

Telecom Italia
1Q'07 Group Financial Results – Conference Call
Milan – May 8, 2007
Q&A session

1. Mr. Simon Weeden from Goldman Sachs:

Thank you very much; looking at this domestic mobile performance and the 33 million hit from Bersani, would it be fair to assume that that's going to run at roughly triple that rate each quarter for the rest of the year? Or should we assume that that moderates a bit as the benefit of price elasticity gets stronger? And also I wondered if you could update us in what way you're expecting that debt to end?

Sorry, can you speak a bit louder?

Yes, sorry. I'll try to.

Okay. Thank you. If you can be so kind to repeat your question, because, really, it was really very tough for us to hear you.

Yes, of course. Can you hear me better now?

Yes, perfect.

On Bersani...and the impact...

Yes.

You've told us that 33 million euros impact on revenue for the first quarter, I believe. And I was wondering if that should be multiplied by 3 because it only applied to one month; should it be multiplied by 3 for the remaining quarters of the year, or should we expect that to become less significant as the year goes on, as it's helped out by better price elasticity over time? And my second question was on where you think now that net debt will end 2007? Thank you.

Okay. For what concerns Bersani, we confirm what we said on the Investor Day: and so we see an impact between 250 and 400 million euros at this stage. So, I think that what is positive is that we are absolutely convinced that we can fill the gap, because you remember that the impact for 07 would have been around 700 million euros, so, looking at the volume trends, and the cost side, we think we absolutely are able to catch the difference between the impact of 700, and the impact that we have estimated which is 250-400. Then, let's say, if during April and May and also June, which is... which really comes, let me say, after the dealer convention that we have on the 18th of May, with the new offers, we will probably see if, you know, there is room for improvement on the strength. At this stage, I can confirm you what we said, let me say that around June we will have a better understanding if we can eventually see an improvement of the impact on Bersani Decree.

On question number 2, for what regards your question about the level of debt for the end of the year, we are running slightly better than our plan in the first quarter; anyway we think that we will reach our objective, that is to reduce the ratio debt to EBITDA, that was 2.9 at the end of 2006, and close to 2.8 at the end of the year, according to the objective we stated on March 9 of this year.

Thanks very much.

Thank you.

2. Mr. Mark Cardwell from Sanford Bernstein:

Thank you very much, I've got two questions, please. First of all, in Italy could you please update us on the regulatory discussions you're having vis-à-vis the fixed line business and the use of your fiber and when and whether you're going to be allowed to use that fiber? And also the question of splitting off the local business? And secondly, on German and French and Dutch markets, could you give us a sense of what you think the impact of the fiber rulings that are happening there will be on your businesses there, and particularly in markets? Well, you've got fiber to their home, which is a different situation in France, and then the relatively supportive regulatory rules in Germany and the Netherlands. So, I'd love to have your impressions on all three. Thanks.

Okay. For what concerns your first question, on regulatory on fixed: last week the NRA, the Italian NRA, has announced that shortly, which is going to be just after the publication on the Official Gazette of... there's going to be a public hearing on the functional network local network separation; this will... it is, let me say, a public hearing has no... there's going to be no decision; it's just... operators will be giving their impression, and their indication for what concerns this eventual local functional separation, this will go through two months, 60 days; after that, if there's going to be a move forward, you know, the official istruttoria... I don't know how to... the process will go through and it will take some months to get to the decision. So, our point up to now is that we had a good discussion up to now with the NRA on this matter, as we have disclosed to the market; so we have, in this discussion, discussed what the perimeter of the local network is, that we wanted to take into account and also the remedies in terms of retail and wholesale regulation that would follow on an eventual local loop functional separation. We want to keep the same level of discussion, also in this public hearing, with the NRA, in order to find the best solution for the company, taking into account, let me say, not only the will from Telecom Italia to improve the retail and wholesale regulation which we believe, looking at new services, that we want to launch in these months and in the future, is key for us, but also looking at the evolution of the local access network, and in particular the new generation network evolution. So, we are absolutely sure that having had a good and productive discussion up to now, we can continue, apart from the formal process that has been started, to keep having a good and productive discussion with the NRA and with all the other operators on the local loop. So, this is basically the status that we have up to now. So I think that, again, this cooperation that has been good up to now, we are absolutely convinced that we can maintain it going forward. For what concerns France, the Netherlands and Germany, as you said, there's a big difference in terms of regulations there, and in Germany in particular. I said many times that I'm a bit skeptical that that regulation in Germany might be compliant with... I think (...) has declared in times that it's not so compliant, so we will have to see how it evolves. For what concerns France, I think that, in any case, for what concerns us moving forward, which is quite the same thing in Germany, we're going to see all the solutions, so we will see any solution which includes unbundling, of course, which is the first, and seeing how it might be, we are in discussion with operators which have fiber optic, and we will be, as we have always done up to now, very market-driven looking at where opportunities are, distinguishing residential and business customers. In the Netherlands, instead, is of course... different... we are planning to move into VDSL progressively, I think it is important for us, being a pure wholesale player in the Netherlands market, to move into VDSL. So, basically this is for what concerns a few markets, but again... apart the Netherlands, we are going to be, you know, following an opportunistic approach market-driven, looking at the different opportunities that we will have, taking into account the regulatory environment also.

