ITALTEL GROUP
ANNUAL REPORT
31 December 2010

ITALTEL

SUMMARY

MESSAGE FROM THE CHAIRMAN

2010 has been a complex year that saw Italtel Group engaged on a number of key areas. In one area of the market, amidst a stagnation of the global economy and increasingly stiff international competition deriving chiefly from the Asiatic markets, we have concentrated on defending out positions and creating new opportunities. The in/house aspect has seen us work to improve our offers of products and services, working doggedly to reduce costs and launch a departmental organizational redesign to strengthen the commercial momentum and boost the development of innovative technological solutions.

In 2010, Italtel pursued the course of growth in the strategic areas to develop the business. We have worked in Italy with constant commitment to reinforce our presence on the market of the major companies and the Public Administration and to maintain shares and margins in the market of the operator. Abroad, where the growth trend was significant, we consolidated our position in the Latin American countries and achieved significant results in the emerging countries of North Africa and the Middle East. Our development opportunities on these markets are strengthened by the partnership with Cisco and the profitable synergy of skills and products.

2010 was also distinguished by the positive conclusion to the group's refinancing project, perfected in September by means of an increase in capital underwritten by Cisco and Telecom Italia and a credit line agreement by a pool of banks led by UniCredit. We thank them for the renewed trust they have placed in use, which has enabled us to return once again to the path set out in the industrial plan.

This event has, essentially, brought an end to the critical phase that Italtel went through over the last two years and ushered in a re-launch and renewal project that has received a strong go-ahead. The project entails, among other factors, significant investments, particularly in the field of Research and Development, Business Process Reengineering, and Training and Communication.

2010 also brought about considerable changes in company top management. As the financing project was being completed, President Roberto Quarta resigned from his position and I take this opportunity to express my most sincere thanks for the deep commitment at the head of the Company for many years. In the same period we welcomed Stefano Pileri to the role of CEO, and his enthusiasm and managerial skills were immediately felt within the Group.

From an economic and financial viewpoint, 2010 ended with a significant improvement in turnover and margins in excess of the debt compared to previous year, therefore fully confirming the forecast plan.

In regards to industrial relations, the refinancing agreement has also allowed intense negotiation to be undertaken with the trade union, leading to the signing of an agreement with the Ministry of Economic Development in early 2011. The understanding, which I believe to be equilibrated and satisfactory for both parties, uses a wide range of tools and has enabled a considerable number of persons to be paid from the Layoff Benefits Fund, all the while respecting the objectives and restrictions provided by the industrial plan.

2010 was certainly a difficult year due to the sheer number of areas in which we were engaged. It was, however, also the year in which, thanks to the professionalism and commitment of the men and women of Italtel and the support of our shareholders, we have laid the base that will allow the Company to continue along the path of development.

Umberto de Julio

MISSION

The Italtel Group "mission" is to allow people, objects, technology and networks to communicate, without limits. Italtel Group strives to create the utmost value for its clients, understanding their needs and offering solutions and services par excellence.

Italtel Group designs and produces some of the world's most innovative communication networks. It offers targeted consultancy services, based on knowledge and unique skills that allow the various networks to "speak" with each other and manage the overall setup. It constitutes the global partner for clients, creating the innovative solutions, products and services that generate long-term value in order to sustain growth.

Italtel Group is the technological leader in the "Next Generation Networks" (NGN) solutions and, in particular, in Softswitch, the hardware and software platform that is the heart of the new generation networks. It also takes an increasingly significant leading position in designing, producing and activating complex public and private networks on the IP protocol.

The Italtel Group

Italtel Group is a player at the forefront of the telecommunications market. Its technological leadership is the result of a strong focus on the innovation and constant investment in research and development.

Italtel Group designs, develops and produces products and solutions for new generation telecommunication networks and services, based on IP protocol. It uses its network and system integration capability to produce reliable infrastructure, open to networking and flexible in technological evolution. It offers proprietary solutions and products, professional network engineering and consultancy services, managed services and ICT solutions, such as solutions by Unified Communication & Collaboration and Telepresence.

Its clients are the fixed and mobile telecommunications operators, Internet Service Providers, large companies and Public Administrations.

In Italy the group operates primarily through the operational company Italtel Group, controlled internally by Italtel S.p.A., while in the overseas markets, chiefly Europe (Great Britain, France, Belgium, Germany, Spain, Greece, Poland), Latin America (Argentina, Brazil, Colombia, Peru) and the Middle East (United Emirates, Saudi Arabia, Oman) it works by means of secondary premises, subsidiary companies and co-ops with local partners.

The Italtel Group strategy is founded on the following points:

- offer evolution through continuing development of innovative solutions and professional services;
- strengthening and development of the strategic, technological and commercial partnerships with the aim of enriching the offer portfolio and expanding the commercial capacity;
- expansion of the client base, in particular on the foreign operators and in Italy on the company segments and confirms the role of reference supplier for national operators;
- achievement of a streamline and flexible organizational structure and cost-efficient structure.

