

Conference Call 1H 2013 Results - Q&A

Operator

Ladies and gentlemen, the question-and-answer session is now open. [Operator Instructions] This question comes from Mr. Ierodionou, Georgios from Citi. Mr. Ierodionou, please?

<Q - Georgios Ierodionou>: Yes. Good morning and thank you for taking the questions. I have a couple. The first one is around the credit rate agencies. I was wondering whether you had any opportunity over the past few days to have discussions with them around the fact that you are changing outlook and the performance in the second quarter and the outlook for the second half of the year is perhaps below some of the estimates they had. And if you could comment at all around your intentions regarding the rating where [ph] the lateral (43:08) costs you want to remain on investment grade company. My second question is again linked to credit side. Could you give us an update around the hybrid program, and can you please clarify if I'm correct in assuming that, as part of the commitments you gave in February last year, you had to place the €3 billion hybrid program within 12 months. And if that's the case, can you please explain why we haven't seen any progress over the last few months? Thank you.

<A - Alex Pierre Bolis>: Thank you, Georgios. Piergiorgio Peluso will take care of your questions.

<A - Piergiorgio Peluso>: Yes. Good morning. On the rating agencies for the first question, of course we have, as usual, presented to the rating agencies our results. And I cannot comment on what could be the outcome of this presentation because of course the rating agencies do not share with us the results, so we will – we have presented, and this is what we do. In terms of what we will do when we know the results, of course, I'm not in position – if we have the results from the rating agencies, we will comment. For the hybrid, the hybrid program is confirmed. The hybrid was not supposed to be issued within the next 12 months, but it was an 18-month program. So, we have also a time in the second half and next year to complete the program, and the program was for €3 billion.

<Q - Georgios Ierodionou>: And can I also confirm are you – would you be targeting an investment grade rating at all cost, or would you be willing to go below investment grade under certain circumstances?

<A - Piergiorgio Peluso>: Of course our position – and this is something that we're firm with the rating agencies, we want to protect our rating and this we have [ph] commented (45:12) with them very clearly.

<Q - Georgios Ierodionou>: Thank you.

Operator

Next question comes from Mr. Mathieu Robilliard from Exane BNP Paribas. Mr. Robilliard, please.

<Q - Mathieu Robilliard>: Yes. Good morning, and thank you very much. A few questions. First, coming back to the bedside of things. I do understand that you want to preserve your investment-grade rating, and you are working hard for that, but could you tell us what could be the implications of a downgrade to high yield? I understand that some of your bets is at floating rates, strategically some syndicated bank lines which costs could be impacted if you downgraded to high yield and spread increase. I would like to know also if that's offsetting some of the credit lines. And finally, if the EIB loan for €101 billion could also be recalled? The second question, maybe for Mr. Patuano with regards to costs. I think at the Q1 results, we discussed the fact that we introduced some measures at the end of the quarter that would have an impact on personal costs for the rest of the year, yet it seems that the decline in personal costs, [indiscernible] (46:28) I'm doing my math right, has slowed down in Q2 against Q1. So, I'm trying to understand why that was the case whilst the measures have been introduced. And finally, maybe a broader question for Mr. Bernabè. At the beginning of the week, you issued a press release saying that you didn't think or that you wouldn't look for a capital increase, and I think you've reiterated today that you don't think that's not necessary. Could you explain to us why you don't think that's necessary when – and the threat of the downgrade rating where – and you probably could invest more in Brazil when you're lagging in 3G coverage, and 3G's probably going to be the name of the game. And wherein in Italy, you seem to be taking a more aggressive stance and maybe you need resources. And more constructively, I think probably if you consider combinations and concentration which seems a very good idea, you would be in a better position to do that with a stronger balance sheet. Thank you.

<A - Alex Pierre Bolis>: Thank you, Mathieu. The first one will be handled by Piergiorgio Peluso and as you suggested, the second by Marco Patuano, third by Franco Bernabè.