So, does it make any sense for you to slow down on bundling in either Germany or France to see what this regulation does?

No. I don't think... no, at this moment, you know, we are performing very well, so we are... we will keep, you know, moving, using unbundling, we will keep on moving, migrating our dial customers

on unbundling, and, you know, we will see opportunistically what is the best going forward, but for the moment I think that unbundling, at least for the next two or three quarters is, you know, the best way to grab... to continue grabbing market share and strengthening our position in Germany.

Thank you.

Thank you.

3. Mr. Damian Maltharp from Cazenove:

Thanks very much, I've got two questions: firstly, back on Investor Day you indicated you might be in the position to start recommencing talks with Telefonica in terms of industrial partnership etc. and since the changes that are on the way in terms of your shareholding structure, can you just comment on whether you have been in talks with Telefonica? And also when you perhaps envisage the kind of synergies you might be able to derive from working close with Telefonica and what those might be? The second question just going back to the network: what exactly is your preference in terms of your VDSL expenditure? Would you like to see that included within the access network? Or would you like the access network literally to include a basic sub-loop going forward, in terms of what elements that are going to be regulated or defined within the access network? Thanks very much.

Okay. For what concerns Telefonica, we have no discussion for the moment. So, we didn't restart any discussion since we have interrupted discussions in February. For what concerns the potential synergies, we confirm that there are many areas in which we see interesting synergies that we can implement with Telefonica. These are on the purchasing area, on content and value-added services in Germany and Brazil, on joining R&D efforts we can make in many areas like, for example, triple play, we can see, you know, also apart from Germany and Brazil, how we can, you know, see our marketing and sales model improving. So, I think that there are many areas in which we can see potential synergies, so I think that... but we have no numbers, no agreements for the moment. So, I think it's... we confirm that there are good complementarities, but we have, again, no discussion at the moment. For what concerns the network: you know, we... the work that we have done in these months with the NRA has been very good because, again, we have not only discussed on, let me say, the old access, or the current access network, but we have also included discussion on the future access network, so the VDSL, so the new generation, and we have seen how we could, basically, give access to this network to other operators, which includes, not only basically the big stream but also the sub-loop unbundling, as an option, even the collocation on the street cabinet, we have discussed how we might see this collocation reorganized. So, I think that we are quite open in looking at not only how we could implement this network solution on the traditional local loop access, but also including the NGN, so new generation; but. Again, what is key for us is to see how the retail and wholesale regulation will follow, if we include elements of the network for NGN. And so that is the key thing. So, I think that there's been a lot of discussion in these last weeks on this, you know, idea of local loop functional separation, but I believe that we will have to start discussing on what could the benefits on the retail side be and so on new services, on... unbundling, voice, broadband, traditional access, and so how TI on the retail side could benefit from this new potential evolution of the regulation on the local network; so I think this is the tradeoff that we want to achieve, and we want to maximize in the discussion that we're going to have with the NRA.

And maybe just a follow-up going back to Telefonica: in terms of Brazil, how much scope do you think there is when 3G or all in one comes along for that extensive network sharing in that market?