Key financial highlights

(Thousands of Euros)

	2010 IFRS	2009 IFRS
Revenue	421,972	405,964
EBITDA [(1)]	50,541	35,744
Margin %	*11.98*	*8.80*
EBIT [(2)]	7,082	(154,120)
Margin %	*1.68*	*(37.96)*
Net Income / (Loss)	(13,474)	(184,898)
Margin %	*(3.19)*	*(45.54)*
	As of 31st December 2010	**As of 31st December 2009**
Capex [(3)]	27,121	35,283
Net financial debt [(4)]	230,152	269,919
Net equity	120,187	63,365
NIC [(5)]	350,339	333,284
Adjusted NIC [(6)]	53,124	36,069
Net cash used in operating activities	(4,004)	(849)
Net cash used in investing activities	(25,965)	(31,384)
Net cash generated in financing activities [(7)]	63,198	(32,625)

(1) EBITDA represents the sum of operating income plus depreciation and amortization
(2) EBIT represents operating income
(3) Capex or capital expenditure represents the sum of of tangible and intangible investment
(4) Net financial debt is financial debt is given in the Report on operations
(5) Net Invested Capital (NIC)
(6) Net Invested Capital (NIC) rectified for Goodwill
(7) Takes into consideration the payment of 70,000 thousand Euros into the capital account

Italtel Group S.p.A.'s shareholders

Clayton Dubilier & Rice

Clayton Dubilier & Rice, Inc. (48.77% stake considering the ordinary "A" shares), among the largest US private equity investment firms with a long experience in the industry sector, manages closed-end funds on behalf of institutional investors.

Telecom Italia

Telecom Italia (19.37% share, considering the ordinary "A" shares) [(1)], listed on the Italian Stock Exchange, is one of the leading European ICT companies. Today the group has a foreign presence with an important initiative in Latin America.

Cisco Systems

Cisco Systems, Inc. (18.40% share, considering the ordinary "A" shares) [(1)], quoted on the NYSE, is the world leader in Internet networking. The company has been in Italy since 1994.

Capita Trustees Limited

Capita Trustees Limited, as Trustees of Italtel Employees Benefits Trust (8.65% shares, considering the ordinary "A" shares) [(1)] is a Trust under English law (to which the share previously held by Advent International has been transferred) founded exclusively in order to detain and manage shares of Italtel Group S.p.A. intended for future share plans for employees.

Brera Capital Partners

Brera Capital Partners (2.16% share, considering the ordinary "A" shares) [(1)], headquartered in New York, is a private equity fund. The fund acquires equity stakes in a small number of companies operating in various industries, including telecommunications, financial services and outsourcing services.

Cordusio Fiduciaria

Cordusio Fiduciaria (2,65% share, considering the ordinary "A" shares) [(1)], is a trust company belonging to the UniCreditGroup which manages the stock option and share ownership plans reserved to Italtel Group's administrators and employees. The above mentioned stake includes the shares of Group employees and Company directors (or ex director), as well as Italtel's onw shares.

[(1)] The Holding Company share capital underwritten and paid equal to Euros 131,426,652 is divided into 17,762,976 shares, of which 8,881,488 are "A" shares and 8,881,488 are "B" shares. The Telecom Italia Finance S.A., Cisco Systems International BV and Cordusio Fiduciaria per Azioni shareholders are owners of the "B" shares in the following measures: Telecom Italia qty. 4,440,365; Cisco Systems qty. 4,440,365 and Cordusio Fiduciaria per Azioni qty. 758

Corporate bodies

Board of Directors [(1)]

Chairman [(2)]	Umberto de Julio [(*)]
Chief Executive Officer [(3)]	Stefano Pileri [(*)]
Directors	Giulio Agostini [(4)] [(**)] Ross Ian Fowler Brian Fukuhara [(5)] Luigino Giannini Marcello Giordani [(6)] [(**)] Paolo Leone [(7)] Francesca Petralia
Secretary of the Board	Nicolò de' Castiglioni

Board of Statutory Auditors [(8)]

Chairman	Marco Baccani
Permanent Auditors	Marco Tani Gaetano Troina
Alternate Auditors	Paolo Domenico Sfameni Francesco Tabone

Independent Auditors

PricewaterhouseCoopers S.p.A.

(1) Appointed on 10th August 2010 and in charge until the date of the meeting which will be called for the approval of the annual report as of 31st December 2012
(2) Appointed President by deliberation of the Board of Directors on 23rd September 2010
(3) Appointed CEO by deliberation of the Board of Directors on 23rd September 2010
(4) Chairman of the Internal Audit Committee
(5) Co-opted by the Board of Directors on 23rd September 2010 (jointly with the Administrator Alessandro De Nicola also co-opted on the same date) to replace two former administrators (Roberto Quarta and David Novak)
(6) Co-opted by the Board of Directors on 5th October 2010 to replace the former administrator, Alessandro De Nicola
(7) Committee President for Remuneration
(8) Appointed on 22nd April 2009 and in charge until the date of the meeting which will be called for the approval of the annual report as of 31st December 2011
(*) Independent director
(**) Non-executive independent director

REPORT ON OPERATIONS

The Group's consolidated earnings for the 2010 financial year amount to 422 million Euros, compared to 406 million Euros of the 2009 financial year; the net loss is equal to 13.5 million Euros, compared to the loss of 184.9 million Euros in 2009, which was burdened by the goodwill depreciation of Italtel S.p.A. by 133.7 million Euros; the EBIT changed from negative at 154.1 million Euros in 2009 to positive at 7.1 million Euros in 2010 and the EBITDA passed from 35.7 million Euros to 50.5 million Euros (12% of the turnover). The financial expenses decreased by 14.4 million Euros compared to 2009, due also to the increase in capital as related herein.

