

1H 2012 Results

Q&A session:

Alex Bolis – Investor Relations Officer: Ladies and gentlemen, we are now pleased to take any of your questions. You may register for your questions by pressing star followed by 1, to cancel your reservation, press star followed by 2. Please begin now.

1. Mr. **Luigi Minerva** from **HSBC**:

Q - Luigi Minerva: *Yes, good afternoon and thanks for taking my questions. I wanted to go back to you remarks about the European Commission's statement on NGN regulation. And I wanted to ask you how it will affect your future strategy, particularly on two levels: firstly whether we should expect an acceleration of your fiber deployment compared to your previous guidance? And secondly, how this will change your position in any discussion with Metroweb and Cassa Depositi e Prestiti? Because I understand from your previous statements that one of the reasons for you to consider a potential partnership with them on the network side was to get a better regulatory environment, but now that the regulations seem to be improving any way I struggle to understand why a company like Telecom Italia would want to share its natural leadership role in network deployment. Thank you.*

A - Franco Bernabè – Chief Executive Officer: Well, thank you for your question, because it allows me to make a few more comments on the decision that was made by Neelie Kroes and that changes quite substantially the attitude that the European Commission has had on this matter in the last several years. Now, the idea that we have now a stable, long-lasting regulatory framework, that we have no cost orientation for the next-generation networks and we have no policy-oriented reduction in copper prices is a major change in the regulatory approach, both at the European level and then we will see it also at the national level, which allows us much more flexibility and I think that we will see the opportunity to use this flexibility in order to explore all kinds of alternatives that we have. But for... I think we must stress very strongly that, although we are exploring possibilities, we are not in any case thinking about losing the control of the network. I think you're right, the network is one of our very important assets. Of course, it's not the only one, it's what we consider a very, very important asset and this asset will remain with us for a very long time. So, there is no doubt about this. I think that what changes, but not only for us, but for the entire telecommunications world, is that, of course, we can now look much more positively to the future. We will not, of course, accelerate the deployment of fiber in the network, because, of course, it's now at an early stage, because it's simply an indication, a policy orientation on the side of Neelie Kroes. We will see the final decision that will be made by the European Commission at the end of the year and then we will see how this will be received by the national authorities, but, as we've always said, our network deployment, the fiber network deployment, next-generation network deployment, is customer-driven and is profitability-driven. So we will not, in any case, do anything that will compromise our overall targets that are... for the medium-term still very strongly committed to the deleveraging of the company. Thank you very much.

Q - Luigi Minerva: *Thank you.*

2. Ms. **Micaela Ferruta** from **Intermonte**:

Q - Micaela Ferruta: *Good afternoon. I have a first question on mobile service revenues: would it be possible to have a normalized performance of service revenues altogether, so not broken down by consumer and business for Q2? And possibly an indication on June or July, whether there's been any further deterioration or not in the trend. And then on the corporate segment, generally I think in your guidance you said that you expect an improvement, a moderate improvement in the corporate segment driven by ICT, but I see that ICT revenues are actually down. So just... maybe you can give us some color on why you said this. Are you seeing any price pressure decreasing, as contracts are being renegotiated, for example? And I have a final, quick question on opex in the second half of this year. What is the trend likely to be, excluding interconnection, which is clearly going to go down, for domestic of course? Thank you.*

A - Franco Bernabè – Chief Executive Officer: Sorry, Micaela, could you repeat the very last question?

Q - Micaela Ferruta: The very last question is...

A - Franco Bernabè – Chief Executive Officer: The very last one. Sorry.

Q - Micaela Ferruta: Yes. Domestic opex trends in the second half of the year, but excluding interconnection, which I expect to be down, clearly, because of the MTR cuts.

