

# Telecom Italia outlines plan to slash domestic cost base by 40%

New chief believes technology will help

By Adrian Michaels and Andrew Parker in Milan

Telecom Italia is taking an axe to its cost base to help to restore investor faith in Italy's largest telecommunications company.

Franco Bernabè, TI's chief executive, told the Financial Times that he wanted to cut the group's domestic operating expenditure by about 40 per cent in the next few years.

He also said he was talking to private equity firms and sovereign wealth funds about the possibility of their co-financing deals outside TI's home market.

Mr Bernabè is making cost-cutting a top domestic priority to boost profitability because the group is not expecting significant revenue growth in the next three years. He wants to secure a 40 per cent cut in the €2bn of oper-

ating costs associated with running its Italian fixed-line phone and mobile networks by 2015 and a similar cut in another €2bn of costs relating to marketing, advertising and customer care.

"We need to rethink globally our cost structure," Mr Bernabè said in his first interview since becoming chief executive six months ago. "In the long term a company like ours has to decrease the cost structure by 40 per cent."

He added that such a cut in operating costs relating to its networks should be possible with new optical fibre infrastructure, which will increase fixed-line broadband speeds. This will require less maintenance, and so fewer engineers, and there will also be savings in real estate.

Mr Bernabè joined TI following a period of upheaval. Since September 2006 it has had four chairmen and endured disputes with government and between shareholders.

Spain's Telefónica became TI's largest shareholder last year when it joined an Italian-led consortium that bought a controlling stake in the former monopoly.

However, TI's share price has fared worse than the other former telecoms incumbents this year. It has fallen almost 35 per cent and shareholders reacted coolly in March to a presentation by Mr Bernabè.

Mr Bernabè ruled out large-scale acquisitions in emerging markets because of the company's high debt but highlighted the possibility of collaborating with private equity or sovereign wealth funds. These outside groups could invest in telecoms assets with TI, said Mr Bernabè. Alternatively, they could buy assets and let TI manage them.

"We can support private equity funds or sovereign funds in running more efficiently operations in other countries," he said.

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