The level of investments was considered relevant in order to strengthen the capacity of technological innovation of the Group.

The net financial debt of the Group changes from 269.9 million Euros in the previous financial year to 230.2 million Euros on 31st December 2010, primarily in relation to the following aspects.

In September 2010 the banks and industrial partners reached an agreement that granted an increase in capital, a repayment timeframe of the Senior Term Loan coherent to the undertakings of the industrial plan by Italtel Group and the improvement to commercial conditions in relation to those in place. The abovementioned agreement outlines two main lines of intervention:

- Telecom Italia and Cisco shareholders paid the Holding Company an increased capital in joint measures for an overall sum of 70 million Euros. To support the industrial plan the Shareholders also assumed the undertaking with reference to the volume of business by Italtel Group to Telecom Italia Group and a repayment plan for the outstanding business, as well as more favourable payment conditions in regards to the suppliers Cisco.
- The medium-term loans of 152.5 million Euros, including the outstanding share not reimbursed on 1st June 2010, will be reimbursed in 2012. Upon expiry date of the abovementioned credit line the Lending Banks undertake to grant two further credit lines for an overall sum of 137.5 million Euros, with expiry by 6th December 2017, and based on an amortisation plan that entails 4 million Euros in 2013, 8 million Euros in 2014 and 2015, 25 million Euros in 2016 and 92.5 million Euros in 2017. The price of the lines was reduced for the period until June 2012, in comparison with the previous price, and the interest rate fluctuation risk cover operation was extinguished by means of a conversion of a repayable loan into a single rate in December 2017.

Basis of presentation

The consolidated financial statements of Italtel Group and its main subsidiary companies for the 2010 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS). These principles were applied as of 1st January 2005 and the first financial statements prepared in accordance with them were those for the year ended 31st December 2005, which included comparative data for the year ended 31st December 2004. These statements were published in 2006.

Market scenario and positioning

Market scenario

The financial crisis that has upset the planet's economies seems to be coming to an end, but the recovery speed is very different between the emerging and the advanced economies, and some differences have come to light within the latter also.

Essentially, the recession increasingly demonstrated to have had asymmetrical effects between the countries, determined by the growth potential, the weight and the vulnerability of the sectors most severely affected, by the health of the public finances and, consequently, by the response opportunities of the economic and monetary policies.

The emerging countries have become the main driving power behind the world economy: they supply 70% of the increase in the world GDP and will grow a further 6.5 % in the coming two years. China continues to show the main figure with 10% development rate. India and Brazil are moving along very quickly. The new European markets (EEC - Central and Eastern Europe) are in phase of recovery.

The dynamics are very uneven among the advanced countries. In the USA the companies have a high profitability that encourages investment: the growth, that aims at exceeding 3% per year, is also supported by ultra-expansive politics (the Obama package focuses on adding a percentage point to the GDP), policies also seen in Japan that will allow them to accelerate development, not exceeding 2% however, in the next two year period.

The area that shows the greatest gaps in performance is the Eurozone. On one side are Germany and neighbouring economies, with a growth speed that will stay above 2%, and on the other are Italy, Spain and some smaller countries that meet difficulties in doing better than 1%; France lies in an intermediary position.

The economic crisis has also had an extreme effect on the ICT sector, which has severely reduced investments.

The mobile sector, which has once again exceeded expectations, sustained the telecom earnings. In the first half of 2010 the world turnover deriving from the mobile services grew by 6% YoY (Year on Year), primarily led by Latin America, the Asian Pacific and North America. EMEA had a lower growth level due chiefly to the decline in turnover in Italy and Spain

In 2011, according to most analysts, there will be a new cycle of investments that will end in 2014 and will be led by both broadband and wireline.

This forecast is also consoled by the analysis of the capital intensity index of the main operators. The recent period has been marked by a decided cut in the CAPEX that caused the index to drop below 10%, despite the fact that it is advisable to keep it on levels of 10/15%. Considering that a persisting choice of this type is risky for the correct maintenance of the infrastructure, a recovery of the investments is awaited in the 2011-2014 three year period.

In 2014, the Asian Pacific region will represent the largest expense item for investment. Following EMEA will be North America, where half of the investments will be represented by Verizon and AT&T, and therefore the CALA will be sustained mainly by Brazil and Mexico.

The most notable trends of the ICT market that have characterised the year passed are mainly related to innovation and change in the competitive scenario in place in the sector.

Decline in operator earnings

In recent years the earnings of the operators, especially those related to the telephone services, which are notoriously at a higher margin, have consistently reduced and they are predicted to steadily decline for the next 10 years. In Italy, in particular, the decrease in telecoms began in 2006, before the global economic crisis, and would therefore be due to a structural cause in the industry (as well as the conjuncture). Furthermore, the operators will encounter increasingly greater difficulties making a value known in the vocal services, in view of the countless presences of free or almost free substitutive services.

