

TIM S.p.A.
Form 6-K
September 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF SEPTEMBER 2017

TIM S.p.A.

A company directed and coordinated by Vivendi S.A.

(Translation of registrant's name into English)

Via Gaetano Negri 1

20123 Milan, Italy

Edgar Filing: TIM S.p.A. - Form 6-K
(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 FORM 40-F

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

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

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

YES NO

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

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HALF-YEAR FINANCIAL

REPORT AT

JUNE 30, 2017

This document has been translated into English for the convenience of the readers.

In the event of discrepancy, the Italian language version prevails.

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THE TIM 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 TIM and other operators.

BRAZIL

The Brazil Business Unit (Tim Brasil group) provides mobile telephone services using UMTS, GSM and LTE technologies. Moreover, with the acquisitions

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.

TI Sparkle Ireland Telecommunications Group

Tim Brasil Serviços e Participações S.A.

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.

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BOARD OF DIRECTORS

Chairman	Arnaud Roy de Puyfontaine
Deputy Chairman	Giuseppe Recchi
Chief Executive Officer	Flavio Cattaneo (*)
Directors	Camilla Antonini (independent)
	Franco Bernabè (independent)
	Ferruccio Borsani (independent)
	Lucia Calvosa (independent)
	Francesca Cornelli (independent)
	Frédéric Crépin
	Dario Frigerio (independent)
	Félicité Herzog (independent)
	Anna Jones (independent)
	Marella Moretti (independent)
	Hervé Philippe
	Danilo Vivarelli (independent)
Secretary to the Board	Agostino Nuzzolo

(*) Flavio Cattaneo departed the office of Chief Executive Officer on July 28, 2017

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

On July 27, 2017, the Board of Directors of TIM S.p.A. acknowledged the start of the direction and coordination by Vivendi S.A..

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Board of Directors and Board of Statutory Auditors 4

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of TIM S.p.A.

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HIGHLIGHTS HALF-YEAR 2017

In terms of equity and income, for the first half of 2017:

Consolidated revenues amounted to 9.8 billion euros, up by 7.4% on the first half of 2016 (+3.2% in organic terms). The figure for the second quarter of 2017 was up 6.4% (+3.7% in organic terms).

EBITDA amounted to 4.1 billion euros, up by 10.4% on the first half of 2016 (+7.2% in organic terms). The Organic EBITDA margin stood at 42.1%, 1.6 percentage points higher than in the first half of 2016. EBITDA in the first half of 2017 was pulled lower by a total of 95 million euros in non-recurring expenses (93 million euros in the first half of 2016, at constant exchange rates), without which the organic change in EBITDA would have been +7.0%, with an EBITDA margin of 43.1%, up 1.6 percentage points compared to the first half of 2016.

EBITDA for the second quarter of 2017 amounted to 2.1 billion euros, up 5.5% on second quarter of 2016. In organic terms, and without the impact of the above-mentioned non-recurring expenses, the increase would have been 6.1%.

Operating profit (EBIT) was 1.9 billion euros, up 10.9% compared to the first half of 2016 (+9.3% in organic terms), as a result of the negative impact of non-recurring net expenses of 96 million euros (82 million euros in the first half of 2016), without which the organic change in EBIT would have been +9.6%.

EBIT for the second quarter of 2017 amounted to 1 billion euros, up 2.3% on second quarter of 2016.

Profit for the period attributable to owners of the Parent amounted to 0.6 billion euros (1 billion euros in the first half of 2016). On a like-for-like basis i.e. without including the impact of non-recurring net expenses and, in the first half of 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond converted into TIM shares at the end of 2016 the profit for the first half of 2017 would have been over 100 million euros higher than the figure for the same period of 2016.

Capital expenditures for the first half of 2017 totaled 2,056 million euros (1,983 million euros in the first half of 2016), and reflected the continued approach of selectively implementing capital expenditure by identifying projects with higher returns, targeted at innovation and transformation, while also boosting levels of UBB coverage and service quality.

Adjusted net financial debt amounted to 25,104 million euros at June 30, 2017, down 15 million euros compared to December 31, 2016 (25,119 million euros). The positive performance of business operations ensured coverage of the requirements resulting from the payment of borrowing costs, and dividends totaling 218 million euros, in addition to the payment of 257 million euros made by the Brazil Business Unit to the consortium that is carrying out the clean-up of the 700 MHz spectrum, which the Business Unit purchased the user rights to in 2014.

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Financial highlights

(millions of euros)		2nd Quarter 2017	2nd Quarter 2016	1st Half 2017 (a)	1st Half 2016 (b)	% Change Reported (a/b)	Organic
Revenues		4,953	4,656	9,772	9,096	7.4	3.2
EBITDA	(1)	2,124	2,014	4,114	3,726	10.4	7.2
<i>EBITDA Margin</i>	(1)	42.9%	43.3%	42.1%	41.0%	1.1 pp	
<i>Organic EBITDA Margin</i>		42.9%	43.0%	42.1%	40.5%	1.6 pp	
EBIT	(1)	1,006	983	1,871	1,687	10.9	9.3
<i>EBIT Margin</i>	(1)	20.3%	21.1%	19.1%	18.5%	0.6 pp	
<i>Organic EBIT Margin</i>		20.3%	20.8%	19.1%	18.1%	1.0 pp	
Profit (loss) from Discontinued operations/Non-current assets held for sale					47		
Profit (loss) for the period attributable to owners of the Parent		396	585	596	1,018	(41.5)	
Capital expenditures (CAPEX)		1,225	1,039	2,056	1,983	3.7	
Adjusted net financial debt	(1)			6/30/2017 25,104	12/31/2016 25,119	Change Amount	(15)

(1) Details are provided under Alternative Performance Measures .

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Non-financial highlights

The TIM Group has always cared about social responsibility and for years has provided voluntary non-financial information concerning sustainability issues. Starting from the Annual Financial Report for the year 2017, with the entry into force of Italian Legislative Decree 254 of December 30, 2016, which transposes Directive 2014/95/EU, the disclosure of non-financial and diversity information will become compulsory by law for some large companies and groups. Information is provided below on the activities carried out by the TIM Group in relation to sustainability, and in particular on some of the welfare initiatives carried out in the first half of 2017. These are aimed at creating the conditions to enable personnel to make the best possible contribution to creating value.

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CONSOLIDATED OPERATING PERFORMANCE

REVENUES

Revenues amounted to 9,772 million euros in the first half of 2017, up 7.4% from 9,096 million euros in the first half of 2016. The increase of 676 million euros was attributable, gross of intercompany eliminations, to the Domestic Business Unit (247 million euros) and the Brazil Business Unit (435 million euros).