A - Stefano De Angelis – Group Controller: Okay. First of all, if I give a look to the revenue trend without splitting by segment, do you ask me splitting or not splitting? Not splitting. It would have been service revenues mobile -5.7% in Q1 and -6.2 in Q2, given the fact that the impact is mostly on consumer and much less on the corporate. Second, your question on ICT: ICT in Q2 was up, it was not down, and slightly up, but up. The reason is that in Q1 most of the traditional services, the relatively more traditional services included in ICT, were submitted to a renegotiation process by the customers which tends to impact fully on the quarter and on the full year and during the rest of the year we continued to aggregate new contracts. Another reason is that we have to be careful looking at the part of the ICT that were sales and the part of the ICT was represented by services. In the sales we are much more prudent, because margins are much lower, and so we don't want to finance for the full... for the sole negotiation of equipment. Then, last part is on opex: there is a chart in the presentation, at the very end. You will see the progression on handsets, marketing and commercial, industrial, so there is a... the full split, not only taking away the interconnection, but splitting all the rest. So I think it's quite self-explanatory if you give a look to the annexes. Thank you.

Q - Micaela Ferruta: Thank you. I was also asking about mobile service revenues in June and July, just to understand whether there was a deterioration in the first...

A - Stefano De Angelis – Group Controller: Of course July is not something we disclose. I would say that July is almost in line with June. The most interesting element... of course, keep in mind that in July we have we had a massive cut in MTR, but I think that this summer the most important part is that especially one operator is much more aggressive than in the recent past. And we think that this is something that has to be considered in the rest of the year if we recover to some more rational behavior or if we are entering in a new phase. I think, given the macro situation, being rational is in the interest of the whole industry. Thank you.

Q - Micaela Ferruta: Thank you.

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

3. Mr. Georgios Ierodiaconou from Citigroup London:

Q - Georgios Ierodiaconou: Yes, good afternoon. I have two questions. The first one is a follow-up on your comments about the European Commission; they have provided assurances that there's no downside risk to the unbundling fees, but in the past AGCOM was setting the fact that access lines were declining, the ongoing increases in unbundling fees in Italy. How can we look at your future returns on the operated access network in an environment where access lines continue to come down yet the unbundling fee remains stable? Are there any other ways you could offset that? And my second question is on network sharing in mobile: in the past couple of months we've seen a couple of active and network sharing agreements, most notably in the UK, and I wanted to get your view on active sharing and whether there are any barriers that prevent you from duplicating this model in Italy. Thank you.

A - Franco Bernabè – Chief Executive Officer: Well, on the first... okay, Marco will answer the second then I will... okay.

A - Marco Patuano – Chief Operating Officer: Let me... let me touch on the first one. You are right when you say that there are lines going down, but what we see today in the market is that the lines that have been cancelled are the low-value lines. What do I mean with low-value lines? They are lines without broadband. So why is it so important that broadband... that the regulation for broadband is this new one? Because today we saw in the Italian market several retail offers that have been so aggressive that we think that an overall regulatory environment that sustains or that says clearly that

there is no way for further discounts on wholesale prices will drive the retail price to a more rational behavior. So, this is the reason why on the traditional ADSL I think that the whole market will benefit and with a correct pricing of ADSL you can correctly price also the NGN. So if you don't price correctly the 10 mega or the 20 mega, it's very hard to also price correctly the 30 mega or the 50 mega or the 100 mega. So, it's extremely important to be rational on this. Thank you. And the second I'll leave to Franco.

A - Marco Patuano – Chief Operating Officer: Network sharing on mobile: well, I... Marco again. Today we are not looking for network sharing in Italy. I think that what prevents mostly these kinds of exercises is the fact that we have a very strict regulation in terms of electromagnetic regulation. We are, of course, sharing sites. We want to share more sites. Sharing sites drives down the cost, the overall industrial cost of the network. But today we think that it's very hard to reach an agreement on a more robust network sharing in the mobile. So, we, for the time being, are not looking at it.

Q - Georgios Ierodiaconou: Thank you.

