

Telecom Italia
Q1 2010 Financial Results
Milan, May 6 2010

Q&A session: Ladies and gentlemen, I'd like to remind you that you may register for your questions by pressing star followed by 1. The first question from:

1. Ms. Robin Bienenstock from Bernstein:

Thanks very much. Two questions, if I may. The first is: seeing that you are now seeing better line losses and the windbacks and broadband are helping you, I'm wondering if you think that that will push you into positive fixed retail revenues later this year and is there any reason that we should be worried that the line loss improvements are anomalous or one-off or is this the sign of a continuing trend? And the second question is about mobile: a recent survey suggests that you are subsidizing significantly fewer handsets and spending a lot less on customers than your peers and I'd like to know if you think that's sustainable and if you are able to continue to get high-quality customers in mobile and see a return to your mobile subscribers by spending less than the rest? Thanks very much.

Thank you very much. Now I'll let the first question be answered by Marco Patuano and the second by Fabrizio Bona.

Well, the trend in domestic fixed assets has pretty much benefited by, on the one side, the quality we are delivering to our customers, it's not only a matter of a commercial offering, which is particularly good, it's also a matter of good quality. So, this is something that's long-lasting, the relationship with our customer base is improving, and it is extremely interesting that by reducing the number of line losses we are not only able to improve on the revenue side, it's remarkable the effect it has on the cost side. When you have to disconnect a customer you suffer costs and you renounce to revenues. So it's very... it's really very remarkable what we're doing. It's a 360 degrees (...) and we are reengineering all the processes. So, we are pretty much focused on fixed assets.

For what concerns the second question, I think it is important to underline that 95% of the Italian market is a prepaid market. That doesn't mean that the subsidization of the handsets is not directly related to the acquisition of new customers. And for what concerns the remaining market it's a postpaid market, of course we are managing more carefully the subsidization policy but we

are managing a mix between the former strong subsidization policy of the past and a new product that we'll present very soon. In other words, we think that our policy on subsidization is sustainable, I think also the fact that we see our acquisitions increase year-on-year... it's very important to underline that what we are doing is providing first results.

Thanks very much.

Thank you very much. Next question, please.

2. Ms. Micaela Ferruta from Intermonte SIM:

Good afternoon. Micaela Ferruta from Intermonte SIM. I have three questions, if I may. One regards the regulatory side: I was wondering whether, apart from unbundling, in the future we should expect possible interventions also on bitstream and then mobile termination as a consequence of the transition to the long-run incremental cost method? The second question: I would like to get, if possible, a little bit more color on wireline business data in the usual breakdown? Because there I see an ICT decline of around 9%. So if I can get some color on that and also on business data. And finally, I know there still hasn't been a full announcement, but there has been a lot of talk about this proposal of Wind faster than Vodafone for fiber. So, can you give us a comment? Would you agree to participate in a consortium? Or how do you interpret this move from your competitors? Do you expect any competition on fiber in the future? Thank you.

Thank you, Ms. Ferruta, I'll ask Calotta, our Chief Regulatory Officer, to answer to the first question.

Thank you very much. First of all, let me tell you what is the current situation related to the market analysis... on market that we implied. This is very important, because we are going to a deregulation, a complete deregulation of the voice call, including fixed-to-mobile calls. That can guarantee, I think in the next... at the beginning of 2011, to reach the so-called retention, that is the remuneration of the fixed operator. This is very important to understand, because this is related also to what we are doing on the mobile termination rates. In any case we think that margin will stay stable for fixed-to-mobile calls and a new model will be proposed by AGCOM at the end of the year. The new methodology, that is long-run incremental cost, we see that there could be a reduction in the termination rates, but this probably won't occur on the Telecom Italia margin. So, we are working and we think that at the end of the year we will have this new model that probably will be introduced not in 2011 but after.

Second question will be answered by Marco Patuano on the wireline business data.

Yes. Wireline business data and ICT services: it's a too dynamic story. We have products on one side, which are part of the offerings, we are selling less products, we do not consider in some cases that the products have to be given to the customers through the intermediation of Telecom Italia. It's revenues... those are revenues with a relatively or very low margin and we are not very much interested in pure reselling of products. In terms of services... of service revenues, in business data and ICT we're growing. We're growing between 1 and 1.5% in this quarter, which is a countertendency, if you consider that the market, the overall market, has decreased. So, in other terms, we increased our market share in the service revenues, both business data and... considering together, let me say, business data and ICT.

