Full-Year 2011 Preliminary Results & 2012-2014 Plan Outline

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. JP Davids from Barclays Capital:

Q – JP Davids: Thank you and good morning. The first question is just a big picture question on how you're going to get net debt from 30.4 billion to 27.5 billion. What are the big moving parts there? Given that, you know, equity free cash-flow is about 3 billion and you're paying about 100 million of dividends. The second question is one on your balance sheet: you’ve done a great job reducing net debt over the year, but gross debt has gone up... has gone up a billion, and that's all set by assets going up 2 billion. As you look into 2012, is there going to be a program of trying to reduce gross debt? Or will you look to try issues as much as you can? What’s the game plan for your gross debt position in 2012? Thank you.

A - Franco Bernabè – Chief Executive Officer: Thank you for your question. Well, now let's address the first question, how we will reach the 27.5 billion net financial position target. Of course, I understand that it seems like a very complicated target to reach, but I just want to remind you, just at the outset, that in 2008 I promised to reach approximately 30 billion euros of net debt, and in fact we did it. The difference was, of course, that instead of operating in a growth environment, as we were focusing at the time, we operate in a very complex and recessionary macroeconomic environment, in the midst of a dramatic financial crisis, and I think that this tells a lot about how we can deliver our results. Now, back to the point: operating free cash-flow is 7 billion, which is stable and slightly higher versus the 2011 net of LTE. Then you have a financial and fiscal cash-out flow of approximately 3 billion, which are in line, more or less, with 2011. Then you have free cash-flow before dividends of approximately 4 billion, which includes, of course, minor disposals, Cuba, and other disposals. I mean minor disposals, of course. We have dividends in the order of 1.5 billion euros... 1.1 billion euro, sorry: 1.1 billion euro for the group as a whole, including minority shareholders, which means for TI spa, as we said in our statement, 900 million euros, that leaves net cash-flow at 2.9 billion euros, which brings debt down from 30.4 to 27.5. So I think that this satisfies your question. Now, on the... on the gross to net debt, of course there is a... the policy that we are following is the minimization of carry costs of net debt, so I'll move... I'll move now to Andrea Mangoni to answer to this. Andrea.

A - Andrea Mangoni – Chief Financial Officer: Yes. How will we reduce our gross debt, safeguarding our current liquidity stock? So, we will devote our cash flow generation increase to the reduction in our gross debt, maintaining our liquidity stable over the three-year period of the plan.

A - Franco Bernabè – Chief Executive Officer: Thank you very much. Next question, please.

2. Mr. Nick Delfas from Morgan Stanley:

Q - Nick Delfas: Yes, thanks very much. Can I just follow up on JP’s question on net debt? I think this year you’ve had a working capital outflow; are you expecting a working capital inflow in 2012 in order to achieve that target? And what is driving that working capital inflow? And then, secondly, I just wanted to understand a bit more about the regulatory change on wholesale prices for broadband and the geographic, the averaging that’s going to take place. Maybe you could talk a little bit more about what the financial impact is going to be in 2012 and 2013 of that regulatory change? Thank you.

A - Franco Bernabè – Chief Executive Officer: Now let's... I'd like to turn to Andrea Mangoni to answer to the first question and then I'll answer the second. Andrea.
A - Andrea Mangoni – Chief Financial Officer: Talking about... sorry. Talking about working capital, the cash-flow absorption by the working capital of the company will be more or less stable over the period of the plan. We strongly believe the working capital... we can do better in terms of working capital. So our performance in terms of working capital could be an upside in our financial projection, but in our current plan the working capital is more or less stable over the period of the plan.

A - Franco Bernabè – Chief Executive Officer: On the second question you were asking about the regulatory impact of the recent decisions by AGcom. As you may know, AGcom has recently indicated that it will differentiate the approach between developed areas and underdeveloped areas, competitive areas and non-competitive areas. So we will be in competitive areas, so where competition exists we'll be allowed to set bitstream prices in a much more open way. Of course, it will be regulated as usual in non-competitive areas. Thanks. Next question, please.

3. Mr. Mathieu Robillard from Exane BNP Paribas:

Q - Mathieu Robillard: Thank you. Good morning. A question about your investment in your network in the fixed business. I've seen in one of the slides that you indicate your plan to cover 25% of households in the next few years with IPTV broadband, and I have two questions related to that. First should we see that VDSL, because since your capex budget seems to be relatively flat it would suggest the cost of the upgrade is limited. And then following up on the previous question on regulation: how is regulation structured... how do you expect it to be structured around your obligation on not to resell but upgrade products? And then the second question for Brazil, maybe: you've done a very good job in differentiating your products on voice over the last few years, gaining market share and, obviously, a number of your competitors are replicating what you have done; how do you believe you can continue to outperform on the mobile business in Brazil, with, obviously, your competitors moving? Thank you.

