

Milano, 9 marzo 2022 – Tim rende noto che in data 8 marzo 2022 l’agenzia di rating Moody’s ha modificato il giudizio di rating da livello Ba2 a livello Ba3, confermando l’outlook *negativo*.

Allegato il giudizio dell’agenzia di rating

Rating Action: Moody's downgrades Telecom Italia's ratings to Ba3; outlook negative

08 Mar 2022

Milan, March 08, 2022 -- Moody's Investors Service ("Moody's") has today downgraded the corporate family rating (CFR) and the ratings of all senior unsecured debt instruments issued (or guaranteed) by Telecom Italia S.p.A. ("Telecom Italia", "the company" or "the group") and its subsidiaries to Ba3/(P)Ba3 from Ba2/(P)Ba2. Concurrently, Moody's has downgraded to Ba3-PD from Ba2-PD the company's probability of default rating (PDR). The outlook for the entities remains negative.

Today's action follows the reporting of Telecom Italia's 2021 results, which showed a significant reduction in organic EBITDA by 21.9% in the fourth quarter (-9.6% for the full year), due to weak domestic operations partially offset by steady contribution from Brazil, and the announcement [1] of the new 2022-2024 plan, with an additional EBITDA decline in the low teens in percentage terms in 2022, and an expected recovery afterwards, implying a flat compound annual growth rate over 2021-2024.

The company also said it is exploring the separation of its wholesale operations, mostly including the primary and secondary networks, from the retail activities, mainly focusing on consumer and enterprise customers. The company outlined the benefits associated with the so-called delayering of its operations, as the entities operating independently would increase their strategic focus, while gaining some regulatory relief and benefiting from a more efficient capital allocation. The process would take 12-18 months to complete with more details around the capital structure of each entity to be provided later in 2022.

Despite the potential for a network separation, Telecom Italia's rating considers the company's current perimeter and configuration and factors in the evolution of the credit metrics based on the guidance for the group as a whole. However, should the company proceed with the delayering strategy, Moody's would assess its implications on the business model of each entity, as well as the future financial profile including the deleveraging trajectory and potential to generate free cash flow. This could ultimately lead to a different rating outcome.

"The downgrade of Telecom Italia's ratings reflects the company's much weaker than expected credit metrics due to the exposure to the highly competitive market conditions in the Italian market and the negative impact from Telecom Italia's content strategy," says Ernesto Bisagno, a Moody's Vice President -- Senior Credit Officer and lead analyst for Telecom Italia.

"While the dividend suspension will allow for some cash savings, the negative outlook takes into account that the improvement in credit metrics will depend on the company's ability to restore earnings growth in 2023 in a highly competitive market," adds Mr Bisagno.

A full list of affected ratings is provided towards the end of the press release.

RATINGS RATIONALE

Moody's has downgraded Telecom Italia's ratings because of the deterioration in the company's credit metrics following the decline in EBITDA which, combined with ongoing high capex investment, the spectrum payment, as well as the impact from restructuring costs will drive an increase in leverage, with Moody's-adjusted net debt to EBITDA ratio increasing towards 5.5x in 2022, up from 4.3x in 2021, based on Moody's preliminary calculations. Moody's expects net leverage to progressively return to 4.25x by 2024, driven a recovery in EBITDA and improved cash flow generation.

In addition, there will be additional outflows associated with the contract with DAZN, with regards to the football distribution to Telecom Italia's customers. While the company took a prudent approach and recognized the negative impact from the contract, it also suggests minimum guaranteed volumes for DAZN, which had a negative impact on Telecom Italia's profits because of lower than expected volumes.

Moody's has factored into its decision the corporate governance considerations associated with the company's financial strategy and risk management and its track record. Despite the dividend suspension, which will allow

cash savings of around €320 million in 2022, leverage will spike due to a combination of additional earnings decline combined with significant outflows associated with the spectrum payment in Italy and Brazil and investment needs. While the full details of the capital structure post delayering will come later in the year, the company has indicated the potential for higher distribution to shareholders, following the network separation.

The company has shown tolerance to operate at higher than expected leverage levels for a longer period of time, while frequent changes to senior management have led to changes in the strategic direction of the group. The new management will be embarking into a significant shift of the strategy with the potential network separation which could unlock some asset value through the delayering. The new top management brings significant experience from past turnaround of Brazilian operations that could benefit the execution of Telecom Italia's strategy. However, with four different chief executive officers in six years, Telecom Italia has had a high turnover in senior management roles which suggests difficulties in adapting to evolving market conditions, and has demonstrated an uneven track record at achieving its earnings guidance.