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

4. Mr. Mathieu Robillard from BNP Paribas:

Q - Mathieu Robillard: Sorry, yes, hi. Good afternoon. Thank you very much. First question on wholesale prices: I think you said in the past that you were expecting wholesale prices or at least a framework for determining also prices to be communicated by the regulator around Q3 of this year. Is it still the timetable that you're expecting? Or has it changed with the recent EC comments? Could it be delayed? And second with regards to Brazil: you've announced that Mr. Mangoni is now managing the Latin American division. Should we understand that he will be directly managing TIM Brasil or are you still in the process of looking for a CEO for TIM Brasil? Thank you.

A - Franco Bernabè – Chief Executive Officer: On the wholesale price let me also add a comment on the previous questions... on the previous question: I think that what the Italian regulator... the approach of the Italian regulator in the past was very rational and I think that, as you know, we have been the only or one of the few operators that have had their unbundling prices increased in the last few years and the rationale for this policy has been now also shared by the European Commission. I think that behind the thinking of the European Commission there is also a lot of work that has been done by the Italian regulator. So I think that this will continue to be... to set the pace for the decisions of the Italian regulator. Now, of course, they've just been sworn into office and they'll decide their own agenda, but I think that it will follow very closely the thinking of the regulator so far. So we will see no major changes. On the second question on Mangoni, Mangoni will oversee and supervise the Latin American operations and I think that, as concerns TIM Brasil, he will stay as long as is needed in order to fix the problems that we have encountered recently, and then he will manage the overall operations. Thank you very much. Next question, please?

5. Mr. Nick Lyall from UBS:

Q - Nick Lyall: Hello. I had two questions, please. On TIM first. Could I ask how are operators approaching the termination rate cuts with retail prices? Have you seen operators moving to cut retail? Or do you think they are going to keep retail prices higher despite the termination rate cut in mobile? And then secondly, could you talk a little bit about why data ARPU slowed significantly in this second quarter? And the final one was: I think Marco you mentioned so far in July you hadn't seen a big change to TIM trends, but is the same true effects as the property tax so far made no change to fixed trends in July as well? Thank you.

A - Marco Patuano – Chief Operating Officer: Okay. Let me start with MTR first. I think that the major change will be a substantial move from a pay-per-minute offer, or a community offer, to a bundle offer. I think that the on-net/off-net pricing strategy will become less and less valuable and more attractive... a sort of any-direction tariff plan that will allow the customer to call on-net or off-net without any difference. We are already moving our offer into this direction. I think that, at the same time, it is also quite important the change in sms termination rates. Also this will work in the same manner: so, more bundles and the bundle will also help to keep these kinds of revenues without cannibalization from data mainly on messaging but also on... increasingly on voice. So I think that

the MTR cut and the sharp cut will work in this way. The second question was on ARPU data: in the consumer segment, I would say that it is almost flat. Of course, when you increase so massively the penetration of the small screen, it's clear that you will start catching people with a lower propensity to a massive usage. So this is something that has to be kept in mind. In the corporate segment, we adopted consciously, we made a decision, since the penetration is very high but we saw too many customers with high spending that was mainly driven by a sort of mispositioning on data tariff plans. So we decided to proactively reposition them on more adequate tariff plans, so we decided to limit these very high increase in data revenues, because we think that sooner or later we had to pay the bill. So it's better to be proactive and work on the fidelization of the customer. Revenues fixed July: I see them almost in line with June. Remember that a year ago we also had the effect of the monthly fees we increased. This year, given the economic situation, it was not very popular to increase once again the monthly fees, so we decided to act only on price simplification, which is working, I would say, fairly well. So I don't see July revenues very much different from June. Thank you.