<A - Piergiorgio Peluso>: Yeah. Thank you, Alex. On the effects of the downgrading, we have been including in the press release this morning all the details that you were requesting, but just to recap, our documentation is clean. We do not have any acceleration risk on our current financing program. We had just one financing with the European bank with – of €3.35 billion which provides, in case of downgrading, the obligation for the company to sit down with the bank in order to negotiate additional guarantees and/or revision of the price. If we do not manage to find with the bank an agreement, there is the risk of the repayment. But before the repayment, the obligation is related just to sit down in order to find a solution to the problem. We do not have any other rational risks in our documentation. In terms of the cost of the facilities, for one notch – the downgrade notch, we have €11 million euro for year for the current – on the current documentation. Of course, we are not in a position to estimate the impact on (...) the future financing and that this is what we (...) to you today.

<A - Marco Emilio Angelo Patuano>: I'm Marco Patuano. On the cost side, I tried to give you more color on how we wanted to reach these extra savings. As I told you last conference call, we signed an agreement with the unions and we considered as favorable. In the second half, it will deliver a full effect. In the first half, it was just a little bit more than one quarter, and in the second half, it will give us an extra boost of around €50 million. Customer care, we are doing fairly well. We're doing extremely well. We thought we could recover in the first year something around €30 million to €40 million. We are duplicating the efficiency. We are ready to perform, and I'm absolutely convinced that this is affordable. In other area in which we are doing even better than our original expectation is real estate. We are renegotiating most of the contracts. Of course the fact that real estate markets in Italy not particularly – there is not so much demand help us in renegotiating some contracts and some real estate and facility, we can expect the €30 million to €40 million. Advertising in second half will give us back another €20 million to €30 million. And we are boosting very strong industrial cost, particular with site sharing, more intense program of site sharing. But we do not expect to have many benefits on 2013, and we expect to have most of the benefits starting from 2014 onwards. What we expect is to reduce, in the coming years, our cost for rental sites about 25%. And we can imagine we can reduce our CapEx expenditure for new sites for LTE in the region of 40% to 50%.

<A>: Yeah. On the third question, I thought I gave already an answer when I said that, in response to recent press speculation, we underline that we will not need a copy of new fees nor to sell Brazil to reach the leveraging target of the year. And I think that when Peluso described the actions that we're taking, they are sufficiently strong and there is also a buffer in order to meet the target. I think that this is what needs to be done.

<Q - Mathieu Robillard>: Thank you very much.
Operator

Next question comes from Mr. Giovanni Montalti from UBS. Mr. Montalti, please?

<Q - Giovanni Montalti>: Hello. Good morning. Just a quick question on the network spin-off projects. You have decided to exclude the DSLAM from OPAC perimeter. I was just wondering if you see some room for AgCom to ask you to include them back in the perimeter of OPAC? Thank you.
And finally, maybe a broader question for Mr. Bernabè. At the beginning of the week, you issued a press release saying that you didn't think or that you wouldn't look for a capital increase, and I think you've reiterated today that you don't think that's not necessary. Could you explain to us why you don't think that's necessary when – and the threat of the downgrade rating where – and you probably could invest more in Brazil when you're lagging in 3G coverage, and 3G's probably going to be the name of the game. And wherein in Italy, you seem to be taking a more aggressive stance and maybe you need resources. And more constructively, I think probably if you consider combinations and concentration which seems a very good idea, you would be in a better position to do that with a stronger balance sheet. Thank you.

<A>: No, there is no reason to include the DSLAMs because the spin-off concerns only the essential facilities, and DSLAM are owned by all the operators. We will be working in the new environment, in the quality of the inputs environment exactly in the same position of the other operators. So, that's – there is no need to include also the DSLAM.

<Q - Giovanni Montalti>: Thank you.

Operator

Next question comes from Mr. Simon Coo from Insight Investment. Mr. Cook please.