In terms of organic change, consolidated revenues rose by 3.2% (+299 million euros), and were calculated as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change	
			amount	%
REPORTED REVENUES	9,772	9,096	676	7.4
Foreign currency financial statements translation effect		377	(377)	
Changes in the scope of consolidation				
ORGANIC REVENUES	9,772	9,473	299	3.2

Exchange rate fluctuations ⁽¹⁾ were essentially attributable to the Brazil Business Unit. There were no material changes in the scope of consolidation ⁽²⁾.

The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Half 2017		1st Half 2016		Change		
	amount	% of total	amount	% of total	amount	%	% organic
Domestic	7,494	76.7	7,247	79.7	247	3.4	3.3
<i>Core Domestic</i>	6,965	71.3	6,736	74.1	229	3.4	3.4
<i>International Wholesale</i>	646	6.6	649	7.1	(3)	(0.5)	(1.2)
Brazil	2,293	23.5	1,858	20.4	435	23.4	2.9
Other Operations			9	0.1	(9)		
<i>Adjustments and eliminations</i>	(15)	(0.2)	(18)	(0.2)	3		
Consolidated Total	9,772	100.0	9,096	100.0	676	7.4	3.2

EBITDA

EBITDA totaled 4,114 million euros (3,726 million euros in the first half of 2016), increasing by 388 million euros (+10.4%) compared to the first half of 2016; the EBITDA margin was 42.1% (41.0% in the first half of 2016; +1.1 percentage points).

Organic EBITDA was up 275 million euros (+7.2%) compared to the first half of 2016; the organic EBITDA margin was up 1.6 percentage points, from 40.5% in the first half of 2016 to 42.1% in the first half of 2017.

- (1) The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.08279 for the US dollar in the first half of 2017 and 1.11572 in the first half of 2016. For the Brazilian real, the average exchange rates used were 3.44195 in the first half of 2017 and 4.13001 in the first half of 2016. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.
- (2) The change in the scope of consolidation has been calculated by excluding the contribution of the companies that have exited from the comparison figure and adding in the estimated contribution of any companies entering the scope of consolidation.

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The TIM Group recorded non-recurring operating expenses totaling 95 million euros for the first half of 2017 (93 million euros in the first half of 2016, at constant exchange rates). These expenses are 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 essentially consist of expenses from corporate restructuring and reorganization processes, disputes and business transactions.

Without these expenses the organic change in EBITDA would have been +7.0%, with an EBITDA margin of 43.1%, up 1.6 percentage points on the first half of 2016. For further details, see the Note Significant non-recurring events and transactions in the Half-year Condensed Consolidated Financial Statements at June 30, 2017 of the TIM Group.

The positive performance of EBITDA shows that the benefits resulting from the cost recovery plan measures, started in the second quarter of 2016 by the Domestic Business Unit and in the third quarter of 2016 in Brazil, are generating structural improvements.

Organic EBITDA is calculated as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change	
			amount	%
REPORTED EBITDA	4,114	3,726	388	10.4
Foreign currency financial statements translation effect		113	(113)	
Changes in the scope of consolidation				
ORGANIC EBITDA	4,114	3,839	275	7.2
of which non-recurring income/(expenses)	(95)	(91)	(4)	
foreign currency non-recurring income/(expenses) translation effect		(2)	2	
ORGANIC EBITDA excluding non-recurring component	4,209	3,932	277	7.0

Exchange rate fluctuations substantially related to the Brazil Business Unit.

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

(millions of euros)	1st Half 2017		1st Half 2016		amount	Change	
		% of total		% of total		%	% organic
Domestic	3,361	81.7	3,184	85.5	177	5.6	5.5
<i>EBITDA Margin</i>	44.8		43.9			0.9 pp	0.9 pp
Brazil	762	18.5	556	14.9	206	37.1	14.3
<i>EBITDA Margin</i>	33.2		29.9			3.3 pp	3.3 pp

Other Operations	(9)	(0.2)	(11)	(0.3)	2		
<i>Adjustments and eliminations</i>			(3)	(0.1)	3		
Consolidated Total	4,114	100.0	3,726	100.0	388	10.4	7.2
<i>EBITDA Margin</i>	42.1		41.0			1.1 pp	1.6 pp

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

Acquisition of goods and services (4,136 million euros; 3,783 million euros in the first half of 2016):

(millions of euros)	1st Half 2017	1st Half 2016	Change
Acquisition of goods	910	752	158
Revenues due to other TLC operators and interconnection costs	991	978	13
Commercial and advertising costs	700	586	114
Power, maintenance and outsourced services	617	591	26
Rent and leases	380	339	41
Other service expenses	538	537	1
Total acquisition of goods and services	4,136	3,783	353
<i>EBITDA Margin</i>	42.3	41.6	0.7 pp

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The overall increase in Acquisition of goods and services included an exchange rate effect of 196 million euros relating to the Brazil Business Unit, without which this item would have shown an increase of 157 million euros.

Employee benefits expenses (1,530 million euros; 1,551 million euros in the first half of 2016):

(millions of euros)	1st Half 2017	1st Half 2016	Change
Employee benefits expenses - Italy	1,339	1,377	(38)
Ordinary employee expenses and costs	1,329	1,310	19
Restructuring and other expenses	10	67	(57)
Employee benefits expenses Outside Italy	191	174	17
Ordinary employee expenses and costs	191	166	25
Restructuring and other expenses		8	(8)
Total employee benefits expenses	1,530	1,551	(21)
<i>% of Revenues</i>	<i>15.7</i>	<i>17.1</i>	<i>(1.4)pp</i>

The main factors that drove this change were:

an increase of 19 million euros in the Italian component of ordinary employee expenses; you are reminded that in the first half of 2016, following the failure to achieve the conditions for the payment of the Results Bonus to employees, a reversal of 66 million euros was made on the accrual in the 2015 financial statements. Excluding that effect, there would have been a reduction in the cost, mainly resulting from the decrease in the average salaried workforce (-1,541 employees);

the recognition of non-recurring expenses (provisions to Employee benefits and sundry expenses) totaling 10 million euros. 7 million euros mainly related to the aggregation of INPS positions, following the requests made by employees of the Parent and Telecom Italia Sparkle for the application of Article 4 of the Fornero Law ; 3 million euros related to provisions of the companies Telecontact and INWIT, following the signing in May and June 2017 of agreements for the early departure of employees, again in application of Article 4 of the Fornero Law .

In the first half of 2016 provisions were made for non-recurring expenses for the application of Article 4 of the Fornero Law to executive and non-executive personnel, for a total of 67 million euros, (of which 40 million euros for the Parent and 27 million euros for TI Information Technology later merged into TIM

S.p.A. and Olivetti);

the increase in the component outside Italy of employee benefits expenses. This performance was particularly influenced by the exchange rate effect attributable to the Brazil Business Unit, which resulted in higher costs of around 32 million euros; net of this effect, the reduction in costs was essentially related to the decrease in the average workforce by 2,296 average employees.