Well, I think that, you know, naturally, if we move into 3G, the best opportunity will be not to duplicate and having n networks, so there is... the 3G makes a lot of sense to have only one network. There's also opportunity in terms of site sharing, so I think that on that side there's potential. That's where we have looked in terms of potential... the only area in which we have looked for potential synergies in Brazil.

Okay. Thank you.

Thank you.

4. Mr. Robert Grindle from Dresdner Bank:

Your charges for 460 million or so in Q 1 net financial charges. Are we now looking for something just less than 2 billion euros for the full year? And, also looking at the effective tax rate in Q1 which was quite low, cause of the 40% are we now also looking for close to the 40 rather than closer to 50 for the full year? And then, finally, just a clarification on the Telefonica discussions that you're not restricted in any way announcing any corporation with them until the deal gets regulatory approval? Thank you very much.

Absolutely on Telefonica. We have no restriction at all. So, again, we will approach Telefonica looking at what is the potential synergy for TI that we could arrange, and that, you know, in a very open and very transparent way. For what concerns... I will leave to my colleague Parazzini the first question.

For what regards the financial charges, we are slightly better than the previous year, but we are in line with our plan for the year, so we expect to continue with this performance. For what regards the tax rate, also this will be perfectly in line... we expect to be perfectly in line at the end of the year with what we had in the first quarter. There are no unusual items that may change this rate.

That was great. Thanks very much.

Thank you.

5. Mr. Ottavio Adorisio from UBS:

Thanks. Good afternoon, gentlemen. I've got a couple of questions. The first two for Mr. Ruggiero: there's been a lot of discussion in the first... in the previous questions regarding the regulatory framework, especially for the functional separation that was proposed by the.. by AGICOM. What I really am trying to... I don't understand... is the fact that they basically proposed to separate the network, and, on your side, it looks as discussion is ongoing about the perimeter of the network that's going to be separated. So if you can just give, first of all, some color on that? And the second one: during a previous question you replied that it's very important to also take into account the investments that you're going to make to the next generation network. Now, from memory, you only earmarked less than 500 million cumulative until 2009 for this network. The question will be: are you prepared to increase the investments you earmarked for this next generation network if the regulatory framework will be a bit more than 9? So it's a sort of quid pro quo. And moving on the second question to Mr. Parazzini, I've seen that the working capital has seen a very significant improvement; is this going to be also a feature of next quarter or will it just be a one-off? Thank you.

Okay. So, for what concerns the investments and the perimeter; so, you know, on the investments of course we've always said that the investments on new generation network, and so on new access architecture will follow two guidance: the first is... like for all investments... is the market-driven approach. So this is the first guidance by definition. So, we don't want to make any investment which makes no sense taking into account the evolution of the market, of our customers, and the evolution of the services. So, we have taken into account the rollout in the next three years taking into account the level of real penetration that VDSL may have, taking into account that ADSL 2+ currently has, you know, a good level of performance that can satisfy, you know, a strong, let me say, area and segment of our customers. The second of course, principle, or guidance, is regulatory. So, we will... if we have regulatory conditions which allow us to make the evolution of our network taking into account the return on capital invested, a good return on capital invested that we can have, and also taking into account the retail regulation, which will follow this new investment... this is basically the second guidance. To go back to your second question, on if you are ready to eventually improve the current investment plan, and these two elements are there, why not? So... but again it's totally tied to these two guidance. For what concerns, sorry, the perimeter: also there we've been very open but at the same time very strict. So we have said: the perimeter for us is only the physical component of the local access network, current and, of course, future. In case NGN it would be mainly the fiber. We don't want... for us it's a very strong point... on the perimeter this is what we have... and in which, you know, at least in formal discussion with the NRA, we had no major issues, or major problems on that. But, again it's the physical component, which is the copper, the fiber, the dax, nothing else. There's no equipment, no logic, no systems, no IP network or equipment which we believe must be involved in this potential local access functional separation.