<Q>: Thank you. Sorry to ask you again on debt and inorganic action that you may take. I just want complete clarity.

Would you consider actions such as a capital increase, say, in Brazil or giving up majority control of the network is necessary in order to protect your investment-grade ratings?

<A>: Actually, I think I already answered two times on this. We don't need – we don't think it is necessary to take such a radical move given all the leverage that we are putting now to get – to reach the target that we have set ourselves. That's what needs to be said.

<Q>: I understand that. Did it become necessary so if operational performance continue to decline, would you consider an inorganic options, or would you rather just accept falling to high yield?

<A>: Inorganic option is a different story than high yield, and what I said very clear ly in my presentation is that we think that the Italian market needs to be consolidated. Now, from what Marco said during this presentation, I think that we are no longer waiting and giving up market shares in order not to disturb our competitors in gaining on their side of the market share. So, we decided to play at that. Marco said that very clearly. I think that we are seeing, and we will see very soon at the end of this work. So, I think that we will go back to normal conditions. I think that envisaging any other catastrophic scenario is completely out of scope.

<Q>: Okay. Thank you.

Operator

The next question comes from Mr. Sam Morton from Mizuho. Mr. Morton, please.

<Q - Sam Morton>: Good morning. I just – I was quite interested to hear that you reiterated the intention to issue €3 billion of hybrids over the next couple of years because Moody's this week changes methodology which removed the equity credits for more lowly-rated companies. And so, I wondered whether in this context, whether you saw it would make sense to issue more expensive hybrid debt versus issuing the regular senior debt? That's all. Thanks.

<A - Alex Pierre Bolis>: Thank you very much for your question. This will be answered again by Mr. Piergiorgio Peluso.

<A - Piergiorgio Peluso>: As you know, Moody's is currently introducing a potential change in the calculation of the equity component for the sub-investment grade. But this is something which is not applicable to us, so we are, let's say, confirming the €3 billion program and we will see the market on how will – we will perform in the market in the next one year in order to perform what we have announced.

<Q - Sam Morton>: Thanks.

Operator

The next question comes from Mr. – I beg your pardon for my pronunciation -, Mandeep Singh from Redburn Partners. Mr. Mandeep, please.

<Q - Mandeep Singh>: Thank you very much. I wanted to come back to the issue of Brazil. I appreciate you said that you're not going to go much deeper into this, that you have no need to sell Brazil or for a capital increase. However, if somebody was willing to offer you a good price, would you be willing to sell Brazil?

<A>: Well, you are asking me an unanswerable question. I mean, there is always a price for everything. It depends on the price. And then I'm ready to consider any option at the right price. But I think that, for the time being, we reiterate that Brazil is a core asset for us.

<Q - Mandeep Singh>: Thank you.

Operator

Next question comes from Ms. Micaela Ferruta from Intermonte. Ms. Ferruta, please?

<Q - Micaela Ferruta>: Yeah. It's Micaela Ferruta. I would like to know if you are also reiterating the 2015 group EBITDA and that target at this stage, and more specifically closer if you are – as you are able to confirm the dividend policy for the current year. And for Marco, on Mobile, I'm actually quite worried about this €10 per month price tariff. So, my question is where do you see the end of the price war ending? Do you see the prices converging to this price point when the war ends, maybe next year, or what do you think about this? Thank you.

<A>: Thank you, Micaela, for your question. The first part will be responded by Mr. Bernabè and the other part by

Marco Patuano.

<A - Franco Bernabè>: The first part is very simple. We are not bidding with that guidance. We have no reason to change it. We are talking about the guidance for 2013. Marco?

<A - Marco Emilio Angelo Patuano>: Hi, Micaela. I don't think that €10 is sustainable till the end of the year. We decided that to enter into this high score. So, that's why somebody was continuing to think that being more aggressive could deliver benefit to one or another player. Now, we clearly demonstrated that if you wanted to – somebody wants to play tough, we are here to play tough until we don't want to continue. So, I hope it will end well before next year.

