INTESA SANPAOLO

Credit

Company Note

Telecom Italia

20 July 2020: 18:08 CET
Date and time of production

The Last Mile

The single network debate may be crossing the final hurdle. On balance we believe a tie-up of TIM's secondary network and OF's network is more likely than not, but there still remains limited visibility on the what the final structure could look like. Given weak operating figures, current and future competitive threats, relatively stubborn leverage (to 1Q20) despite the extraction of significant cash from the business, the single network debate is crucial to TIM's future outlook in our view. We retain our NEUTRAL Credit View at present and our BUY Recommendation on the bonds.

Telecom Italia - Investment recommendations

	Sen Secured	Chg	Sen Unsec	Chg	Sub	Chg	Hybrid	Chg
Investment Grade	-	-	-	-	-	-	-	-
High Yield	-	-	BUY	c	-	-	-	-
Unrated	-	-	-	-	-	-	-	-

Note: c = confirmed; d= downgraded; u = upgraded; n = new; NA = not assigned; na = no action; U/R = under review.
Source: Intesa Sanpaolo Research

Credit View NEUTRAL

We anticipate operating fundamentals will remain relatively weak for the remainder of 2020, partly reflecting the coronavirus impact as well as further competitive pressure. We expect this to be mitigated by further debt reduction efforts thanks to ongoing efficiency measures and the effects of strategic initiatives that have been implemented to date. Given current and future competitive threats in fixed (Sky, Iliad's envisaged entry into the fixed segment and the real threat of Open Fiber in the future), as well as still tough competition in mobile, we see the outcome of the single network debate as a crucial milestone in TIM's history. On balance we take the view that with the recent intensification of political pressures, partly driven by a coronavirus enhanced focus on the strategic importance of the digitalisation of Italy, that a single network deal is now more likely than not. The final valuations of the respective assets of TI and OF that would eventually be conferred to the network company and the ultimate degree of investment by the infrastructure funds (KKR+), as well as the crucial role of CDP would determine the shareholding structure of the final network company.

Investment Recommendation

Our BUY Recommendation reflects our expectations of both persistent operating weakness over the short term, but also potentially positive medium-term prospects driven by TIM's strategy, which we see taking TIM in the right direction.

Credit View

NEUTRAL

Italy/Telecommunication Services

Key Results

EUR M	1Q19	1Q20
Sales	4,471	3,964
EBITDA	1,946	1,735
Margin (%)	40.1	40.1
	31.12.19	**31.3.20**
Net debt	27,668	26,745
Leverage (x)	3.4	3.4

Source: Intesa Sanpaolo research elaborations on company data

Credit Ratings

	Rating	Outlook
Moody's	Ba1	Negative
Fitch	BB+	Stable

Source: Bloomberg data

Report priced at market close on day prior to the issue (except where otherwise indicated).

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See page 24 for full disclosure and analyst certification

20 July 2020: 18:12 CET
Date and time of first circulation

IMI CORPORATE & INVESTMENT BANKING

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Credit View

Since the arrival of Gubitosi, TIM has extracted significantly more cash from the business, which has fed a material reduction in net debt. This has been achieved through both organic and inorganic measures and EqFCF targets have been achieved ahead of time. This process, which involves a range of strategic operations, continues. To date however, this has been largely mitigated by the continuing weak operating performance as the business continues to contract. Consequently, despite the EUR 923M reduction in net debt in 1Q20, net debt/ EBITDA remained broadly unchanged at 3.4x given the contraction in EBITDA.

Operating fundamentals remain challenging. KPI's evidence that TIM continues to lose both mobile, but particularly fixed lines, which appears to have been aggravated recently by fixed ARPU pressure, suggesting that pricing may no longer be much of a lever. Mobile competition also remains tough, even after almost two years from the entry Iliad. We appreciate TIM's efforts to 'Fix the Fixed' by concentrating on cost efficiencies, cleaning up operations with low profitability – (which has also hit fixed line revenues), as well as efforts to enhance UBB pick-up through content offerings as a value differentiator within fixed (TIM Vision and Disney+). However, we still remain somewhat concerned regarding the outlook, particularly in fixed, and especially in light of the entry of Sky in June 2020, as well the potential for a further acceleration of fixed competition following the announcement of Iliad's envisaged entry into this segment (using Open Fiber's network) given the highly disruptive nature of its entry into mobile. To this can be added the very real competitive threat from Open Fiber should a network deal not be found.

We anticipate that 2Q20 will reflect the negative impact of the pandemic (shop closures, lower international roaming revenues etc), but also anticipate some relief in terms of KPIs (slower churn, reduced line losses etc – particularly in fixed) primarily driven by the lockdown effects. Over the longer-term we envisage some benefits feeding through as a result of the government's proposed EUR 2.7Bn investment plan, which aims to accelerate UBB take-up in Italy and narrow the digital divide with Europe. This should, in our view, result in a migration to quality and accelerate UBB growth, hence potentially supporting a recovery in fixed.

Brazil could also act as a drag on 2Q20 performance given that the country has been hit pretty hard by the pandemic. Whilst KPI's in Brazil seem to be indicating increasing pressure, consolidation in the sector, which TIM is seeking to participate in, could ease matters. The structure of TIM's offer for Oi's mobile assets in Brazil (together with Telefonica Brasil and Claro) currently lacks visibility, although TIM has consistently argued that the move would not increase group leverage. For this reason we take the view that the transaction would more likely be funded by equity (capital increase by TIM Brasil) or a mix of (modest) debt/equity depending on the dilutive effects of any capital increase, such as to retain TIM's majority in TIM Brasil (currently 67%), and hence without materially detracting from the current debt reduction targets for the group.

The original aim of improving credit metrics in order to align TIM's profile with that of investment grade has so far proven elusive. To date (1Q20), efforts have above all served to protect credit metrics from deterioration driven by the negative effects of the business contraction. We view this as TIM's real issue at present. But the process of TIM's transformation is far from complete. We view the efforts to date to transform TIM positively and moving TIM in the right direction, although we see the outcome of the single network debate as the real catalyst for change at TIM.

The network debate has been heating up recently, driven in part by renewed political emphasis on the perceived importance of the digitalisation of Italy as a consequence of the pandemic. This has also, in our view, concentrated minds on the highly strategic nature of the network in terms of Italy's national interests. We take the view that the single network deal is more likely than not to eventually emerge, although at play remains the shareholder structure of the network company and TIM's potential control of these assets. We view the ownership of the fibre company as fairly crucial for TIM's longer-term outlook. A compromise for TIM could eventually emerge, in our view, in terms of a neutral governance guaranteed by the influence of CDP in the structure, but, in this case, we remain mindful of implications for structural subordination for TIM. At present however, we view the ball as still remaining firmly in Enel's court.

We retain our NEUTRAL Credit View for the time being.

Market Focus

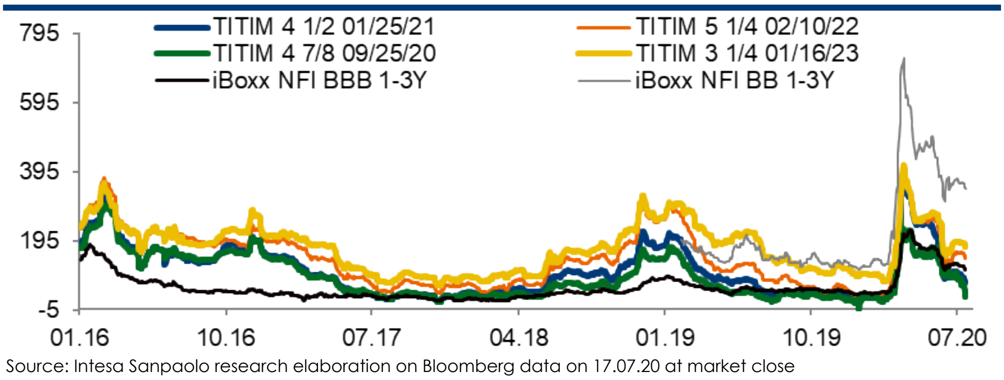
In the early part of the year TIM's spreads tightened in relative terms following the announcement of KKR's non-binding offer for a minority stake in TIM's secondary network, combined with the potential for KKR to be involved in any single network deal. The Coronavirus outbreak subsequently fed a significant widening however and spreads have remained wider since the start of the year.

Performance has been mixed. TIM's spreads have generally outperformed both the BB and BBB iboxx non-financial indices at the shorter end of the curve (1-3 YR) both since early-mid March, when the market reacted to the impact of the pandemic, as well as since the start of the year.

Over the medium to longer end of the curve the performance has been more mixed in relative terms. Whilst spreads have generally outperformed the BB iboxx non-financials (5+YR buckets) since the beginning of the year, they have generally underperformed since the outbreak of the pandemic in March. Relative to the BBB iboxx indices however (5+YR buckets), spreads have generally underperformed since the start of the year, but outperformed since the outbreak of the pandemic. Performance is likely to reflect both the perceived relative resistance of the sector in general as well as a reasonably solid liquidity profile over the short-term.