On the third question: of course I cannot comment on a project or a program that has not yet been presented. So, I will abstain from making major comments. However, I'd like to stress two points: first of all, reading from the leaks on the press, apparently there is a project on, besides the three... the three operators, to invest 2.5 billion to lay fiber in the major cities; of course this is not a next-generation program, but it's simply a program for infrastructure in a number of cities, which I consider very welcomed. On the other side, we are ready to share, as we did in the past with Fastweb and with... Fastweb on the fixed and with Vodafone on the towers, passive infrastructure. And of course we will be ready to consider whatever proposal goes in the direction of making the overall efficiency of the system in terms of investment more efficient, but of course we don't think that... and this has to be stated very clearly, that this does not imply that we will change, or we will accelerate, or we will decelerate or we will do whatever on our investment program. Our investment program remains what it is and I think it's a sound, very sound program, consistent with the free cash-flow generation that we have promised to the market and certainly there is no way that this will change medium to long term.

Thank you.

Next question, please.

3. Mr. Ottavio Adorisio from Société Générale:

Hi, good afternoon. I would have two questions. The first one is on the mobile segment. I've seen that you recorded better traffic volumes; but at the same time you've got unchanged revenue trends on the outgoing with a 14.1 decrease. Therefore, I was wondering if you could make some comments on the mobile price environment? And also if you actually, as you comment on that, could you say how this price environment can change as the NTR can probably fall significantly starting from 2012 as the regulators change the regulatory cost formula? The second one is on cash-flow: I've seen that you reported 205 million negative impact from other items. Given the size of this impact it's almost in line with the efficiencies you have actually delivered on the domestic side; I would like, if possible, to see some granularity, if you can tell us what's behind this 205 million? And... and that's it. There are some other bits and pieces, but these are the two main ones, please. Thanks.

I'll ask Marco Patuano to answer the first question.

Yes. What you say is correct, that if you look at the pure figure of the outgoing voice it seems to be in the same range of where we were one year ago... sorry, one quarter ago. The composition is quite different: there is, let me say, a price effect and there is a volume effect. The volume effect comes from the number of customers who are calling and second, the number...the volume of minutes that those customers are talking on our network. This is going significantly better, because the number of customers stabilized in April... it's growing, the volume of traffic is growing... so, we see very good dynamics on this side. The other parties, the price-per-minute, even if today the offerings we are launching are less, let me say, characterized by a price-per-minute tariff, in any way it's a good metrics. So, one year ago, in January, February, March 2009, we were right after the repricing. So, it's true that we were losing customers, but it's also true that the prices were very high. Prices started going down during the second half of 2009. Now, in the first quarter we have to face a comparison with a customer base which is stabilizing, with traffic volumes which are growing, but with a significant difference in prices. Now, what's going on? What is going on is that during the rest of the year prices in 2009 were lowering. So, we do not plan to further significantly reduce our prices in 2010. Now we will also concentrate on the high-end segment. So we do not expect to further significantly reduce prices, it will be just maintenance, and so the comparison will be much more favorable. That's the explanation.

Andrea Mangoni, our Chief Financial Officer, will answer to the second question.

Talking about slide 15, the negative impact on our cash-flow of 205 million gearing is mainly due to the consequences of the exchange rate between the real and... and the euro. Last year the impact was negative again for 362 million euros, as you can see on slide 15. So, the cash absorption is mainly due to the negative impact of the exchange rate.

Thank you. Next question, please.

4. Mr. Tim Boddy from Goldman Sachs:

Yes. Another question on mobile for me. Could you talk about whether you've seen... or what kind of competitive response you've seen so far in the mobile business to the new offers that you put into the market? Particularly as they started to get more attraction with customers. And then secondly, the hope is just to talk about any signs in the corporate market of recovery both on the one hand on the SMEs on the other in large corporate. Thank you.

Let's start from the second question. Pietro Labriola, the Head of the Business Segment will answer to this.