<Q - Micaela Ferruta>: Thank you. I want to ask about dividend, if I may.

<A>: No. There is no – I mean it's not the time we will discuss about dividends now. We will talk about that much later, and we are not (..).

<Q - Micaela Ferruta>: Thank you.

Operator

Next question comes from Mr. Justin Funnell from Credit Suisse. Mr. Funnell, please.

<Q - Justin Funnell>: Yeah. Thank you. A couple of questions, please. Obviously, the rates of line loss for TI Retail is relatively stable, but as you showed the LLU adds are slowing, as you've highlighted, the rates of line loss in the market is gradually worsening and you've talked about that being ... lines is connecting on fixed line. Is there something you feel you need to do something about? Is it a trend that if it worsened might start affecting your financials more?

Secondly, we've seen a relatively positive decision by the EC recently of returning low wholesale prices for fixed line in Austria, and they do appear to be willing to use the veto. Have you seen any sign yet from the EC they might veto the AgCom decision on ULL?

Then, finally, Moody's on your credit rating does seem to be a bit more conservative than S&P and Fitch. Would you be willing to consider having a split rating where one rating agency is probably plus and others' still investment grade?

<A - Alex Pierre Bolls>: Thanks, Justin. The first one will be taken by Marco Patuano. The second one is by Franco Bernabè and the third one on Moody's by Piergiorgio Peluso.

<A - Marco Emilio Angelo Patuano>: Well – hi, Justin. The line loss is clearly showing that the market is cross influenced by very low prices in the mobile because when you are a voice-only customer, you tend to consider attractive the pure mobile offer.

Well, first of all, we are working on – I don't think that it is something that have to be considered irreversible but of course we needed to work on the two sides. One is, as I told many times, this price point for the mobile is unsustainable. We can play harder that is necessary but I think that it is simply a – a simple decision market. So, I'm ready to become rationale as soon as I can. But this is mobile.

For the fixed, there are many things that we can do. Number one is the conversion initiatives are paying not only on the mobile, but of course, they intended to pay also on the fixed. Second, we needed to upsell on the customer base, which is voice only. In order to do it, we're working on local, on very geolocalized efforts in order to avoid a nationwide promotions, but to be more targeted and more effective, and work very hard with the multichannel approach. We are working very hard in order to introduce a full flat that introduce also a flat rate towards the mobile. So, once you buy a flat offer, you buy flat offer that also includes voice – not only fixed rates but also fixed mobile, which is something that we've been quite innovative in pricing the fixed line. And I think that the deal is something that's hard will start to be appreciated by the customer. And very last, we are working very hard; we are really, really working very hard in order to enlarge our content area in order to launch double play, triple play, quadruple play offer that will be extremely important. Because once we enlarge the full strength of our fiber network, then we needed to give customer also a much wider range of services, and, of course, in the consumer area, entertainment is extremely important as it has been demonstrated all across Europe.

The fact we have no cable operators once again is extremely important in understanding how important it is to find an agreement with some content providers. Marco, I think the second is for you.

<A - Marco Emilio Angelo Patuano>: Yes. Thanks. And thanks to Justin for the question on copper price because I think that it was too quick when I got about this during the presentation. Let me explain that the AgCom has adopted two draft decisions. One on ULL and the second one, Bitstream, and both decisions were submitted to the European Commission for evaluation.

The European Commission has three – can do three things, can write a non-comment that they're saying that everything is okay, can write a comment letter indicating the need for making some decision, or can open a place to where the decision can be completely rethought. Now, the final decision will be taken by AgCom only after the European Commission evaluation. And I think that we will have the first answer from the European Union in, more or less, 10 days. My opinion, and I said very clearly to them, I'm working very hard with AgCom and with the European Commission. My opinion is that the commission will be – the decision will be scrutinized very carefully by the European Commission because it is critical for maintaining the framework that the commission has set in terms of favoring an investment-positive climate. And I think my personal opinion is also that the draft decision of the AgCom has taken, after the observations of the European Union, will be improved. However, our first [indiscernible] (01:06:55) accounts have potentially included the most negative scenario with the effects of the draft decisions as they are now.