For what regards your question on working capital: basically the performance of the first quarter was 400 million better than last year's. Of these 400 million we have: 140 million are related to the fiscal tax paid in Brazil that last year was paid in March and this year is expected to be paid in April. So there is just a delay in timing, but no impact on the total year. Another 140 million improvement is related to the VAT tax we paid last year on the real estate sale, the so-called Project Magnum that of course will no longer occur this year, it's a net improvement. Another 20 million were related to better collection in the first quarter of this year as compared to the previous year, from customers; and the rest from delays in payments between the first and the second quarter according to the natural obligation versus our vendors. So, we have some improvement that will remain over the rest of the year, like the VAT we talked about before, but according to what we planned for the cash-flows and for the debt for the total year 2007.... so, we expect by the end of the year to be in line. Of course we should have, from quarter to quarter, some anticipations, but for the first quarter it's too early to say if the improvement we made in collection from our customers in the first quarter will constantly remain also in the next quarters. For the time being, we expect to be in line with our plan by the end of the year, for what regards the cash-flow impact on the debt reduction.

Thank you very much.

Thank you.

6. Mr. Fredrick Boulen from Morgan Stanley:

Hi. I've got two quick questions, if I may. The first one on dividends: combining all these in France with Labinternet could have made some sense, especially when you look at the performance in Q1 which relates to 4% of additions, and here I'm wondering if you think the current dividend policy gives you sufficient strategic flexibility? And would you, with a lower level of, say half, the current dividend help on this? Secondly, just to come back on the natural separation: can you comment on the risk on the retail competition if we move to a more transparent service to all the retail units?

And I just wanted a few more comments on the timing, and if you were willing to keep 100% control of the unit? Thanks very much.

Well, for what regards the dividend, our policy is the same we have announced on March 9 to the financial community. We have confirmed the payment of the dividend for 07, related to the profit of 2006, but we have also anticipated that our three-year plan provides for a reduction in the payout of the dividend, in order to be closer to our peers, European peers. So, we have no news about that: we just confirm what we said confirming our three-year plan targets on March 9.

For what concerns the network: I think we believe that it's important to take into account the service evolution in the next year, in particular, you know, the role that dual-play and triple-play will play... but also quadruple-play, will play on the market, to have a new regulation on retail. So, we believe that the table that we have started with the NRA in terms of discussions and formal going forward, will keep this process going forward. So we believe that if the service trend, and we see it from what, you know... from what the performances have been in the last two or three quarters, we think we are in the right direction from that point of view. I think the best model would be the model that brings for us a good level of flexibility in terms of being able to pursue on this trend, so, basically, of course, we believe that the functional one is probably the best one. A non-functional model is more rigid, in terms of asset, in terms of changing eventually these assets in the long-term in a market and in an industry in which, you know, we have very changing trends, it's very, very important to keep flexibility. So we think that, if we reach a good understanding with the NRA, probably the functional will be the best in terms of flexibility. But again, the key thing for us is to be able to improve in terms of a new service launch on the market, like we have done in the previous years, to keep our leadership on track on innovational products, and so to have a good retail regulation which can support Telecom Italia in keeping this leadership trend that we have up to now.

So in Q1 I think you added around 65% of retail addition in broadband. Do you think... and so far there's no sign at all of any weakness on that trend, do you think it should continue? You don't see for the time being any risk to that very good trend?

Well, let's say that, you know, it's always tough to keep these trends, and so saying that we don't see any risks would be too hazardous for us. Let me say that, you know, we try to keep on track quarter by quarter, and that's our commitment. Of course the market is very competitive, there are very, you know, strong and good players, so, you know, this is why I think it's key for us to keep launching our product offers moving into dual and triple play as quickly as possible.

And on the financing, do you plan to keep the unit fully controlled, or could it be your way to actually have a bit more financial flexibility for...

Let's say at this level we have no plans. But, you know, we are open, as we said, in the future to any... to evaluate any possibility, and so... of course keeping always in any case control under TI, but you know, we are open to see and evaluate potential models on financing, for what concerns, potentially, the local loop separation.

*Okay. Thanks very much.
Thank you.*

7. Mr. Laurence Sierra from Redburn:

Good evening. I have a question, a follow-up on the Bersani Decree: I would like to know if you have seen any trends following the Bersani Decree? Or if you saw an impact on your revenues? Did

you see any acceleration? And is that confirmed? The other question was on margins in mobile: I would like to understand a bit more how the domestic market is developing. Did you have to spend a bit more in TIM or did you have to spend more in the fixed line?