In the business segment we are facing today a good momentum, because in the last year we invested in terms of development of the new market approach; we moved, as we said several times, from a separate approach between fixed and mobile to a convergent approach. We merged all our sales force, we are merging our customer care, and it seems that the customer is appreciating this kind of new approach. If we give a look at the results in the first quarter, we have an improvement in terms of acquisition in the mobile, we are containing... we are containing the turn, always on the mobile, while on the fixed lines we are improving all the activities related to the turn on the fixed. This is mainly due to the fact that managing the customer at the same time on the fixed and mobile allows us to have a better... a higher level of stickiness of the customer. The fact that we moved as first operators towards this kind of approach allowed us to take a competitive advantage, and this is shown by the fact that all the other operators today are trying to follow us, but we are putting enough space... enough room between us and them, which will allow us to continue to develop further services. Last few words: if you give a look today, the last position as an integrated operator on the business gives us a real strength due to the fact that Vodafone is very strong on mobile but they have no capability, or they have low capability to develop specific services on the fixed line. They are able to offer plain vanilla services. Fastweb is strong on the fixed, but they have no real effectiveness in terms of mobile. Wind is an operator that is more

related to the, let me say, price-sensitive customer. Our position that is made on high-quality services and the integrated offer is giving us the opportunity to improve our numbers. And if we also give a look at the revenue level, we have reversed the trend in the first quarter towards the number of the last quarter of 2009 and the third quarter of 2009.

On the first question, that was the position of our competitors on the mobile data, I would simply remark that we are by far the leaders in terms of smart phones and in terms of marketing in quality mobile data. And I'd like Marco Patuano to answer on this.

Thank you, Franco. The Italian mobile broadband market in 2010 is expected to grow, let me say, something between 15 and 20% this year. There are ... there is a completely different positioning. First of all, we have to consider separately dongles and smart phones. On dongles there are two players which have quite different proposals that today are having an interesting.. a very interesting success on the market side: number 1) is TIM; our proposal has been very successful, we are growing quite significantly, month after month, the number of customers and what is more important is that we're pretty much efficient in using the spectrum resources and the radio resources; we are not for the time being having any kind of problem of congestion, data congestion on our network. Quite different is the positioning of 3, which is giving, for the same price we're giving, very, very high volume of traffic. Of course this is given to a significantly offloaded network. In the smart phones arena, I would like to answer to several thoughts I've heard on the market, that we're not playing very hard on the smart phone segment. It's not true. We're still number 1 in terms of smart phone customer base. We are investing money in this part of the market. We are interested in supporting this. At the next Dealer Convention, we will present a high-value offer, which we assume will be very well perceived by the market. I think it has been very important in the fourth quarter 2009-first quarter 2010, it's clear that we focused our attention on the cost-conscious segment, we recreated a different mood, we are working in order to have an on-net situation for the largest number possible of our customers. We are creating a community. Now, we are working again also on the high-end. We will be very focused on the high-end. We are in the smart phone market, as the other players. So, I'm very positive.

Could I just say... the question was more around the competitive response generally, particularly to the community offers, rather than specifically on data.

Say it again? Say it again, excuse me? We didn't hear you.

Sorry, I was just saying my question was more general around the competitive response to the new community offers, as opposed to just mobile data.

The new community offers in the retail market? Yes, yes.

Yes. Exactly. Thank you.

Okay. I'll ask Fabrizio Bona to answer on this.

The community... the community arena in the Italian market is, let me say, is very simple. There's Wind that based all or a big part of its proposition on community and that was, let me say, successful and represents a big part of its success. Vodafone uses the community, let me say, not as strongly as Wind, up to now there isn't any community offer... relevant community offer to the market by Vodafone and so the position is a little bit different compared to Wind, because it is not so focused on community. Of course there is a Vodafone community, but this is not the key of the proposition. What we are doing is to strongly focus on community, you saw the numbers in the presentation, we have over 1.5 million customers on community, in which we maintain a good ARPU and a good financial return. We want to push this offer and this offer is something that, let me say, can be managed in the market, because it's a completely different position from Wind, there's more value that Wind does and it's different from Vodafone because Vodafone is based on the concept of a community per call, and we are based on a concept with a monthly fee and unlimited calls and unlimited sms.

Just in a nutshell, we have not seen any competitive reaction to the community offering, also because our community offering is simply closing the gap that existed before between our pricing level and the pricing level of our competitors. Thank you very much. Next question, please

Thank you.

