

Milano, 18 marzo 2022 – Tim rende noto che in data odierna l'agenzia di rating Fitch ha modificato il giudizio di rating da livello BB+ a livello BB modificando l'*outlook* da *stable* a *negative*.

Allegato il giudizio dell'agenzia di rating

18 MAR 2022

Fitch Downgrades Telecom Italia to 'BB'; Outlook Negative

Fitch Ratings - Milan - 18 Mar 2022: Fitch Ratings has downgraded Rome-based Telecom Italia S.p.A's (TI) Long-Term Issuer Default Rating (IDR) and senior unsecured rating to 'BB' from 'BB+'. The Outlook on the IDR is Negative. A full list of rating actions is available below.

The rating downgrade reflects greater-than-expected erosion of EBITDA, higher costs at a time of significant investment outlay and sustained negative free cashflow (FCF). As a result, we expect TI's funds from operations (FFO) net leverage to exceed its downgrade threshold of 4.3x in 2022 and remain sustainably above this level for the medium term. The Negative Outlook reflects our view that improvements in EBITDA may not occur sufficiently fast to maintain the 'BB' rating.

TI's new strategy to separate its fixed, local access network assets from its current operating scope creates some short-term uncertainty to the rating. While this may not necessarily be negative for TI's rating and credit profile, the impact will be dependent on the transaction structure and extent of any subsequent reallocation of debt. Fitch has based TI's rating on its current operating scope including fixed network assets.

Key Rating Drivers

Significant EBITDA and Cost Pressures: TI's total organic EBITDA (before leases) declined 12% in 2021 to EUR6.2 billion, driven primarily by its domestic business. We expect this to decline further in 2022 by another 12% before gradually improving from 2023. The extent of decline is much sharper than we anticipated and due to competitive pressures, continued loss of high-margin revenue from legacy products, the impact of new laws on retail contracts, stricter-than-expected rules on government support vouchers and content costs that are not being matched by sufficient revenue improvements. In addition, higher-than-expected one-off costs have further weakened cashflow.

Competition and Cost Reduction Uncertainties: We expect competitive pressures in the mobile and fixed wholesale segments will continue over the next two to three years as rivals Iliad Italy builds scale and Open Fiber continues the build-out of its network. The pace at which TI is able to offset this impact through cost reduction is uncertain and dependent on strong execution. Its new management expect to reduce their addressable cost base in Italy of EUR4.8 billion by 15% in 2024. This equates to about 6pp in EBITDA margin and if fully achieved and retained, would represent an upside to Fitch's base case forecasts.

Leverage Increasing, Negative FCF: Fitch's base case forecasts assume that TI's FFO net leverage will increase to about 5.4x at end-2022 from 4.3x at end-2021 and then gradually decline to around 5.2x by

2024. We expect TI's FCF will remain negative for at least three years. Its leverage is above the downgrade threshold and underlines the Negative Outlook. The increase in leverage is driven by EBITDA erosion, higher interest and tax costs, and EUR2.1 billion of spectrum costs in 2022. We expect improvements in leverage, driven by lower content costs as TI unwinds a contract with DAZN and by operational cost reduction.

New Strategy: TI plans to separate its operations into a network company (NetCo) and service company (ServCo) to increase operational focus, reduce regulatory burden, achieve better capital allocation and increase perceived value. NetCo will house the company's fixed, local access network while ServCo will house its enterprise, consumer and Brazilian assets, which include its domestic mobile network operations. TI expects that each entity will generate about EUR2.2 billion in EBITDA. The separation could also increase strategic opportunities for TI that could facilitate market consolidation.

Impact of Network Separation: The impact on TI's rating from the creation of NetCo will depend on the structure of any subsequent transaction that could see the deconsolidation of the business from TI's existing operational scope. A deconsolidation as a result of a demerger, carve-out or sale would result in a weakening in TI's operating profile that would result in reduced leverage capacity at any given rating level. The impact on TI's rating will therefore be driven by the extent to which debt at the remaining ServCo is reduced (see report What Investors Want to Know: European Telecoms Infrastructure Sales, March 2021).

Strong Market Position to Remain: Despite the competitive and costs pressures that TI is facing, its market position will remain strong and cashflow in the medium term has strong scope for improvement. TI is well-positioned to exploit developments in 5G, it owns the leading fixed infrastructure in the country and will benefit from technological changes that will significantly help reduce the cost base in the long run (e.g. software defined networks and all IP services). TI currently has a market share in fixed broadband and mobile of around 42% and 29%, respectively. We expect TI will cede some market share in the next two to three years but retain a leadership position.

