

Milano, 21 luglio 2022 – Tim rende noto che in data odierna l'agenzia di rating Moody's ha modificato il giudizio di rating da livello Ba3 a livello B1, confermando l'outlook *negative*.

Allegato il giudizio dell'agenzia di rating

Rating Action: Moody's downgrades Telecom Italia's ratings to B1; outlook negative

21 Jul 2022

Milan, July 21, 2022 -- Moody's Investors Service ("Moody's") has today downgraded to B1 from Ba3 the corporate family rating (CFR) and to B1-PD from Ba3-PD the probability of default rating (PDR) of Telecom Italia S.p.A. ("Telecom Italia" or "the company"). Concurrently, Moody's has downgraded to B1/(P)B1 from Ba3/(P)Ba3 the ratings of all senior unsecured debt instruments issued (or guaranteed) by Telecom Italia and its rated subsidiaries. The outlook for the entities remains negative.

"The downgrade of Telecom Italia's ratings reflects our expectation that its leverage will remain high and its free cash flow will remain negative over the next 2 to 3 years, due to the highly competitive market conditions in Italy and the high investment needs, combined with the expected macroeconomic slowdown," says Ernesto Bisagno, a Moody's Vice President -- Senior Credit Officer and lead analyst for Telecom Italia.

"The company was already weakly positioned in the previous rating category. However, the macroeconomic environment has deteriorated since we downgraded the rating to Ba3 in March, reducing the visibility on Telecom Italia's operating performance and its expected deleveraging path," adds Mr Bisagno.

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

RATINGS RATIONALE

The rating downgrade reflects Moody's expectation that Telecom Italia's credit metrics will remain weak well beyond 2022, with high leverage, weak interest coverage ratios and negative free cash flow generation, despite potential for earnings stabilization in 2023.

The company's Moody's adjusted net debt to EBITDA ratio will peak in 2022 at around 5.4x, and decline towards 4.5x by 2024, exceeding the 4.25x maximum leverage tolerance for the previous Ba3 rating. In addition, Moody's expects the company's EBITDA – Capex/Interest coverage ratio to start from a weak level of 1.0x in 2022 and only recover towards 1.5x by 2024.

In Moody's view, visibility into Telecom Italia's operating performance has reduced because of the weakened macroeconomic environment, with increased pressure on consumer spending due to record inflation, and increasing funding costs owing to rising interest rates and more difficult capital markets access.

On 7 July 2022, Telecom Italia hosted its Capital Market Day and provided additional details around its network separation plan [1]. The company has made good progress with the initial phase of the delayering process, by more clearly identifying the perimeter for each entity, and the potential capital structure of the network company (netco) and service company (servco). No updates were provided on the potential merger between the netco and Open Fiber S.p.A.. Under the MoU signed in May 2022, Telecom Italia and Open Fiber S.p.A. aim to sign a binding agreement by the end of October.

While no full guidance was provided, Moody's expects that free cash flow for each entity would remain negative in 2023 and break even towards 2025, mainly because of the high investment needs in particular for the netco, combined with the restructuring costs and potential for higher interest costs.

Following the delayering plan, the netco would have net debt of up to €11 billion (as calculated by the company, before leases) while the servco would have a net debt lower than €5 billion. The proposed capital structure for the different entities will provide potential for de-leveraging, with the debt reduction depending on the final valuation of the netco. Only if the deleveraging target is achieved, there might be potential one-off shareholder distributions. However, the separation will be a complex and potentially lengthy process at a time when the operating environment is becoming more challenging, including increased volatility in the capital markets.

Despite the potential for a network separation, Telecom Italia's rating continues to consider the company's current perimeter and configuration and factors in the evolution of the credit metrics for the group as a whole. If

the company proceeds 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.

Telecom Italia's B1 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; and (2) the international diversification in Brazil, a business that is reporting steady earnings growth. The rating is constrained by (1) the company's high leverage, weak interest coverage metrics and negative free cash flow generation; (2) the high competitive pressures in Italy; (3) the ongoing earnings decline; (4) the uneven historical track record at achieving earnings guidance; and (5) the increased complexity of the group's structure.

LIQUIDITY

Telecom Italia's liquidity is adequate; it decreased from the 2021 level due to the redemption of €3.3 billion of debt which matured in the first part of 2022, partially offset by new financing activity. Moody's liquidity assessment takes into account cash and cash equivalents of €4.9 billion, and €4 billion available under its senior unsecured revolving credit facility agreements with no financial covenants.

In Q3 2022, Telecom Italia expects to receive €1.5 billion (including €200 million debt repayment) from the disposal of the 12.4% indirect stake in mobile telecoms tower business Infrastrutture Wireless Italiane S.p.A. (INWIT).

In July 2022, the company raised €2 billion through a new 6-years bank facility, guaranteed by the Italian export credit agency Sace S.p.A., which helps to pre-fund near term maturities.

However, the company will likely generate negative FCF of around €1.4 billion in 2022 before spectrum payments of €2 billion, and has significant debt maturities of around €0.6 billion in 2022 and €3.2 billion in 2023. There is an important additional refinancing in 2024, which the company will need to address and that Moody's expects to become more onerous.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook on the rating reflects Telecom Italia's expected weak credit metrics over the next couple of years, with negative free cash flow generation over 2022-23. The negative outlook also reflects the execution risks in the turn-around strategy and the reduced visibility on the company's operating performance owing to the deteriorated macroeconomic environment.

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 weak 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 declines below 4.25x and its Moody's adjusted EBITDA-Capex / interest expense ratio improves above 2.0x, while the company demonstrates improving free cash flow generation.

Further downward rating pressure could develop if Telecom Italia's Moody's-adjusted net leverage ratio does not reduce to below 5.0x; its Moody's adjusted EBITDA-Capex / interest expense ratio remains below 1.5x, with sustained negative free cash flow generation; or its liquidity deteriorates.

LIST OF AFFECTED RATINGS

Downgrades:

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

.... Probability of Default Rating, Downgraded to B1-PD from Ba3-PD

.... LT Corporate Family Rating, Downgraded to B1 from Ba3

....Senior Unsecured MTN Program, Downgraded to (P)B1 from (P)Ba3

....Senior Unsecured Bank Credit Facility, Downgraded to B1 from Ba3

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

..Issuer: Telecom Italia Capital S.A.

....BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

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

....BACKED Senior Unsecured MTN Program, Downgraded to (P)B1 from (P)Ba3

....BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

Outlook Actions:

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

....Outlook, Remains Negative

..Issuer: Telecom Italia Capital S.A.

....Outlook, Remains Negative

..Issuer: Telecom Italia Finance, S.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://ratings.moodys.com/api/rmc-documents/48906>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Telecom Italia 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 on <https://ratings.moodys.com/rating-definitions>.

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REFERENCES/CITATIONS

[1] <https://www.gruppotim.it/en/investors/reports-presentations/presentations-webcasts/2022/Capital-Market-Day-TIM.html>. Telecom Italia's website 07-Jul-2022

Please see <https://ratings.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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Ernesto Bisagno, CFA
VP - Senior Credit Officer
Corporate Finance Group
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan, 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ivan Palacios
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan, 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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