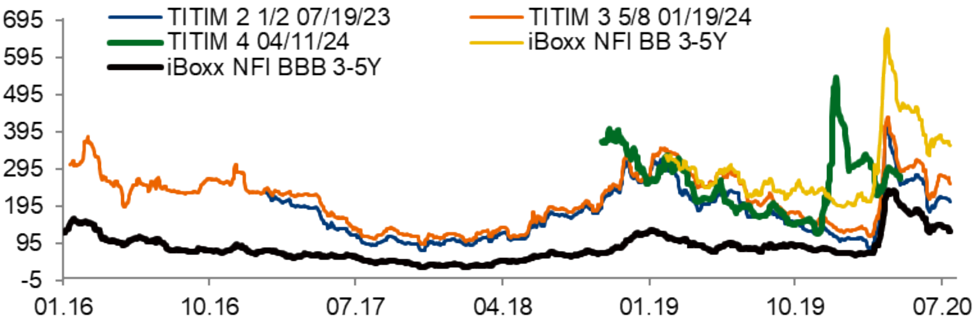
Whilst we recognise that operating performance remains weak, and 2Q20 is likely to suffer from the effects of the pandemic, we continue to maintain our BUY Recommendation on TIM given our view that the medium-longer term prospects of TIM should be supported by both reduced fixed line pressure given the investment and focus of the government in supporting UBB take-up, the more streamlined and efficient structure that is emerging from the series of organic and inorganic actions, the potential benefits relating to Brazilian consolidation and the potential medium-term implications for a positive outcome on the single network debate. This said, we still take the view that an eventual upgrade to investment grade is not likely to emerge over the short-term (and even assuming a positive outcome to the network debate) and until such time as there is evidence of a sustained improvement in operating performance.

Telecom's bonds vs iBoxx Non-Fin BBB 1-3Y and ML BB 1-3Y



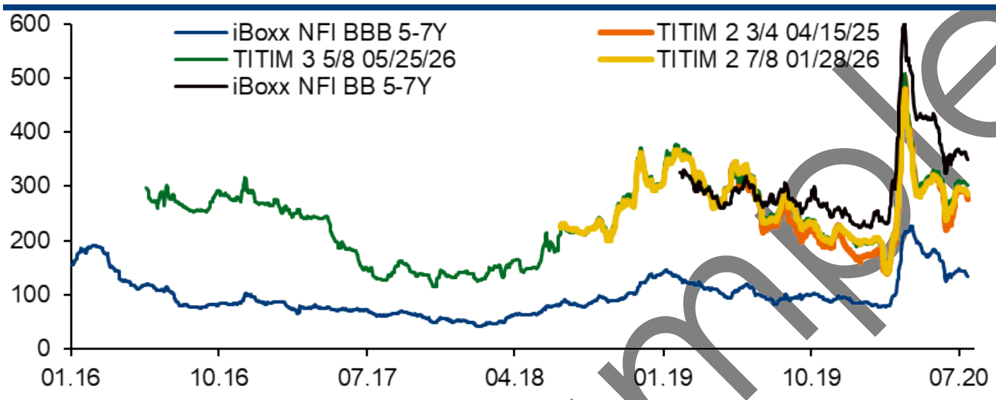
Source: Intesa Sanpaolo research elaboration on Bloomberg data on 17.07.20 at market close

Telecom's bonds vs iBoxx Non-Fin BBB 3-5Y and ML BB 3-5Y



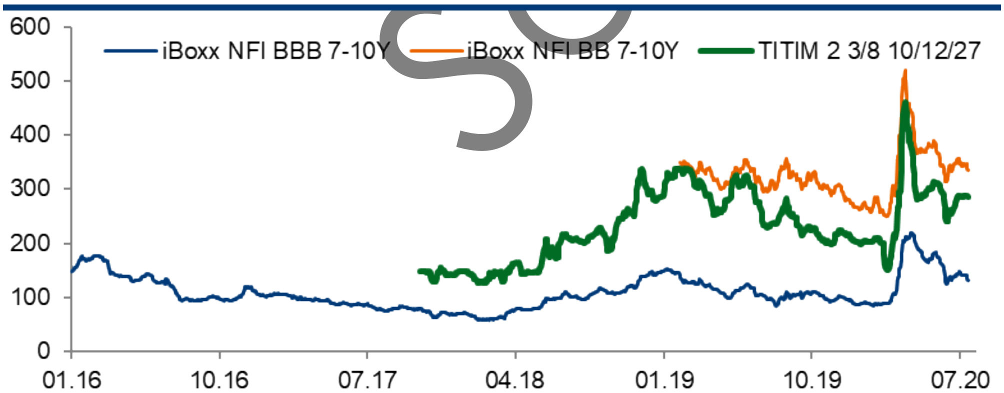
Source: Intesa Sanpaolo elaboration on Bloomberg data on 17.07.20 at market close

Telecom's bonds vs iBoxx Non-Fin BBB 5-7Y and ML BB 5-7Y



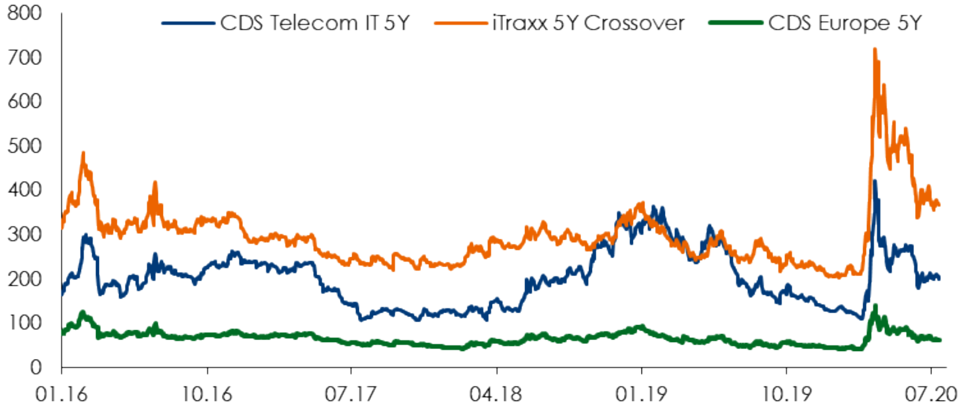
Source: Intesa Sanpaolo elaboration on Bloomberg data on 17.07.20 at market close

Telecom's bonds vs iBoxx Non-Fin BBB 7-10Y and ML BB 7-10Y



Source: Intesa Sanpaolo elaboration on Bloomberg data on 17.07.20 at market close

CDS Telecom IT 5Y vs Crossover 5Y and vs EUROPE 5Y



Source: Intesa Sanpaolo elaboration on Bloomberg data on 17.07.20 at market close

Telecom Italia SpA/Milano bonds/CDS (ASW, bps)

Bond	Next call and price	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 20.7.20	-1W (bps)	-1M (bps)	YTD (bps) 2.1.20	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Telecom Italia Finance SA															
TITIM 7 3/4 01/24/33	-	FX	1,015	141.4	3.6	ASW	450	-5	21	103	645	317	Ba1	BB+	BB+
Telecom Italia SpA/Milano															
TITIM 4 7/8 09/25/20	-	FX	547	100.9	0.0	ASW	35	-38	-55	9	251	-3	Ba1	BB+	BB+
TITIM 4 1/2 01/25/21	-	FX	564	102.1	0.3	ASW	68	-22	-23	38	401	8	Ba1	BB+	BB+
TITIM 5 1/4 02/10/22	-	FX	884	106.5	1.0	ASW	142	-17	10	109	382	29	Ba1	BB+	BB+
TITIM 3 1/4 01/16/23	-	FX	1,000	104.6	1.4	ASW	178	-12	10	80	415	79	Ba1	BB+	BB+
TITIM 2 1/2 07/19/23	-	FX	1,000	102.4	1.7	ASW	205	-10	11	101	413	80	Ba1	BB+	BB+
TITIM 3 5/8 01/19/24	-	FX	750	105.1	2.1	ASW	251	-18	23	123	434	114	Ba1	BB+	BB+
TITIM 4 04/11/24	01/24 100.0	FX	1,250	105.9	2.3	ASW	266	-17	20	121	543	119	Ba1	BB+	BB+
TITIM 2 3/4 04/15/25	01/25 100.0	FX	1,000	101.5	2.4	ASW	273	-18	30	105	502	139	Ba1	BB+	BB+
TITIM 3 09/30/25	-	FX	1,000	103.1	2.4	ASW	272	-13	15	93	478	138	Ba1	BB+	BB+
TITIM 2 7/8 01/28/26	10/25 100.0	FX	750	101.9	2.5	ASW	283	-8	22	86	478	141	Ba1	BB+	BB+
TITIM 3 5/8 05/25/26	-	FX	1,000	105.4	2.6	ASW	298	-8	21	106	508	141	Ba1	BB+	BB+
TITIM 2 3/8 10/12/27	07/27 100.0	FX	1,250	98.3	2.6	ASW	284	-3	23	83	461	151	Ba1	BB+	BB+
TITIM 5 1/4 03/17/55	-	FX	670	110.4	4.6	ASW	487	-1	7	74	540	394	Ba1	BB+	BB+
TITIM Float 01/01/22	-	FL	217	102.6	NM	DISC	NM	NM	NM	NM	NM	NM	-	-	-
							17.7.20								
Telecom Italia SpA/Milano CDS 5Y							200	-9	8	72	422	108			
Telecom Italia SpA/Milano CDS 10Y							285	-2	19	64	603	202			

Type: FX = Fixed; FL=Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds. SPRD TYPE: ASW=Asset Swap. Ratings: reported in the table refer to individual issues. Notes. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 11:34.

Investment Ideas on Telecom Italia bonds.