5. Mr. James Ratzler from News Street Research:

Yes, good afternoon. Two questions, please. The first one was just regarding your basic access line rental revenue, which went down around 7% on the year and is now kind of lapping the line rental increases you put through. I was wondering what you think is your scope to be able to increase your line rental revenues again and boost revenues in that area? The second question was just on

basic traffic revenues down 15% year-on-year: that seems to slip from the trend through 2009 of around negative 12%. I was wondering if you could talk us through, just on the fixed business, what's going on there? Is that a mix of price declines or are you actually seeing further acceleration of volume declines in the fixed line business? Thank you.

Marco Patuano.

Here I am. Sorry, the first question I just caught partially, I think it was on the access lines.

Yes. If you can increase the line rental charge there again as a means of accelerating revenue growth.

Yes. Well, you know, the line rental... lines price has grown in 2009 since the very beginning of the year. The change in price was starting from January 1st. It's... I don't want to say that the margin squeeze is one of the reasons of our success in terms of line losses or better performance in terms of line losses. Of course, we got a benefit on the revenue side for the wholesale, but let me say that we are working in a totally separate manner between wholesale and retail, of course. What we did on the wholesale we are just answering to all the requests of the wholesalers, we are doing it very appropriately. On the retail side we are working very much, as I told you before, on quality. Quality is the key to reduce turn, it's not just pure marketing offer, it's quality in delivering, it's quality in fault resolution and so on and so forth. You asked about traffic: yes, it's true, in 2010 traffic is still going down. The fixed traffic, of course, I'm referring to. There are several different elements that are... that we have to consider at the same time. One is... of course there is still some fixed-to-mobile substitution. This is something that continues, not only in Italy. It continues everywhere. In the large business customers, the voice over IP is having an effect, so it's clear that in the large corporate segment voice over IP is a factor. Of course, there is a quote that is coming from the reduction of the number of customers. The number of customers is reducing and this is one of the reasons. Keep in mind that selling flat or semi-flat packages together bundled with the internet boosts also the revenues in terms of internet and it seems to hit the traffic. This is one of the reasons of our success in broadband. So, we are selling double play, triple play, but let me say that double play is particularly well accepted by the market.

Thank you very much.

Thanks. Next question, please.

6. Mr. Frederic Boulan from Morgan Stanley:

Hi. Just to come back on the high speed rollouts and the question that was asked earlier. So we're having a (...) not only in Italy but across Europe selling their VDSL and SCTH plans. Can you comment on your thinking on that front in the mid-term both in terms of coverage and capex considered here? Or Italy's different with low-cable operators so it can take more time to go that route. Secondly on mobile: so you highlighted a 6 percentage point improvement in service revenues this quarter versus Q4; so you expect this space of improvement to carry on? And that means that we should expect this sometime to reflect somewhere around Q3? And lastly if you could comment a bit on the mobile pricing environment in Italy and your positioning versus peers and how you attract customers? Thank you.

Thank you very much. On the rollout of the high-speed network, I would say that the pressure on us is much less than the pressure that some of our cousins around the world have, because of the fact that in Italy there is no alternative cable operator that is putting pressure on us, and the broadcasting system has already been switched off... the analog broadcasting system has been switched off into the digital broadcasting system. So, the platforms for broadcasting are entirely digitalized and are either satellite or digital terrestrial television. There is no cable operator and there is no possibility of competing with the TV... with the broadcasters on the digital platform. So, I think that this puts off much of the pressure that companies like Deutsche Telecom, probably and other are feeling from cable operators. On the other hand, this will allow us to go on with our plan to enhance the network, laying fiber where fiber is needed. And we think that fiber is mostly needed in relying... in backhauling of base stations, so mobile base stations, to accommodate for the quite dramatic route in data traffic, in connecting all the... all the exchanges and providing fiber in the key metropolitan areas. This is what our plan envisages, and this is what we will be doing. So, no pressure to accelerate whatsoever. On the mobile, I will ask again Marco Patuano to take the floor.

Yes, thank you. We are not willing to use the price... the price lever as our main lever from now on. As I said at the Investor Day, as I said today, we changed the marketing paradigm, we're not selling the most convenient price per minute, we're just selling the best value for money, which is a completely different concept. There are customers who are cost-conscious, and so we are giving them at the same price much more volume, much more volume in a community environment, and it's extremely important to look at a figure, which we have not included in our presentation but that's very important, that is the customer perception. Customer perception is improving in the market analysis we're doing. Customers are considering our offering clearer and more convenient. More transparent and more convenient. Keep in mind that over 55% of the community offerings we

are doing is accretive in terms of finance spending of the customer. So, we have not positioned TIM as the operator with the lowest prices. We have positioned TIM as the leader, TIM leader in innovation, TIM leader in perception in terms of value for money. We are working on quality, we are working on our customer care, we are working on the network, we are working on price schemes that have to be very clear. So, if compared to the tariffs we had a year ago if... today the average tariff is lower, this is 100% true; if we do consider tariffs as the killer up in order to compete, the answer is no. We want to deliver the best value for money to every segment of customers.