Q - Nick Lyall: *That's great. Thank you.*

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

6. Mr. James Britton from Nomura:

Q - James Britton: *Thank you very much. I've just got one question, really, on the cost side. Can you just clarify what the change has been to the labor law and how that might impact your ability to introduce headcount plans? And what plans do you have to initiate another round of personnel reduction in the medium term? Thanks very much.*

A - Franco Bernabè – Chief Executive Officer: The changes in the labor law have made more flexible the restructuring of the labor force, of course with some constraints, but they represent a big improvement compared to the past situation. I don't think that they will have any major impact in positive or negative terms on our policies, in fact they will help our policies in improving efficiency on... of course, one of the major impact was the pension reform that was taken six months ago and that has brought retirement age from on average 60 years to now 67 years. So that will make a big difference. But I think we have shown in the past to be capable of innovating very much, of finding innovative ways to improve our efficiency, and we will keep in the future along the same lines. I think that we have no major restructuring problems to introduce. Of course, there will be efficiency gains that will be obtained over the next few years, there is a precise plan and, perhaps, given the role of Italy with respect to this, Marco will elaborate on this, but I'm very positive. I'm positive on the reforms. I think that the reforms have introduced a great improvement in the Italian environment and will help us also in our restructuring processes.

A - Marco Patuano – Chief Operating Officer: Yes, just two comments. One is: even if the welfare law has been changed, our plan, our project that was intended to have an early retirement for a precisely identified group of people who were close to the age of retirement has been confirmed. So we will benefit for early retirement procedure for another 2000 people with the old parameters of the law and not with the new one, which is quite important. And this has been possible because we... last year we have been the first to agree with the government on this restructuring process. Second, more structural: I think that when you look globally to a traditional telco operator we tend to consider the employees all together and inside the employees there are many different professionalities. And different professionalities ask for different treatments in terms of rationalization. You can't apply the same medicine to customer care or field technicians. So we have fairly little problems in some sectors in which the internal cost of labor is very much the same, if you compare with the outsourcing, and there are other areas in which what we need is to reduce the overall cost of labor, which is not only the wage, it's the overall cost of labor. There is a third group of activities in which we simply have to be thinner. So we have to reduce our total number. So I think that this is quite important. Let me just underline a very, very last comment: you know that this year the national labor contract was expiring, which has not been renewed for the time being, which is giving us for the first half a benefit in terms of total cost of labor. I'm fully confident that the Unions will agree with us a good new plan for a good new contract for the next horizon. I really very much appreciated the fact that the Unions approached the discussion table with a very constructive approach. And this is extremely important not only for Telecom Italia, but for the whole country. Thank you.

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

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

Q - Tim Boddy: Yes, thanks. I had a couple of housekeeping questions. The other line in fixed... in the fixed line domestic business grew nearly 30% year-on-year. I wonder if you could just clarify what's in that. And then if you could update us on your progress in potentially looking to dispose TI Media, which on these results I guess has negative EBITDA and significant debt. Is it really possible that you could dispose such a business? Lastly, I just wondered if you could help me understand just once again the dynamics in mobile: it sounds like from what you've said June was materially weaker than the 7.5% decline overall you reported in service revenues and you're about to have an MTR cut of 50% on roughly 10% of revenues. So I just... I mean, it sounds to be like that business could be down as much as 15% in the third quarter. I just wondered if you could make sure I didn't misunderstand anything in that trend. Thanks very much.

A - Franco Bernabè – Chief Executive Officer: Sorry, Tim, could you repeat the first one? We didn't get exactly the first question.

Q - Tim Boddy: It was just: in your domestic fixed business there was quite strong growth in the other line and I wondered what was in that. Because it grew quite sharply. We can perhaps pick it up offline.

A - Franco Bernabè – Chief Executive Officer: Yes, I think we can pick it up offline.

A - Moderator: Okay, we'll take this one with more details.

A - Franco Bernabè – Chief Executive Officer: ...something that you were mentioning. Next question, please.

Q - Tim Boddy: And sorry, just on the... on the clarification about mobile would be really helpful. Have I understood properly that June was materially worse than the rest of the quarter? And then you have to add the MTR cuts on top to get a trend for the third quarter.