Other operating income (217 million euros; 107 million euros in the first half of 2016):

(millions of euros)	1st Half 2017	1st Half 2016	Change
Late payment fees charged for telephone services	31	27	4
Recovery of employee benefit expenses, purchases and services rendered	50	18	32
Capital and operating grants	23	8	15
Damage compensation, penalties and sundry recoveries	22	10	12
Partnership agreements	59		59
Other income	32	44	(12)
Total	217	107	110

Other income consisted of the impacts of contribution fees resulting from partnership agreements signed with leading technology suppliers. These agreements are aimed at developing the collaboration between the parties, in order to strengthen and stabilize the business and industrial relationship over time, to actively contribute to TIM's marketing plan for the development and use of several strategic services in Italy and in Brazil.

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Other operating expenses (576 million euros; 501 million euros in the first half of 2016):

(millions of euros)	1st Half 2017	1st Half 2016	Change
Write-downs and expenses in connection with credit management	177	161	16
Provision charges	109	70	39
TLC operating fees and charges	182	168	14
Indirect duties and taxes	58	50	8
Penalties, settlement compensation and administrative fines	15	22	(7)
Association dues and fees, donations, scholarships and traineeships	8	8	
Sundry expenses	27	22	5
Total	576	501	75

The overall increase in Other operating expenses included an exchange rate effect of 45 million euros relating to the Brazil Business Unit, without which this item would have shown an increase of 30 million euros.

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change
Amortization of intangible assets with a finite useful life	907	843	64
Depreciation of property, plant and equipment owned and leased	1,342	1,204	138
Total	2,249	2,047	202

Impairment reversals (losses) on non-current assets

In the first half of 2017, this item amounted to nil (5 million euros in the first half of 2016).

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, 2017, TIM's market capitalization was less than the value of its equity; however, in view of the positive performance of the first six months of the year, in line with the plan forecasts, the absence of new and additional external indicators and the results in terms of recoverable amount of the impairment testing conducted for the 2016 Financial Statements, it was not considered necessary to redetermine the recoverable amount and consequently the goodwill allocated to the individual cash generating units in the Consolidated Financial Statements 2016 was confirmed.

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EBIT totaled 1,871 million euros (1,687 million euros in the first half of 2016), increasing by 184 million euros (+10.9%) compared to the first half of 2016; the EBIT margin was 19.1% (18.5% in the first half of 2016, +0.6 percentage points).

Organic EBIT was up 159 million euros (+9.3%), with an organic EBIT margin of 19.1% (18.1% in the first half of 2016).

EBIT in the first half of 2017 reflected the negative impact of non-recurring net expenses totaling 96 million euros (82 million euros in the first half of 2016). Without these expenses, the organic change in EBIT would have been a positive 173 million euros (+9.6%), with an EBIT margin of 20.1% (up 1.2 percentage points compared to the first half of 2016).

Organic EBIT is calculated as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change amount	%
REPORTED EBIT	1,871	1,687	184	10.9
Foreign currency financial statements translation effect		25	(25)	
Changes in the scope of consolidation				
ORGANIC EBIT	1,871	1,712	159	9.3
of which non-recurring income/(expenses)	(96)	(82)	(14)	
foreign currency non-recurring income/(expenses) translation effect				
ORGANIC EBIT excluding non-recurring component	1,967	1,794	173	9.6

Exchange rate fluctuations were essentially attributable to the Brazil Business Unit.

Income/(expenses) from investments

In the first half of 2017, this item amounted to an expense of 19 million euros and essentially included the allocation to the income statement of the Reserve for exchange differences on translating foreign operations for the investee company Tierra Argentea S.A., whose liquidation has now been completed.

In the first half of 2016, this item amounted to an income of 7 million euros and related to dividends.

Finance income (expenses), net

Finance income (expenses) showed an increase in net expenses of 595 million euros, moving from 145 million euros for the first half of 2016 to 740 million euros for the first half of 2017.

The figure for the first half of 2017 reflected:

the absence of the positive impact, for 620 million euros, 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 TIM S.p.A.);

lower finance expenses due to the reduction in the Group's debt exposure and in interest rates.

Income tax expense

This item amounted to 457 million euros, up 32 million euros on the first half of 2016 (489 million euros). The tax expense for the first half of 2017 mainly included a provision of 93 million euros for the Telecom Italia Sparkle dispute; this additional expense was offset by the reduction primarily linked to the lower tax base of the Parent TIM S.p.A..

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This item was broken down as follows:

(millions of euros)	1st Half 2017	1st Half 2016
Profit (loss) for the period	654	1,105
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	596	1,021
Profit (loss) from Discontinued operations/Non-current assets held for sale		(3)
Profit (loss) for the period attributable to owners of the Parent	596	1,018
Non-controlling interests:		
Profit (loss) from continuing operations	58	37
Profit (loss) from Discontinued operations/Non-current assets held for sale		50
Profit (loss) for the period attributable to non-controlling interests	58	87

Profit for the first half of 2017 attributable to the Owners of the Parent amounted to 596 million euros (1,018 million euros in the first half of 2016) and was impacted by non-recurring net expenses of 173 million euros. On a like-for-like basis i.e. without including the non-recurring items and, in the first half of 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond the Profit attributable to the Owners of the Parent for the first half of 2017 would have been over 100 million euros higher than the figure for the same period of the previous year.

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FINANCIAL AND OPERATING HIGHLIGHTS OF THE BUSINESS UNITS OF THE TIM GROUP

DOMESTIC

(millions of euros)	1st Half 2017	1st Half 2016	amount	Change %	% organic
Revenues	7,494	7,247	247	3.4	3.3
EBITDA	3,361	3,184	177	5.6	5.5
<i>EBITDA Margin</i>	<i>44.8</i>	<i>43.9</i>		<i>0.9 pp</i>	<i>0.9 pp</i>
EBIT	1,685	1,581	104	6.6	6.5
<i>EBIT Margin</i>	<i>22.5</i>	<i>21.8</i>		<i>0.7 pp</i>	<i>0.7 pp</i>
Headcount at period end (number)	51,095	⁽¹⁾ 51,280	(185)	(0.4)	

(1) Headcount at December 31, 2016

Fixed

	6/30/2017	12/31/2016	6/30/2016
Physical accesses at period end (thousands) ⁽¹⁾	19,066	18,963	19,074
<i>of which Retail physical accesses at period end (thousands)</i>	<i>11,185</i>	<i>11,285</i>	<i>11,468</i>
Broadband accesses at period end (thousands) ⁽²⁾	9,687	9,206	8,992
<i>of which Retail broadband accesses at period end (thousands)</i>	<i>7,419</i>	<i>7,191</i>	<i>7,088</i>
Network infrastructure in Italy: copper access network (millions of km pair, distribution and connection)	114.4	114.4	115.6
	13.4	12.6	11.7

access and carrier network in optical fiber (millions of
km - fiber)

Total traffic:

Minutes of traffic on fixed-line network (billions):	32.6	69.1	35.9
Domestic traffic	26.3	55.6	29.0
International traffic	6.3	13.5	6.9
Broadband volumes (PBytes) ⁽³⁾	3,642	5,774	2,690

(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 FWA.