A - Franco Bernabè – Chief Executive Officer: On the first question, I'll ask Marco to answer, but, I mean, it's a very simple answer. I think we have enough flexibility in deploying VDSL. As we said, as we clearly stated, it will be a market-driven deployment, and therefore it will not be a massive deployment or beyond what we declared, and we have enough efficiency gains to be made in the technology sector, in our infrastructure sector, to accommodate this expansion, despite the fact that in pure nominal terms the investment will be around flattish. On the regulatory environment that will cover the VDSL deployment, of course there is still an indication by AGcom, the regulatory agency in Italy, to be defined. We have had an overall framework that was given to us for the deployment of next-generation networks, that has already given us enough pace to move on, but there are certain areas that are still not covered, on which they will decide later on. One of these areas, of course, is how to treat vectoring and how to treat the whole regulatory environment of this specific area. On Brazil unless Marco wants to add something on this, I would move to Brazil and ask Luca to answer.

A – Luca Luciani – TIM Brasil CEO: Thank you, Franco. Well, I think that during the last few years the market users have had some concerns of possible competition reverting, or, if possible, an increase in the competition pressure. I mean, it’s something that we lived through 2009, it’s something that we lived in early 2011, it’s something that accelerated over the last part ... the second half of 2011. Well, I think that the numbers are quite clear: along the last few years we were leading in terms of incremental market share, in terms of more relevant acceleration of services revenues. How did our competitors react? Simply by copying us, I mean, the Mexicans brutally copied our concept offering, with a 25% discount, a tail-to-tail approach, but nevertheless nothing changed. So that I think, and back to your question: why are we confident about this? I think for 3 clear facts: number one, consistency. I mean, mobile is not offering or pricing. If I think that the mobile business is limited to pricing, then let me say it’s a big mistake. It’s the consistency we have in the go-to-market, no one adopted a zero-subsidy strategy, no one has alternative channels in the distribution phase as we have, no one is investing in fulfilling data or voice needs as we do. Number two: capital allocation. All our competitors are stuck in the middle, if they want or if they need to invest in the fixed line or in the wireline. We have, let me say, a major stake at risk, because the fixed-to-mobile substitution of voice and poor data capability, both Vivo or Telefonica and OI, they need to follow one pattern or the other. And if they follow us in the acceleration of fixed-to-mobile substitution, they will cannibalize the fixed line legacy even more. And this is the clear advantage of being a pure mobile infrastructure. So that I would say consistency, simplicity of the approach and, finally, a clear capital allocation.
**A - Franco Bernabè – Chief Executive Officer:** Thank you very much. Next question, please.

4. **Mr. Stefano Lustig from Equita:**

Q - Stefano Lustig: Good morning. I have a question on the tough environment condition you were mentioning before. I wonder if you can give us an indication for domestic business, if December has been significantly different from the average trend in Q4? And if you can give us an indication of the first trend in the beginning of 2012 at the domestic level for wireline and mobile. And the second question is if you can give us a rough indication of what kind of price erosion you have in mind for mobile operations in 2012? Thank you.

**A - Franco Bernabè – Chief Executive Officer:** Marco Patuano will answer to both questions.

**A - Marco Patuano – Chief Operating Officer:** Yes, the answer is yes, December has been significantly different from October and November. At the end of November, the metric was definitely much better than the total quarter. I'm referring to mobile. In the fixed business, I would say that the impact has been limited or nihil on the consumer, material on large customers, large customers did not... generally speaking, the end of the year is a moment in which all the remaining budget is spent. And so many times, both private and public customers make some last minute investments, and this year, of course, it was exactly the contrary. Every time we were approaching customers we were asked for discounts. Mobile is more interesting: December, yes, it has been... I would say there was some shock in the consumer attitude, because of the uncertainty, coming from which kind of maneuver the government could take. And so this is the reason why January sounds better and February sounds better than January. So, January better than December, February better than January. This is fair to say. The second part of your question: price erosion. As I said, we are now in... let me say, what we are seeing is that more and more customers are pleased with bundle offers and with offers that are not directly linked to a price-per-minute scheme. This allows customers to have extra minutes of voice and the... let me say, the metric of the game becomes once again the total ARPU more than the price per minute. So I suggest you to focus more on the total ARPU and less on the price per minute. Otherwise you need a ton of information that is not publicly disclosed. How many customers have a bundle? Which kind of bundle? So, the price per minute starts to be a little bit tricky.

Q - Stefano Lustig: Thank you.