Okay, thank you.

Okay, next question, please.

On my... on my question on the kind of progression of revenue growth at TIM?

We keep our... we keep strict to the same guidance we gave during the Investor Day. We expect to return to a positive figure for sure in the fourth quarter. We do expect at the end of Q3 to have a single month in which we will show a positive growth. Our challenge is to return on... on having a positive... we don't change our... our guidance versus what we said a few weeks ago. It was expected a significant reduction in... in Q1 of the best performance we had in Q4 2009. We did. Q2 will be tough, because of... there is still a significant average price difference and the increase in customer base and the increase in volumes of traffic will not offset in Q2. So, Q2 will be tough. I'm positive. I stay with the guidance we gave to the financial community.

Thank you.

Thank you, Marco. Next question, please

7. Mr. Simon Weeden from City:

Thank you, but you just answered my question... with the previous answer. Thank you very much.

You're welcome.

8. Mr. JP Davids from Barclays Capital:

Thank you. Two questions, please. From Mr. Bernabè's slides, slide 8: looking at the focus on the efficiency program and the progress you've made to date, it looks like that marketing and distribution there's been very little saving to date, and I assume that's deliberate and will be accelerated in the second half of the year. Is this a correct assumption? And then on slide 15, also from Mr. Bernabè's pack: on the net debt dynamics, excluding Hansenet and TI Sparkle, it looks like cash-flow in the quarter was about 300 million euros. Now, that seems quite a big difference to net income of 600 million. Is that mostly working capital-related and should we expect that to converge over the course of the year? Thank you.

Yes. On the first question that you asked, which is the efficiency program, not only we are... I think that most of what was needed to be done in terms of efficiency marketing and distribution has been done last year, and we are investing quite heavily this year in terms of advertising and in terms of other distribution costs, although this is partly compensated by the further efficiencies that we are making. So, it's a balance of pluses and minuses, that means that we're spending more on the relevant items that allow us to push on the sales and we are saving on inefficiencies. So, I would say that this... I think we have given the figures on advertising and on the sales-related figures... on the sales-related expenditures, that Marco Patuano gave, that were quite clear compared to this. The second question concerning debt: yes, you are right, it's partly related... to a large extent related to working capital and it will converge... it will converge; if you look at the normalized net cash-flow, that is on page... that... it's almost doubling with respect to the previous... with respect to the previous year, and the... of course, the Hansenet positive impact has been compensated by the Sparkle impact. So, normalizing it it's improving. But let me add one comment, which... I mean, I'm brought to this comment by the fact that you're asking about debt, because I think that... I've seen what's happening in the market in the afternoon, of course this... I mean, frankly, I think that this is an exaggerated reaction to what is... what the peers are probably spreading in the market on Italy and on the global financial situation. I think that this is totally, what is happening is totally unjustified and is totally incredible, because as I see it, and let me comment very sincerely, I see the Italian situation very solid, very robust, much more robust than many other countries, and I see within the Italian situation I see the situation of Telecom Italia even more robust. We have a debt which is very well structured, a liquidity margin that will allow us to remain out of the market till the end of 2012. So there is no justification whatsoever in a framework where things are improving and you see it very clearly from the first quarter results, and we have a guidance that we are very confident... that we rely very much upon and we are very confident about, that will take us to improve our... to improve prudently our dividend yield... our dividend yield

over the medium term. So I think that what is happening is really... I'm somewhat astonished and I think it's completely unjustified and incredible, really. Thank you very much.

Thank you.

Next question, please.

