non-reclassifiable.

The adoption of these amendments had no impact on the half-year condensed consolidated financial statements at June 30, 2016.

Table of Contents

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB NOT YET IN FORCE

There are no new IFRS adopted by the EU that are not yet in force.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NON YET ENDORSED BY THE EU

At the date of preparation of the accompanying half-year condensed consolidated financial statements, the following new standards and interpretations had been issued by IASB but not yet endorsed by the EU.

	Mandatory application starting from
Amendments to IAS 12 (*Income taxes*) *Recognition of Deferred Tax Assets for Unrealized Losses*	1/1/2017
Amendments to IAS 7 (*Cash flow statement) - Disclosure Initiative*	1/1/2017
IFRS 9 (*Financial Instruments*)	1/1/2018
IFRS 15 (*Revenue from Contracts with Customers,* including amendments)	1/1/2018
IFRS 16 (*Leases*)	1/1/2019
Amendments to IFRS 10 *(Consolidated Financial Statements)* and to IAS 28 *(Investments in Associates and Joint Ventures):* Sale or contribution of assets between an investor and its associate/joint venture	Deferred application date to be set
Clarification on IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2018
Amendments to IFRS 2 (*Classification and measurement of share-based payment transactions*)	1/1/2018

The potential impacts on the consolidated financial statements from application of these amendments are currently being assessed.

Table of Contents

NOTE 3

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at June 30, 2016 compared to December 31, 2015 are listed below.

Continuing operations:

Entry/merger of subsidiaries into the scope of consolidation:

Company		Business Unit	Month
Entry:			
GESTIONE DUE S.r.l.	New acquisition	Domestic	January 2016
GESTIONE IMMOBILI S.r.l.	New acquisition	Domestic	January 2016
REVI IMMOBILI S.r.l.	New acquisition	Domestic	January 2016
Merger:			
TELECOM ITALIA DIGITAL SOLUTIONS S.p.A.	Merged into Olivetti S.p.A.	Domestic	January 2016
EMSA SERVIZI S.p.A.	Merged into Telecom Italia S.p.A.	Domestic	April 2016
OFI CONSULTING S.r.l.	Merged into Telecom Italia S.p.A.	Domestic	April 2016

Discontinued operations/Non-current assets held for sale:

Companies exiting the scope of consolidation, already classified as discontinued operations:

Company				Month
Exit:				
MICRO SISTEMAS S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
NORTEL INVERSORA S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
NUCLEO S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
PERSONAL ENVIOS S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
SOFORA TELECOMUNICACIONES S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
TELECOM ARGENTINA S.A.	Sold	Sofora	Telecom Argentina Group	March 2016
TELECOM ARGENTINA USA Inc.	Sold	Sofora	Telecom Argentina Group	March 2016
TELECOM PERSONAL S.A.	Sold	Sofora	Telecom Argentina Group	March 2016

In addition to that noted above, the changes in the scope of consolidation at June 30, 2016 compared to June 30, 2015 are listed below:

Entry/merger of subsidiaries into the scope of consolidation:

Company		Business Unit	Month
Entry:			
ALFABOOK S.r.l.	New acquisition	Domestic	July 2015
TIM Caring S.r.l.	New company	Domestic	July 2015
TIM REAL ESTATE S.r.l.	New company	Domestic	November 2015
Merger:			
TELECOM ITALIA MEDIA S.p.A.	Merged into Telecom Italia S.p.A.	Domestic	September 2015

Table of Contents

The breakdown by number of subsidiaries and associates of the Telecom Italia Group is as follows:

	6/30/2016		
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line	26	50	76
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	18		18
Total companies	45	50	95

	12/31/2015		
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line(*)	26	58	84
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	18		18
Total companies	45	58	103

(*) Including subsidiaries posted under Discontinued operations/Non-current assets held for sale.

	6/30/2015		
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line(*)	24	58	82
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	18		18
Total companies	43	58	101

(*) Including subsidiaries posted under Discontinued operations/Non-current assets held for sale.

Table of Contents

NOTE 4

GOODWILL

The breakdown and the changes in Goodwill during the first six months of 2016 were as follows:

(millions of euros)	12/31/2015	Reclassifications	Increase	Decrease	Impairments	Exchange differences	6/30/2016
Domestic	28,447	29	8				28,484
Core Domestic	28,035	29	8				28,072
International Wholesale	412						412
Brazil	907					175	1,082
Media	29	(29)					
Other Operations							
Total	29,383		8			175	29,566

The following is noted in particular:

- the reclassification of the amount of goodwill previously allocated to the Media Business Unit of 29 million euros was due to the redefining of the Group s Business Units as described in the Note segment reporting ;

- the increase for the Domestic Business Unit was due to the recognition of the goodwill, of 7.8 million euros, resulting from the acquisition of control (100%) of Revi Immobili S.r.l., Gestione Immobili S.r.l. and Gestione Due S.r.l., acquired by INWIT S.p.A. in January 2016 at a price of 8.3 million euros. Provisional goodwill was recognized with respect to these acquisitions, as permitted by IFRS 3.