Date	Bond/CDS	Type	Spread	Rate	Buy/Sell	Entry level	Current level[1]	Pick-up	Status
25.07.19	TITIM 4 04/11/24	Sen	ASW	FX	BUY	202.0	242.5	-40.5	OPEN

FX = fixed; TITIM = Telecom Italia. Note: 1) "Current level" on 20.07.2020 at 12:00 CET. Source: Intesa Sanpaolo Research elaborations on Bloomberg data

The Transformational Process at TIM 1

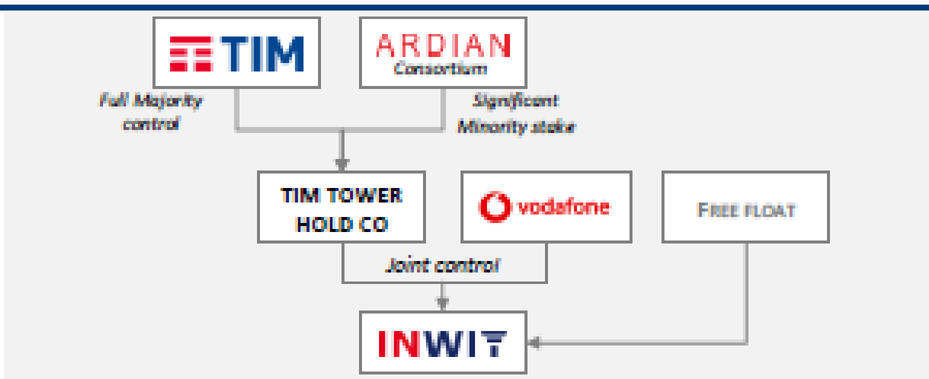
Materially more cash is being extracted from the business both through greater internal efficiency measures as well as through a range of strategic operations. We outline below some of the key operations that have been concluded or are in the pipeline.

- **INWIT**. After the network sharing partnership with INWIT and Vodafone (effective 31.3.20), TIM and Vodafone reduced their equal stakes in INWIT from 37.5% to 33.2% partly monetising their respective stakes. A 30.2% stake (held by TI) in INWIT was then contributed to a newco (49% of which subject to a sale to a consortium led by Ardian) with 3% sold held by a vehicle managed by Canson Capital Partners. TIM and Vodafone had originally intended to reduce their stakes to 25% each, although during the 1Q20 conference call Gubitosi stated that after April's ABB and Ardian agreements, it was not seeking to further monetise the stake in INWIT.

  The total monetisation of INWIT should thus be in the region of EUR 2.2Bn after accounting for ordinary and extraordinary dividends in April (EUR 214M extraordinary on 8.4.20 and EUR 42M ordinary on 20.5.20) and post 1Q20 agreements (ABB/Ardian/Canson) compared to the originally envisaged EUR 1.4Bn. Moreover, the agreements envisage that TIM would retain full governance control of the newco, and joint control over INWIT with Vodafone in accordance with the agreement with Vodafone.

  Nevertheless, TI no longer consolidates the Italian mobile tower sites (approx. EUR 350M of EBITDA), and although the distribution policy is expected to represent over 80% of net income, after the series of transactions, TIM's real economic interest has effectively been reduced to around 15%. The agreements remain conditional on the relative authorisations (including the Golden Power authorisation).

INWIT structure post transactions with the Ardian led consortium



Source: Company data

- **Exclusive negotiation with KKR.** In March, TI announced it had started negotiations with KKR regarding an approx. 40% stake in its secondary network. The secondary network represents a mix of TIM's fibre and copper assets spun-off to a newco (FiberCop) and including TIM's 80% stake in Flash Fiber (the remaining 20% of Flash Fibre is held by Fastweb). The deal takes a two-pronged approach. It involves a deal between KKR and TIM, but also envisaged the possibility of ultimately incorporating Open Fiber through a single network deal. TIM's 1Q20 presentation referred to its monetisation proceeds from the KKR deal of around EUR 1.8Bn;

- **Partnership with Google - Cloud Services**. The partnership with Google is operational. Initial negotiations for the offer of joint services to Italian companies concluded in 1Q20;
- **Carve out of cloud and data centre newco planned by October**. Estimated 2024 EBITDA of EUR 0.4Bn according to TIM (EUR 1Bn revenues);
- **Sale of Persidera in 2019**;
- **Partnership with Intesa Sanpaolo and Google in April** (IntesanPaolo press release 21.5.20). MOU relating to a suite of cloud services to facilitate the operations of small and medium sized enterprises during lockdown and accelerate the digitalisation of Italy;
- **Expansion of TIM Vision** content offer in partnership with Disney+. According to TIM, TIM Vision saw 100k activations in March (+194% mom) after the 24 March 2020 Disney+ launch. TIM's focus remains on enhancing the visibility of the TIM Vision/Disney+ content strategy going forward;
- **Oi Brazil's mobile assets.** On 16.7.20 TIM announced that the CEO was granted a mandate to evaluate and approve the final terms for a binding offer for the mobile assets of the Brazilian Oi and over the weekend news emerged (Il Sole 24 Ore, Bloomberg) that an offer had been submitted by a consortium involving TIM, Telefonica Brasil and Claro. TIM argues that an eventual deal would not increase leverage and be accretive from year one. Based on press reports (Il Sole 24 Ore, Reuters etc) of the reported expected minimum price Oi has established for its mobile assets, we take the view that the transaction could eventually be funded by equity (capital increase at TIM Brasil) without potentially diluting TIM's stake below 50% at this level. At an eventually higher price (TIM's offer is conditioned by a stalking horse clause permitting it to equal any rival offer), we take the view that any debt would likely only partly mitigate the anticipated net debt reduction of transactions in the pipeline (Ardian etc). We however view this as unlikely at present given that rival offers are likely to be conditioned by the absence of material synergy benefits available to the consortium;
- **TIM Brasil.** Initiative to accelerate fibre network development in Brazil with plans to open TIM Live3's capital to a strategic partner after its carve out. The process to select a partner in Brazil is underway with NDA's having been signed. A new partnership with 06Bank for the development of joint financial service solutions and a network sharing agreement with Vivo, sharing 2G network in 50 cities.

We also weigh some of the potential key negatives/ challenges going forward:

- **OF claiming damages**. According to Bloomberg, on 10 July, OF stated that it had requested EUR 1.5Bn damages against TIM. This is based on the Antitrust ruling last March (and a fine of EUR 116M) for alleged abuse of TIM's dominant position. The Antitrust authority accused TIM of obstructing new players in the ultra-broadband market, particularly in the white areas. The same source states that TIM in turn intends to submit a counter claim against OF for anticompetitive behaviour for a similar or superior sum. We suspect that the timing of the 're-emergence' of this news (La Stampa 7th April) may be more a question of 'old news is still good news if it suits an agenda';

- **Iliad to enter the fixed line market**. OF and Iliad (as reported by La Stampa 8.7.20) announced a commercial agreement, which envisages Iliad entering the fixed line market by accessing OF's infrastructure (envisaging FTTH to 271 Italian cities). We estimate that the time to market could be around 2 years (earlier than its envisaged 2024) based on a similar earlier agreement with Sky (2018). We view this as a potential material threat to TIM, particularly given the highly disruptive impact when Iliad entered the Italian mobile market;
- **Sky enters the fixed line market.** In June Sky entered the Italian fixed line market after reaching an agreement with OF in 2018. In our view, Sky's current offer does not suggest it intends to be highly disruptive (3 packages offered ranging from EUR 29.9-EUR 37.9/month). Moreover, the offer is initially only being presented to Sky's own TV subscribers. Our understanding is that the fibre offering and Sky's content offering represent separate contracts, suggesting that it may initially primarily represent a retention/build tool for Sky's own TV subscription client base in our view (which is Sky's core business after all). Given the entry level price, the structure of the current offering to Sky's own client base and Open Fiber's current fibre coverage (8.5M homes on FTTH according to Enel's 2019 annual report), we therefore suspect that Sky's disruptive threat to TIM may not be as great as we had originally feared;
- **EUR 174M fine**. According to Bloomberg (16.7.20), TAR has apparently confirmed a fine due to TIM relating to issues over equipment repair times in relation to an Agcom original ruling in 2011, which could thus represent a further (dispute related) cash call for TIM;
- **Covid-19- The Long and Short of the Pandemic.** We expect 2Q20 results to be negatively impacted by product sales (shop closures – handset and modem sales), but these are unlikely to have a material EBITDA impact in our view. The impact from reduced international roaming on the other hand could cause a dent (roaming represents around 2% of TIM's domestic EBITDA). KPI's (churn and line losses in particular) may actually benefit. Results are also likely to be impacted by the indirect impact of recession, as well as higher bad debt provisions (both retail and SMEs).

  Over the longer-term, we expect the pandemic is likely to result in an acceleration of the adoption of digital services that may help reduce Italy's ultrabroadband penetration gap versus the rest of Europe, feeding greater demand in fixed, particularly in the B2B and B2C service segments. It may also help to reverse the trend of fixed-mobile substitution that is undoubtedly likely to impact mobile only operators, such as Iliad, hardest.