The mobile operators, regardless of the constant drop in prices and the saturation of the market demand, appear to be in a more solid position. In the long-term, however, the VoIP mobile services will also have a similar impact to the fixed line services.

Consolidation of the competitive scenario

The focus of the operators has been concentrated on the marginality, causing them to assess the acquisitions more carefully, with a view to consolidation.

The consolidation of Service Providers was verified primarily in the countries with the most fragmented market, like the United States (Verizon-Alltel; CenturyTel-Embarq), Great Britain (T-Mobile UK-Orange UK), Germany (Liberty Global-Unitymedia) and South Korea (KTF absorbed in KT Corp; LG Telecom in LG Dacom and LG Powercom).

Meanwhile, the creation of major players was registered in the countries with developing markets (Russia, China, Brazil). In Africa, Latin America and the Middle East, the deleguration has encouraged the entrance of international operators that have provided the market growth with new stimuli.

Increase in broadband services, both fixed and mobile

There was a notable decrease in fixed network voice traffic between 2006 and 2010 and was only partially compensated by the increase in mobile traffic. The fixed-mobile replacement had not only impacted the number of lines, but has also affected the traffic per line, due to an increased use of voice services by mobile networks.

Data traffic has, essentially, increased steeply, more than proportional to the growth in the users, although less than expected. Italy, in particular, appears to be late in the diffusion of broadband. The low adoption on the front of the fixed was only partially compensated by an increase in the mobile. In regards to the offer, the operators have created the enabling factors for success. Essentially, in terms of technology, speed and prices, the national broadband services offer is in line with the UE5 countries; the delay seems, therefore, to fall to demand, brought about by a social and cultural nature factor, or scarce ICT alphabetisation and socio-cultural inhomogeneity.

Increase in the infrastructural supply to meet the increase in volume

The contraction of the turnovers reduced the operator margins and focuses attention on control over costs. However, the operators have had to increase their infrastructural supply to contend with the increase in the volumes of traffic generated by the growth of the services supplied through the network.

It is precisely the growing requests for mobile broadband and the video-based applications that are pushing the operator investment towards the NGAN/NGMN (Next Generation Access Networks, Next Generation Mobile Network). Although 2010 was declared a crucial year for the realisation of the NGAN (FTTx, LTE, Mobile Packet Core), it instead featured a waiting trend largely by the operators and a multiplicity of contradictory announcements, emphasising the difficulty of developing a divided vision of the Network, of the telecommunication services and an uncertainty on investment policies and the related regulatory context.

Change in the competitive scenario

The competitive scenario of the telecommunications sector experienced a period of change. New operators actually external to the telecommunications supply chain appeared on the scene. While the TLD branch, at least in the developed countries, is saturating the receivable value of the users, the subjects external to the supply chain, in particular the so-called Over The Top (OTT) operators (i.e. Google, Facebook, YouTube, eBay) are registering earnings in strong growth. The broadband users have become an audience to which services are offered that are in most cases paid through advertising. There is limited advantage in terms of earnings for the network operators, given that they work without intermediaries in most cases.
If it is undoubtedly true that the Over The Tops are determining the growth in traffic and the use of the telecommunications networks, it is, however, undeniable that they constitute the most significant threat for the telecoms

due to the capacity for diversification, the rapid capacity of scale, the disruptive model (free for the client and advertising-based), as well as the intensive use of the knowledge of the client that allows them to compete on more markets in a transversal and global manner.

Another threat for the Telco comes from the Consumer Electronics market. The mobile phones that feature a multitude of functions (like the iPhone) disintermediate the relationship between the client and the telecommunications operator and other terminals, such as the Game Consoles for example, contend to these the "net enabler" rule directly from the living room.

The drop in turnover and margins for the traditional operators are essentially triggering by a domino effect that is felt along the rest of the line. The suppliers of network services and apparatus particularly feel the negative effects. The impact on suppliers of fixed and mobile terminals is less disruptive; sales have fallen, only partly compensated by the diffusion of the smartphones.

New trends and technologies in the companies and in the Public Administration

The most innovative companies in the ICT sector are investing in new technologies, developing, in particular, the upgrade of networks given to support the solutions of Unified Communication & Collaboration based on the video and to enable the cloud model, the transformation of the data centers to allow virtualization, the Cloud Computing and Green technologies.

Most of the analysts agreed that 2011 will be the year of the convergence and integration of cloud services with the mobile, mobiles with social networking, and social networking with real time analysis.

The Public Administration, thanks to the ICT technology, aims at realizing the digital agenda in Italy also. This is a solution able to modernizing processes, increasing productivity, improving the efficiency of the administrative action and increasing the level of safety and reliability. The main technologies are: Ultra Broadband Networks, IP-based Communications, eGovernment, NG eHealth, Energy Efficiency/Smart Grids, Integrated Security.

Many consider that the development of the TLC sector can act as a driving force for economic growth and the development of the country. Consequently, the development policies must create a stimulus for the TLC production chain, as a benefit for the whole Country System. The stimulus can arrive directly to the TLC operators (eventually also on a territorial basis), or indirectly through the alphabetization. The definition of a strategic vision must be presented,supported by resources and regulation.