**A - Franco Bernabè – Chief Executive Officer:** Thank you. Next question, please.

5. **Mr. Tim Boddy from Goldman Sachs:**

Q - Tim Boddy: Yes, thanks for taking my question. I have a couple of questions. First of all, in Italy it sounds like, if I've understood the slides correctly, you expect EBITDA to stabilize in 2013. It would be really good to understand what you see changing from, obviously, the trend of the last few years. Second: your net debt goals: can you just clarify what these include and don't include? So, for example, do they include the benefits of some disposals? Do they include any license costs, for example particularly in Brazil in some of the upcoming spectrum auctions, etc? Thank you.

**A - Franco Bernabè – Chief Executive Officer:** Okay, on the first question Marco, and I'll answer to the second.

**A - Marco Patuano – Chief Operating Officer:** Yes, you're right, in 2013 EBITDA tends to stabilize. Of course, you have to read total revenues excluding the impact of the MTR decline and if you exclude the MTR decline, since we have explained, with all the details, that the MTR cut have a proxy of zero-impact on our EBITDA. So, in 2013 the substitution of traditional services with innovative services will apply more significantly and will compensate more the difference. So this is the main driver of the 2013 stable EBITDA. I'll leave to Mr. Bernabè for the second part of the question.
A - Franco Bernabè – Chief Executive Officer: Yes, I thought I had answered already to your colleague at the beginning, when I said that the free cash-flow before dividends was in the range of 4 billion, and this included minor disposals. One point that we clearly said in the statement is that they don’t include license fees for spectrum auctions, but we think that they will not materially deviate from our part. Thank you. Next question, please.

Q - Tim Boddy: Thanks very much.

A - Franco Bernabè – Chief Executive Officer: Next question, please

6. Mr. Stanley Martinez from Legal & General Investment Management:

Q - Stanley Martinez: Good morning, gentlemen, and thank you for taking my question. First, in terms of the plan focus on gross debt reduction, I wondered whether you have any guidance you can share in terms of total financial expense for 2012? Are you looking for a net financial expense of 1.75 to 1.8 billion euro? Is that implied in the free cash-flow objective? And then, second, to preserve your 14 billion euro liquidity margin, as you call it, are there perhaps any supplementary options you have? For example accessing the domestic retail debt market, as Enel and perhaps some other Italian corporations have done? Or perhaps accessing additional facilities under supernational versus (...) to fund the 3 billion capex program? Thank you.

A - Franco Bernabè – Chief Executive Officer: Andrea Mangoni will answer to this.

A - Andrea Mangoni – Chief Financial Officer: Yes, in terms of financial cost for this year we foresee financial costs slightly below 2012. Our financial costs in 2012 were, sorry, in 2011, were more or less 1.8, 1.8 billion euro and we foresee a slight reduction in 2012, with a stable cost, average cost in our debt.

A - Franco Bernabè – Chief Executive Officer: Thank you. Next question, please.

7. Mr. Justin Funnell from Credit Suisse:

Q - Justin Funnell: Yes, thank you. Three questions, please. First just at the group level. Obviously, you’re deleveraging faster, I would presume that you’ve put this plan together with some sort of discussion with the credit rating agencies. If we presume that the Italian sovereign rating stays where it is, how confident are you that you can maintain your triple B rating? Can you give us some sort of prediction there, please? And then secondly on Brazil: am I right in understanding that a lot of your growth is on your H-network? Do you have any figures? How much of your daily traffic is on Hedge? And, as a result, are we seeing any further issues about network congestion? Obviously, they’ve booked a lot of 2-G transistors this year, are you staying ahead of the traffic growth you’re getting? And then finally on Brazil again: is the guidance for Brazil somewhat conservative? You seem to have ended the year at 20% growth, at 10% for 2012, which seems to get the low-end of what’s likely to happen. Thank you.

A - Franco Bernabè – Chief Executive Officer: On the first question my answer is that we are very confident that we will be maintaining our rating. And I'll turn it now to Luca for the second and third.