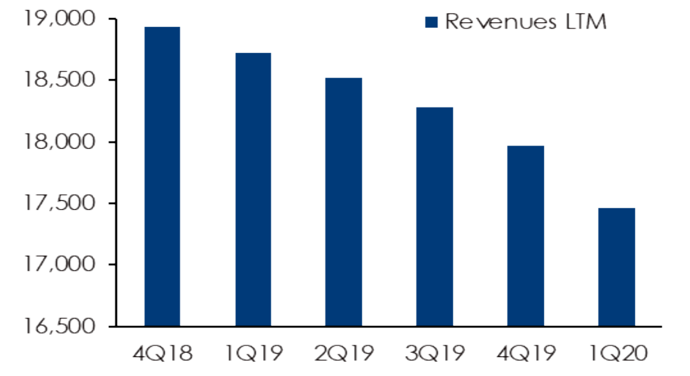
  The government's EUR 2.7Bn plan (subject to EC approval) to support broadband demand and infrastructure development for schools, businesses and communities can also be viewed positively. The aim is to connect 32.2k schools in 2020-23, support families and companies in purchasing and upgrading UBB connectivity and the deployment of infrastructure in some industrial districts in grey areas. We view this investment as helping TIM support its strategy of 'fixing the fixed' and reversing fixed line losses through greater UBB take-up.

The Transformational Process at TIM 2 - Cash is King

The various initiatives and the efficiency measures put in place are serving to extract more cash from the business, including tighter working capital management, capex streamlining and asset monetisation (without losing control). These have successfully reduced debt to date (through 1Q20), but TIM has struggled to effectively make a material dent in leverage (net debt/EBITDA) given the continuing contraction in the business, partly reflecting clean-up operations in fixed, but largely reflecting continued pressure from the intense competitive environment.

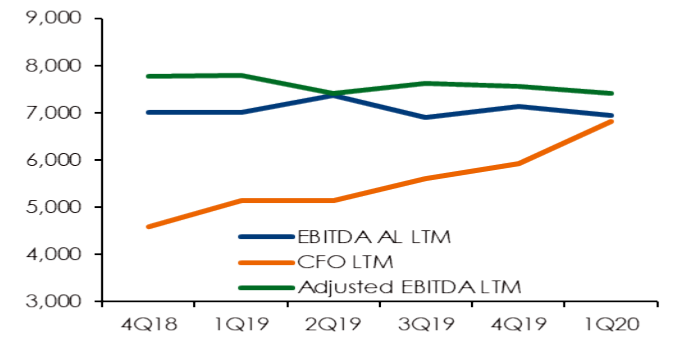
Consequently whilst cash flow leverage has reduced markedly, net debt/adjusted EBITDA , (on an IFRS 9/15 basis below for comparative purposes) has reduced materially less over the last few years to 3.2x (currently at 3.4x on an IFRS 16 basis, 3.6x IFRS 16 adjusted EBITDA basis and 3.1x on a net debt AL/EBITDA AL basis by our estimates).

Development of LTM Revenues 2019



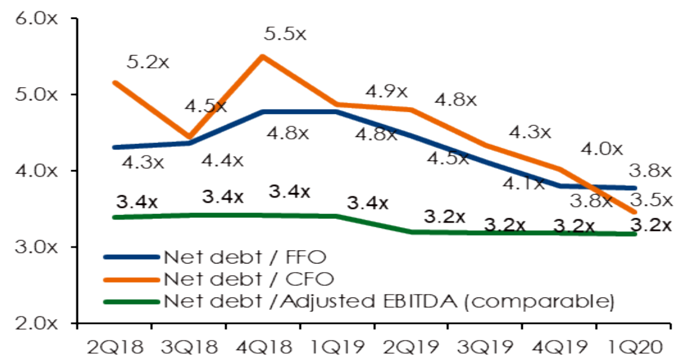
Source: Company data and Intesa Sanpaolo Research

Development of LTM EBITDA AL and LTM CFO (EUR M)



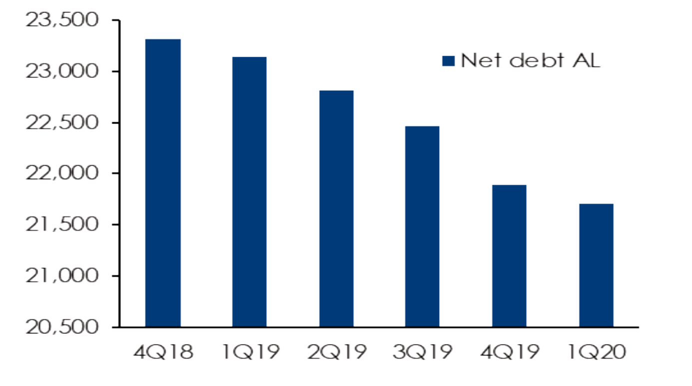
Source: Company data and Intesa Sanpaolo Research

Development of Cash Flow and EBITDA leverage indicators (comparable IFRS 9/15)



Source: Company data and Intesa Sanpaolo Research

2019 Development of Net Debt AL



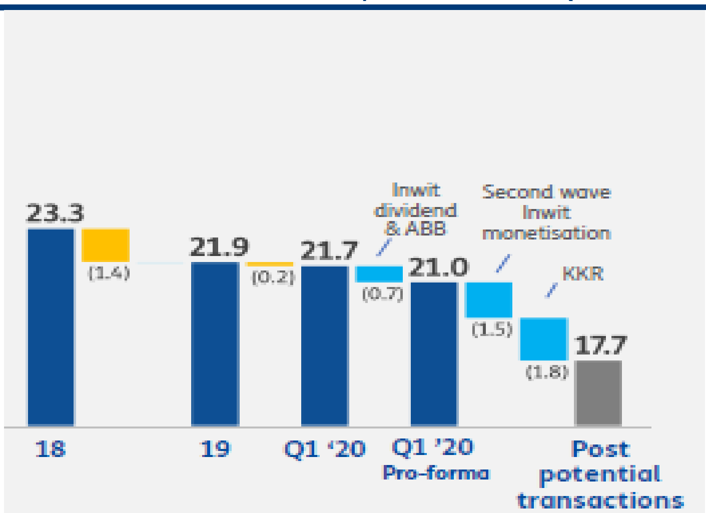
Source: Company data and Intesa Sanpaolo Research

With the total INWIT monetisation increasing to EUR 2.2Bn (of which EUR 0.7Bn in 2Q20) and accounting for the further anticipated monetisation of INWIT (EUR 1.5Bn) post 2Q20, On a 1Q20 LTM pro-forma basis, net debt AL/EBITDA AL would reduce to around 2.8x from 3.1x with net debt/EBITDA (IFRS 16 basis) reducing from 3.4.x to 3.1x by our estimates.

After accounting the above INWIT transactions, as well as the monetisation related to FiberCop (KKR proceeds) of an estimated (EUR 1.8Bn according to TIM), this would then see net debt AL reduce to around. EUR 17.7Bn on a pro-forma 1Q20 basis. But we note that no binding agreement has yet been signed-off with KKR.

Assuming the spun-off FiberCop was to remain consolidated by TIM (as we currently expect in a KKR deal), and hence before any OF involvement in the structure, this would then see pro-forma (1Q20) net debt AL/EBITDA AL LTM reduce from 3.1x to 2.5x by our estimations, with net debt/EBITDA (IFRS 16 basis) reducing from 3.4x to 2.9x. Whilst we would view this as then heading in the direction of a return to an IG profile for TIM, we doubt this would actually prove sufficient, particularly in light of the continued operating weakness. TIM needs to halt the contraction in the business in our view, in order to materially benefit from the strategic initiatives being put in place. For this reason, we see a tie-up with OF as being the main catalyst for TIM.

Pro-forma Net Debt AL Development – Pro-forma for Post 1Q20 and Pipeline Transactions (TIM estimates)



Source: Company data and Intesa Sanpaolo Research

The Single Fibre Network Debate - The Last Mile of a Long and Winding Road?

The outcome of the single network debate is crucial for TIMs future outlook in our view. Alternatively we view TIM risking developing into a more service focused entity reliant on an increasingly obsolete copper network, and facing increasingly tougher competition from Open Fiber's FTTH network. The benefits of KKR's investment in FiberCop, and the material investment provided thereby, would not necessarily ease competitive pressures going forward and the significant synergy benefits would be entirely absent. In any tie-up we see TIM as needing to retain majority ownership of these strategic assets.

The prolonged nature of the discussions related to the single network underscores the complexity of the issues involved. The various aspects involve political issues regarding the strategic nature of the assets, governance and regulatory issues as well as the strategic interests of the parties involved and above all the respective valuations of the assets eventually contributed to the new network company. We view the role of CDP, as both a shareholder of TIM (9.9% thereof) and Open Fiber (50% thereof) as crucial to the outcome. On balance, we still take the view that a deal is more likely than not, although the structure of an eventual deal still entails limited visibility.

Political aspects. The fibre network is strategic to Italy. The pandemic has brought focus

There appears to be clear political support for a single fibre network, but with caveats. According to Bloomberg, on 7 July PM Conte stated that the government will shortly announce an ultrabroadband project, although no details were provided, whilst Italy's Economic and Finance Minister Roberto Gualtieri reportedly (Reuters 13.7.20) told Enel to reach an agreement with TI by the end of July, reportedly requesting a memorandum of understanding envisaging the merger of TIM and OF's fiber networks into a single company.

The political issue has become increasingly more important on the back of the Coronavirus outbreak, underscoring the need to accelerate the digitalisation of Italy, and to help promote economic recovery. Political support is likely to be driven by concerns over control of the 'strategic' nature of the infrastructure assets and we envisage a deal only materialising within the confines of what is deemed to be politically acceptable (in our view), also bearing in mind the limitations imposed by the Golden Power. We therefore see CDP's role as fundamental in the process.