Offers

During 2010, Italtel reorganised and took an innovative approach to its catalogue of offers, promoting evolution and confirming both the guidelines and consistency. Thanks to on the field experience, greater focus was exercised, with particular emphasis on the new market mix that was considerably extended from the Telecommunications Operators (Service Provider) to the Companies (Enterprise) and the Public Administration (Public Sector).

The solutions offered are consist of Italtel-owned products (Smart Network Products and IT Products) produced by strategic and technological partners, development activities, engineering and certification of the solution, accompanied by a set of professional quality services.

The Italtel offer catalogue was divided into strategic business lines, to which the organisational units correspond, and by Innovative Offer solutions:

- ICT Solutions
- Smart Network Products
- Advanced Professional Services
- IT Products & Solutions

ICT Solutions

The offer of the "Cisco-OEM Products & Solutions" unit covers the broadest settings of the ICT sector, addressing the requirements of the Telecommunications Operators and the public and private companies.

The various offer lines are divided into solutions that include, in addition to the technological apparatus and systems, all the services necessary to offering clients a complete service that correspond to their necessities.

The solutions, certified in their own R&D laboratories, integrate the Italtel services and products with third party services and products, differentiating Italtel from the competitors. They are also made available as retailers of infrastructure and services or as management in outsourcing the relative services.

The main offer lines are:

- IP infrastructure and Traffic Management systems
- Solutions for new generation Data Centres
- Networks for Mobile Operator IP traffic management
- Communication and Collaboration solutions for companies (Unified Comm. & Coll.)
- Video Communications solutions for TLC operators and companies
- Solutions for Healthcare (e-Health)
- Smart Grid and Energy Management solutions
- Professional Services

The offer lines are available for both Italian and foreign clients; Italtel is able to manage every aspect of the local problems, providing the necessary services from the consultation, planning, and implementation phase to the post-sales support.

The unit solutions are implemented by using the technologies of world leader Technological Partners, managed through certified relations, like the GOLD level partnerships, especially with Cisco.

Smart Network Products

During 2010, the “Multimedia Products & Solutions” unit considerably reorganized its own line of offers, rationalizing and expanding the catalogue of ownership solutions and their life cycle.

Currently the offer line is divided into:

- Control Layer
- Data Layer
- Interoperability Layer

The evolution of the catalogue in 2010 was led by:

- consolidation and evolution of the base installed (launch of a new release by Softswitch - i-SSW 22.30.5x – and the data layer - i-TDS 2.0);
- expanding the perimeter of offers through solutions by direct channel (release of a compact Softswitch i-VLiteSwitch (i-VLS 1.0) by defining a concept of products that clearly place Italtel in new market segments (NetMatch, for the Interoperability Layer) and guarantee a further and more profitable evolution of the installed base (i-TDS 3.0, i-MCS on Data and Control Layer segments).

Of particular note, as one of the first realizations in the world, is the availability of Softswitch and IP Multimedia Systems solutions in processing environment displayed as a characteristic of CLOUD COMPUTING.

Advanced Professional Services

The current offer of professional services of the “Advanced Professional Services” unit is developed along the following lines:

- Engineering & Testing services: services regarding the design, integration and validation of solutions based on Italtel owned products. The services are associated with and related to the HW/SW Italtel supply (Smart Newtork Products offer line);
- Network Implementation services: installation and inspection services, facility creation, site preparation as standard of solutions based on owned products and Cisco. The services are associated with and related to the HW/SW Italtel and Cisco supply (Smart Newtork Products and ICT Solutions offer lines);
- Consulting services: technical consultancy services (design, integration, validation, NGN network transformation, etc.) on Italtel technology and other (Acme, Cisco, innovative solutions, etc.), unrestricted by a HW/SW Italtel or Cisco supply;
- Network Care/Field Support services: traditional technical assistance (reactive) and maintenance support services for the maintenance of the HW/SW platforms or the client network;
- Managed/Operational services: advanced services aimed at supporting Client Operations or the management in total or partial delegation of their infrastructures and services, both at the client premises and in-house Italtel;
- Learning services: provision of operational technical training courses on the technologies and solutions sold by Italtel (with owned products or also products by other Vendors). An indirect channel (i-VLS and Netmach) enablement and training service.

IT Products and Solutions

During 2010, the IT services and solutions offer was rationalised and consolidated in a single catalogue, assigned to a specific “IT Services & Solutions” unit. The objective is to promote and develop the proposal of the IT solutions and services through a specialised consultancy activity supplied “per project” and/or as “IT managed services”.

The offer is divided into:

- OSS products: they cover the aspects of management and maintenance (Next Generation OSS - NG-OSS), in particular including:
  - iNEM for the management of IT devices/TLC network apparatus of the Italtel network solution and for the mediation towards management systems OSS/BSS in the client network;
  - iEMX (Italtel Enhanced service Management for Multi-technology networks) dedicated to the delivery and end-to-end management of the Business Voice Italtel/Cisco solutions Unified Communication products:
- Unified Communication products:
  - Nabook for the central management and synchronisation of the records (company, personal, shared), integrating Unified Communication & Collaboration services;
  - iCSE to enrich the Cisco UCME proposition (Unified Call Manager Express) with added value services, extending the offer in view of Unified Communication & Collaboration.
- Solutions: are specific projects based on best of breed IT technologies and customisation, as a value to address the specific business needs of the clients. These solutions address chiefly critical Telco processes like the insurance, provisioning, inventory, mappable on the eToM model.
- Solutions: are specific designs based on best of breed IT technologies and customisation, as a value to address the specific business needs of the clients. These solutions address chiefly critical Telco processes like the insurance, provisioning, inventory, mappable on the eToM model.
- Managed services: which include offers to external clients and the company of networking activity and security management (Technical Operation Centre), customer care services (Contact Centre), housing and hosting technological applications and/or infrastructures of the clients. This area allows the development of the offer in terms of virtualisation, automation and realisation of self-provisioning portals, typical of the Cloud Computing model as well as the supply of IT business service management.
- System Integration: in which clients are offered highly specialised professional profiles on specific needs or consultancy technological that covers the areas of analysis, development, integration and operation of the systems existing and planning (Life Cycle).

The adoption of an Open Source platform was consolidated, fittingly engineered and certified, for the developing the projects or the supply of services. These platforms, thanks to the motivation of the community of users and developers, guarantee a high level of technical reliability and flexibility without requesting large initial investments. This results in an especially competitive offer for the Public Administration.

Innovative offers

In 2010 base had been placed for the expansion of the catalogue with innovate offers such as Cloud Computing, e-Health, Green Solution & Energy Management, Smart Grid & Smart Metering, e-Transaction & Mobile Payment, NGAN and Integrated Security, aimed initially at the Italian market.

Cloud Computing

Cloud Computing is configured as a phenomenon designed to revolutionize the consumption model of the IT resources, transforming it from a model based on products/solutions installed on the client infrastructure into a fruition of "pay-per-use" online services. The change of paradigm is sustained by the market needs, made more evident by the current economic climate, the reduction in investments for implementing new IT projects and by the reduction in management costs, using "all inclusive" prices methods. The Cloud Computing market is still presented as an embryonic market in Italy. Although not in keeping up with the market growth prediction, analyst evaluation is of the unanimous opinion that it constitutes an irreversible change. In testimony to this is the daily expansion of the market offers in relation to Cloud Computing by the major players in Information & Communication Technology.
The planning carried out on Cloud Computing by Italtel takes these evaluative elements into account, with the realization of composed offer that entails an expansion of the current offer of System Integration on the Data Centers (evolution towards "Infrastructure as a Service" with the use of the "Cloud in a box" platform by VMware), accompanied by an offer, for innovative Italtel, based on a Business Process Management platform (Cordys platform). This enables the clients to acquire rapid implementation of new business processes, reduction in costs of operational processes, launch and support to the path of externalization of the IT resources. Considering the rapid evolution of the services in Cloud, it under consideration also the offer of intermediation services by SaaS, IaaS, PaaS by third parties (Cloud Service Broker: seen, in perspective, as the System Integrator of the future).

e-Health

Analysis of the Italian market has highlighted a scenario in which, on one hand, we can see an ever growing demand by public and private healthcare structures for technologically advanced solutions to support clinic processes; on the other hand, factors such as an ageing population, costs of medical procedures, the growth of spontaneous phenomena (Social Community, Apomediation…) on the network, increase the knowledge of the citizens regards to their health, persuading them of the need and consequent request for access to care. All of this tends to cause healthcare costs to inflate drastically. An answer can arrive precisely from an appropriate commitment, with a view to cost reduction and the simultaneous increase in the quality of the care, by the ICT by means of synergies, among which are the new technologies and the needs of the healthcare ecosystem. Positive feedback in this regard have also been had by the estimation of some e-health projects in Europe which, by addressing NGeHealth themes (Health@Gov, Telehealth…) in a structured way, have led to an average reduction of 11.7% in costs of the healthcare system.

The current Italtel offer in this area is substantially covering of the traditional areas of Network Integration with products and services (IP network, WLAN, UC and VoIP, Telepresence, support services and outsourcing on the IP networks) and the addition of some more specific solutions for the market in question (for example, Asset Management, Bed Side terminal - BSD, etc.), through the sales of products by third parties. The approach followed in the NgeHealth project, launched over the course of the year, to define new areas of offer, was aimed at the search for spaces for implementing innovative solutions - also niche - (Best Practice Based) that can, in perspective, be replicated on all structures of the healthcare ecosystem by procuring advantages to competition, with a significant role for Italtel on the value chain also from the point of view of profitability. In this sense the new Cisco solutions in the Teleconsulto setting (Health presence) can also be considered relevant.

Green Solution & Energy Management

Italtel, on this segment, is focusing on proposing different kind of offers that have different release times onto the market.

The short-term offers:

- Monitoring energy consumption: the monitoring system allows a continuous measurement to be carried out on the relevant parameters and the best decisions to be made, both in the intervention planning phase and in their successive management phase. Monitoring enables the quantification of the energy savings effectively performed with the interventions produced through pre-intervention (once off) and post-intervention measures (continuative);
- Measures related to the sector of the titles of energy efficiency: consultancy offer to large clients for the presentation of energy project in order to obtain certification;
- Verifications of compliance in performing the supply and service contracts: control of management and support to the Public Administration that, pursuant to the decree 207/2010, will have to have a "third party verify the compliance of all the activities regarding energy.