<A - Franco Bernabè>: First, I think I'll pass it on to Piergiorgio.

<A - Piergiorgio Peluso>: Yes. Thanks, Franco. On the rating agencies, of course, I'm not able to answer your question because I'm not going to comment the potential decision of the agency. What I can tell you is, as I was saying during the presentation, that we have discussed our plans – agencies – our results and our additional measures in order to reach the objective of €27 billion by year-end, and we have also confirmed that the commitment to keep the investment rating. This is, I think, this is the only...

<Q - Justin Funnell>: Thank you.

<A - Piergiorgio Peluso>: ...to your question.

<A>: Thanks, Justin.

Operator

The next question comes Ms. Sharon Chan from Midlife. Mr. Chan, please.

<Q>: Hi. Thanks for taking my questions. My first question is again on your rating unfortunately. In terms of the measures that you've announced today to get to your deleverage target by year-end, correct me if I'm wrong, but they all seem to be rather short-term measures. Is – no stabilizers you will see next year and 2015. What do think are the options available to you to maintain your ratings? My second question is on your hybrid. Can you just tell me how it's been accounted for in your financial statements? And my last question is on Italian mobile market. Absent consolidation in the market, what do think are the drivers for the market to become more rationale in 2014 and 2015? Thank you.

<A>: Now, let me answer the three. So, I think that these are short-term measures because we have – we think we have a short-term problem. That's the, I think the answer.

<A>: Piergiorgio.

<A - Piergiorgio Peluso>: On the hybrid, as I was saying, we confirm our plan in the next 18 months. It's because... we have announced before ... that we have a very

<A>: As usual, these – the next steps will be depending on the market conditions. And we will announce as soon as we think that it's the right timing ratio.

<A>: In terms of the treatment, the hybrid is account – in our balance sheet, it's accounted 100% as data. And only for the equity, for the agency to process this account at 50% as equity. But from accounting standpoint, it's...

<A>: Marco Patuano will answer in the question of long-term mobile market.

<A - Marco Emilio Angelo Patuano>: Well, I see midterm future which is different from the one we see today, first of all, the price war we are experiencing today is preventing some players to invest in next-generation networks in the mobile. I don't think this is a good midterm strategy for anybody because it's clear that the future needs and wants also broadband and also in the mobile. So, one good reason for not considering this price-war-sustainable midterm is because of lack of profitability and cash generation in order to sustain an investment-grade for the mobile. Second, smartphone penetration is still fairly low. If you consider our case, and we are not in the market, let me say, we are fairly well positioned. In the consumer area, we have just a 28% penetration of the smartphones. And in the corporate segment, it's definitely higher. We are – but we are still in the 50% region. So, once again, there is – this is an area where we will see a huge evolution, even if it's clear

that communication services, let me call it, was not included, this category, voice and SMS, will tend to become flat. The real question is what will be the price point for pure voice services. Today, it ends close to €10. Once again, it seems to be too cheap and it has to grow. But the real long-term change is market [indiscernible] (01:12:02). There are four players. And you see how difficult it is with some of the players to get different profitability. Everybody talks about our indebtedness. We are not the only one to have that in the market. So, I think that market consolidation – honestly, as you know, we tried more than once to perform the market consolidation. The exercise for the time being did not end well, but I personally shared the vision of the chairman when he says, long term, this is a three – market for three infrastructure players. The number of MVNO can be as big as you want but the number of infrastructural players for Italy doesn't exceed three.