As regards regulatory and antitrust issues, we remember that in 2019, the regulator rejected TIM's original proposal for a legal separation of the network (drawn up under the guidance of the previous CEO Genish), on the basis that TI's envisaged control would not enhance competition. However, Genish departed in 2018 after a period of tension between TIM and the government and ultimately a situation which culminated in Vivendi (pre-Elliot's entry) confronting the Golden Power debacle. We take the view that the situation and the context has somewhat changed since then. At present there could be a number of operators engaged (TI/Fastweb/OF and the structure could potentially be opened to others in our view). We take the view that the issues may not be insurmountable if governance neutrality is guaranteed by the presence of CDP.

KKR

In March, TI announced it had started negotiations with KKR regarding an approx. 40% stake in its secondary network representing a mix of fibre and copper assets to be spun-off into FiberCop. TIM has stated that it anticipates around a EUR 1.8Bn cash in (monetisation) from KKR. Various press sources (Bloomberg 20.2.20, Milano Finanza 20.6.20 etc) reported a value for FIberCop of between EUR 7-7.5Bn (depending on the source). FiberCop would include TI's 80% stake in Flash Fiber, leaving the possibility open to Fastweb (holding the remaining 20% of Flash Fibre) taking a minority stake.

Whilst a deal with KKR is seen as a prelude to a deal with OF, TI opine that it is taking a two pronged approach and that a KKR investment in the spun-off structure is also being evaluated independently of any arrangement with OF. TI has suggested that it is willing to go it alone if Enel fails to come on board, with Gubitosi reportedly stating (Reuters 20.1.20) that there is always a plan B, clearly adding pressure on Enel in respect of its 50% stake in OF. Bloomberg has reported that that KKR intends to clarify a binding-offer by the end of July (before the announcement of TIM's 1H20 results).

But there is no single network without Open Fiber's network assets.

Open Fiber's shareholders signed an NDG in relation to the single network some considerable time ago. The main obstacle appears to be Enel's resistance in respect of its 50% stake in OF. Whilst there may be strategic reasons for this apparent resistance (arguably less competition could possibly imply a reduced incentive for investment by TI, issues over control by TI of the structure etc.), it is more likely, in our view, that the main stumbling block could be related to OF's valuation and/or that Enel may ultimately prefer a monetisation of the asset as opposed to a stake in FiberCop. On 20.6.20, La Repubblica reported that the infrastructure fund Macquaire made a non-binding offer to Enel for its stake in OF without stipulating an offer price. The report however stated that OF's valuation is estimated to be between EUR 3-6Bn, whilst Bloomberg (20.6.20) reported that Macquarie's bid for a stake in OF would have valued OF at EUR 7Bn.

There is very little clarity over the divergent reported valuations and we are taking these press reports with an extra-large dose of salt. Particularly given the material differences between the respective networks. We note that Enel's 2019 annual report stated revenues of EUR 186M and EBITDA of EUR 10M for OF with 8.5M homes passed with FTTH. By comparison TI reports that it covers around 81% of the country either with FTTH or FTTC, which is expected to increase to around 85% by YE20 just to put a little perspective on the issue.

We see the logic of an approach by Macquaire primarily within the context of an eventual conferment of the assets within FiberCop (and Enel's monetisation of the asset) although this would raise issues over the potential degree of influence of the infrastructure funds in FiberCop (KKR+Macquarie) and the dilutive effects on other parties (particularly TI) in the case of a high valuation of OF. We would not envisage a potential deal being feasible however if the infrastructure funds obtained an excessive influence in FiberCop given the political sensitivity as well as the Golden Power rule. In such a scenario this could open discussions over CDP's (as the remaining 50% shareholder in OF) pre-emption rights over Enel's 50% stake in our view.

But what can CDP do without clarity on Enel's position?

On 10 July reports (Bloomberg, Reuters) state that TI had called upon CDP to invest in FiberCop, which we view within the context of government (and TI's own) concerns over the potential influence of the funds in FiberCop (KKR/Macquaire) and the dilutive effects for TI's own final stake in FiberCop should Enel's stake be sold at a high price. At this juncture we therefore see TI's and the government's interests as relatively well aligned. At least at present.

One option that has been reported in the press (Reuters 20.6.20) suggested by Beppe Grillo, the founder of the 5S Movement, was for CDP to confer its part of its OF stake to TI in exchange for new TI shares, in order to dilute the impact of the funds. Whilst such a move would clearly strengthen the credit profile of TI with a materially greater influence of CDP in TI's structure, we view this scenario as somewhat unlikely at present. Apart from the potential risks of reigniting governance tensions in TI, this exercise would not resolve the issue of Enel's stake in OF and consequently put the single network debate finally to bed. CDP is therefore unlikely to make any move, in our view, without first obtaining clarity from Enel over its intentions.

Similarly, we take the view that TI's discussions with KKR (in terms of KKR's final stake in FiberCop) could well be conditioned by the value of Enel's stake in OF. We note that in TI's 1Q20 presentation, the stake under discussion with KKR in FiberCop is presented as around 40%. We expect that there is likely to be some flexibility in there, depending on the outcome of the negotiations regarding OF and the consequent dilutive effects. TI will not want to be excessively diluted in our opinion and it has always maintained it does not wish to lose control of the network assets. This said,

Enel will also have to face the consequences of the firepower investment from KKR in FiberCop to roll-out/develop FiberCop's rival network if it decides that Open Fiber will go it alone (or look for its own infrastructure investor), whilst foregoing on the benefits of the material synergies under a combined network or it may wish to hold out until the agreement between KKR and TI has taken shape before deciding on its position.

In the case of a TI/CDP/KKR/Fastweb/Enel or successor structure and a high valuation for OF, the dilutive effect on TI is likely to be such as to call into question issues over control/ownership/consolidation of FiberCop by TI. Whilst the stake to be held by KKR could be partially diluted, the outcome is not yet clear. We highlight that we have already seen TIM maintain control of assets whilst deconsolidating them (as with the INWIT transaction), although we doubt that is TIM's final endgame for the fibre network.

Once OF has been conferred to the FiberCop structure (involving either an infrastructure fund after Enel's monetisation of the asset, or Enel's direct involvement in FiberCop), it remains feasible (at that stage in our view) for CDP to confer part of its stake in OF in exchange for new TI shares. In this case, TI could still potentially retain a majority ownership of FiberCop (and possibly control) in order to reduce the influence of the funds, whilst TI would benefit from a stronger shareholding structure with a greater presence of CDP. The remaining shareholders of TIM might be willing to accept the dilution under these circumstances given the implications for TIM's outlook.

1Q20 Numbers in Brief

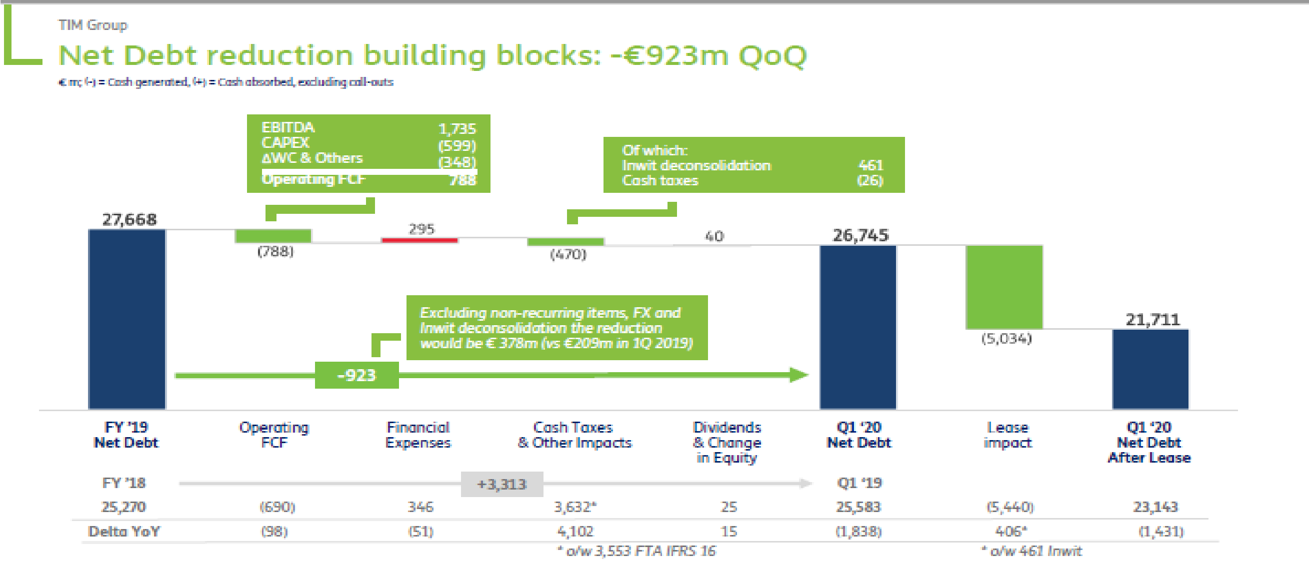
1Q20 total revenues contracted by 8.4% yoy to EUR 4Bn on an organic basis with total organic service revenues down 6.6% yoy to EUR 3.7Bn impacted by the reduction in customer numbers in stores during the lockdown. The contraction in reported revenues was 11.3% yoy.