As a result, Moody's has changed its assessment of the company's Financial Strategy and Risk Management to 4 from 3, and the overall exposure to governance risks (Issuer Profile Score or "IPS") to highly negative (G-4) from moderately negative (G-3). Moody's has also changed Telecom Italia's ESG Credit Impact Score to highly negative (CIS-4) from moderately negative (CIS-3), reflecting revised governance considerations which, despite better scores in the environmental (E-2) and social (S-3) categories, have a discernible negative impact on the current rating.

The Ba3 rating primarily reflects (1) the company's scale and position as the incumbent service provider in Italy, with strong market shares in both fixed and mobile segments; (2) the international diversification in Brazil which have reported steady earnings growth; and (3) the strong profitability and continued focus on cost control. The rating is constrained by (1) the company's high Moody's-adjusted net debt/EBITDA ratio at 4.3x as of December 2021, expected to increase towards 5.5x in 2022; (2) the high competitive pressures in Italy; (3) the ongoing earnings decline; (4) the negative Moody's-adjusted free cash flow (FCF) because of a high need for capital spending; and (5) the complexity of the group's structure.

LIQUIDITY

Telecom Italia's liquidity position at 31 December 2021 is ample with cash and cash equivalents of €8.3 billion and €4 billion available under its revolving credit facility agreements due in 2026, with no financial covenants. However, the company is likely to generate negative free cash flow of around €1.2 billion in 2022 before spectrum payments of €2 billion, and has significant debt maturities of around €3.9 billion in 2022 and €3.2 billion in 2023.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook on the rating reflects Telecom Italia's current high leverage, with additional increase expected in 2022, before a potential decline from 2023 onwards. However, the improvement in leverage and cash flows will depend on the company's ability to restore profit growth which could be difficult, given the highly competitive market conditions in the Italian market.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating pressure in the next 12-18 months is unlikely given the pressure on credit metrics. However, upward pressure could develop if operating performance shows signs of significant improvement, such that Telecom Italia's Moody's-adjusted debt/EBITDA remains comfortably below 3.75x on a sustained basis.

Further downward rating pressure could develop in the near term if Telecom Italia fails to rapidly demonstrate its capacity to rebuild earnings growth in 2023 by more effective operational actions and/or with a new strategic shift; its Moody's-adjusted net leverage ratio does not progressively reduce towards 4.25x; or it does not maintain its ample liquidity headroom.

LIST OF AFFECTED RATINGS

Downgrades:

..Issuer: Telecom Italia S.p.A.

.... Probability of Default Rating, Downgraded to Ba3-PD from Ba2-PD

... LT Corporate Family Rating, Downgraded to Ba3 from Ba2

...Senior Unsecured Bank Credit Facility, Downgraded to Ba3 from Ba2

...Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba3 from (P)Ba2

...Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

..Issuer: Olivetti Finance N.V.

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

..Issuer: Telecom Italia Capital S.A.

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

..Issuer: Telecom Italia Finance, S.A.

...BACKED Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba3 from (P)Ba2

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

Outlook Actions:

..Issuer: Olivetti Finance N.V.

...Outlook, Remains Negative

..Issuer: Telecom Italia Capital S.A.

...Outlook, Remains Negative

..Issuer: Telecom Italia Finance, S.A.

...Outlook, Remains Negative

..Issuer: Telecom Italia S.p.A.

...Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1055812. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

COMPANY PROFILE

Telecom Italia (comprising Telecom Italia and its subsidiaries) is the leading integrated telecommunications provider in Italy. The company provides a full range of services and products, including telephony, data exchange, interactive content, and information and communications technology solutions. In addition, the group is one of the leading telecom companies in the Brazilian mobile market, operating through its subsidiary, TIM Brasil. Vivendi SE (Vivendi, Baa2 negative) and Cassa Depositi e Prestiti S.p.A. (Baa3 stable) are the main shareholders of Telecom Italia, with 23.8% and 9.8% shares, respectively. In 2021, Telecom Italia reported €15.3 billion in revenue and €6.2 billion in company-organic EBITDA.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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REFERENCES/CITATIONS

[1] <https://www.gruppotim.it/en/investors/reports-presentations/presentations-webcasts/2022/FY-2021-financial-results.html>. Telecom Italia website 02-Mar-2022.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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