

# Upbeat chief confident of debt reduction

**Interview**  
**Franco Bernabè**  
Chief executive,  
Telecom Italia

**Cost-cutting has paid off at the highly leveraged Italian group, finds Andrew Parker**

Franco Bernabè is in an upbeat mood. The chief executive of Telecom Italia is highlighting how his ambitious cost-cutting at Italy's leading telecoms company is helping it to report improved profit, even though revenue is falling during the economic downturn.

He is also pointing to how Telecom Italia, the most leveraged of western Europe's former fixed-line phone monopolies, was able to refinance its debt throughout the credit crunch.

"We can look at our future in a much more positive way," says Mr Bernabè.

Telecom Italia reported revenue of €14bn (\$20.5bn) for the six months to June 30, down 5.8 per cent from a year earlier, and earnings before interest, tax, depreciation and amortisation of €5.7bn, up 3.1 per cent.

Mr Bernabè, who became Telecom Italia's chief executive in December 2007, has won plaudits for his cost-cutting agenda because the company has very limited growth prospects.

But some analysts and investors remain concerned about Telecom Italia's strategy and leverage.

Net debt stood at €35.2bn on June 30, up from €34bn on December 31. This year, the company's shares have underperformed the FTSE Eurofirst 300 telecoms index by 2.9 per cent.

The biggest uncertainty

surrounding Telecom Italia is its apparently stalled programme of asset sales.

Analysts at Bernstein say asset sales are important if Telecom Italia is to hit its target, outlined last December, to reduce net debt by €5bn by 2011.

At that time, Mr Bernabè also identified assets worth up to €3bn that Telecom Italia was looking to sell, led by Hansenet, the company's German fixed-line broadband business.

Telefónica is the frontrunner to buy Hansenet, but no agreement has been reached. The Spanish group has made an offer of €850m, but Telecom Italia is holding out for €1bn, according to people familiar with the situation.

Mr Bernabè tries to ease concern about the disposal programme by saying Telecom Italia will generate enough cash to pay down its debt by €5bn by 2011.

But the standoff over Hansenet is embarrassing because Telefónica became Telecom Italia's largest shareholder in 2007.

Telefónica achieved that position by joining a consortium that includes Italian financial institutions that bought a controlling stake in Telecom Italia through Telco, a holding company.

Telefónica made its move because América Móvil, the mobile operator that competes with the Spanish company in Latin America, was also interested in buying a stake in Telecom Italia. But having outmanoeuvred América Móvil over Telecom Italia, Telefónica is causing regulatory headaches for the Italian company in Argentina.

Telecom Italia has been told by the Argentinian competition authorities to sell its 50 per cent stake in a holding company that

has a controlling stake in Telecom Argentina, the country's second-largest fixed-line operator.

The ruling is part of an investigation into whether Telefónica's involvement in the consortium that bought the controlling stake in Telecom Italia gives the Spanish company an unfair monopoly in Argentina.

Telefónica owns Telefónica de Argentina, the country's largest fixed-line operator. Mr Bernabè accuses the Argentinian authorities of acting "very, very incorrectly", but says Telecom Italia is looking to sell its 50 per cent stake in Sofora Telecomunicaciones, the holding company that in turn controls Telecom Argentina.

"Given the work we have done in Argentina, our preference would have been to stay," he adds. "But given what has happened, we are motivated to leave."

Four Argentinian companies have expressed interest in the Sofora stake, according to people close to the situation. Telecom Italia is holding out for offers of \$500m.

Although Mr Bernabè admits Telefónica's involvement in Telecom Italia has brought "problems", notably in Argentina, he says there have been broader benefits.



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Intervista a Franco Bernabè - L'ottimista A.D. si dice fiducioso riguardo la riduzione del debito (pds)