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-

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HALF-YEAR FINANCIAL

REPORT AT

JUNE 30, 2016

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INTERIM MANAGEMENT REPORT AT JUNE 30, 2016

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

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THE TELECOM ITALIA GROUP

THE BUSINESS UNITS

DOMESTIC

The Domestic Business Unit operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators.	CORE DOMESTIC
	Consumer
In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).	Business
	Wholesale
	Other (INWIT S.p.A. and support structures)
Olivetti, which is now part of the Business segment of Core Domestic, operates in the area of office products and services for Information Technology.	INTERNATIONAL WHOLESALE
	Telecom Italia Sparkle group
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.	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.

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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

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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.

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(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.

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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

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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	% of total	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*		