(3) DownStream and UpStream traffic volumes.

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Financial and Operating Highlights of the Business Units of the TIM Group 14

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Domestic Business Unit

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Mobile

	6/30/2017	12/31/2016	6/30/2016
Lines at period end (thousands) ⁽¹⁾	29,952	29,617	29,742
Change in lines (%)	1.1	(1.3)	(0.9)
Churn rate (%) ⁽²⁾	12.8	22.8	10.9
Total traffic:			
Outgoing retail traffic (billions of minutes)	24.4	44.9	22.2
Incoming and outgoing retail traffic (billions of minutes)	37.5	69.6	34.3
Browsing Traffic (PBytes) ⁽³⁾	175.3	258.5	119.2
Average monthly revenues per line (in euros) ⁽⁴⁾	12.2	12.4	11.8

- (1) the figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.
(2) 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.
(3) National traffic excluding roaming.
(4) 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.

Revenues

Revenues for the first half of 2017 came to 7,494 million euros and were up by 247 million euros (+3.4%) compared to the first half of 2016, continuing the improvement seen in the previous year. Indeed, the second quarter saw growth of +4.0% on the same period of 2016, representing a rise on the previous quarters (first quarter 2017 +2.8%, fourth quarter 2016 +2.5%, third quarter +1.0%, second quarter -1.2%, and first quarter -2.3%). Revenues from services also showed a similar trend, at 6,842 million euros (+21 million euros on the first half of 2016), with a turnaround into positive territory, at +0.3% in the half year (+0.9% in the second quarter 2017, -0.3% in the first quarter 2017 and -1.3% in the fourth quarter 2016). This improvement was driven by the growth in both the Mobile and Fixed Broadband customer base, the increase in ARPU levels (thanks to the higher adoption of Fiber and LTE ultrabroadband connectivity services, and digital and ICT services), also accompanied by higher sales volumes for connected devices (Smartphones, SmartTVs, SmartHomes, Modems, etc.).

In detail:

Fixed market service revenues totaled 4,932 million euros, down slightly on the first half of 2016 (-39 million euros, -0.8%), but continuing the steady recovery already seen in the three previous quarters (second quarter 2017, +0.8%, compared to -2.4% in the first quarter 2017, -3.0% in the fourth quarter 2016, -3.6% in the third quarter and -4.8% in the second quarter 2016). The decline was entirely related to the reduction in revenues from traditional voice services (-162 million euros due to the fall in traditional accesses), as well as the reduction in the regulated prices for some wholesale services (-44 million euros). These impacts were offset, in particular, by continued growth in revenues from innovative services for data connectivity (+128 million euros, +14.2%), driven primarily by the growth in ultrabroadband customers, which increased by 723 thousand in the period, bringing the number of retail accesses to over 1.5 million and the total number of accesses to over 2 million. Revenues from ICT services also increased (+28 million euros, +9.8%).

Mobile market service revenues totaled 2,228 million euros, up 51 million euros on the same period of the previous year (+2.3%). This result was driven by the strong competitive performance, which generated growth in the customer base, in addition to the increase in LTE customers (72% of the total number of Mobile Internet customers versus 62% at the end of 2016) and ARPU levels. It also continues the historical series of stable positive performance (+2.5% in the second quarter 2017, +2.2% in the first quarter 2017, +3.0% in the fourth quarter 2016, +1.1% in the third quarter, and +0.7% in the second quarter).

Revenues from product sales, including the change in work in progress, amounted to 652 million euros in the first half of 2017 (+226 million euros compared to the first half of 2016) and reflected the steady increase in sales of smartphones and connected devices (smart TVs, Smart Home products, modems, set-top boxes, etc.).

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EBITDA

EBITDA for the Domestic Business Unit totaled 3,361 million euros for the first half of 2017, up by 177 million euros compared to the first half of 2016 (+5.6%), with an EBITDA margin of 44.8% (+0.9 percentage points compared to the same period of the previous year). In organic terms, the increase was +5.5%. The first half of 2017 reflected the negative impact of non-recurring expenses totaling 95 million euros (83 million euros for the same period of the previous year) for settlements, disputes and redundancy costs.

Without these expenses the organic change in EBITDA would have been +5.7%, with an EBITDA margin of 46.1%, up 1 percentage point on the first half of 2016.

The EBITDA performance, in addition to the improvement in sales earnings and the revenue performance, also reflected the positive impacts achieved by the program of cost transformation and simplification of business processes, which started to have an effect from the second quarter of 2016. As already reported in the first quarter of 2017, resources continued to be focused on marketing, to support sales initiatives and customer management, while reducing industrial and general operating costs.

Organic EBITDA is calculated as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change	
			amount	%
REPORTED EBITDA	3,361	3,184	177	5.6
Foreign currency financial statements translation effect		2	(2)	
Changes in the scope of consolidation				
ORGANIC EBITDA	3,361	3,186	175	5.5
of which non-recurring income/(expenses)	(95)	(83)	(12)	
ORGANIC EBITDA excluding non-recurring component	3,456	3,269	187	5.7

Other income amounted to 199 million euros, up 101 million euros on the first half of 2016. This item includes contribution fees resulting from partnership agreements already discussed in relation to the consolidated operating performance.

The changes in the main cost items are shown below:

(millions of euros)	1st Half 2017	1st Half 2016	Change
---------------------	---------------	---------------	--------

Acquisition of goods and services	2,976	2,812	164
Employee benefits expenses	1,348	1,384	(36)
Other operating expenses	311	276	35

Acquisition of goods and services rose by 164 million euros compared to the first half of 2016 and was broken down as follows:

(millions of euros)	1st Half 2017	1st Half 2016	Change
Acquisition of goods	775	615	160
Revenues due to other TLC operators and interconnection costs	743	742	1
Commercial and advertising costs	360	315	45
Power, maintenance and outsourced services	472	485	(13)
Rent and leases	211	224	(13)
Other service expenses	415	431	(16)
Total acquisition of goods and services	2,976	2,812	164
<i>% of Revenues</i>	<i>39.7</i>	<i>38.8</i>	<i>0.9 pp</i>

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Employee benefits expenses amounted to 1,348 million euros, down 36 million euros, substantially due to the same factors that affected the Employee benefits expenses at Group level, details of which can be found in the relevant section;

Other operating expenses, amounting to 311 million euros, were up 35 million euros. The breakdown of the item is reported in the table below:

(millions of euros)	1st Half 2017	1st Half 2016	Change
Write-downs and expenses in connection with credit management	134	127	7
Provision charges	66	35	31
TLC operating fees and charges	26	24	2
Indirect duties and taxes	47	48	(1)
Penalties, settlement compensation and administrative fines	15	22	(7)
Association dues and fees, donations, scholarships and traineeships	7	7	
Sundry expenses	16	13	3
Total	311	276	35

EBIT

EBIT of the Domestic Business Unit for the first half of 2017 came to 1,685 million euros (1,581 million euros in the same period of 2016), up 104 million euros (+6.6%), with an EBIT margin of 22.5% (21.8% in the first half of 2016). The EBIT performance mainly reflected the improvement in EBITDA reported above, partially offset by the increase in depreciation and amortization, of +78 million euros. In organic terms the increase was 6.5%.