9. Mr. Justin Funnel from Credit Suisse:

Thanks. A few questions, sorry. Probably it's just me, I didn't understand the answer on working capital. Could you give us a bit more clarity on how we go from, you know, EBITDA of 2.8, capex of billion 2, operating free cash-flow of 754... what is the cash, what is the working capital and what's driving the working capital moves, please? And how would that cause convergence over time? And the trends on working capital, please? Secondly, now that we've had a little bit of time to look at your change in business model, I was just wondering if you had any more thoughts as to what degree your performance in Italian mobile has been affected by the change in the business model on handset sales? To what degree do you think your share of gross ads of active customers, let's say, has been affected by that move? You know, have you lost 5-10% of share of gross ads from that move or has it been a total free ride in terms of no impacts on your service revenues from making that shift? Thirdly, a very big move on your interactive VAS revenues a substantial improvement in the year-on-year revenue trends, can you discuss a little bit more what was dragging on that trend? Why it was much weaker in 2009? And why it suddenly changed so much? I've got a couple of more questions as well, it's hard to speak every three months, perhaps I could ask these as well? To what degree has the situation with Sparkle affected your ability to offer competitive terms in the ethnic segment? You're still pushing hard in ethnic or have you had to pause for a while? Yes, that's my question. Thanks very much.

Okay. You're asking lots of questions, I'll have Marco Patuano answer to the second part of your question and then I'll come back.

Okay. Mobile fixed... you have made a very correct statement, we changed the business model and it is particularly true. Up to 2008... let me spend a few words... until the end of 2008, our strategy was quite a lot handset-driven. So, we were convinced that in order to lock in the customer a very important tool was changing the handset. A demonstration was that we have sold more than 8 million handsets in a single year. Starting from 2009, sorry... a second event at the end of 2008

was that there was too much pressure on prices and we decided to make a repricing, in order to reinvest the repricing in 2009. In 2009 there was the first change in the paradigm, we decided that selling the pure handset sale was not the right way to keep customers, and it was particularly true if it was referred to those handsets that were not enablers of new revenues. I mean, low-end handsets. So, we decided to reduce quite significantly the number of handsets we sold, and let me say that reducing the number of handsets, especially low-end, had not affected our marketing positioning. On the other hand, what happened was that the repricing happened in one of the most difficult macroeconomic scenarios. Quite honestly, Vodafone reinvested the price increase much more rapidly than what we did. And so we lost market share, we lost customer base calling, especially in the cost-conscious segment. Look, cost-conscious does not mean low spenders. It's a different concept. Cost-conscious is a person who gives a different value to money. Now, in the second part of 2009, we stayed at the same strategy with reference to handsets. We are interested in working together with the handset manufacturers for VAS enabler handsets. So, we are selling smart phones, we are leaders in terms of the number of smart phones on the market and we are by far leaders in terms of dongles in the market. What we understood is that our marketing proposal had lost appeal in terms of value for money. And since we didn't want to enter a price war, because simply reducing prices was a direct and frontal attack to other competitors, we decided to completely change our offer. At the beginning, it translated into a cannibalization which was... which was forecasted in our plans, when you make a very convenient on-net offer, the first customer who optimizes his position is the one who is already your customer, so we had at the beginning, I mean in November, December, a phenomenon of cannibalization. The market understood the value of this proposition, the reaction was good. In terms of gross acquisitions in December we had the same level of 2009... 2008, with much less handsets... so with much less costs. In January we started to increase the number of gross ads. In April we are by far much higher than April 2009. It's double-digit and it will be one of the key drivers. Of course, as I told you before, the first part was we lost customers in the cost-conscious area, we focused first on the cost-conscious segment, we are ready to go on the high-end, we are ready to present at our next Dealer Campaign our high-end offering, we will not leave space to other operators who want... who are supposed to have free food on the high-end.

Given the fact that you asked very specific questions on... on operating free cash-flow, I'll ask Stefano De Angelis, our group controller, to answer on this.

Yes, moving to page 10, when you see the net cash-flow evolution, you have a reduction of the... a negative impact of the... on the operating figures compared year-on-year, that is 150 million, but just to explain how this is generated, you start from 2.8 billion of EBITDA, then you have 1 billion of

capital expenditure, so you have an EBITDA less capex of 1.8 billion. Then you have approximately 1 billion of negative impact in terms of working capital. What is important to say is that this working capital impact is something that is a seasonal impact, last year it was 900 million and this year it's approximately 1 billion and this change is mostly related to the negative impact of the real compared to the euro. So you are right too, 754 million euros of operating free cash-flow. Then, what is important to say is: TI Sparkle has no impact in this quarter in the operating free cash-flow, as you can see there is an impact of Sparkle but it is still related to the amount that was frozen in our bank accounts... when we will settle the TI Sparkle issue, we will have a negative impact on the working capital because the 507 million fund was created in the past due to the restatement in a risk fund of the working capital. So, when this will happen, the settlement of the TI Sparkle issue, we will have a negative impact. Excluding this impact, we expect to have in the full year, let me say, an operating figure that is more or less in line with 09.