Okay. So, for what concerns the Bersani again, I confirm what we previously said, so today we see a trend which is confirming what we have declared on the Investor Day: 350-400 million euros of impact. Again, we will have a better understanding how the Bersani Decree has an impact on volumes in particular; we had a good sign on March: 6.6%, we will see how it moves in the next quarter, in particular taking into account the seasonality. So, for the moment no different news from what we said. For your second question... on margin... on the domestic margin. In terms of... you know, I think that both businesses domestically require a strong sale and marketing push in order to maintain our operational KPI. Probably, you know, in the first... in the first half of 07 on the fixed we will be pushing a bit more particularly on the broadband, that what we did in the first six months of 06. We didn't do any advertising for a while, and so, probably, you know, we have a bit more marketing and sales cost on the fixed compared to the mobile, which had basically a constant trend in 06 and will have basically the same constant trend in 07. So there's not going to be, let me say, a big discontinuity in terms of marketing and sales cost, apart from content, on the mobile. On the fixed, there is the content and then there is the push that we are putting on the triple play dual play service with Alice 30 and the IPTV advertising campaign that we just started now, at the beginning of May.

I would also like to know: do you think that with 65% of broadband market share... do you think that competitors would be... there would be many alternative networks in Italy?

Sorry, you said competitive on network?

Yes. Alternative networks... if you'll remain as dominant as you are in the market?

Well, you know, I think that our competitors today are going, at least the biggest, on the unbundling. So, using the unbundling and the shared access as 90-95% of the acquisitions, also because of the good, and relatively good unbundling cost that they have. So today that's the way that the market, at least major competitors, are using in order to compete against Telecom Italia.

Thank you very much.

Thank you.

8. Mr. Matthew Robillaird from BNP Paribas:

Yes. Good afternoon. I have a few questions. First on Brazil: the Brazil Telecom stake you sold you said that in the past, I wanted to know if there is some update. I understand that Orascom has expressed some interest, but there also seems to be some noise in Brazil that there's a will to create a national champion. So, I was wondering if there's any risk that your hold of Brazil Telecom becomes politicized? The second question, coming back to the EBITDA margins on the Q1: I mean, you are a bit below the guidance in terms of March end dilution, and I know you explained that you were pushing a bit more on the broadband side in the fixed line in H1, so basically what you are saying is that you are expecting that to revert a bit in H2 so a turn line in the guidance and if you can just confirm that? And finally, just going back to the tax question: I'm not sure I got the full answer. You were mentioning that the tax rate for the full year would be in line with the Q1, or not? Thank you.

Okay. So, for what concerns the EBITDA margin: yes I confirm that if you compare the first two quarters of 06 with the first two quarters of 07, you basically have a difference in the fixed in particular in terms of margins, because we didn't have... not only more push on marketing and sales cost, but also we didn't have the impacts on the top clients that we had, in particular on the data that we had in the fourth quarter of 06... we started having in the fourth quarter of 06. So, basically I confirm that for what concerns our internal provision, we are performing well, even much better than expected, and so we can absolutely confirm the trends that we have indicated at the investor day for what concerns margin on the domestic side. For what concerns Brazil, you know, of course there has been an interest from Orascom; I have no further updates to give you on this matter. So, I confirm that there is, for what concerns the Brazilian government, at least for what I also read on the press, the intent to have a national champion, but, again, I have no other information than the one that everybody's read on the press on this matter.

Well, for what regards your question about the tax rate, it's very difficult to extrapolate the tax rate according to the consolidated PBIT, because we have to bear in mind that tax is calculated on the taxable income according to statutory books. So, basically we paid 43% on the taxable income according to statutory books adjusted for dividend, plus we paid the IRAP, that is about 120 million per quarter. As a matter of fact then the ratio of this absolute value to the profit... to the consolidated group profit before taxes changes quarter by quarter. At the end of the first quarter, this arithmetical percentage was 42%, and is expected to be higher by the end of the year, to approximately 48%. Anyhow, this is just a matter of the ratio between the absolute value of tax burden to the consolidated pretax, versus a calculation that is always the same: it's 43% on taxable income plus IRAP.