With regard to the acquisition of the company Alfabook on July 1, 2015, the goodwill provisionally recognized in 2015, amounting to 4 million euros, was confirmed following the completion of the price allocation process required by IFRS 3.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually or more frequently, whenever specific events or circumstances occur that may indicate an impairment.

At June 30, 2016, Telecom Italia s market capitalization was less than the value of its equity. Accordingly, the Group carried out an impairment test for the Core Domestic Cash Generating Unit. This process did not identify any impairment, as the recoverable amount of the CGU estimated was higher than its carrying amount.

With regard to the other Cash Generating Units, at June 30, 2016 no events were identified that could result in significant changes with respect to their recoverable amount determined for the annual financial statements at December 31, 2015, and it was therefore not considered necessary to conduct a new impairment test.

The value used to determine the recoverable amount of the Core Domestic CGU is the value in use. The estimate of the recoverable amount was made using the same methods as the previous annual impairment test at December 2015, by updating the related inputs (earning flows at June 30, 2016, cost of capital, long-term growth rate, and capital expenditure rate). The analytical forecasts of plan cash flows cover the second half of the 2016-2020 period and are based on the 2016 Budget, the 2017-2018 Plan, and the extrapolation of figures for 2019-2020. Moreover, for the appraisal of the value in use, the plan figures were adjusted according to the expected financial flows approach, on the basis of information reasonably available, when pejorative, in order to give higher weight to observable parameters and to information from external sources which are deemed important from the market operator perspective.

Table of Contents

The cost of capital used to discount the future cash flows in the estimate of the value in use has been determined as follows:

(1) it has been estimated using the Capital Asset Pricing Model (CAPM) model, which is one of the generally accepted application criteria referred to in IAS 36;

(2) it reflects the current market estimates of the time value of money and the specific risks of the groups of assets; it includes appropriate yield premiums for country risk;

(3) it has been calculated using comparative market parameters to estimate the *Beta coefficient* and the weighting coefficient of the equity and debt capital components.

Details are provided below of the weighted average cost of capital (WACC rate) used to discount the future cash flows, the equivalent rate before tax, the growth rate used to estimate the remaining value after the explicit forecast period (g rates) and, lastly, the implicit capitalization rate resulting from the difference between the cost of capital, after tax, and the g rate.

PRINCIPAL PARAMETERS FOR THE ESTIMATES OF VALUE IN USE

WACC	6.6%
WACC before tax	8.8%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate (WACC-g)	8.3%
Capex/Revenues, % perpetual	19%

The growth rate of the terminal value g is within the range of growth rates applied by the analysts who monitor Telecom Italia shares. The level of capital expenditure required to sustain the perpetual generation of cash flows in the period after the explicit forecast period has been taken from the market.

The difference between the value in use and the net carrying amount was in line with the figure indicated in the 2015 financial statements and therefore greater than 4 billion euros.

For the estimate of value in use, simulations were conducted on the results with respect to changes in the relevant rate parameters. Details are provided below of the variables that, when considered individually, are needed to make the recoverable amount of the respective Core Domestic CGU equal to its net carrying amount.

PARAMETERS THAT MAKE THE VALUE IN USE EQUAL TO THE CARRYING AMOUNT

WACC before tax	9.5%
Capitalization rate (WACC-g)	9.0%
Capex/Revenues, % perpetual	22%

Table of Contents

NOTE 5

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life increased by 297 million euros compared to December 31, 2015. Details of the breakdown and movements are as follows:

(millions of euros)	12/31/2015	Additions	Change in financial leasing contracts	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	6/30/2016
Industrial patents and intellectual property rights	2,070	315	7	(597)			160		286	2,241
Concessions, licenses, trademarks and similar rights	2,829	23		(192)			63		240	2,963
Other intangible assets	83	52		(54)			3		3	87
Work in progress and advance payments	1,498	312				(1)	166	34	(523)	1,486
Total	6,480	702	7	(843)		(1)	392	34	6	6,777

Additions in the first six months of 2016 included 147 million euros of internally generated assets (149 million euros in the first six months of 2015).

The changes in financial leasing contracts related entirely to the Brazil Business Unit.