EBIT for the first half of 2017 was pulled down by a total of 95 million euros in non-recurring expenses (83 million euros for the same period of the previous year), without which the organic change in EBIT would have been 6.9%, with an EBIT margin of 23.8%.

Organic EBIT is calculated as follows:

Change

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(millions of euros)	1st Half 2017	1st Half 2016	amount	%
REPORTED EBIT	1,685	1,581	104	6.6
Foreign currency financial statements translation effect		1	(1)	
Changes in the scope of consolidation				
ORGANIC EBIT	1,685	1,582	103	6.5
of which non-recurring income/(expenses)	(95)	(83)	(12)	
ORGANIC EBIT excluding non-recurring component	1,780	1,665	115	6.9

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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, Persidera and Noverca.

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; it also includes the company Olivetti.

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 TIM and other operators;

Other Operations units: covering technological innovation and the processes of development, engineering, building and operating network infrastructures, IT, real estate properties and plant engineering;

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

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

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Key results for the first half of 2017 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to the first half of 2016.

Core Domestic

(millions of euros)	1st Half 2017	1st Half 2016	Change	
			amount	%
Revenues	6,965	6,736	229	3.4
<i>Consumer</i>	3,767	3,572	195	5.5
<i>Business</i>	2,280	2,200	80	3.6
<i>Wholesale</i>	834	863	(29)	(3.4)
<i>Other</i>	84	101	(17)	(16.8)
EBITDA	3,278	3,093	185	6.0
<i>EBITDA Margin</i>	47.1	45.9		1.2 pp
EBIT	1,657	1,540	117	7.6
<i>EBIT Margin</i>	23.8	22.9		0.9 pp
Headcount at period end (number) ^(*)	50,307	⁽¹⁾ 50,527	(220)	(0.4)

(1) Headcount at December 31, 2016

(*) Includes employees with temp work contracts: 0 employees at 6/30/2017 (1 employee at 12/31/2016).

In detail:

Consumer: revenues for the Consumer segment for the first half of 2017 amounted to a total of 3,767 million euros, an increase of 195 million euros compared to the same period of 2016 (+5.5%). This performance continued the trend of recovery already underway in the previous year.

In particular:

revenues from the Mobile business amounted to 1,847 million euros and showed growth compared to the first half of 2016 (+70 million euros, +4.0%), with revenues from services in particular up 51 million euros

(+3.3% on the first half of 2016). This continued the trend of improvement already seen in the previous quarters (+4.1% in the second quarter 2017; +3.9% in the first quarter 2017; +4.8% in the fourth quarter 2016) due to the progressive stabilization and improvement of market share and the steady growth in Internet mobile and digital services, which sustained the ARPU levels;

revenues for the Fixed-line segment amounted to 1,903 million euros, up 130 million euros compared to the first half of 2016 (+7.3%), representing a continued improvement on the previous quarters (+11.2% in the second quarter 2017; +3.5% in the first quarter 2017; +2.0% in the fourth quarter 2016), thanks to the reduction in line losses, the growth in the Broadband and Ultra broadband customer base (which offset the loss of voice only accesses), the increase in ARPU levels and the strong performance of sales of connected devices.

Business: revenues for the Business segment amounted to 2,280 million euros, up 80 million euros on the first half of 2016 (+3.6%).

In detail:

revenues from the Mobile business posted performance in line with the first half of 2016 (+0.1%); specifically, the continuing decline in traditional mobile services (-9.0% in the voice and messaging component compared to the first half of 2016), driven by the shift of customers (both private individuals and government agencies) towards formulas with lower ARPU, was fully offset by the positive performance of new digital services (+9.6% on the first half of 2016);

revenues for the Fixed-line segment increased by 77 million euros (+4.6% on the first half of 2016) thanks to the steady increase in revenues from ICT services (+9.8%), which more than offset the reduction in prices and revenues from traditional services and the effects of the technological shift towards VoIP systems.

Wholesale: revenues for the Wholesale segment in the first half of 2017 came to 834 million euros, down on the same period of 2016 (-29 million euros, -3.4%). The impact on revenues was entirely due to the reduction in regulated prices, which produced a shortfall of -44 million euros, partially offset by the growth in numbers in the NGN, SULL and Co-location segments.

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BRAZIL

	(millions of euros)		(millions of reais)		Change	
	1st Half 2017	1st Half 2016	1st Half 2017	1st Half 2016	amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	2,293	1,858	7,894	7,674	220	2.9
EBITDA	762	556	2,624	2,296	328	14.3
<i>EBITDA Margin</i>	33.2	29.9	33.2	29.9		3.3 pp
EBIT	194	121	669	498	171	34.3
<i>EBIT Margin</i>	8.5	6.5	8.5	6.5		2.0 pp
Headcount at period end (number)			9,471	⁽¹⁾ 9,849	(378)	(3.8)

(1) Headcount at December 31, 2016

	1st Half 2017	1st Half 2016
Lines at period end (thousands)	60,831	⁽¹⁾ 63,418
MOU (minutes/month) (*)	106.7	118.4
ARPU (reais)	19.2	17.2

(1) Number at December 31, 2016, including corporate lines

(*) Net of visitors

Revenues

Revenues for the first half of 2017 amounted to 7,894 million reais and were up 220 million reais (+2.9%) year-on-year. Service revenues totaled 7,494 million reais, an increase of 305 million reais compared to 7,189 million reais for the first half of 2016 (+4.2%). These results confirm the continued improvement in the trend, with positive growth in the second quarter of 2017 both in total revenues (+3.2% compared to +2.5% for the first quarter of 2017 and -1.7% for the fourth quarter of 2016) and in revenues from services (+5.0% compared to +3.5% for the first quarter 2017 and -0.7% for the fourth quarter of 2016).