TI has an ESG Relevance Score of '4' for Governance Structure. This reflects historic conflicts between TI's shareholders. While these have been stable over the past three years there has been a frequent change in TI's senior leadership team. Such changes weigh on TI's rating to the extent that any flare-ups could detract from the deployment of a coherent strategy, and lead to slow improvements in cost structure and distracted execution.

Derivation Summary

TI has a strong domestic position, but reduced ownership in its local access network, despite retaining control, slightly weakens its operating profile versus other western European incumbent telecom operators that fully own their local access network. TI's leverage thresholds are on a par with those of BT Group plc (BBB/Stable), which fully owns its local access networks but faces free cash flow (FCF) volatility from pension deficits, a competitive environment and content price inflation. Like TI, Royal KPN N.V.'s (BBB/Stable) revenue mix has a domestic focus, but it has ownership of a majority of its entire local access network. BT's and Royal KPN's higher ratings reflect their lower leverage.

Higher-rated peers such as Deutsche Telekom AG (BBB+/Stable) and Orange SA (BBB+/Stable) have greater diversification, and either lower leverage or greater organic deleveraging capacity.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue in Italy to decline 1% in 2022 before growing in 2023 and broadly flat in 2024
- EBITDA margin (before special factors and leases) of 36% in 2022, gradually improving 39% by 2024
- Recurring cash tax payments of EUR74 million-EUR120 million a year in 2022-2024
- Working-capital requirements broadly stable over the next two years, before increasing to EUR75 million in 2024
- Capex (excluding spectrum) at 26% of sales in 2022, 27% in 2023 and 24% in 2024
- No dividends during 2022-2024, including savings shares
- Net proceeds of EUR200 million from a reduction in TI's holding of INWIT and partial purchase of Oi assets in Brazil (Oi asset purchase assumed consolidated for six months in 2022 within Fitch's base case assumptions).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO net leverage sustained below 4.3x (currently equivalent to about 3.8x Fitch defined net debt to EBITDA). Fitch will also be guided by TI's FFO net leverage on a proportionate basis for FiberCop
- A sustained improvement in domestic operations and fixed and mobile operations that stabilises EBITDA and improves organic deleveraging capacity
- The Outlook could be changed to Stable if TI achieves stronger-than-anticipated cost reductions or higher-than-expected EBITDA as a result of lower-than-expected competitive pressure

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO net leverage sustained above 5.0x (currently equivalent to about 4.5x Fitch-defined net debt/ EBITDA). Fitch will also be guided by TI's FFO net leverage on a proportionate basis for FiberCop.
- Tangible worsening of operating conditions or the regulatory environment, leading to expectations of materially weaker FCF generation
- Sustained competitive pressure in the mobile, fixed and wholesale segments, driving significant losses in service revenue market share

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Strong Liquidity: TI has a strong liquidity profile, with EUR9.2 billion of cash and equivalents for 2021 and EUR4 billion of available undrawn revolving credit facilities. The company's debt maturity is well spread out with liquidity covering refinancing needs to 2024.

Summary of Financial Adjustments

Fitch has treated three annual tax payments of EUR231 million per year in 2021-2023 in relation to TI's tax-substitution transaction as a non-recurring cashflow item and thus not included in its calculation of FFO.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

TI has an ESG Relevance score of '4' for Governance Structure. This reflects historic conflicts between TI's shareholders and frequent changes to senior management. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Lucrezia Rigano

Senior Analyst

Primary Rating Analyst

+39 02 879087 239

Fitch Ratings Ireland Limited Sede Secondaria Italiana Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

Tajesh Tailor

Senior Director
 Secondary Rating Analyst
 +44 20 3530 1726

Damien Chew, CFA

Senior Director
 Committee Chairperson
 +44 20 3530 1424



Media Contacts**Stefano Bravi**

Milan
 +39 02 879087 281
 stefano.bravi@fitchratings.com

Tahmina Pinnington-Mannan

London
 +44 20 3530 1128
 tahmina.p-mannan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Telecom Italia Capital				
• senior unsecured ^{LT}	BB	Downgrade		BB+
Telecom Italia S.p.A.	LT IDR	BB 	Downgrade	BB+ 
• senior unsecured ^{LT}	BB	Downgrade		BB+
Telecom				

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Italia Finance SA			
• senior unsecured	LT BB	Downgrade	BB+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[Corporate Rating Criteria \(pub.15 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.15 Oct 2021\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Telecom Italia Capital	EU Issued, UK Endorsed
Telecom Italia Finance SA	EU Issued, UK Endorsed
Telecom Italia S.p.A.	EU Issued, UK Endorsed

Disclaimer & Copyright

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders'™ relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to

financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by

those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.