Organic domestic service revenues fell by 8.8% yoy to EUR 2.88Bn with wireline suffering the most (-10.1% yoy to EUR 2.15Bn), but with mobile also contracting 4.9% yoy to EUR 870M. Brazilian organic revenues grew 1.6% yoy to EUR 834M, but on a reported basis were materially impacted by forex effects (-12.3% yoy on a reported basis).

Organic EBITDA fell 7.5% yoy to EUR 1.77Bn (-10.8% on a reported basis) with domestic down 11.1% yoy to EUR 1.39Bn, only partially mitigated by an 8.1% yoy increase for Brazil (EUR 390M). On a reported basis domestic EBITDA shrank 12.3% yoy however and the negative forex effects on Brazil implied a 5.8% contraction in Brazilian EBITDA. TIM is still reporting after-lease EBITDA figures, which evidenced an 8.5% yoy reduction in organic EBITDA AL (-11.6% yoy on a reported basis), fed by an 11.6% yoy contraction in domestic EBITDA AL (-12.9% yoy on a reported basis), and a 6.6% increase in Brazilian organic EBITDA AL (-6.6% yoy on reported basis).

Equity FCF was EUR 466M (+31% yoy) or EUR 247M yoy after forex (EUR 79M) and one-offs related to the Sky settlement and regulatory fines (EUR 216M). This permitted a EUR 923M reduction in net debt for the quarter to EUR 26.7Bn (IFRS 16 basis) or EUR 378M excluding FX (+EUR 300M), the one-offs (-EUR 216M) and INWIT deconsolidation (+EUR 461M). On an after-lease basis, net debt reduced EUR 182M for the quarter to EUR 21.7Bn, or EUR 352M excluding FX (EUR 4M), one-offs (-EUR 216M) and the INWIT deconsolidation (+EUR 49M). The 1Q20 net debt reduction was achieved despite the weak EBITDA given both the deconsolidation of INWIT and lower working capital cash impact (-EUR 229M at 1Q20 vs. -EUR 633M in 1Q19), despite the seasonal nature of 1Q for TIM, net of a EUR 564M increase in finance leases.

Net debt Development IFRS 16 view and after lease



Source: Company data

Pro-forma for post 1Q20 transactions, net debt after lease would reduce from EUR 21.7Bn to EUR 17.7Bn, of which EUR 0.7Bn in 2Q20 due to the first wave of the INWIT monetisation. The subsequent second wave monetisation comprises EUR 1.5Bn with the KKR deal anticipated to reduce debt by EUR 1.8Bn according to TIM.

TIM has historically always managed its liquidity position to cover at least 24 months of maturities. At 1Q20 total reported liquidity and available committed facilities (EUR 5Bn) covered maturities through 2022.

At the 1Q20 stage TI adjusted its target which shifted from prior domestic and group revenue and EBITDA targets to EBITDA-capex as capex cuts and cost cuts are aimed at mitigating the impact of the pandemic. Targets however remain unchanged from 2021-23.

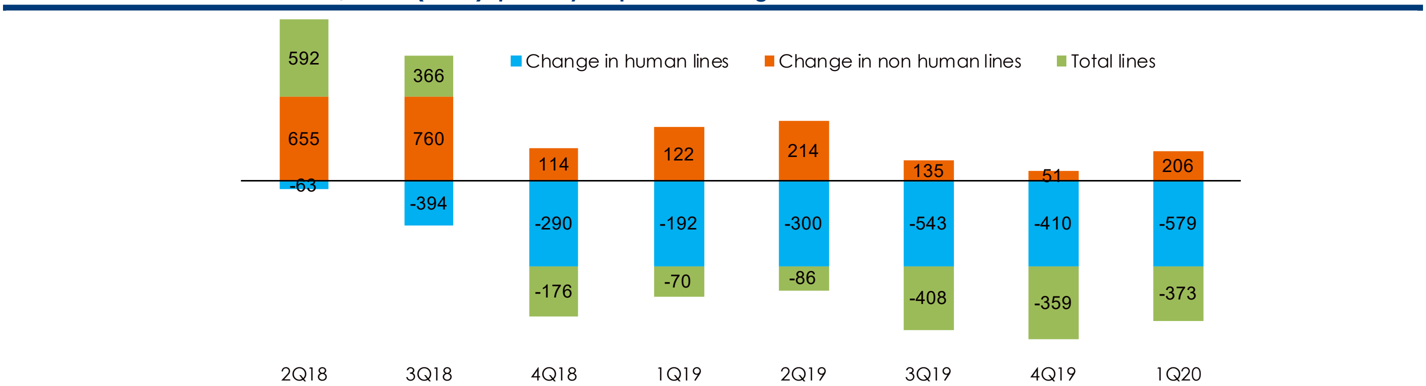
What Do KPIs Tell Us About What is Going On?

Domestic Mobile – Iliad disruptive impact eased, but intense competition has not gone away

We take a look at some of the KPI trends to see what is happening with the underlying drivers of the business. Whilst MNP's were positive for TIM in March, despite competition, and the number of mobile lines were down 1.2% qoq to 30.6M (-3.8% yoy) following the impact of the lockdown on gross activations (with the churn down 0.2% on 4Q19), there is little to be happy about overall, as line losses have persisted quarter on quarter for over a year, underscoring the continually challenging competitive environment since the entry of Iliad, which clearly continues to disrupt the market.

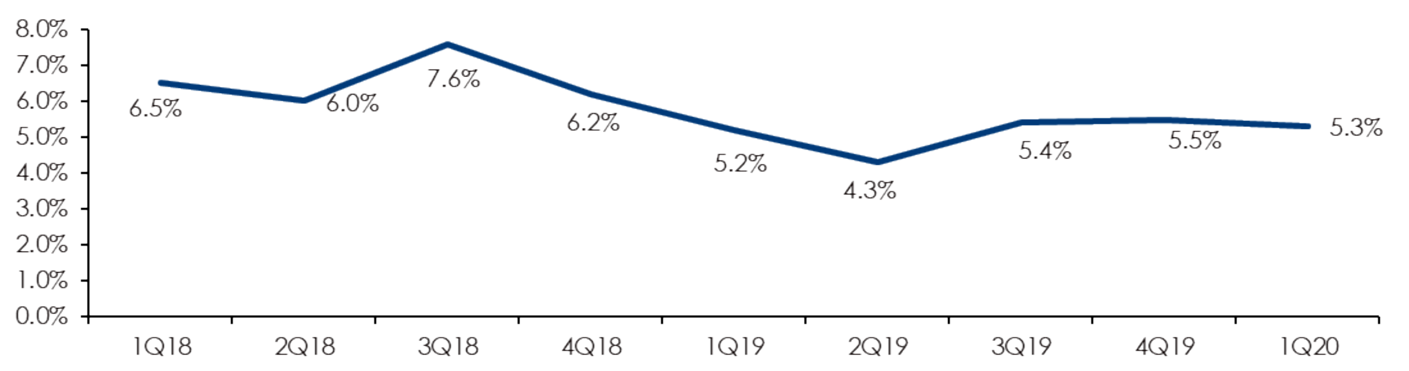
Whilst mobile churn has eased from the high 7.6% following Iliad's entry, to a low of 4.3% at 2Q19, it rose to 5.5% at 4Q19, with the lower churn in 1Q20 resulting from some lockdown effects. We anticipate that churn will therefore decrease notably in 2Q20. Domestic mobile ARPU also remains under pressure.

QoQ Domestic Mobile Line adds/losses ('000s) quarterly sequential change



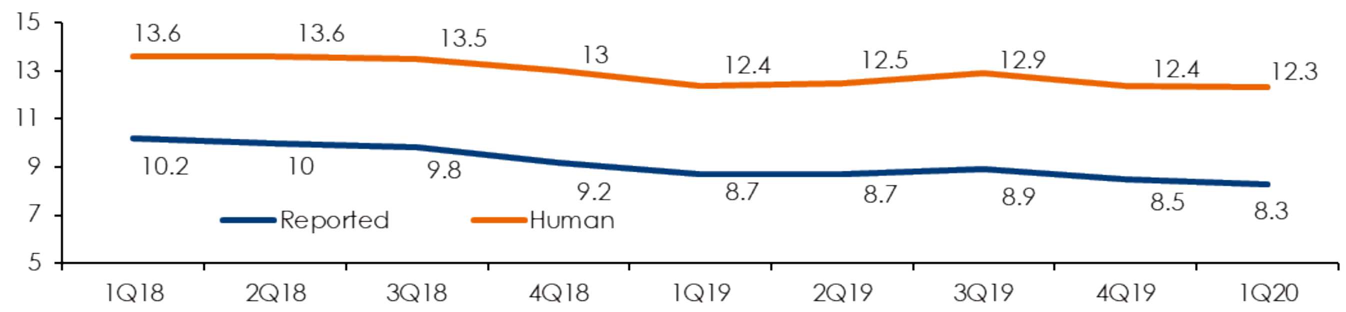
Source: Company data and Intesa Sanpaolo Research

Domestic Mobile Churn Rates- Quarterly Data



Source: Company data and Intesa Sanpaolo Research

Domestic Mobile ARPU (EUR / Month)



Source: Company data and Intesa Sanpaolo Research

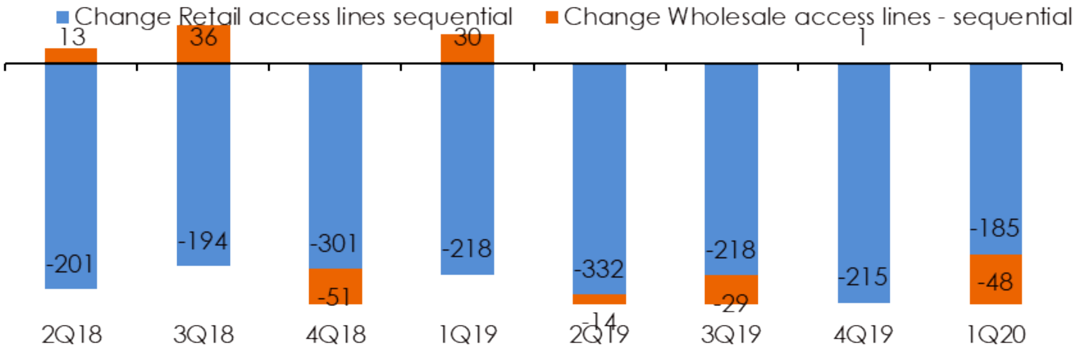
Fix the Fixed? Not Quite There Yet!