Thank you very much. Next question, please.

10. Mr. Giovanni Montalti from Cheuvreux:

Hello. One question on the innovative VAS. I noticed you got back to around 300 million euros for innovative VAS; this is a level we were not seeing since 2008. I just wanted to understand if we can, let's say, expect this kind of massive rebound also going forward in 2010? As for the access line, the line losses on the fixed side, it was a strong trend... it was a strong data in Q1 but focusing on the indication that you provided in the business plan, it seems to me that you're targeting less than 1 million line losses. So I wanted to understand if you expect a sort of deterioration going forward. Thank you.

Marco?

The second answer is... is quite short.

Yes.

So I... we probably will have less line losses. April is confirming the further... the data of the first quarter. And the new regulatory scenario is... is helping us and probably boosting this trend. So, it's quite likely we can outperform the number of line losses.

Sorry, I didn't catch it... so you expect to do better than 800,000 line losses in 2010? Because, I mean, if I take the data of Q1 as an indication for the full year, it means less than 800,000 line losses.

Well, that's ... that's fair enough, let me say. We said it was less than 1 million.

Yes.

You're already saying 800,000. 800,000 is well less than 1 million. If we can do better? I hope so, but for sure less than 1 million.

Okay. So in Q2, Q3 you might have higher line losses than the ones that you had this quarter?

No, I don't expect to have higher.

So you are quite confident of the 800,000 line losses.

Yes. I'm...

You are quite confident...

I'm confident for the 800,000 but you know... let's... let's...

Let's be cautious.

Let's see the rest of the year. For the time being, let me say, April is confirming January, February and March. The first half I'm positive. And then we will go on. Next generation value-added services. As you saw, the web and WAP, the web services are growing approximately 40% in the first quarter 2010 versus the first quarter 2009. Of course this is the main driver. In terms of traditional value-added services, like messaging, like traditional contents, I don't expect pretty much... a big difference versus what we are doing now. We are having a very interesting commercial success of our... of our dongle offer, we are ready to launch a good offer for small screens, so it's on the HTTP and the website... mobile website that the growth is coming.

I just want to add a quick comment...

Just sorry...

I just want to comment on the line losses, because what we have stated and Marco reiterated is that we are facing an improving situation, we have given a guidance on this that we stick to. What is happening now is the consequence of the fact that we are facing a more balanced competition. I mean, Telecom Italia was unfairly treated in the past in terms of competitive pressure, in terms of asymmetric regulation, now we are moving to... I wouldn't say a more symmetric regulation, but a less penalizing framework. Thank you very much.

Sorry, could I follow up? Could I follow up one second?

Yes, please. Just a short comment because I'm taking just one more question.

Yes, sorry, briefly. If I look at your domestic revenues and I sum up the wireline and the wireless component, I do not yet come... to the let's say, total because there is a quite material inter-company element. I was noticing that this inter-company elimination element was growing double digit around 15% in this quarter while the total net revenues are going down high single-digit. And this trend was quite visible even last year in the full-year 2009 data, so I wanted to understand how it can happen that the elimination grows while the total revenues go down? And very lastly should we see a very, very generous offer on TIM Brazil, would you consider the disposal? Or your partner Telefonica might be interested in, let's say, trying to unlock the situation in Brazil. Should we consider a scenario in which you see Brazil as something to be rolled out or it's a question of price? Thank you.

I mean... on this last comment, I mean, everything is a question of price, but I really don't want to comment on this, because it's completely out of the framework that we presented in our plan. On the first question, it's mostly the relation between the fixed and mobile in terms of fixed... of the calling of the mobile lines. One more question, please.

11. Mr. David Strauch from ODDO:

Yes, thank you. One further question regarding the plan of the alternative operators to build a SCTH network: to which extent do you consider that it could be linked to the increase in the ULL tariff and also do you consider that it could (...)your wholesale revenues going forward? Thank you.

I think you'll have to ask the other license operators what pushes their project, but... of course, you see, the taste is in the pudding. We'll see what happens next on this front. Thank you very much.

Yes. Thank you.

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