<A - Franco Bernabè>: Let me have a comment on this because I think that it is precisely the price war that we are seeing now that will accelerate the process and concentration. I think that this situation is not sustainable. I think that we have done the right things in reacting so strongly. This has, I think, has created the conditions for accelerating the process of consolidation. When Marco says long term, I'm thinking more short to medium term.

<Q>: Thank you.

Operator

Next question come from Mr. Luis Prota from Morgan Stanley. Mr. Prota, please.

<Q - Luis Prota>: Yes. Thank you. My question is on Telco, your main shareholder. There have been talks recently about potential changes in the structure and shareholders of Telco. Now, in September, potentially some change is happening and some of the shareholders making comments. So, I would like to get your thoughts on what could be the potential outcome do you have and you use on that and whether taking into account that since last time you cut the dividend, Telco is not getting source of funds enough to service its debt and could need some kind of balance sheet repair action. To what extent your dividend policy is linked to the needs of Telco or you are completely independent on that? Thank you.

<A>: Our dividend policy is no – by no means linked to Telco's needs and, of course, I cannot comment on Telco's decisions or on individual shareholders' decision. What I can only say is that given the fact that our very vague and reputable institutions, they will – whatever their decision will be, it will be a rational and orderly decision. I don't think I – I don't see any surprises coming from it.

<Q - Luis Prota>: Okay. Thank you.

Operator

Next question is from Mr. Hannes Wittig from JPMorgan. Mr. Wittig, please?

<Q - Hannes Wittig>: Yes. Good morning. I have two questions. The first one relates to your desirability of potentially having more funds for investment. It has been suggested, for instance, by AT&T Chairman that European companies are underinvesting. You have – of course, as has been previously mentioned, the number of opportunities – these five, they need to be accelerated: LTE, be it maybe one definitely in content, et cetera. Would you say that there is – it would be desirable to have more funds available for investment that would be adding value to the company? Or do you think that broadly your investments are not constrained by financial considerations at this point especially the domestic market? The second question is again going back to the European level where we have seen initial single market proposals presented by the DigiConnect, have you got any comments at this stage as to how you would overall evaluate these proposals from maybe industry perspective especially with regard to your company. Thank you.

<A>: What we had always said is that our investment strategy was market-driven and aimed at innovating – introducing the ultra-broadband for the mobile in Fixed, giving a boost to the market, and this is what we are doing. I don't think that we need to, at this stage, we need to accelerate any of the investments we're doing neither in the Fixed nor in the Mobile. By the way, in Mobile, we are seeing that together with one other operator, we are the only one that are investing in the Fixed. I see that, again, we are investing what is needed and to create a competitive advantage. So, I think we are exactly in line with what we need to do.

On the European single-market proposal, I think that there are – it's again a mixed bag. There are some benefits, and especially those that I think the recommendation on next-generation pricing mechanisms, and there are some negatives, but I think that they are under discussion now. We hope that they will be prudent. I'm really confident that this will happen because I have spoken several times with Neelie Kroes. I think that she's committed in creating a very positive and pro-investment asset within the European market exactly, because we need in Europe to bridge the distance that we have with the United States. Of course, the United States, the investment has been driven by very positive regulatory changes in the period of mind between 2003, 2004, 2005. We had not seen yet any of these changes in Europe, but I think that the change of mind that has taken place at the

commission level and as we are seeing now is exactly aimed at creating the same positive investment climate that you see in the United States. And what – the reason why I'm engaging also on the network separation project is exactly because I think that we need to do – we need to contribute in a positive term to this change of mind. I mean, we did it and the same was done by TeliaSonera with the decision to introduce the quality of input in their separated company that owns the access network.

So, I think that the whole sentiment is evolving very positively at the European level and at the Italian level and the Italian level. And at the Italian level, I have had constant signs that our decision was the right decision to take and that there is a growing consensus to make this decision very, very positive for all the players involved, of course, starting from Telecom Italia.

<Q - Hannes Wittig>: Thank you.