Mobile Average Revenue Per User (ARPU) for the first half of 2017 was 19.2 reais, up on the figure of 17.2 reais for the first half of 2016 (+11.6%), due to the general repositioning towards the postpaid segment and new commercial initiatives aimed at increasing data usage and the average spend per customer.

The total number of lines at June 30, 2017 was 60,831 thousand, representing a decrease of 2,587 thousand on December 31, 2016 (63,418 thousand), with a market share of 25.1% in June 2017 (26.0% at December 31, 2016). This reduction was entirely attributable to the prepaid segment (-3,540 thousand) and was only partially offset by the growth in the postpaid segment (+953 thousand), also as a result of the consolidation underway in the market for second SIM cards. Postpaid customers represented 26.0% of the customer base at June 30, 2017, up 2.5 percentage points on December 2016 (23.5%).

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Revenues from product sales came to 400 million reais (485 million reais in the first half of 2016 (-17.5%). The reduction reflects the change in the commercial policy, which is now more focused on value rather than sales volume growth. The main goals of this strategy are to increase the purchasing of new handsets giving TIM customers access to broadband services on 3G/4G networks and to support the new loyalty offerings for higher-value postpaid customers. This new strategy is reflected in an increase in the average handset price of +7.7% compared with the first half of 2016 and an increase in smartphone penetration within the Company's total customer base, which reached 77% in May 2017 (70% in June 2016).

EBITDA

EBITDA amounted to 2,624 million reais, up 328 million reais on the first half of 2016 (+14.3%). The growth in EBITDA was attributable to both the positive performance of revenues and the benefits from the projects to enhance the efficiency of the operating expenses structure, launched in the second half of 2016, with an improvement in the second quarter (+15.8% compared to +12.6% in the first quarter of 2017 and +5.8% in the fourth quarter of 2016).

The EBITDA margin stood at 33.2%, 3.3 percentage points higher than in the first half of 2016.

You are also reminded that the employee benefits expenses for the first half of 2016 included non-recurring expenses for termination benefits of 34 million reais.

Even without the impact of these non-recurring expenses, EBITDA for the first half of 2017 showed an increase (+12.6%) compared to the first half of 2016, continuing the trend of steady improvement in the second quarter (+15.7% compared to +9.4% for the first quarter of 2017 and +2.1% for the fourth quarter of 2016).

The changes in the main cost items are shown below:

	(millions of euros)		(millions of reais)		Change (c-d)
	1st Half 2017	1st Half 2016	1st Half 2017	1st Half 2016	
	(a)	(b)	(c)	(d)	
Acquisition of goods and services	1,169	978	4,025	4,041	(16)
Employee benefits expenses	178	161	613	663	(50)
Other operating expenses	262	224	901	925	(24)
Change in inventories	(5)	(8)	(18)	(31)	13

EBIT

EBIT amounted to 669 million reais, up 171 million reais (+34.3%) on the first half of 2016 (498 million reais). This result benefited from the greater contribution from the EBITDA (+328 million reais), which was offset by higher depreciation (+119 million reais) related to the development of industrial infrastructure, and a lower impact of net

gains on disposals of assets (-38 million reais), mainly attributable to the telecommunication towers. In this regard, we note that the last partial sale of telecommunication towers to American Tower do Brasil took place in the second quarter of 2017. This transaction resulted in proceeds and an income effect of an immaterial amount.

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CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: this decreased by 101 million euros, from 29,612 million euros at the end of 2016 to 29,511 million euros at June 30, 2017 due to the negative variation in exchange rates for the Brazilian companies ⁽¹⁾. Further details are provided in the Note "Goodwill" in the Half-year Condensed Consolidated Financial Statements at June 30, 2017 of the TIM Group.

Other intangible assets: were down 357 million euros, from 6,951 million euros at the end of 2016 to 6,594 million euros at June 30, 2017, representing the balance of the following items:

capex (+673 million euros);

amortization charge for the period (-907 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 123 million euros).

Tangible assets: were down 318 million euros, from 16,360 million euros at the end of 2016 to 16,042 million euros at June 30, 2017, representing the balance of the following items:

capex (+1,383 million euros);

changes in financial leasing contracts (+30 million euros);

depreciation charge for the period (-1,342 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 389 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 23,619 million euros (23,553 million euros at December 31, 2016), of which 21,404 million euros attributable to Owners of the Parent (21,207 million euros at December 31, 2016) and 2,215 million euros attributable to non-controlling interests (2,346 million euros at December 31, 2016). In greater detail, the changes in equity were the following:

(millions of euros)	6/30/2017	12/31/2016
At the beginning of the period	23,553	21,333
Correction due to errors		(84)
At the beginning of the period revised	23,553	21,249
Total comprehensive income (loss) for the period	269	2,801
Dividends approved by:	(205)	(204)
<i>TIM S.p.A.</i>	(166)	(166)
<i>Other Group companies</i>	(39)	(38)
Issue of equity instruments	4	1
Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016		1,300
Disposal of the Sofora Telecom Argentina group		(1,582)
Other changes	(2)	(12)
At the end of the period	23,619	23,553

(1) The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 3.77532 at June 30, 2017 and 3.43542 at December 31, 2016.

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CASH FLOWS

Adjusted net financial debt stood at 25,104 million euros, down 15 million euros compared to December 31, 2016 (25,119 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt during the first half of 2017:

Change in adjusted net financial debt

(millions of euros)	1st Half 2017	1st Half 2016	Change
EBITDA	4,114	3,726	388
Capital expenditures on an accrual basis	(2,056)	(1,983)	(73)
Change in net operating working capital:	(1,130)	(1,078)	(52)
<i>Change in inventories</i>	(44)	(40)	(4)
<i>Change in trade receivables and net amounts due from customers on construction contracts</i>	(52)	(130)	78
<i>Change in trade payables (*)</i>	(692)	(635)	(57)
<i>Other changes in operating receivables/payables</i>	(342)	(273)	(69)
Change in employee benefits	(7)	40	(47)
Change in operating provisions and Other changes	37	(34)	71
Net operating free cash flow	958	671	287
<i>% of Revenues</i>	9.8	7.4	2.4 pp
Sale of investments and other disposals flow	9	732	(723)
Share capital increases/reimbursements, including incidental costs	6		6
Financial investments flow	(1)	(9)	8

Dividends payment	(218)	(227)	9
Change in financial leasing contracts	(30)	(123)	93
Finance expenses, income taxes and other net non-operating requirements flow	(709)	(1,242)	533
Reduction/(Increase) in adjusted net financial debt from continuing operations	15	(198)	213
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale		(38)	38
Reduction/(Increase) in adjusted net financial debt	15	(236)	251

(*) 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 2017 has been particularly impacted by the following items:

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Capital expenditures on an accrual basis

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

(millions of euros)	1st Half 2017		1st Half 2016		Change
		% of total		% of total	
Domestic	1,626	79.1	1,575	79.4	51
Brazil	430	20.9	408	20.6	22
Other Operations					
<i>Adjustments and eliminations</i>					
Consolidated Total	2,056	100.0	1,983	100.0	73
<i>% of Revenues</i>	21.0		21.8		(0.8)pp

Capital expenditures in the first half of 2017 totaled 2,056 million euros, up 73 million euros on the first half of 2016. In particular:

the Domestic Business Unit posted capital expenditures of 1,626 million euros, an increase of 51 million euros compared to the first half of 2016. This increase was mainly attributable to the innovative component (+266 million euros on the first half of 2016) and, in particular, it reflected the increase in capital expenditure for the development of next-generation networks and services and the reduction in other types of expenditure. It also confirms the selectivity and attention given to the capital allocation choices based on strategic priorities and profit optimization.