Whilst domestic mobile remains under pressure, we are somewhat more concerned over fixed, particularly given the weight of this segment on the business and EBITDA. TIM continues to lose retail access lines. In 1Q20, retail lines contracted 2% sequentially to 9M, whilst TIM's retail lines have shrunk 9.6% yoy. Whilst UBB continues to expand (+11.4% yoy to 1Q20), the Business segment saw a 6.4% contraction yoy. The contraction in lines has materialied despite recent downward ARPU pressure, as fixed ARPU has reversed the positive trend seen to 2Q19.

We note however that fixed line churn appears to have eased somewhat over the last 6 months. Whilst content enhancement, such as through TIM Vision and the agreement with Disney+, could act as a distinct product differentiator for TIM, it has yet to be seen whether this will prove to be a game changer. Sky's entry into the fixed line segment could be a further challenge here, although we note that Sky does not appear to be bundling its content/TV subscription with its internet offer at present.

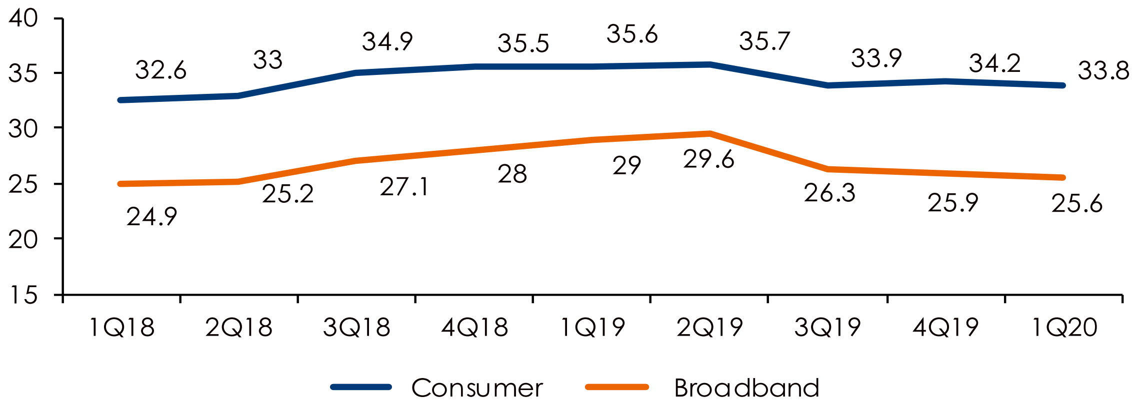
TIM aims to halve fixed line losses in 2020 vs. 2019. This could partly benefit from the knock-on impact of the pandemic in our view (we anticipate lower churn, a potential flight to quality effect and some reversal effects of fixed to mobile substitution, particularly driven by smart working and the increased reliance on the internet during lockdown). In its 1Q20 presentation TIM stated that consumer line losses were zero in April, which will have been primarily pandemic driven.

Fixed Lines – Quarterly Sequential Change



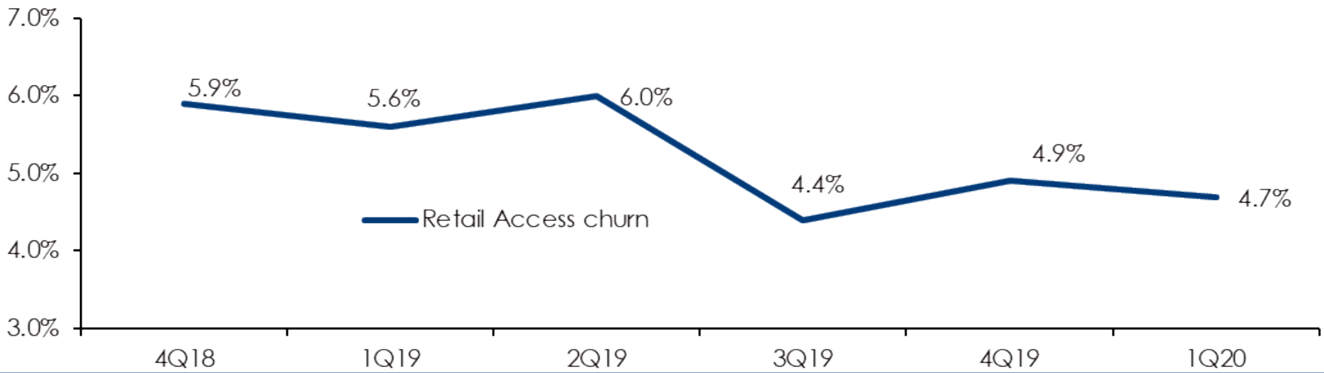
Source: Company data and Intesa Sanpaolo Research

Fixed ARPU Development (EUR / Month)



Source: Company data and Intesa Sanpaolo Research

Fixed Retail Access Churn

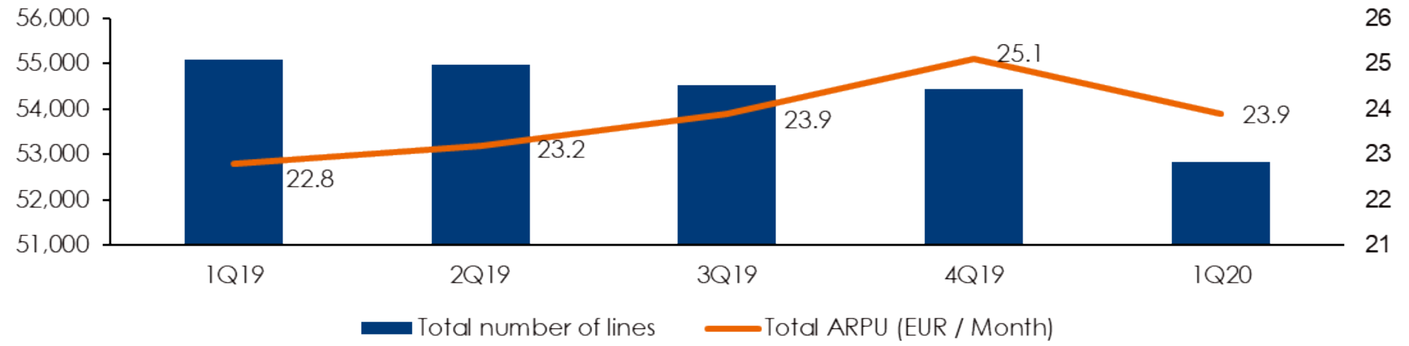


ASource: Company data and Intesa Sanpaolo Research

Brazil – Trouble ahead? Consolidation may be required medicine

TIM Brasil saw modest mobile line losses through 2019, however line losses accelerated in 1Q20 (-3% sequentially against –4.1% yoy). Moreover, 1Q20 saw a 4.8% sequential reduction in ARPU (although this was still 4.8% higher yoy), no doubt partly reflecting translation effects, but also potentially indicating that competition may be heating up. Indeed, TIM Brasil saw its market share reduce 0.7% in 1Q20 to 23.3% after being broadly stable throughout 2019. TIM, together with Vodafone, are joining forces in an attempt to acquire the Brazilian mobile assets of Oi (with no impact on leverage according to TIM). Consolidation could thus ease any emergent pressure.

