1Q 2012 Results

Q&A session:

Operator: Ladies and gentlemen, the Q&A session is now open. I would like to remind you that you may register for your questions by pressing star followed by 1, to cancel your reservation, press star followed by 2. Thank you.

1. Mr. Tim Boddy from Goldman Sachs:

Q - Tim Boddy: Yes, thanks for taking my question. And, obviously encouraging domestic revenue trends, I had a few shorter-term and then a long-term question. On the short-term side, when you talk about the tariff simplification in July, I presume that will ultimately achieve a net price increase, because you’re saying that you won’t see a slowdown as you lap the price increases of last July. And secondly, just on the mobile business, it seems like the underlying trend, down 4.5, wouldn’t the leap day plus some of the weather factors and some of the VAT comparisons in the quarter… I mean, the real underlying trend is a bit lower than that? And then, finally, on a longer term issue: obviously there’s been some discussion in the press around structural separation of the fixed business coming back on the agenda. Can you talk us through why you think that would be a sensible option to consider for the company? Thank you.

A - Marco Patuano – Chief Operating Officer: First part in the fixed business, of course, any price simplification tends to stimulate more consumptions. And also in this case we are making the whole tariff scheme much clearer and what we experienced last year is that the average price is not changing very much, what changed quite significantly is the attitude of using the fixed phone once the customer has a clear picture of what he’s going to pay. Today, in Italy especially, we have so many cell phones in which local calls and long-distance calls have no difference in pricing that keeping the difference in the fixed arena makes people a little bit uncomfortable when they have to use the long-distance. So, we are very much confident that this will drive usage up. And so I feel that the effect will be positive, not necessarily driven by a price increase, an average price increase. I think that the ARPU will grow, given the usage growth. This is the first. The second I had a problem in catching your question, so I really apologize… if you can repeat it?

Q - Tim Boddy: Yes, sure. I think the question was just the gap when you think about the number of one-offs in the quarter.

A - Marco Patuano – Chief Operating Officer: Between 1.2 and 1.5% year-on-year, on a year-on-year basis, more or less, of course, on the mobile. VAT: of course VAT was introduced in the first quarter in February, so February and March have benefited from it, January was still… honestly, it entered in the very last days of January. So, two months out of three benefited from the VAT. On the last question...

Q - Tim Boddy: There’s another one.

A - Franco Bernabè – Chief Executive Officer: Excuse me. On the last question that you made concerning the structural separation of the network, I would like to make a comment, because we have no intention of losing control of our network. I think that the network remains, and will remain, our key asset. But, as we did with open access, when we decided to engage in an organizational separation that has provided to us lots of benefits in terms of the regulatory environment in Italy, we are ready to explore any option that evolves open access if this creates real value for the company and for our shareholders. So, there is no pressure from the outside, there is no discussion outside about possible separation, I think we are in a regulatory environment which is fair to us and it will remain fair to us long term, and the fairness that we have created in the regulatory environment is precisely explained by the fact that we have always been open in considering things and organizational solutions that make our structure more transparent but at the same time that create benefits for our shareholders. Thank you.
Q - Tim Boddy: Thanks. Just a follow-up, briefly, on the mobile question. Maybe a simpler way of asking it is: do you think Q2 before the MTR effect in July, do you think Q2 will be better than that 4.5% trend? In domestic mobile?

A - Marco Patuano – Chief Operating Officer: Of course, the MTR... the MTR effect, you know... we will have a decrease of about 50% in the MTR, so it's clear that it will have an impact on total service revenues for the mobile, but we gave you the picture of how the weight of the incoming traffic is reducing on our total ARPU exactly in order to let you put in your model the possibility of evaluating the impact.

Q - Tim Boddy: Okay, thanks very much.

2. Mr. Paul Marsh from Berenberg:

Q - Paul Marsh: Yes, it's only to understand: the MTR impact in Italy doesn't happen till the 1st of July. So do you think we can see another sequential improvement in service revenues in domestic mobile into Q2? That's my first question. The second question is: you're still losing subscribers on broadband; I just wondered what your thoughts are on the ability to restart subscriber growth in broadband? And then finally, on the bank facility: I understand that your existing facility is extremely good... value in terms of the cost of that facility; should we be expecting the new facility which you refer to in your comments to significantly change? Can you give us any magnitude on the potential change in cost of that facility? Thank you.