Okay. Thank you. Just if we can come back to the EBITDA point: actually, I was wondering what kind of restatement you had done to the 2006 number for the domestic business, because on my numbers the Q1 domestic EBITDA was around 3258 rather than 3148 which was basically heading to what you disclosed on the presentation last year 1998 for the domestic fixed and 1260 for the mobile. So I was wondering what kind of restatement was there? Thank you.

Well, there was no basic restatement on the first quarter of the domestic. You just keep the total consolidating result less the effect of international, that is Brazil, and broadband; and there is a similarity be careful to not mislead the effect of the corporate that we exposed in last year that of course is part of the domestic. So, but anyway we can give you full reconciliation of numbers between first quarter 2006 domestic and first quarter 2007 domestic. Anyway, there was no major restatement of the numbers about that.

Okay. Thank you.

Back again on the tax, also be careful to the fact that in first quarter 2007 we had a benefit that is accounted in the financial income due to the revaluation of our call in Argentina. This is just an accounting treatment that is mark-to-market and this relates to the increase in the stock exchange value of Argentina. And according to that we have to revalue our call. This generated a profit that is not taxable, so at this point in time, in the first quarter you have a higher profit before tax with a lower tax that gives you a rate of 42% tax over profit before tax. I repeat that the calculation is based on a different basis: it's based on taxable income that has no relation with the group's consolidated profit before tax. It's a technical complication that anyway also on this subject we are available to give you any reconciliation for the first quarter, but be careful not to extrapolate that. By the end of the year this ratio should be higher, because we can't account for the same effect for the total year, unless we have other effects like that, but these effects can be positive or negative according to the market's fancy, not in our control.

Okay. Thank you very much.

Thank you.

9. Mr. Justin Funnell from Credit Suisse:

Yes, I wanted to know if you can hear me. Okay? A couple of questions, please: I just wanted to confirm an answer to a question that you gave earlier. You mentioned that the perimeter on the local loop separation, you mentioned fiber. Did you say that VDSL would be included in the assets separated? Or would the video DSL remain within the remainder of Telecom Italia? Where is the perimeter for VDSL? Secondly, the elasticity is saying in domestic mobile this pickup in your volumes 6.6%. Do you think that is a market share phenomenon? Or are we actually saying consumers now are behaving differently in the market? Is it more a market-wide phenomenon? So if you could break it down between those two. Finally, I asked this question at the presentation, and I'll just ask it again, you've had more discussions now, do you think that there's any scope for the regulatory treatments of your VDSL or of your retail regulation or indeed the details of the functions' separation to be different if you actually were to do a full actual separation of the network? Or, again is it neutral from a regulatory point of view whether you actually separate it or just virtually separate it?

Okay. For what concerns the perimeter: again, VDSL, you know, just to... what we have formally discussed with the NRA is that today the current local loop which goes... so the physical assets which are, you know, the copper from the central office to the customer premises, and so no fiber. When, and if in a particular area we are going to bypass the central office and go from the... and move the central office to the street cabinet, and so we will bring fiber to the cab, in this case we will contemplate also this portion. So, going from the previous central office to the cab via fiber, and then from the cab to the home via copper; so, in this case on moving on this different architecture and pulling the fiber nearer to the customer premises, in this case, we discussed how we could regulate that portion of the fiber. So the VDSL service will be absolutely, totally in control of TI, but at that point, if we substitute the central office with these three cabinets we will... we are ready to discuss and take into account how we will regulate that fiber in terms of bit streams, sub-loop unbundling and so on... and what else. That is what we are saying. For what concerns the domestic mobile elasticity: well, I think that it is both; so, if we see the market share being stable, but if we see the market share on the quarter, we had, basically, in terms of lines a trend which is more or less in line with the fourth quarter, which is seasonable, so it's been good, particularly on business but also in residential, but let me say that the biggest part is customer behavior. So probably... taking into account that we have one month here, 90% customer behavior and 10% of that portion is currently today probably on market share. So today the ratio is more on the customer behavior. For what concerns the last question: on... you know, again, for the regulatory. The regulator has indicated that the functional model is the one they are willing to explore going forward. So there's no element... and so, if we go on a model which is asset-based, and so not virtual, in any case it's a decision that will have to be made by TI, so there's no potential obligation from the national NRA on the asset separation. So, if that is the case, it's going to be a decision of TI only.