TIM Brasil Mobile. Total Number of Lines and Total ARPU (EUR / Month)



Source: Company data and Intesa Sanpaolo Research

Telecom Italia - Income Statement, Balance Sheet and Key Indicators

Consolidated income statement - main items

(EUR M)	2018	2019	Chg %	LTM20	Chg %	1Q19	1Q20	Chg %
Sales	**18,940**	**17,974**	**-5.1**	**17,467**	**-2.8**	**4,471**	**3,964**	**-11.3**
EBITDA	**7,403**	**8,151**	**10.1**	**7,940**	**-2.6**	**1,946**	**1,735**	**-10.8**
Adjusted EBITDA	**7,774**	**7,560**	**-2.8**	**7,417**	**-1.9**	**1,917**	**1,774**	**-7.5**
EBIT	**561**	**3,175**	**NM**	**3,025**	**-4.7**	**683**	**533**	**-22.0**
Adjusted EBIT	**3,725**	**NA**	**NA**	**NA**	**NA**	**699**	**572**	**-18.2**
Net interest expense	-1,348	-1,436	6.5	-1,354	-5.7	-383	-301	-21.4
Income (loss) on equity investments	10	0	-100.0	445	NM	-4	441	NM
Profit before tax	**-777**	**1,739**	**NM**	**2,116**	**21.7**	**296**	**673**	**127.4**
Net profit (loss)	**-1,152**	**1,242**	**NM**	**1,646**	**32.5**	**187**	**591**	**NM**
Net profit (loss) attributable to the Group	**-1,411**	**916**	**-164.9**	**1,311**	**43.1**	**165**	**560**	**NM**

Note: NA=not available, NM=not meaningful. Source: Intesa Sanpaolo Research elaboration on company data

Consolidated cash flow statement - main items

(EUR M)	2018	2019	Chg %	LTM20	Chg %	1Q19	1Q20	Chg %
FFO	5,291	6,259	18.3	6,250	-0.1	1,369	1,360	-0.7
Net change in working capital	-699	-325	-53.5	569	NM	116	1,010	NM
CFO	**4,592**	**5,934**	**29.2**	**6,819**	**14.9**	**1,485**	**2,370**	**59.6**
Capex	-4,531	-3,649	-19.5	-3,608	-1.1	-1,177	-1,136	-3.5
FCF	**61**	**2,285**	**NM**	**3,211**	**40.5**	**308**	**1,234**	**NM**
Dividends	-256	-279	9.0	-294	5.4	-25	-40	60.0
Discretionary FCF	**-195**	**2,006**	**NM**	**2,917**	**45.4**	**283**	**1,194**	**NM**
RCF	**22**	**2,400**	**NM**	**3,145**	**31.0**	**466**	**1,211**	**159.9**
Change in equity	22	10	-54.5	10	0.0	0	0	NM
Change in debt	-1,596	-845	-47.1	-2,169	156.7	259	-1,065	NM
CFF	**-1,574**	**-835**	**-47.0**	**-2,160**	**158.7**	**259**	**-1,066**	**NM**
RCF + CFF	**-1,552**	**1,581**	**NM**	**1,260**	**-20.3**	**466**	**145**	**-68.9**
Change in liquidity	**-1,615**	**1,571**	**-197.3**	**1,161**	**-26.1**	**472**	**62**	**-86.9**

Note: NA=not available, NM=not meaningful. Source: Intesa Sanpaolo Research elaboration on company data

Consolidated balance sheet - main items

(EUR M)	30.06.19	30.09.19	Chg %	31.12.19	Chg %	31.03.20	Chg %
Intangible assets	34,790	34,464	-0.9	30,750	-10.8	30,027	-2.4
Property, plant & equipment	14,089	13,995	-0.7	14,011	0.1	13,287	-5.2
Financial and equity investments	2,156	2,648	22.8	7,657	189.2	6,517	-14.9
Total non-current assets	**60,859**	**60,675**	**-0.3**	**55,996**	**-7.7**	**58,482**	**4.4**
Inventory	316	299	-5.4	260	-13.0	282	8.5
Trade receivables	5,073	4,940	-2.6	5,006	1.3	4,938	-1.4
Cash and current financial assets	1,700	2,147	26.3	3,138	46.2	3,265	4.0
Total current assets	**8,253**	**8,798**	**6.6**	**9,461**	**7.5**	**9,513**	**0.5**
Total assets	**69,112**	**69,473**	**0.5**	**70,104**	**0.9**	**67,995**	**-3.0**
Long-term debt	30,493	30,262	-0.8	30,181	-0.3	25,396	-15.9
Provisions for risks and charges	993	971	-2.2	725	-25.3	688	-5.1
Total non-current liabilities	**36,564**	**36,151**	**-1.1**	**35,550**	**-1.7**	**35,166**	**-1.1**
Short-term debt	3,485	4,277	22.7	3,821	-10.7	3,523	-7.8
Trade payables	6,729	6,501	-3.4	7,302	12.3	6,616	-9.4
Total current liabilities	**10,214**	**10,778**	**5.5**	**11,123**	**3.2**	**10,818**	**-2.7**
Minorities	2,385	2,322	-2.6	2,346	1.0	1,388	-40.8
Shareholders' equity	19,949	20,222	1.4	20,280	0.3	20,623	1.7
Total equity	**22,334**	**22,544**	**0.9**	**22,626**	**0.4**	**22,011**	**-2.7**
Total liabilities and equity	**69,112**	**69,473**	**0.5**	**70,104**	**0.9**	**67,995**	**-3.0**
Net debt	**28,328**	**27,891**	**-1.5**	**27,668**	**-0.8**	**26,745**	**-3.3**
Adjusted net debt	**22,818**	**22,465**	**-1.5**	**21,893**	**-2.5**	**21,711**	**-0.8**

Note: NA=not available, NM=not meaningful. Source: Intesa Sanpaolo Research elaboration on company data

Key consolidated economic data - financial indicators

Profitability and coverage ratio (%)	2018	2019	LTM20	1Q19	1Q20
EBITDA margin	39.1	45.3	45.5	40.1	40.1
Adjusted EBITDA margin	41.0	42.1	42.5	42.9	44.8
EBIT margin	3.0	17.7	17.3	15.3	13.4
Adjusted EBIT margin	19.5	-	-	-	-
EBITDA/net interest expense (x)	5.5	5.7	5.9	5.1	5.8
EBIT/net interest expense (x)	0.4	2.2	2.2	1.8	1.8

Leverage ratio (x)	30.06.19	30.09.19	31.12.19	31.03.20
Net debt/EBITDA	3.6	3.7	3.4	3.4
Adjusted Net Debt/Adjusted EBITDA (x)	-	-	3.1	3.1
Net debt/FFO	4.5	4.1	3.8	3.8
Net debt/equity	1.1	1.1	1.1	1.1

Note: NA=not available, NM=not meaningful. Source: Intesa Sanpaolo Research elaboration on company data

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Coverage policy and frequency of research reports

The list of companies covered by the Research Department is available upon request. Intesa Sanpaolo SpA aims to provide continuous coverage of the companies on the list in conjunction with the timing of periodical accounting reports and any exceptional event that affects the issuer's operations. In the case of a short note, we advise investors to refer to the most recent company report published by Intesa Sanpaolo SpA's Research Department for a full analysis of company profile/strategy, risks and recommendation methodology. Research qualified as a minor non-monetary benefit pursuant to provisions of Delegated Directive (EUR) 2017/593 is freely available on the IMI Corporate & Investment Banking Division website (www.imi.intesasanpaolo.com); all other research is available by contacting your sales representative.

Credit Research Publications in Last 12M

The list of all recommendations on any financial instrument or issuer produced by Intesa Sanpaolo Research Department and distributed during the preceding 12-month period is available on the Intesa Sanpaolo website at the following address:

https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest0

Valuation methodology

Intesa Sanpaolo's credit views are based on the expected trend of the company's fundamentals. The view reflects the sector trend and the competitive scenario, the company's financial strength, as well as its profitability outlook and competitive positioning. In our credit quality valuation, we consider management's intention and ability to meet debt obligations, the company's dividend policy and, in general, its attention to bondholders' interests. Among key financial ratios, for those sectors where relevant, we assess the company's ability to generate operating cash flow, its capacity to repay maturing debt through cash flow, its net interest coverage ratio and capital ratios.

In the case of significant events, which could determine a change in our credit view, we may place our recommendation under review. This review does not necessarily imply a change in the credit view.

Corporate credit view key

Credit rating key

Credit view	Definition
POSITIVE	We expect an improvement in fundamentals over the next six months
NEUTRAL	We expect substantially stable fundamentals over the next six months
NEGATIVE	We expect a deterioration in fundamentals or visibility on fundamentals over the next six months
SUSPENDED	The credit view and investment recommendation for this company have been suspended as there is not a sufficient fundamental basis for determining an investment view. The previous credit view, if any, is no longer in effect for this company
NOT ASSIGNED	The company is or may be covered by the Research Department but no credit view and investment recommendation are assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.

Historical Credit View and Investment Recommendation Changes

Telecom Italia - Historical Credit View (-1Y)

Date	Credit View
13-Nov-19	NEUTRAL

Telecom Italia - Historical Investment Recommendations (-1Y)

Date	High Yield Senior Unsecured

Credit View allocations

Intesa Sanpaolo Research Credit View distribution at July 2020

Number of Companies subject to credit views: 23**	Positive	Neutral	Negative
Total Credit Research coverage - last credit view (%)	13.0	69.6	17.4
of which Intesa Sanpaolo's clients* (%)	67	88	75

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category; ** Total number of companies covered is 33.

Investment recommendations

Intesa Sanpaolo's recommendations on the issuer(s) bonds or relative CDS are based on the following rating system:

Investment recommendation

Recommendation	Definition
BUY	We expect the bond or CDS subject to the recommendation to outperform the reference index, sector or benchmark in a period up to six months
HOLD	We expect the bond or CDS subject to the recommendation to perform in line with the reference index, sector or benchmark in a period up to six months
SELL	We expect the bond or CDS subject to the recommendation to underperform the reference index, sector or benchmark in a period up to six months

Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Telecom Italia in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group have granted significant financing to Telecom Italia and its parent and group companies
- One or more of the companies of the Intesa Sanpaolo Banking Group have been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of Telecom Italia
- One or more of the companies of the Intesa Sanpaolo Banking Group provide/have provided investment banking services to and/or concerning Telecom Italia in the last twelve months
- One or more of the companies of the Intesa Sanpaolo Banking Group have issued financial instruments linked to Telecom Italia

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