A - Marco Patuano – Chief Operating Officer: Apart from the MTR effect we are, for the mobile consumer, we are confident that we can stay on the level that we have shown in Q1. So, we are confident that we can defend the good performance we had on a normalized base, of course, as the leap year happens in February, and it is not expected to snow in May and June.

Q - Paul Marsh: Right.

A - Marco Patuano – Chief Operating Officer: So, I think that on a normalized... on a normalized base we are... we are fairly confident we can keep our trend. Well, broadband: fixed broadband. As I told you, our competitors, the OLOs, are keeping this ultra-aggressive strategy in terms of pricing. The price difference is very, very important and we don't want to follow them. So, our value strategy stays in. We have a very important amount of win-backs from the OLOs, which is a phenomenon that is constantly improving. So, what I do expect is that in the first quarter we highlighted a small reduction and in the further... in the following quarters I expect an improvement in this trend but not because of...not because of the price war. Because we keep the value strategy on. And I leave for the third part to Mr. Bernabè.

Q - Paul Marsh: Thanks.

A - Franco Bernabè – Chief Executive Officer: Yes, on the facility the... the economic value of the facility is better than current market conditions, more competitive than current market conditions and the facility is committed by all the banks that participate in the facility, so it's a little bit more expensive than the old one but I think it's highly competitive given the current market conditions. It's 250 basis points.

Q - Paul Marsh: Thank you.

3. Ms. Carola Bardelli from Deutsche Bank:

Q – Carola Bardelli: Yes, good morning. I was surprised by incoming minutes of traffic actually up 4.5%. So I was wondering if this is a sustainable trend in the coming quarters in mobile obviously. And if it’s related to quality of your lines or only to the one-off effect in Q1. And then same question on the prices, probably also the price per minute was quite resilient, so I was wondering if you could give us a little bit of an outlook on that one. And specifically on… on broadband: on outer broadband, you said that LTE would be priced at a premium. Can you be a little bit more precise on that and elaborate on your pricing strategy on outer
In terms of ultra-broadband pricing, we presented two days ago the price for the 42 megabytes. There is a price premium of about 20% and once we will launch LTE, it will be premium. Today we will not disclose the premium of LTE, but let me say that if 42 megabytes is 20%, price premium versus the higher non-ultra-broadband, the LTE will be price premium. Ultra-broadband in fixed: ultra-broadband is aimed at sustaining ARPU. So also in this case we will price up. Today you see a pricing for the FTTH which is extremely high, it is not really encouraging the demand so the price will be premium but something that is also achievable for the consumer spending. For the third part... it was... the working capital I’ll leave to the Group Controller.

Q – Carola Bardelli: Okay. So improving year-on-year, in the region of... halved could be a good... a good idea? A good indication?

A - Stefano De Angelis – Group Controller: Sorry, can you repeat Carola?

Q – Carola Bardelli: I mean reduced by half could be a good indication for the full year? Compared to 11? 2011?

A - Stefano De Angelis – Group Controller: For the severance indemnities cash-out we expect to recover 100 million.

Q – Carola Bardelli: Okay.

A - Stefano De Angelis – Group Controller: And then I think another important point is trade receivables. Trade receivables, as you may see, are now generating a positive impact on the quarter, on the cash-flow of the quarter, we may target... benefit an improvement in the trade receivables, at this moment we are suffering in the domestic a public administration net trade receivable that, as we and Marco stated at the road show, is now standing at 1 billion. So if the government can help us, we may increase this benefit coming from the layoff reduced payment and reach the target that you are mentioning.

Q – Carola Bardelli: Okay.

A - Stefano De Angelis – Group Controller: It’s not depending 100% from our figures.

A - Moderator: Thank you, Stefano, and Carola. We’ll move now to the next question.
4. Mr. Nick Lyall from UBS:

Q - Nick Lyall: Good morning. I had a question on the Italian mobile first. You mentioned lower aggression on promotions: can you just give us a quick idea of what you’re seeing in the market? Are all the other operators following TIM’s reduction in discounts? And then secondly in Italy the savings appeared to have slowed a little bit in the first quarter. Do you think you can reaccelerate that during the year? And also could you restart the headcount cuts in the last nine months of the year? Thanks.