In the medium/long term, Italtel intends to evolve the offers towards other projects in the context of Green Consulting, Energy Monitoring, Smart Building and more generally towards energy efficiency activities related to Smart Grids.

Smart Grid & Smart Metering

The Italtel offer for Smart Grids is divided into the following points:

- Engineering, supply and deployment of the Cisco infrastructure at the basis of the development of the SMART CARD (Rugghed Switch) technology;
- Engineering, supply and deployment of the telecommunications infrastructure that allow millions of users (prosumers) to operate in a single energy market;
- Development of the active demand to allow all consumers (with or without self generation) to play an active role in the system operation;
- Solutions to "manage" the impact of the mass circulation of electric vehicles.

For the Smart Metering aspects, Italtel not only foresees to the realization of the infrastructure (private and public network) provided by regulations, but assumes the creation of an owner product (concentrator/provider) that meets all requirements of the standards.

e-Transaction & Mobile Payment

Over the short-term, Italtel intends to place itself as a System Integrator of a Mobile Payment solution (Mobile Banking, Mobile Wallet) based on a third party platform, directing it towards the major companies and public administration.

Subsequently, the offer will evolve into a Service Centre approach (SaaS / PaaS) and a wider range of mobile applications with the possibility of customization.

NGAN

Telecommunications providers will be called to cover the evolution from the traditional access network via copper wire to the new generation network. This path does not have an unambiguous approach. There are various possible strategies that are defined by combining strictly infrastructural components, such as the introduction of a new architecture of *"fibre* deep*"* access networks (such as, FTTC or FTTH), with components pertinent to the evolution of the services (emulation of existing services and development of replacement services).

In light of these considerations, the Italtel offer, which is aimed at telecommunications operators and new subjects (initiatives of the Regions or the Fibra per l'Italia consortium) for l-NGAN, covers all of the client's needs.

Integrated Security

Recent years have seen safety and security become a fundamental requirement and a factor that no longer constitutes a mere cost, but an actual investment for protecting the business and the informational assets of the companies.

The exchange of information and new cultural models created with the arrival of Internet render the infrastructure of the operators, as well as the networks of the Public Administration and the major companies, crucial and, so, they must be safeguarded and protected.

The Italtel offer in this regard represents the evolution of the Business Security line, launched by the company several years ago and revisited with a focus on innovation.

Essentially, Italtel has operated in the field of security since 2003 with a certified BS 7799, today ISO 27001, Security Operation Center (SOC) that continues to work with a reasonable number of active clients and will also be able to manage, in addition to the traditional services, the SaaS available in cloud modality, taking into consideration the high number of subjects that have decided to manage or to be managed by the cloud security services.

Italtel plans on placing itself as Security Solution Provider by proposing an Integrated Safety offer that includes IT physical and intelligence safety.

Positioning

In 2010, Italtel confirmed its place among the leaders of the EMEA area (Europe, Middle East and Africa) in innovative NGN solutions. In particular, during the first nine months of 2010, in the Softswitch segment, it held the second place in the ranking of the Top Vendors, occupying 17% of the market share in terms of sales revenue.

These data, issued by an independent research company, show how the Group is set deep in the international market and how it is able to provide cutting edge products, together with the System Integration capacity to guarantee clients infrastructure according to most recent standards of technological evolution.

Leveraging on the technological leadership in the IP/NGN field and on the characteristics of interoperability and standardization that distinguish its products, in 2010 Italtel invested in the strengthening of its catalogue of offers with the creation of products that allow interconnection between legacy networks and new generation networks (in particular LTE). The new products guarantee a gradual migration towards the new architecture of networks and allow services to be created so that, although enabled by the ultra broadband networks, can be interoperable with all networks.

In 2010, Italtel also realized a compact Softswitch (i-VLS), aimed at the medium-small operators market and simultaneously launched a partner program, initially aimed at the System Integrators of the Italian market, for its marketing and integration in the network.

Regards to the network data segment, Italtel has established its leadership in Italy among the larger telecommunications operators and has strengthened its presence in the “Enterprise and Public Sector” segment. The offer of innovative unified communication solutions and intra-company collaboration, and also multi-technological (CISCO, Avaya, Alceo), was expanded and integrated with safety solutions. These new solutions are aimed at the integration of evolved technology of video analysis and video-surveillance with a multimedia communication platform focused at valorizing the engineering capacity and management of the network.

Following the strategy of expansion of the ICT solutions, in 2010 Italtel signed partnership agreements with leading companies in supplying platforms for ICT solutions suppliable in cloud. The agreements enable Italtel to expand its own offer dedicated to new generation data centers and the Public Administration and Enterprise business segments with “Software as a Service” type cloud solutions.

Also regards the expansion of the catalogue of ICT solutions offers, Italtel has also signed agreements of understanding with potential partners to place themselves in new sectors of application such as Mobile Payment, Energy Management and Smart Cities.

Also in 2010, Italtel Group confirmed the growth trend of its own position in the segment of the data network solutions for Service Providers in Latin America, where it has been operating for many years and has a large consolidated base.

Thanks to competence in System Integration, the rapidity of planning and execution and the professionalism in the after-sales services Italtel has been able to maintain its place as Global System Integrator for supplying “Traffic Management” solutions for mobile broadband in Latin America and as Global Network Integrator in the areas of the Middle East supplying “vendor independent” consultancy services for putting into effect complex networks for an incumbent .