A - Marco Patuano – Chief Operating Officer: The MTR cut ... the MTR cut is not... well, of course it's affecting the top line, but, as I explained several times, it will not affect our profitability, because what is important to say is that we offset the impact on profitability because of the interconnection costs. So we have almost 1/3 of the market in the mobile but we have 2/3 of the market in the fixed lines. So this, of course, when you look at the balances, this ends up with a slightly positive effect on marginality. So, it's true and it's exactly the reason why this time I underlined that the usage generated service revenues, because in our case, of course we are slightly different from the rest of the market, but in our case any cut in the top line for MTR is offset at the EBITDA level. So, then, yes, June was slightly worse than May, mostly on business and top customers, but I don't think it will be something that will structurally prevent us from reaching our targets. On consumer, of course, keep in mind what I said at the beginning, some extra competitiveness in the market that in July is still there but we see early signals of a slightly better trend. I think you asked on TI Media, if I was not wrong?

Q - Tim Boddy: Yes, thank you.

A - Franco Bernabè – Chief Executive Officer: On TI Media the process is proceeding, we have a number of declarations of interest, there is a very formal process going on, and we will announce as soon as we have something to announce we will be announcing it, but our forecast is that we will be closing by the end of the year. Thank you. Next question, please.

8. Mr. **Torsten Achtmann** from **JP Morgan**:

Q - Torsten Achtmann: Good afternoon. Two questions, please. The first one on working capital: it has shown significant improvement in the second quarter, looking to the rest of the year, do you think you can get working capital consumption into positive, i.e. that working capital can start to produce cash for you? Or

is that... would that be too optimistic? And the second question is on Brazil, where, round the top line was 7% in the second quarter; where do you expect acceleration in the second half from the second quarter will come from? Is it mobile data or is that elasticity on the MTR cuts? Thank you.

A - Franco Bernabè – Chief Executive Officer: Thank you. I'll ask our Group Controller to respond. De Angelis.

A - Stefano De Angelis – Group Controller: In the... in the first half we had a positive contribution, in terms of comparison year-on-year, from the working capital of 60 million. As you remember, we had a completely different result in the first quarter and we were quite confident to recover soon. For the second part of the year, our expectation is to maintain or have another slight improvement in this comparison in terms of year-on-year. Just keep in mind that last year we had a negative contribution for the working capital for the full year of approximately 400 million. And this year we expect to have a better figure, as we stated, of approximately 100-200 million.

Q - Torsten Achtmann: Okay. And, sorry, just to clarify: that would be less outflow and not inflow of 100-200 million.

A - Stefano De Angelis – Group Controller: Less absorption, so outflow.

Q - Torsten Achtmann: Okay, perfect. Thank you.

A - Stefano De Angelis – Group Controller: You asked about the second half in Brazil: the situation in Brazil, if we look at the fundamentals of our industrial plan and our budget, we are confirming the situation that we still consider to have very huge opportunities coming from the voice, data and broadband wireline markets. In the second quarter we suffered the impacts of the MTR and an aggressive reaction from our competitors. We have in our forecast the adoption of a new tariff plan that will confirm our innovative approach, the data and the value-added services are still confirming a very important growth of 40% in the second quarter. Long-distance is suffering, just because our competitors copied our offer, but considering our pure mobile approach in the voice we are confident that we may find new revenue streams that will give us the opportunity to confirm a double-digit growth for the second part of the year in the top line of Brazil.

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

Q - Torsten Achtmann: Thank you.

9. Mr. James Ratzler from New Street Research:

Q - James Ratzler: Yes, thank you very much. I have two questions, please. The first one was just regarding your fixed line consumer tariff simplification that you put in from July this year: I was just wondering if you could run through there exactly what you've changed in a bit more detail and what impact do you think that can have on revenues, both this quarter and beyond? And then the second question, please, was looking beyond 2012 and into 2013 and 2014 I think your... the industrial plan you set up in February of this year was to look for domestic EBITDA stabilization. I was wondering if you could just confirm to us that you're still happy with that outlook and, if so, what do you think will be changing from here to drive that improvement in EBITDA? Is that driven by the economy? Is that something structural in the business? Or is there more cost cutting you see to bring the EBITDA trend back to stable? Thank you.