A - Marco Patuano – Chief Operating Officer: The competition attitude seems to be rational. The first important message came from Wind. Wind re-priced some of their options on the customer base quite significantly and it seems Wind is in a rational attitude mode. Voda sincerely is not changing their approach very much. They are keeping the same approach they had in the recent past, which means that we are giving signals, Wind is giving signals, Vodafone is not following those signals, but, you know, we never know. Two out of three gave signals in this sense. And Hutchison 3 is very much focused on... on giving Apple phones to the customer base and we will not follow them. Savings in the rest of the year: there is a part of the savings that is under... that is in our hands, and we will continue. Both on commercial, industrial and fixed costs. As I told you in the last conference call, even if the market is... the environment is very difficult, we are working to keep our reduction plan in terms of labor cost, and in the first quarter we did so. There are some elements that today are exogenous. Like energy, for example; energy is growing a lot in Italy, and some taxes or some indexed costs, like rentals. So, we are working in order to reduce it working on structural actions. But, as you know, structural actions cannot come one quarter to the other. So everything in our hands will happen, what comes from outside we will do our maximum effort in order to minimize the impact.

Q - Nick Lyall: That's great, thank you.

5. Mr. J.P. Davids from Barclays:

Q - J.P. Davids: Thank you. A question on TIM Brasil: as part of the recoveries for the year in terms of free cash-flow, that seems like the biggest delta, are you comfortable that can be achieved with the rollout of TIM Fiber in the third quarter and any potential working capital impact there that may have? Secondly, just in terms of management continuity, if you could give us a sense of the management team that's left behind at TIM Brasil? What Mr. Mangoni is going to be picking up there? And then who will fill in the CFO role at the TI Group level? Thank you.

A – Alex Bolis – Investor Relations Officer: So, Mr. Stefano De Angelis will take the first one and I'll pass it on to Mr. Bernabè for the second one.

A - Franco Bernabè – Chief Executive Officer: Let me give you first some color of what’s happening in TIM Brasil and how we decided to handle the process of changing the management lead there. Well, first of all, let me say that the success of a company is made by a group of people and is never made by one single man, despite the fact that Luca was a good communicator, but he created a very strong management team that is still in place and that will keep doing what it has been doing so far. What we decided to do is to have Andrea Mangoni as a temporary... in a temporary supervisory role. Andrea has a very strong Chief Executive experience, because he’s been the Chief Executive of one of the largest utilities in Italy for several years, and he was a very successful Chief Executive. He’s now our Chief Financial Officer. He will be managing the transition but we are already looking at somebody who can take Luca’s role and re-launch the plan that we are pursuing for TIM Brasil and that will not change. I will be myself very much involved in this transitory period but we are very confident that in three months’ time we will go back to normal. And now I’ll pass you to De Angelis who will cover the second part of the question.

A - Stefano De Angelis – Group Controller: Yes, the capex for the TIM Fiber development is approximately 100 million reais, part of this related to the last mile activities is just included in our actual... because we are just testing the services internally. The component related to the delivery activities and the CPE is the other part of the story that will be driven by the success of the services.
So this is completely included in our guidance that we are confirming for TIM Brasil and if the success exceeds our projection, it will be more than welcome in our projection and for our future.

Q - J.P. Davids: Thank you.

A - Alex Bolis – Investor Relations Officer: Next question, please

6. Mr. Torsten Achtmann from JP Morgan:

Q – Torsten Achtmann: Good afternoon. On your mobile business domestic mobile, you’ve seen that traffic volumes have been picking up quite attractively again after they’ve been slowing down in 2011. Is that all down to the network effects you’ve pointed out earlier? Or is it something to do also with renewed tariffs and stimulating more usage? Thank you.

A – Marco Patuano – Chief Operating Officer: We have not reviewed tariffs. We are keeping the tariffs. We are just continuing in working on the penetration of the different options. I’ll try to make it... to make it very simple. A little time ago... until a couple of years ago, TIM was only selling traffic on a pay-per-minute basis. Today we have at least 3 different ways of selling our voice, which are: community, which are all-net communities, it can be You&Me, it can be family, it can be all the TIM customer base, it can be an ethnic community... but it's a community. Second: bundles; small bundles, mid-sized bundles, and now we are launching big and ultra-big bundles. And then some paper use. Now, the more the options penetrate the customer base, the more the usage increases. And this is exactly what's happening. Thank you.