Operator

Next question comes from Wilton Fry from Merrill Lynch. Mr. Fry, please.

<Q - Wilton Fry>: Yeah. Hi there. Should we assume any money you will see from the sale of your stake in the network if using fiber investment? And if that's the case, are the rating agencies aware of that, or are they expecting that to go towards deleverage? Thank you.

<A>: Yes. Mr. Bernabè will comment again briefly on the framework of the network separation parts of our plan. Can you repeat the question because I didn't – I mean...

<Q - Wilton Fry>: Will you be using the money from sale to CDP of a stake in the minority in the network for fiber investment and if you are going to use that money for fiber investment? Are the ratings agencies aware of that intention? Thanks.

<A>: Look, of course we are not yet discussing with CDP on this, although CDP has constantly declared that they are interested in joining our investment effort in a separated network. CDP has the same constraints that we have in creating something that makes sense from an economic and from a financial point of view. They have the same constraints that we have. They cannot do sort of public works, not from remunerated investments. And therefore, I think that the – whenever there will be, but this is not yet the case. A possible investment from Cassa Depositi e Prestiti, this will reinforce, of course, the balance sheet of the combined entity. And since we will be consolidating the combined entity, it will impact on the reduction of our debt. Of course it will aim – it will be aid at accelerating medium to long-term investments.

<Q - Wilton Fry>: So, you will be using it for investment in fiber? Third, is the rating agency aware of that intention?

<A>: No, we – no. Excuse me. We are – first of all, it is premature to talk about it because we have not yet discussed about this. Second, the impact will be on debt because from a purely accounting point of view, there will be debt reductions. Third, there is the same objective of indiscernible] (01:22:46) to make profitable investments. And therefore, it will be a market-driven investment [indiscernible] (01:22:52). That's what we can say at this stage. There's nothing to do adjust to the rating agencies at this point. I mean, I think you're going too far. It's technically, and from an accounting point of view, the impact will be a debt reduction.

<Q - Wilton Fry>: I understand. Thanks very much.

Operator

Next question is from Mr. Jean-François Perrin from Crédit Agricole. Mr. Perrin, please.

<Q - Jean-François Perrin>: Yes. Thank you. Two questions, if I may. The first one is, could you give us an idea on the current price premium you've got on domestic mobile? And in your view, how much do you need potentially to reduce that premium to stabilize your market share and make sure you don't lose mobile customers? And the second question is a follow-up question. Is – I'm not sure I understand why you think that the current crisis or high level of competition in Italy is a short-term problem. What makes you think that this is not something that's going to be – to last like it does last in other European countries? Thank you.

<A>: Thank you. The first question would be answered by Marco Patuano and the second by Franco Bernabè.

<A - Marco Emilio Angelo Patuano>: Well, the key– what the market says is that more or less, we have to keep almost the same price with Vodafone. Because the market considers – for different reasons that our brand value is almost the same. So, the ties have to be even if it would a different combination almost in line. With reference

to the other two players, after a difference of around – of course, it's consideration, but let me say that up to a more or less 20% difference, 15%, 20% difference, it's not a major problem. It's not a major issue. Sometimes you gain a bit. Sometimes you lose a bit. But it does not determine big swings in the customer base. I hope I answered.

<Q - Jean-François Perrin>: Yes. Thank you.