And again there wouldn't be any were better regulatory treatments if you were to follow the asset-based approach?

Well, you know, I think that the regulator will see it only if it might be more transparent for the other operators and for the market. So, we will eventually evaluate that and see if the asset separation would be more, let me say, will show more transparency in terms of real separation from the retail business and so on. I think that, you know, in any case, I don't see any particular further benefits on the regulations for that. I think we have to shoot in having the best regulatory evolution of the framework in any case, on the retail and the wholesale, independently from the model.

Okay. Thanks a lot.

Thank you.

10. Ms. Micaela Ferruta from Intermonte SIM:

I have...

We don't hear you.

Can you hear me? Can you hear me?

Yes. Now we can.

Okay. I'm sorry. Good evening. Micaela Ferruta from Intermonte SIM. I have two questions if I may; one is: could you give us more disclosure on the domestic wireline, and domestic EBITDA and corporate adjustments for Q1 07, which would be coherent with the full year 06 restatement which you provided us in the first quarter 06, which you provided us with before the results and during the business plan? And the second question relates to potential synergies with Telefonica, and whether you think that there may be any antitrust issues in Brazil? And, if there are, would you be willing, for example, you were talking about the possibility of doing network sharing; would you be willing to open up the network not only to Telefonica but also to other players in Brazil? Thank you.

Well, for what regards the representation of the domestic, domestic just means the total consolidation minus the international activities, like TIM Brazil and the European broadband, and excluding also the minor business units, like Telecom Italia Media and Olivetti. Domestic business includes, of course, wireline, mobile, and the so-called corporate cost as it was called last year at the central function, like administration, legal, and so on. This is the representation that we compare for the first quarter 2007 versus the first quarter 2006. And for what regards the corporate, there are no main differences, except for the evolution of the cost reduction in the area of the central function. There was about 15 million euro cost reduction in the first quarter 2007 as compared to the first quarter 2006.

May I ask the margin for domestic mobile and the margin for domestic wireline? Or are you not going to disclose the separate margins any longer?

...

So not domestic overall, but broken down into wireline and mobile.

We will provide indication about the KPIs for wireline and mobile, as Mr. Ruggiero is... used to do.

Yes. In any case, for what concerns, you know, we have indicated the overall EBITDA margin of the domestic business, which includes the corporate cost and the old fixed perimeter, and TIM. So we will, basically, continue giving this in terms of indication, then of course, I think that in moving into the KPI analysis, in particular on the cost and on the revenue, we will support the market in giving all the transparency in order to have the best understanding of how the fixed and mobile domestic businesses are performing also in term of EBITDA margin. So, we're going to make the best effort in order to give... again, all the details in order to give you, basically, this information. For what concerns the synergies on Telefonica, basically, again, I've said that the potential, for what

concerns Brazil there's a potential on... for what concerns the 3G rollout, we have no indication of any Anatel prevision for what concerns the deal also by definition no eventual remedy that Anatel might. So, at this stage we have absolutely no information for what concerns these elements.

Thanks very much.

Thank you.

11. Mr. Guillaume Tastet from Oddo:

Yes, good evening. I have a couple of questions, if I may; the first one...

Can you... sorry, can you speak a little bit louder?

Yeah, sure. Can you hear me now?

Yes.

Okay. Good evening. I have a couple of questions; the first one regarding the consolidated guidance for the full year: it seems to be but an amend of your full year guidance when my understanding is that regulatory impact will be tougher in the full year with the full impact of Bersani, the roaming and the (...), so I was wondering what kind of positive impact you expect. You were talking about I would say a comparison effect the marketing cost at fixed line, I don't know if it's all. The second question would be around the competitive pressure on the business... on the business segment in the fixed line: did you see any change in the last months? Thank you.