Q – Torsten Achtmann: Thank you.

A – Alex Bolis – Investor Relations Officer: Next question, please.

7. Mr. Giovanni Montalti from Credit Agricole Cheuvreux:

Q - Giovanni Montalti: Good afternoon, thank you for taking my questions. The Tampras is talking about some internal process that TI has in TIM Brasil: I wanted to know if you can share some comments about this with us. Thank you.

A - Franco Bernabè – Chief Executive Officer: The only comment that I can share is that on the 14th of May we will be filing the 20F which will give the final clearance to everything and that will make everybody comfortable with our figures.

Q - Giovanni Montalti: Thank you.

A – Alex Bolis – Investor Relations Officer: Thank you. Next one, please.

8. Mr. Ottavio Adorisio from Société Générale:

Q – Ottavio Adorisio: Hi, good morning, gentlemen. A couple of questions, and two follow-ups. The first one is on working capital: I want to really go very… focused on that one. So there are many moving parts but you’re basically guiding for improvements for the full year. I believe the improvements you’re referring to are versus last year. So the 400 million absorption. So, are you guiding for a lower absorption for the full year? And the second and the follow-up on this one is that most of your peers, actually, don’t have absorption for working capital. Will there be at some stage where working capital on a full-year basis, will be actually positive for Telecom Italia? And on Telecom Italia Media, just a clarification: here we’re talking about the process to dispose only of the TV elements but not the network elements so the broadcasting or are you basically thinking of disposing of all your media-based activities? Thanks.
A - Alex Bolis – Investor Relations Officer: Thank you, Ottavio. The first part of the questions you asked will be taken by Stefano De Angelis. The last one by Mr. Bernabè.

A - Stefano De Angelis – Group Controller: As I told you before, what we were referring to is the 400 million absorption of the full-year group working capital change in 2011 and the guidance that I gave you is of a reduction and I was trying to drive you along the single item in order to explain where we expect to have this benefit and, as I told you, we are expecting to have some benefit coming from the cash-out for the layoff, that is approximately 100 billion in our projection. And then we may expect some benefit coming from the trade receivables, as I told you. The results today are good. As you may see, we have a cash generation, let’s say, in the first quarter, and as I was, again... as I told you before, in the first quarter we had a negative impact of approximately 70 million, from a further deterioration in the receivables versus the domestic public administration. If this item will improve we may reach the target of reducing by approximately 200-300 million the working capital absorption. We are strongly working on the trade receivables in all our business units locally in order to take the benefit from the revenues reduction, because normally when the revenues go down, if you have the same days of receivables you should have a positive impact in the trade receivables and this may be compensated. I’m trying to answer to the second part of what we may expect for the future. If we will maintain revenues growth in LatAm and revenues decline in Italy as today, we might expect to have a negative/some positive impact because the benefit coming from the domestic may be, let’s say, invested in order to sustain the revenues growth in Latin America with a substantially flat performance on the basis of receivables. The trade payables strongly depend on the amount of capex. At this moment in our plan the amount of capex is stable in Brazil, growing in Argentina and stable/slightly growing in the domestic business. So, the impact that we may expect on a full-year basis from the payables is, let me say, broadly zero, not significant. The big items of the first quarter, the net other trade receivables... payables is strongly affected by seasonal movements, but at year end it tends to be zero. And the inventories, I think that today we have reached a level of handset sales both in the domestic business and in LatAm that is, let’s say, our target for the next couple of years, so we should not expect any significant change.

A - Franco Bernabè – Chief Executive Officer: On the TI Media question, we decided to go on with the reorganization of the TI Media group because we wanted to maintain all options open. So we have no... we have no prejudice on whatever combination of assets we will sell. Either each individual asset alone or the combination of all assets or the company itself. So we wanted simply to keep all our options open. Thank you.

Q - Ottavio Adorisio: Thank you.

A - Alex Bolis – Investor Relations Officer: Thanks very much. I think we are about to close up. We have room for a couple more final questions.