A - Marco Patuano – Chief Operating Officer: Okay. The first question is the new price simplification. In Italy the pricing structure for the fixed was quite traditional and, let me say, technologically speaking, quite old-fashioned. Because until one year ago we had different prices for peak hours and off-peak time, we had different prices for working days and non-working days, long-distance and local calls. So, it makes the whole portfolio very complicated to communicate, nobody at the end knew exactly what was the price, apart from very general convictions, like "local calls are cheap" or "long-distance calls are expensive". And then if you asked people "what's the price?" nobody knew it. Even worse because the mobile started to clean up all those differences: so, no difference between peak and off-peak, no difference between local calls and long-distance calls, and people enjoyed it, because it was much easier to communicate, much easier to understand. So, one year ago we cancelled... and, very last, the industrial price of a long-distance call and a local call is very much the same. So, what we decided one year ago was: step 1, we cancelled the difference between

peak and off-peak, and working days and non-working days. This year, we have cancelled the difference... we have just one plan, simple tariff, that is fixed-to-fixed calls, national calls, no matter if it is local, no matter if it is long-distance, it is night or day, Sunday or Monday. So, just one simple tariff. Of course, once it is clear, people use it slightly more and then, when you fix an average price, of course, with such big volumes, also small roundings can make the difference. I'll leave to Franco for the second part of the question.

A - Franco Bernabè – Chief Executive Officer: You're asking us what will happen in 2013 or 2014, but you see that the markets don't even have the visibility for the next two or three hours, so I must say that it is a little bit difficult to answer to a question like this. But, in any case what I can say is that we have been managing the company under the worst conditions since the Great Depression of the 30s, and what we promised, especially in terms of debt reduction, and therefore of cash-flow generation, we achieved. We promised to be below 30 billion at the end of 2011... around 30 billion at the end of 2011 and we achieved that. We promised a further decrease in our debt level in the next two years, which will be driven mostly by the stability of the EBITDA generation, and we will achieve it. So, the only thing I can say is that, despite the fact that the macroeconomic environment is so bad, we have done all necessary... whatever was necessary, in the particular circumstances in which we have managed the company, to do whatever was necessary to achieve our targets. And this we will continue to do.

Q - James Ratzer: *And do you think... is...*

A - Moderator: Yes? Please continue. Do you have a further remark to make?

(...)

A - Franco Bernabè – Chief Executive Officer: We have probably lost the line with somebody. Well, next question, please.

10. Mr. Stanley Martinez from Legal & General Investment:

Q - Stanley Martinez: *Good afternoon, gentlemen. And thank you for taking my single question, which is back to the year-end net debt target. I recognize there's always been a second-half skew to Telecom Italia's net debt reduction due to the timing of the dividend payment. But even so, and even bearing in mind the 770 million of debt tenders announced last month, I think that the 2.4 billion euros required this second half seems to many of my counterparts to be a bridge too far. So my question is whether having already captured better-than-seasonal working capital contribution in Q2, is it right to use the Telecom Italia Media proceeds and the normalized 2.4 billion euros of free cash-flow generation from 2011 as the actual bridge to your year-end targets and maybe whether there are any additional levers that you might deploy around that to achieve your target? Maybe on cash taxes, or on capex, or in, you know, commercial costs in the domestic business that we were not immediately thinking about.*

A - Franco Bernabè – Chief Executive Officer: Well, I mean, the math is simple: last year we had an outflow in the second half of 2011 that was in the amount of 1 billion 223 million euros for the Italian LTE license, then we had 446 million euros for the acquisition of AES, that means that, given the amount of cash that we have generated in the second half of last year, which was 2.4 billion euros, I think we are more than comfortable in getting to the targets we have said. Our plan, of course, allows for contingencies, for example a speed of NGN investments is demand-driven if the economic recession continues and consumer demand becomes impacted materially we will slow down capexing. It's the normal business in managing a large company that has many leverages to pull, but I think that the key figures, which were the ones that I quoted before, make the largest impact on last year's absorption versus generation of cash-flow. I think that I can reaffirm that we are confident that we will be there by the end of the year.