Industrial patents and intellectual property rights at June 30, 2016 essentially consist of applications software purchased outright and user license rights of unlimited duration acquired, and relate to Telecom Italia S.p.A. (1,216 million euros) and the Brazil Business Unit (988 million euros).

Concessions, licenses, trademarks and similar rights at June 30, 2016 mainly refer to:

- the remaining cost of telephone licenses and similar rights (2,126 million euros for Telecom Italia S.p.A., 414 million euros for the Brazil Business Unit), which increased compared to December 31, 2015, mainly due to the activation of the user rights for the L Band (1452-1492 MHz) for terrestrial electronic communications systems, definitively assigned to Telecom Italia S.p.A. in December 2015, following participation in the tender called by the Ministry of Economic Development;

- Indefeasible Rights of Use - IRU (300 million euros) mainly relating to companies of the Telecom Italia Sparkle group (International Wholesale);

TV frequencies of the company Persidera in the Core Domestic segment (123 million euros).

Other intangible assets with a finite useful life at June 30, 2016 essentially consisted of 73 million euros of capitalized subscriber acquisition costs (SACs) (57 million euros for the Parent and 16 million euros for the Brazil Business Unit), mainly related to commissions for the sales network, for a number of commercial deals that lock in customers for a set period.

Work in progress and advance payments decreased, primarily due to the already mentioned activation of the user rights for the L Band frequencies (1452-1492 MHz).

You are reminded that this item includes the user rights for the 700 MHz frequencies, acquired in 2014 by the Tim Brasil group for a total of 2.9 billion reais. Since the assets require a period of more than 12 months to be ready for use, again in the first half of 2016, borrowing costs of 34 million euros were capitalized, as they were directly attributable to the acquisition. The yearly rate used for the capitalization of borrowing costs is 13.30%. Capitalized borrowing costs in reais have been recorded as a direct reduction of the income statement item Finance expenses - Interest expenses to banks .

Table of Contents

NOTE 6

TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned increased by 552 million euros compared to December 31, 2015. The breakdown and movements are as follows:

(millions of euros)	12/31/2015	Additions	Depreciation	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	6/30/2016
Land	171	16				2	10	199
Buildings (civil and industrial)	444	79	(24)			3	22	524
Plant and equipment	10,909	771	(1,023)		(7)	360	346	11,356
Manufacturing and distribution equipment	41	4	(8)				2	39
Other	378	18	(74)		(2)	22	44	386
Construction in progress and advance payments	716	377		(5)	(1)	26	(406)	707
Total	12,659	1,265	(1,129)	(5)	(10)	413	18	13,211

Additions in the first six months of 2016 included 178 million euros of internally generated assets (165 million euros in the first six months of 2015).

With regard to the Real Estate Project initiated at the end of 2014, during the first half of 2016 two more properties plus the related land, previously leased under financial leases, were purchased for a total outlay of 114 million euros; the purchase resulted in additions of 77 million euros under the item Buildings (civil and industrial) and of 13 million euros under the item Land . In addition, the column Other changes includes 25 million euros for the reclassification of the remaining value of these properties and the related improvements made from the assets held under finance leases.

Table of Contents

ASSETS HELD UNDER FINANCE LEASES

Assets held under finance leases increased by 90 million euros compared to December 31, 2015. The breakdown and movements are as follows:

(millions of euros)	12/31/2015	Additions	Change in financial leasing contracts	Depreciation	Exchange differences	Other changes	6/30/2016
Land under lease	16						16
Buildings (civil and industrial)	1,880	7	32	(62)		(15)	1,842
Plant and equipment	284		18	(8)	57		351
Other	7		66	(5)		1	69
Construction in progress and advance payments	21	9				(10)	20
Total	2,208	16	116	(75)	57	(24)	2,298

The additions consisted of improvements and incremental expenses incurred for movable and immovable third-party assets used on the basis of finance lease agreements.

The item Buildings (civil and industrial) includes buildings under long rent contracts and related building adaptations, almost exclusively attributable to Telecom Italia S.p.A..

With regard to the Real Estate Project, the following took place in the first half of 2016:

(2) two properties were purchased, considered of strategic importance due to their present or foreseeable use, based on the technological evolution of the network and new ICT services. The column Other changes includes a total of 25 million euros for the reclassification of the remaining value of these properties and the related improvements made. Five other properties were already purchased by the company or acquired under finance lease with a purchase clause in 2015;

(3) the renegotiation and/or conclusion of new contracts was completed for almost 200 real estate leases (around 750 in 2015). Prior to these renegotiations, in accordance with IAS 17 (Leasing), part of these contracts had been classified as operating leases with the consequent recognition of the rent under leasing costs in the income statement. The renegotiation and/or conclusion of new contracts resulted, on one hand, in the change of classification from operating leases to financial leases and, on the other hand, with regard to the properties whose contracts were already classified as finance leases, in the re-measurement of the value of the property and the

related payable. This resulted in an overall impact on the balance sheet at June 30, 2016 of 32 million euros in terms of higher tangible assets (Land and Buildings) and related payables for financial leases.