9. Ms. Robin Bienenstock from Sanford Bernstein:

Q - Robin Bienenstock: Yes, thanks very much for letting me ask the question. I’d like to ask the regulations and the fairness of the regulations that you talked about, because TI has so far had the most benign regulation, really, of Europe. But the result for Italy has been that you’ve got very high price broadband. In fact, still broadband growth is at very low speeds. And so far a steady reduction in investment and in employment. So I’m wondering why you think the benign regulation should continue? Thanks very much.

A - Franco Bernabè – Chief Executive Officer: Well, I mean, I mean, I see that your comment is rather optimistic. I would not say the same thing. I mean, I think we had a fairly tough environment, but the reason... I did not say... I never said we have a benign regulation, I said that we had a fair regulation. Which is a different story. And I think that we had a fair regulation simply because we were open to... we’ve been transparent and we were open to taking into consideration whatever suggestion, fair suggestion, came from our competitive environment. So I think that this will continue. I mean, this will continue simply because we are open, fair and transparent. And I think that this is what needs to be done in order to maintain the kind of environment that we have... we have here in Italy. And I’m sorry to say that if you look at the unbundling numbers here in Italy, we have one of the most open
markets in Europe. So, and in terms of prices we have fairly low prices compared to many other countries. So, competition has really worked in Italy and I think that the regulator has done a tough job in maintaining competition open. Thank you very much.

**A - Moderator:** I think this was very effective and there is one last slot for a question. So we’re open for the very final one.

10. **Mr. Justin Funnel** from **Credit Suisse**:

**Q - Justin Funnel:** Thank you. A couple of questions, please. The… it looks like things are going pretty well in mobile. You’ve got some network effects coming through with your tariff structure; the voice is accelerating, there was a bit of seasonality in Q1 but it was only about 1%, so there’s a bit of mystery as to why you’re not willing to say, you know, Q2 can do better than Q1. I mean, I guess the one explanation could be the economy; are you expecting the economy headwinds for your mobile business to get worse in Q2? And if so why? Secondly, the big change in termination rates, obviously, could have some effects on pricing, on retail pricing in mobile and fixed line in Italy. I’m just wondering if you’re planning to be reasonably proactive in restructuring your tariffs as those MTRs come down?

**A - Franco Bernabè – Chief Executive Officer:** Can I make a comment before turning it to Marco Patuano for more specific comments? I mean, I think that it is fair to say that in the current macroeconomic environment in Europe you have no visibility except for the next few weeks. So, we are very prudent and we don’t want to engage in making forecasts and this… we are actively working and doing very hard work Marco and all his team is doing exceptionally hard work in managing this very, very challenging environment with the appropriate actions that need to be taken day after day. So I think it’s not… it’s not possible neither reasonable to make any forecast at this point in time. But I’d like Marco to elaborate on this.

**A - Marco Patuano– Chief Operating Officer:** Yes, I’ll just add a few words, because the uncertainty is absolutely the keyword. Just to give you... just to give you an idea, the fact that the macro-environment in the corporate segment is very tough is a matter of fact and we don’t see any material reasons for it improving in the next quarter. But what is important to consider is that in the second quarter, particularly between May and June, families will have to pay the new taxes on their houses. So will it impact on the consumer attitude in spending or in the consumer confidence? I think that it’s fair to say that we have to stay prudent. Today the consumer is still performing fairly well, in our sector, because if you talk with other... with managers of other industries, the consumers are showing a very different attitude. So we are in an industry that we have been able to keep... to keep the consumption, but it’s not obvious that the first step of taxes will be considered. The second part of your question was on the impact of tariffs. You know, for sure every time there is a hard cut in the termination rates something in the Marketing Department changes, because we have new opportunities of creating new schemes that are working on the profitability. I don't see very much happening in Q2. Q3 will be dominated by... by all the offers for the summertime. So we will see in September-October what will happen and it will be very much driven by the overall situation. So I don’t expect a further reduction in terms of prices; yes, I do expect some different combinations, in order to prepare packages with a good ARPU. The name of the game is “Defend the ARPU”. Thank you.

**Q - Justin Funnel:** Thanks.

**A - Alex Bolis – Investor Relations Officer:** Thanks, Justin. Thank you very much to everyone. Of course at Investor Relations we are available to take further questions. It’s time to wrap up now and close the call. So, have a good afternoon and thanks again for your attention.

**Operator:** Ladies and gentlemen, the conference call is over. Thank you for calling Telecom Italia.