Q - Stanley Martinez: *Okay, well, thanks for the reassurance. I just wanted to make sure that there was nothing in the free cash-flow generation in the second half this year that would be materially different from the second half last year and this seems... you seem pretty certain with that.*

A - Franco Bernabè – Chief Executive Officer: There are no M&A that we envisage. So, I mean, there will be no usage of free cash-flow generation for this kind of thing. So, I mean, you're right.

Q - Stanley Martinez: *Very good. Thank you.*

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

A - Moderator: We are moving now to our last question.

11. Mr. Paul Marsh from Berenberg:

Q - Paul Marsh: *Yes, thank you. I just have one question, relating to the wireline network. And some of the excitements that surrounded the wireline network a few weeks back, when I think your shares were up, like, maybe 10% in 2 days, that the idea that it might be split into this joint-venture with the government or with the FSI. And at the time there was some discussion in the press about whether the former regulation could change for the wireline network away from a lyrics-style regulation and towards a more utility-style regulated asset base. And I'm just wondering: is that a realistic prospect at all for the wireline network to be regulated going forward?*

A - Franco Bernabè – Chief Executive Officer: Well, you see, I think that and, as we discussed at length before, the changes in attitude by Neelie Kroes and the European Union, are a general framework. But it moves from the recognition that without incentivizing, or creating a concrete incentive for investments there will be not the achievement of the digital agenda for 2020 in the European Union and we will all miss, I mean the European Union will miss all the targets for the digital improvement. So they need to create space, they need to create incentives; they need to create the boost for investment. So I think that what Neelie Kroes said goes in the right direction. Now it has to be transformed into a detailed directive, then it has to be taken up by the national regulatory bodies and transformed into a detailed new regulatory environment. As I have stated clearly a couple of times during this session, the Italian regulator has always been very, very concerned about the fact that, unless you create an incentive there, there will be no investments in next-generation networks. So I'm very confident that, given the fact that the most rational approach is a regulated asset-based approach, and therefore all the mechanisms for determining the risk premium and, of course, then, as in any regulated asset-based approach, you have to create a risk premium and then you have to give back to the customers the improvement in efficiency that you gain, which is, in fact, what we have been doing and what will be done. So what was missing was a concrete incentive mechanism. And now we have it. At least in principle. So I think that... I think it's really something that changes deeply, very deeply, the future of the telecommunications industry in Europe. I think it is a major step forward for changing the future of our industry in Europe.

Q - Paul Marsh: *But... but I don't see in anything that the regulator... that the EC has proposed so far anything which suggests a move away from lyrics, for copper networks and a move toward a regulated asset-based approach. Are you hearing something different out of the EC?*

A - Franco Bernabè – Chief Executive Officer: Yes, I mean, if you've heard not the lyrics but the bad songs of the past...

Q - Paul Marsh: *Sure.*

A - Franco Bernabè – Chief Executive Officer: ...when they kept saying that copper prices needed to be reduced in order to create incentive, or the disincentive to keep on the copper prices a move to the fiber optics networks, now the music has completely changed. I mean, Neelie Kroes herself declared several times, and there was a big... a big title on the FT, I remember, 9 months ago, when Neelie Kroes said: "Prices of copper must go down". And now the approach has completely changed.

Q - Paul Marsh: *Sure.*

A - Franco Bernabè – Chief Executive Officer: Of course, now there is no concrete and there is one very important point that is also a very fundamental change, that is that while Neelie Kroes and the regulators in Europe declared that there needed to be a cost orientation on next-generation networks, now Neelie Kroes has clearly stated that there is no cost orientation on next-generation networks.

Q - Paul Marsh: *Sure.*

A - Franco Bernabè – Chief Executive Officer: I mean, it changes substantially the picture. And I think that we are moving forward in the right direction.

Q - Paul Marsh: *Thank you very much.*

A - Franco Bernabè – Chief Executive Officer: You're welcome.

A – Alex Bolis – Investor Relations Officer: Ladies and gentlemen, the conference is over now. So thank you for calling in and for your attention as well on TI.