<A>: Yeah. On short term and long term, the answer I think is the following. I think that we've been struggling with the crises now for over six years. And we have responded with structural actions that have improved our cost base, and we keep working on structural actions. And we will keep the – we will keep working in the long period because we think that the structural changes that are taking place in the market need to be addressed with structural interventions in our company. But I think that one we've seen in the last quarter has been a short-term acceleration of problems that we need to address with short-term levers. What I see now is for the first time after several quarters, first signs of recovery from a macroeconomic point of view. The signs are still weak, but for the first time, we see consistent progress in the same direction. I think that talking about price where I think that this price war is unsustainable for all the players. I mean, we – by the way, if you work – if you look at the rank or positioning of Telecom Italia, we are, by far, the strongest player. And therefore, I think that the others are offering as much and more than we ourselves. And so, it is not something that can be sustainable. So, I think that going forward, what I see is in the next six months an easing of the regulatory pressure for the reasons I've said before because our – there is a growing consensus on what we are doing. An easing of the macroeconomic situation because the signs are all consistent and going into the same direction, and an easing of the competitive pressure because this situation is unsustainable for everybody in the market. So, of course, does this solve all the problems? No, I don't think that this will solve all the problems. Do we have at least structural problems to be addressed? Yes, and we are working constantly to address the structural problems.

<Q - Jean-François Perrin>: Thank you.

<A - Alex Pierre Bolis>: Thank you very much. This will be the last question for today's session. Please.

Operator

Next and last question is from Mr. Alex Grant from Macquarie. Mr. Grant, please.

<Q - Alex Grant>: Hi, there. Thanks for the question. Just following on from your comments on Italian mobile consolidation, do you think mobile consolidation is needed or is indeed possible in other markets such as Brazil? Thanks.

<A>: Well, I think that in Brazil – of course, in Europe, mobile consolidation is needed because there are too many players. The market is too fragmented. We are confronting ourselves with the players in the United States and in Asia that have been concentrating very substantial for the last years. So, I think that from a purely geopolitical point of view, Europe cannot sustain any longer situation where our mobile players are so fragmented and are getting weaker and weaker. So, I think that something needs to be done. Politicians have understood this, and I think that they will be creating a favorable environment. What has happened in Germany goes in the right direction. In Italy, I think something similar will happen in a not-too-distant future. So, this is on the consolidation program. What was the other question?

<Q - Alex Grant>: Do you think it's possible for consolidation to take place in Brazil?

<A>: Oh, in Brazil. In Brazil, I think that there is a – so far, there is no need for consolidation. The market is growing. Brazil is not a country. It's a continent. And there is – there are, of course, investment needs long term. And before we reach separation of the market, I think it will take a long time. So, I think that – from our point of view, we have seen that our position is improving even in the not-so-favorable conditions that we've seen in the last couple of quarters, three to four quarters. So, we are very confident that for the time being Brazil can go on, if there is a recovery, of course, it much better, but can go on with four players and the program consolidation will be a program that will come in the future at some point but not very soon.

<Q - Alex Grant>: And do you have a sense of the regulatory view on consolidation and when Brazil seems a bit more favorable in Europe? So, I'm just keen to get a sense of your view of the situation in Brazil.

<A>: In my opinion, the Brazilian regulator is, in a way, I would say that it is more similar in the kind of philosophy, in the kind of frame of reference that they are adopting to analyze what's happening in the industry but more similar to the U.S. regulator than the European regulator. The European regulator is constantly aiming at giving dividends to the consumers, improving the benefits for the

consumers in terms of price, in terms of competition, and on support. The Brazilian regulator is more preoccupied with the overall sustainability of the industry in terms of the investments that the industry is able to stay. And in order to do so, I mean, the sense is that while European regulator, in a sense, looks favorably at the price war, although they're not encouraging, of course, any price war, but, I mean, they are sympathetic with the target prices declining and therefore, the consumers are benefiting. The Brazilian regulator is worried, if at all price war takes place because they see that this will hamper the possibility of the operators to generate the necessary cash for going forward with their investment.

So, I think that the attitude of the Brazilian regulators are fairly positive with the investments needs of the industry.

<Q - Alex Grant>: Very clear. Thanks for the answer.

Franco Bernabè

We are wrapping up our conference call. So, ladies and gentlemen, thank you very much for being with us today, and have a great afternoon and great weekend. And for those of you who've been going on vacation, a great vacation.

Thank you.

Operator

Ladies and gentlemen, the conference is over. Thank you for calling Telecom Italia.