A - Luca Luciani – TIM Brasil CEO: First part: Hedge and voice traffic. I mean, what happened? And if we go back to the fixed-to-mobile substitution, in the market, on average, prices dropped down to 0.18 cents in the mobile versus 27 in the fixed, so that negative price premium... this means acceleration on net adds from TIM, this means doubling the voice transported during the last two years. And this is the main driver of the customer base expansion. Well, do all this dynamics impact on the 2-G network? Obviously yes, and this is the key reason why we invested a lot in the GSM network. I remember in 2009 when I said “we are going to invest all our money in the 2G, steering at the most... any subsidy, any 3G exercise, exactly to support this voice growth”. And there’s a result of this: if we look at TRX, at the 2G capacity, we landed to 88,000 TRX at the end of 2009, versus 43 at the end of 2008. Well, if we look... compared to the 88,000 of 2009, in December 2011 we were at
under 53,000 TRX, so that we doubled the 2G capacity over the last three years. Well, what does it mean? It means that we doubled the traffic on the one side, and we doubled the 2G capacity on the other side. And this is the key reason why consistently over the last 18-20 months, according to ANATEL’s score, we are reporting the most confident network quality in Brazil among players. Well, it does not mean that we cannot have some specific problems in inner regions, but this is not material. If we look at the general picture, we are confident, very confident on it. Similar on, let me say, data. Since out of our 27% smartphone penetration, a big part is still on the hedge and we chose to steer the voice on the 2G network, it means that even if you have a 3G handset during a call, you are put in the 2G, it means that we have an empty 2.1 gigahertz space, that leaves us confident for the future. About your last consideration, if we are conservative or not, this is something that was exactly the same comment a year ago when we reported a growth in the top line in excess of 7/8% and we definitely reported very higher than that. I think that we have MTR cuts, we are generally prudent in the guidance, so that I think we are consistent over time.

Q - Justin Funnell: Okay, thank you.

A - Franco Bernabè – Chief Executive Officer: We'll take two more questions, and then we will close. Thank you very much.

8. Ms. Micaela Ferruta from Intermonte SIM:

Q - Micaela Ferruta: Yes, good morning. I would just like to have more details on a few things. First, I think you said that 80% of the cash-flow generated over the three-year plan is Italy. So out of the 22 billion, 17.6 is Italy. Can you break down the remaining between Brazil and Argentina? And can you quantify the minor disposals that you indicated when talking about debt reduction? And then I have a question for Marco: actually some competitors say that you were quite aggressive in domestic mobile beating on a price-per-minute basis or on bundles. I think you said that your focus on MNP is going to be.. to go down, so should we assume mobile competition to be softer in the market in 2012? Thank you.

A - Franco Bernabè – Chief Executive Officer: Well, on the disposals, I would say that it’s not our policy to give color on disposals, and therefore when they will be announced you will have evidence of what we are doing. In terms of the difference we have... the difference between the cash-flow generated in Italy and the cash-flow generated in Brazil, we have... in Brazil and Latin America, we have 4 billion euros approximately generated in Brazil. Marco for the next question.

A - Marco Patuano – Chief Operating Officer: Thank you. Well, of course, when you judge your competitors, you always say that your competitor is ultra-aggressive, I would say that during the Christmas campaign we have not been very much aggressive. This is demonstrated by the performance we had on EBITDA: on EBITDA we performed quite well and it means that we have been quite conscious that we had not to destroy too much value. MNP: you’re absolutely right, you know, there is, before giving to the market a credible signal that it’s time to review, it’s not a matter of finding any agreement, it’s to review the market strategy. You can get value also without playing the game of the MNP, but in order to be credible, you need to reach the breakeven, because otherwise it seems that you’re claiming for something that you’re not able to reach “with your legs”. So, now we demonstrated to the market that we can reach any target “with our legs”, and it’s time to reconsider, as a market, that there are games that destroy value overall, and there are other games that create value. So, why don’t we play the creative one?

A - Franco Bernabè – Chief Executive Officer: Thank you, Marco. Last question, please.

9. Mr. Ottavio Adorisio from Société Générale:

Q - Ottavio Adorisio: Hi, good morning, gentlemen. A couple of questions. The first is on the CONSIP contract. Basically, I was wondering if it’s possible to have an update on how your business with the public administration is progressing. I understand that particular contract is still disputed with Fastweb and therefore I was wondering if this has flowed down the impact you’re expecting on financial full year 2011? And what do you expect the impact would be for 2011 financials? And the second one is to illustrate for LTE what’s the total investment you earmarked for LTE during the guidance period? Thanks.
A - Franco Bernabè – Chief Executive Officer: Marco.

A - Marco Patuano – Chief Operating Officer: Well, CONSIP, you know, there is a fixed portion, and a mobile portion. The mobile portion is going well, so we are getting more and more lines and we have no problems, apart from some credits that with the public sector are a little bit difficult to collect in these last, I would say, quarters. And on the fixed, you know that we are challenging some attitudes of our competitors that are trying to find shortcuts in order to... not to respect the results of the bid. In any case, we don't consider these as a major driver of changes in 2012, so we will be able to manage any difference coming from this story. LTE investments: I just need one second... I don't want to miss the number... it's around 400 million in the three years in terms of LTE that are included in the three years. Okay, thank you.

A - Franco Bernabè – Chief Executive Officer: Okay. Thank you very much. Thanks for attending the call. Thanks to all of you, thanks to the Investor Relations team for the excellent job done, and see you soon. Thank you.

Operator: Ladies and gentlemen, the conference call is over. Thank you very much for your attention.