The Brazil Business Unit recorded an increase in capital expenditure of 22 million euros for the first half of 2017 (including a positive currency effect of 82 million euros) compared to the first half of 2016; capital expenditures for the half-year were mainly aimed at the development of industrial infrastructure.

Change in net operating working capital

The change in net operating working capital for the first half of 2017 was a decrease of 1,130 million euros (decrease of 1,078 million euros in the first half of 2016). In particular:

the change in inventories and the management of trade receivables generated negative impacts of 44 million euros and 52 million euros, respectively;

the change in trade payables (-692 million euros) included the payment of around 257 million euros made by the Brazil Business Unit to the consortium that is carrying out the clean-up of the 700 MHz spectrum, which the Business Unit purchased the user rights to in 2014. The level of trade payables was also influenced by the seasonal peak in payments for bills payable;

the other changes in operating receivables/payables (-342 million euros) include a negative amount of 134 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. There was also an increase in the VAT payable, which was settled in July.

Sale of investments and other disposals flow

This item showed a positive figure of 9 million euros for the first half of 2017 and related to disposals of assets within the normal operating cycle.

In the first half of 2016 it was a positive figure of 732 million euros and essentially related to the sale of the Sofora Telecom Argentina group that took place on March 8, 2016.

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Financial investments flow

In the first half of 2017 this item amounted to 1 million euros.

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

Change in leasing contracts

In the first half of 2017, this item amounted to 30 million euros.

In the first half of 2016 the change was 123 million and related to TIM S.p.A..

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, 2017 of the TIM Group.

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

The item amounted to 709 million euros and mainly included the payment, during the first half of 2017, of net finance expenses and income taxes, as well as the change in non-operating receivables and payables.

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Net financial debt

Net financial debt is composed as follows:

(millions of euros)	6/30/2017 (a)	12/31/2016 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	19,587	20,369	(782)
Amounts due to banks, other financial payables and liabilities	6,944	7,656	(712)
Finance lease liabilities	2,356	2,444	(88)
	28,887	30,469	(1,582)
Current financial liabilities (*)			
Bonds	3,022	2,595	427
Amounts due to banks, other financial payables and liabilities	1,625	1,269	356
Finance lease liabilities	197	192	5
	4,844	4,056	788
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Gross financial debt	33,731	34,525	(794)
Non-current financial assets			
Securities other than investments		(1)	1
Financial receivables and other non-current financial assets	(2,185)	(2,697)	512
	(2,185)	(2,698)	513
Current financial assets			
Securities other than investments	(1,102)	(1,519)	417
Financial receivables and other current financial assets	(630)	(389)	(241)
Cash and cash equivalents	(4,086)	(3,964)	(122)
	(5,818)	(5,872)	54

Financial assets relating to Discontinued operations/Non-current assets held for sale

Total financial assets	(8,003)	(8,570)	567
Net financial debt carrying amount	25,728	25,955	(227)
<i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i>	<i>(624)</i>	<i>(836)</i>	<i>212</i>
Adjusted net financial debt	25,104	25,119	(15)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	32,002	32,574	(572)
Total adjusted financial assets	(6,898)	(7,455)	557

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

<i>Bonds</i>	<i>3,022</i>	<i>2,595</i>	<i>427</i>
<i>Amounts due to banks, other financial payables and liabilities</i>	<i>853</i>	<i>670</i>	<i>183</i>
<i>Finance lease liabilities</i>	<i>197</i>	<i>192</i>	<i>5</i>

The financial risk management policies of the TIM 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

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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 2017 resulted in a positive effect on net financial debt at June 30, 2017 of 969 million euros (1,091 million euros at December 31, 2016).

Gross financial debt*Bonds*

Bonds at June 30, 2017 were recorded for a total of 22,609 million euros (22,964 million euros at December 31, 2016). Their nominal repayment amount was 22,310 million euros, down 107 million euros compared to December 31, 2016 (22,417 million euros).

Changes in bonds over the first half of 2017 are shown below:

<i>(millions of original currency)</i>	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 2.500% maturing 7/19/2023	Euro	1,000	1/19/2017
<i>(millions of original currency)</i>	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 545 million euros 7.000% ⁽¹⁾	Euro	545	1/20/2017

(1) Net of buybacks by the Company of 455 million euros during 2015.

With reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, the nominal amount at June 30, 2017 was 200 million euros, down 1 million euros compared to December 31, 2016 (201 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the drawdown of the committed credit lines available at June 30, 2017:

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(billions of euros)		6/30/2017		12/31/2016	
		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	

TIM 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.

TIM also has:

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

two bilateral Term Loans from 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;

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

an Hot Money loan with Banca Popolare dell Emilia Romagna expiring July 2017 for 200 million euros, drawn down for the full amount.

On March 6, 2017, TIM S.p.A. signed a supplementary agreement with Mediobanca under which an early repayment was made on July 3, 2017 for 75 million euros for the bilateral term loan of an original amount of 150 million euros maturing in July 2020, which has been fully drawn down.

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 7.71 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 5.0%.

For details on 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, 2017 of the TIM Group.

Current financial assets and liquidity margin

The TIM Group's available liquidity margin amounted to 12,188 million euros at June 30, 2017, corresponding to the sum of Cash and cash equivalents and Current securities other than investments, totaling 5,188 million euros (5,483 million euros at December 31, 2016), 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 4,086 million euros (3,964 million euros at December 31, 2016). The different technical forms used for the investment of liquidity as of June 30, 2017 can be analyzed as follows:

Maturities: investments have a maximum maturity of three months;

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

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

Current securities other than investments amounted to 1,102 million euros (1,519 million euros at December 31, 2016); these forms of investment represent alternatives to the investment of liquidity with the aim of improving

returns. They include 613 million euros of Italian treasury bonds purchased respectively by TIM S.p.A. (256 million euros) and Telecom Italia Finance S.A. (357 million euros) and 488 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, which, pursuant to Consob Communication no. 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 TIM Group since August 2012.

