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Marco Tronchetti Provera took control of Telecom Italia five years ago. Now the bill is due

Reuters



THREE weeks of sailing in the Mediterranean, even during a poor summer, does wonders for a tan. And Marco Tronchetti Provera's well-bronzed face bears the evidence of time spent at the helm of his 30-metre yacht, working up its 16-man crew and competing in regattas. "I have the physique but less time than I would like. Alas, in the future, when I may have more time, I may not have the physique," he says.

His favourite pursuit was badly disrupted five summers ago when, in July 2001, as chairman of Pirelli, a tyre company he continues to head, Mr Tronchetti Provera did a deal to win control of Telecom Italia, Italy's former telecoms monopoly, and take over its chairmanship. To do so, he used Pirelli's cash pile of €4.4 billion (\$3.9 billion), raised from the sale in 2000 of its fibre-optics business to Corning and Cisco Systems, two American firms. He also borrowed heavily—around €3 billion of loans were renegotiated last year—and took two banks as shareholders in Olimpia, the holding company used to buy the stake in Telecom Italia. But they imposed the condition that Pirelli would have to buy their shares back for at least the original purchase price. The banks renewed this arrangement after three years for a further two, and the bill is now due. Although Telecom Italia's shares are now worth €2.29, they cost €4.17 when Olimpia bought its stake, so Pirelli must pay out almost €1.2 billion next month. In July it paid almost €500m to buy back the shares of a company called Hopa that had bought into Olimpia in 2003.

To meet these commitments Mr Tronchetti Provera has had to dismember his business empire. Pirelli sold its cables division for €1.3 billion in June last year to concentrate on property and tyres. In June it sold a large stake in Internazionale, a leading Milanese soccer team of which Mr Tronchetti Provera is an enthusiastic fan, and in July it sold 39% of its tyre division to a group of banks to raise €740m. It has other assets on the block. Since shortly before Pirelli made its investment in Telecom Italia, the price of Pirelli's shares has fallen from €3.10 to €0.74.

This is the background to the dramatic U-turn that Mr Tronchetti Provera announced this week at Telecom Italia, which is based across the street from Pirelli's headquarters in Milan. Although he has sold assets, raising €15.4 billion since 2001 to pay down debt, Telecom Italia still has debts of €41.3 billion, almost equal to its stockmarket value. On September 11th Mr Tronchetti Provera announced that the company would split its

mobile-phone division, Telecom Italia Mobile (TIM), and its fixed-line network, into two new holding companies. This would, he insisted, enable Telecom Italia to focus on its broadband internet business and, in particular, the delivery of television services over broadband connections—a new market into which Telecom Italia is advancing, along with other incumbent telecoms operators around the world.

On September 7th Mr Tronchetti Provera met Rupert Murdoch, the boss of News Corporation, to discuss a partnership. "Thanks to broadband, telecoms and the media are converging and that is where we are moving," says Mr Tronchetti Provera. The result, so far, is a small deal to supply films from News Corp's Twentieth Century Fox over Telecom Italia's wires. But rumours abound that some form of closer tie-up—such as a merger between Telecom Italia and Sky Italia, News Corp's satellite-TV unit—might also be on the cards. Either way, Mr Tronchetti Provera hopes that positioning Telecom Italia as a media company rather than a telecoms firm will boost its share price, since media firms tend to trade at higher multiples of their earnings.

If that fails, separating Telecom Italia's fixed and mobile networks into separate divisions provides a fallback plan. It is not necessarily the prelude to a sale, Mr Tronchetti Provera insists, though he has not ruled out that possibility, and it would make a sale much easier. He seems, in particular, to be inviting bids for TIM, which might fetch around €35 billion (\$44.5 billion). Telecom Italia would reduce its debt, and Pirelli's proceeds from the sale would cover buying the two banks out of Olimpia.

But the sale of TIM, Italy's largest mobile operator, would be problematic. Mr Tronchetti Provera has long been one of Europe's leading proponents of "convergence"—the idea that telecoms firms should tightly integrate their fixed, mobile and broadband operations. Selling TIM, which was fully integrated into Telecom Italia only last year, would mark a complete reversal of this policy. The price would stretch both private-equity buyers and debt-laden rival operators. Worst of all, government ministers have condemned the plan, and one even called for a change of management. The unions threatened to strike.

Expensive hobbies

Mr Tronchetti Provera won accolades for the smart way he steered Pirelli during the 1990s. But his handling of the tyre group over the past five years would have provoked a mutiny by shareholders in most listed companies. Yet he is still in command. That is due partly to the chain of nested stakes that grants his family voting rights of 25.4%, despite holding less than 8% of Pirelli's shares. Friendships and alliances of cross-shareholdings, which often trump economic factors in Italy, have also helped him to keep his job.

Taking control of Telecom Italia proved to be a bad call. Mischievous Milanese insiders say that Mr Tronchetti Provera, whose family in effect owns less than 1% of Telecom Italia, wanted to head the telecoms giant because it offered more power and prestige than running Pirelli. He insists, however, that it was his duty as an industrialist to invest the gains from the sales to Corning and Cisco in an industrial venture, though he says he would have bought a bank had he guessed where Telecom Italia's shares were heading. "The value has halved," he says. "I know because I have lost most."