Well... for what concerns competitive, you know, we basically see a trend which on the fixed confirms, first of all, you know, the... on broadband and fixed line, the competition through unbundling. So that is... and using dual play and triple play offers. In particular dual play, and some operators are using triple play. So that is the main for what concerns consumer and also SME, corporate clients we see, you know, the competition that we forecasted in our plan in 07; so we don't see any more negative trends there. So, basically, this is for what concerns the fixed line. So our consolidation around unbundling as (...) took to compete against TI and focus on dual play and triple play services and pressure on business customers, on price in particular, for what concerns additional services. For what concerns your first question, on... for what concerns yes, the overall 07 targets, we have basically no plan nor indication for what concerns, you know, roaming on the second half, and we will see if roaming will really be implemented, taking into account what happened as a decision in the last general meeting... so we will see if there is really going to be the implementation in the third quarter, or if it's going to be basically postponed. For what concerns regulatory impact on 07, we have taken into account all the regulatory impacts in our plan, so we don't see any different decisions up to now... the new decision is around the public hearing on the network. So, basically, again, we were forecasting, as I said, in the first two quarters of 07 a negative trend in terms of revenue and margin, compared to the first two quarters of 06, not only because of the commercial push, but also because of the discontinuity that we have on the wholesale business, international in particular, as I mentioned, and for the business top client pressure that we started to take into account in our numbers in the last quarter of 06. So, again, we, at this stage, confirm totally the targets for revenue and EBITDA on the domestic business, and of course, on the international broadband and Brazil.

Okay. Thank you very much.

Thank you.

12. Mr. James Bowmaker from Bern Sterns:

Hallo. It's Jonathan. I have three questions. One: could you give us an update on, I guess, given the still relatively tough trading environment, will you be... what happens at the end of the year when you renegotiate with the unions? And secondly, on Brazil: do you really think the main synergy in Brazil between Telefonica and TIM is tower sharing? Do you know... I mean how... how plausible if you, let's say 12- 24 months out, is a full merger between VIVO and TIM?

Sorry. For what concerns VIVO and TIM Brazil, no, there's absolutely no discussion. We never had any discussion about a full merger between VIVO and TIM Brazil. So, for the moment, again, there's no discussion on that matter, and previously no discussion has never taken place contemplating a full merger between the two operations.

It's presumably quite a good idea, though.

Sorry?

It's presumably quite a good idea.

Well, you know, we will see... of course you cannot exclude anything in life, so.. by definition. We will see when we come into discussion *if* this matter will come into discussion how we will move, and of course we will give the market all the possible disclosure on that. But again, up to now nothing has been... Instead, again, we have... I think that tower sharing is an immediate potential area to explore, which could bring benefit to both of us. So I think that is something that can bring... it's a quick win, in terms of response, so... Frankly, I don't see any impact in 07 but there might be some impact in 08 compared to the... in 08 or in 09 compared to the plan that we have announced in March.

Okay.

For what concerns the unions: you know, I think that, you know, we have always had a very good understanding with the unions up to now. I think that there are all the elements in order to have a good negotiation on unions for what concerns... on our plan we have contemplated neither a negative nor a positive scenario, so I think a very realistic scenario taking into account what we have achieved up to now. So I don't see any critical elements with the unions on the renegotiation of the contracts by the end of 07.

Okay. Thank you very much.

Thank you.

The next question...

So, thank you... sorry.

Sorry, there is a follow-up question from Mr. Guillaume Tastet.

12. Mr. Guillaume Tastet from Oddo:

Sorry to ask another question. Actually I wanted a kind of follow-up on the timing of synergies in Brazil: I was wondering if we can hope synergies to be quicker in Germany or if you also think that we won't see any impact until 08 or 09? Thank you very much.

I think on Germany there's the same timeframe. So, in Germany we put also there all the interest into seeing which synergies we can pursue. I think we have a good position on broadband, half as a good position on mobile, so I think we can work together and see. But I don't see any real implementation in 07. So, any interpretation could impact numbers... will come my advice certainly in 08.

Okay. And you are talking about the synergies between mobile activities in Germany and your fixed activity. Do you see any synergies between the wholesale activities and your retail activities?

Yes. Yes.

Okay.

Absolutely, I think also on the wholesale there is potential on the NMC so multinational accounts and there are areas in which we can cooperate.

Okay. Thank you very much.

Thank you.

There are no more questions.

Okay. So, thank you very much.

Thank you very much. Bye, bye.

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