In the second quarter of 2017, the adjusted net financial debt fell by 131 million euros compared to March 31, 2017 (25,235 million euros) due to the positive business and operational performance which, in particular, provided coverage for the requirements resulting in particular from the already mentioned payment of dividends of 218 million euros.

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(millions of euros)	6/30/2017 (a)	3/31/2017 (b)	Change (a-b)
Net financial debt carrying amount	25,728	25,923	(195)
<i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i>	(624)	(688)	64
Adjusted net financial debt	25,104	25,235	(131)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	32,002	32,796	(794)
Total adjusted financial assets	(6,898)	(7,561)	663

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CONSOLIDATED FINANCIAL STATEMENTS TIM GROUP

The Half-Year Financial Report at June 30, 2017 of the TIM 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:

the Interim Management Report;

the Half-Year Condensed Consolidated Financial Statements;

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, 2017 are the same as those adopted in the annual consolidated financial statements at December 31, 2016, to which reference can be made. No new standards and interpretations were endorsed by the EU and in force from January 1, 2017.

The TIM 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 2017 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

There were no significant changes in the scope of consolidation during the first half of 2017.

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

TIMVISION S.r.l. (Domestic Business Unit): established on December 28, 2016;

Noverca S.r.l. (Domestic Business Unit): on October 28, 2016 TIM S.p.A. acquired 100% of the company;

Flash Fiber S.r.l. (Domestic Business Unit): established on July 28, 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 were subsequently merged by absorption.

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Separate Consolidated Income Statements

(millions of euros)	1st Half 2017 (a)	1st Half 2016 (b)	Change (a-b) amount	%
Revenues	9,772	9,096	676	7.4
Other income	217	107	110	
Total operating revenues and other income	9,989	9,203	786	8.5
Acquisition of goods and services	(4,136)	(3,783)	(353)	(9.3)
Employee benefits expenses	(1,530)	(1,551)	21	1.4
Other operating expenses	(576)	(501)	(75)	(15.0)
Change in inventories	50	33	17	51.5
Internally generated assets	317	325	(8)	(2.5)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	4,114	3,726	388	10.4
Depreciation and amortization	(2,249)	(2,047)	(202)	(9.9)
Gains/(losses) on disposals of non-current assets	6	13	(7)	(53.8)
Impairment reversals (losses) on non-current assets		(5)	5	
Operating profit (loss) (EBIT)	1,871	1,687	184	10.9
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	(2)	1	50.0
Other income (expenses) from investments	(19)	7	(26)	
Finance income	1,110	2,012	(902)	(44.8)
Finance expenses	(1,850)	(2,157)	307	14.2
Profit (loss) before tax from continuing operations	1,111	1,547	(436)	(28.2)

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Income tax expense	(457)	(489)	32	6.5
Profit (loss) from continuing operations	654	1,058	(404)	(38.2)
Profit (loss) from Discontinued operations/Non-current assets held for sale		47	(47)	
Profit (loss) for the period	654	1,105	(451)	(40.8)
Attributable to:				
Owners of the Parent	596	1,018	(422)	(41.5)
Non-controlling interests	58	87	(29)	(33.3)

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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 2017	1st Half 2016
Profit (loss) for the period	(a)	654	1,105
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)		33	(118)
Income tax effect		(8)	32
	(b)	25	(86)
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)	25	(86)
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		34	76
Loss (profit) transferred to the Separate Consolidated Income Statements		(37)	(69)
Income tax effect		2	(4)
	(e)	(1)	3
Hedging instruments:			
Profit (loss) from fair value adjustments		(331)	(327)

Loss (profit) transferred to the Separate Consolidated Income Statements		497	245
Income tax effect		(43)	(2)
	(f)	123	(84)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(551)	618
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		19	304
Income tax effect			
	(g)	(532)	922
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)	(410)	841
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	(385)	755
Total comprehensive income (loss) for the period	(a+k)	269	1,860
Attributable to:			
Owners of the Parent		367	1,726
Non-controlling interests		(98)	134

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Consolidated Statements of Financial Position

(millions of euros)	6/30/2017	12/31/2016	Change
	(a)	(b)	(a-b)
Assets			
Non-current assets			
Intangible assets			
Goodwill	29,511	29,612	(101)
Intangible assets with a finite useful life	6,594	6,951	(357)
	36,105	36,563	(458)
Tangible assets			
Property, plant and equipment owned	13,671	13,947	(276)
Assets held under finance leases	2,371	2,413	(42)
	16,042	16,360	(318)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	17	18	(1)
Other investments	48	46	2
Non-current financial assets	2,185	2,698	(513)
Miscellaneous receivables and other non-current assets	2,324	2,222	102
Deferred tax assets	525	877	(352)
	5,099	5,861	(762)
Total Non-current assets	(a) 57,246	58,784	(1,538)
Current assets			
Inventories	314	270	44
Trade and miscellaneous receivables and other current assets	5,617	5,426	191
Current income tax receivables	45	94	(49)
Current financial assets			

<i>Securities other than investments, financial receivables and other current financial assets</i>		1,732	1,908	(176)
<i>Cash and cash equivalents</i>		4,086	3,964	122
		5,818	5,872	(54)
Current assets sub-total		11,794	11,662	132
Discontinued operations/Non-current assets held for sale				
Total Current assets	(b)	11,794	11,662	132
Total Assets	(a+b)	69,040	70,446	(1,406)

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(millions of euros)	6/30/2017 (a)	12/31/2016 (b)	Change (a-b)
Equity and Liabilities			
Equity			
Equity attributable to Owners of the Parent	21,404	21,207	197
Non-controlling interests	2,215	2,346	(131)
Total Equity	(c) 23,619	23,553	66
Non-current liabilities			
Non-current financial liabilities	28,887	30,469	(1,582)
Employee benefits	1,336	1,355	(19)
Deferred tax liabilities	323	293	30
Provisions	813	830	(17)
Miscellaneous payables and other non-current liabilities	1,594	1,607	(13)
Total Non-current liabilities	(d) 32,953	34,554	(1,601)
Current liabilities			
Current financial liabilities	4,844	4,056	788
Trade and miscellaneous payables and other current liabilities	7,056	7,646	(590)
Current income tax payables	568	637	(69)
Current liabilities sub-total	12,468	12,339	129
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Current Liabilities	(e) 12,468	12,339	129
Total Liabilities	(f=d+e) 45,421	46,893	(1,472)
Total Equity and Liabilities	(c+f) 69,040	70,446	(1,406)

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Consolidated Statements of Cash Flows

(millions of euros)	1st Half 2017	1st Half 2016
Cash flows from operating activities:		
Profit (loss) from continuing operations	654	