The item Plant and equipment includes the recognition of the value of the telecommunications towers sold by the Tim Brasil group to American Tower do Brasil and subsequently repurchased in the form of finance lease; the sale of the fourth tranche, which took place during the first half of 2016, resulted in leasebacks amounting to 74 million reais (around 18 million euros).

The item Other includes the effects of the renegotiation of the operating leases for motor vehicles, which resulted in their recognition as finance leases. In same way as described above, this reclassification also resulted in an overall impact on the balance sheet at June 30, 2016 of 66 million euros in terms of higher fixed assets and related payables for financial leases.

Table of Contents

NOTE 7

INVESTMENTS

Investments in associates and joint ventures accounted for using the equity method include:

(millions of euros)	6/30/2016	12/31/2015
Tiglio I	7	8
NordCom	5	4
W.A.Y.	3	3
Other	2	3
Total Associates	17	18
Alfiere	22	23
Total Joint Ventures	22	23
Total investments accounted for using the equity method	39	41

The list of investments accounted for using the equity method is presented in the Note   List of companies of the Telecom Italia Group   .

Other investments refer to the following:

(millions of euros)	6/30/2016	12/31/2015
Assicurazioni Generali	2	3
Fin.Priv.	11	19
Northgate Telecom Innovations Partners L.P.	11	9
Other	14	14
Total	38	45

Telecom Italia Group does not hold investments in structured entities.

Table of Contents

NOTE 8

FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

Financial assets (non-current and current) were broken down as follows:

(millions of euros)		6/30/2016	12/31/2015
Non-current financial assets			
Securities, financial receivables and other non-current financial assets			
Securities other than investments		1	3
Financial receivables for lease contracts		79	70
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,949	2,755
Receivables from employees		46	39
Non-hedging derivatives		44	115
Other financial receivables		10	7
Total non-current financial assets	(a)	3,129	2,989
Current financial assets			
Securities other than investments			
Held for trading		138	491
Held-to-maturity			
Available-for-sale		945	997
		1,083	1,488
Financial receivables and other current financial assets			
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)			
Receivables from employees		14	14
Financial receivables for lease contracts		33	35
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		121	152

Non-hedging derivatives		77	150
Other short-term financial receivables		2	1
		247	352
Cash and cash equivalents		2,707	3,559
Total current financial assets	(b)	4,037	5,399
Financial assets relating to Discontinued operations/Non-current assets held for sale	(c)		227
Total non-current and current financial assets	(a+b+c)	7,166	8,615

Financial receivables for lease contracts refer to:

(5) Teleleasing lease contracts entered into directly with customers in previous years and for which Telecom Italia is the guarantor;

(6) the portion of rental contracts, with the rendering of accessory services;

(7) finance leases on rights of use (Brazil Business Unit).

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature refer mainly to the mark-to-market spot valuation component of the hedging derivatives, whereas Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature mainly consist of accrued income on derivative contracts.

Non-hedging derivatives consist of the mark-to-market spot valuation component of the non-hedging derivatives of the Brazil Business Unit and of 55 million euros for the value of the embedded option in the mandatory convertible bond of 1.3 billion euros issued by Telecom Italia Finance S.A. (Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.), which at December 31, 2015 was instead recorded under current financial liabilities (565 million euros). At June 30, 2016, the measurement of the embedded option resulted in the recognition in the income statement of an income of 620 million euros.

Table of Contents

Further details are provided in the Note Derivatives .

Securities other than investments included in current assets relate to:

(8) listed securities (945 million euros), classified as available-for-sale due beyond three months. They consist of 259 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. and 126 million euros of Italian treasury bonds purchased by Telecom Italia Finance S.A., 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of 12/3/2012), and 555 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of the above government bonds and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group since August 2012, in replacement of the previous policies in force;

(4) securities (138 million euros), classified as held-for-trading due beyond three months, relating to the investment made by the Brazil Business Unit in a monetary fund that invests almost entirely in instruments in US dollars.

Cash and cash equivalents decreased by 852 million euros compared to December 31, 2015 and were broken down as follows:

(millions of euros)	6