Partnerships and alliances

For several years Italtel has consolidated and directed some important business opportunities in the national and international market through partnerships. In particular, Italtel continues to strengthen the partnership with Cisco, which is considered strategic on an international level in all market segments. Equally strategic is the partnership with Telecom Italia. Italtel, essentially, is the established reference partner of Telecom Italia for the continuation of the evolution of processes and transformations towards a “Full IP network”, aimed both at the creation of new services for the market in all its expressions (Consumer, Business and Top Client), and for renewal and maintenance of the infrastructural components of Network and Information Technology that aim at containing and reducing operational costs. Italtel represents the reference player to support the transformation of the networks and services.

The increase in capital in 2010, that these two strategic partners achieved, has renewed the capacity of Italtel to be positioned on the market as Global System Integrator.

Moreover, some technological and market partners were chosen to reinforce the new offers (Energy Management, Smart Cities, e-Transaction & Mobile Payment) that Italtel intends to deal in with in the next two – three years.

Markets and customer relations

Domestic market (Telecommunications Operators)

2010 saw the ICT market in Italy suffering from the effects of the international economic crisis that began in 2008. The continuing unfavourable macroeconomic conditions has led to a further decrease in operator investments and an increasing focus on reducing infrastructural costs.

In this environment, Italtel confirmed to the Telecom Italia customer its role of main supplier of products for managing services in the sphere of new generation networks and reinforced the role of System Integrator, providing services for the engineering of multi-service networks.

Italtel, pursuing the path of renewal of its offer, also developed new solutions and services, such as those in the Multimedia setting and for the advanced and dynamic management of services and applications.

In this regard, among the most significant initiatives performed throughout 2010, it is important highlight:

- the evolution of Contact Centers infrastructure to an integrated and “full IP” structure;
- innovation in the high definition video-communication services, also developing interoperability between systems;
- the creation of IP-IP interconnection with the other Italian operators (OLO);
- the modernization and consolidation in regards to Element Manager;
- the contribution to the Quality Monitoring Plans regarding Technology and Open Access or the broadband user.

Essentially, Italtel has confirmed itself as the Telecom Italia partner of reference for continuing the process of evolution and transformation towards a “Full IP network”, aimed at both creating new services for all market segments (Consumer, Business and Top Client), and renewing and maintaining the infrastructural components of the Network and Information Technology, which aims to contain and reduce operating costs. Therefore, Italtel represents the player of reference for Telecom Italia to accompany the transformation of the networks and services.

Domestic market (Companies and Public Administration)

In 2010, the economic crisis that was already in place since the year before kept its effects on the public and private companies market. Italtel then turned its focus on specific market segments and on some vertical, as well as offer, segments on which it traditionally holds excellent standing (creation of IP infrastructure and integrated voice and data solutions).

Essentially, Italtel considerably expanded its presence in the market of VoIP solutions for large banking institutes, creating the new Unicredit communication network and also acquiring the contract for the new Banca Intesa network item in the latter part of the year. The commitment by Italtel to establish itself, in partnership with Cisco, on the market of new data centers for large public bodies, securing important jobs in this sector is continuing.

The times required for making these solutions available to the market in question have been reduced to the minimum thanks to the recourse to the market and product partnerships in the cases described.

Italtel continued to address it innovation activities on the proprietary products with the aim of expanding and consolidating converging solutions for Service providers (both TLC and ISP Carriers), Companies, Public Administration SMIs.

In the Company segment, Italtel collaborated with primary figures such as Cisco and with the main Service Providers on:

- ALICE CORPORATE and TELECOM ITALIA IMPRESA SEMPLICE project, whereby Italtel supplied the engineering support, solutions and products for those solutions, which have been very successful on the market. The sales forecasts have been generously exceeded over the year;
- The realization of engineering solutions integrated into Transportation sector network solutions. Of particular note amongst these is the planning of the telephonic network created for Selex Communications, involving a larger project for the infrastructural modernization of the network for the Ferrovie Italiane;
- Management of complex networks through the NOC (Network Operation Center) for several large Enterprise and Public Administration (RAI, INAIL) clients.

Italtel is committed to pursuing the development and proposal of innovative solutions and services capable of adding value to the companies and both to the central and local Public Administrations.

International market

In 2010, Italtel achieved significant business results compared to the previous year, due both to the sale of proprietary products for NGN/IMS networks for companies and residential clients, and the sale of traditional and innovative solutions regarding the Cisco catalogue; regardless of the persistence of the drop in investments by telecommunications operators and the increase in competition. Furthermore, the professional services were also developed and the bases were set for directing Italtel towards several clients for IT applications.

The business development activities were chiefly aimed at the maintenance and development of the VoIP networks, the creation of new opportunities, especially for the emerging markets such as the Middle East and North Africa, which will be realized in the short and medium term, and the expansion and diversification of the Italtel portfolio as Cisco System Integrator for the advanced solutions in LATAM also.

Italtel has also consolidated and grown its business with the main telecommunication groups such as France Telecom, Vodafone and Telefonica both with proprietary solutions and through the professional services.

In regards to the Middle East and North African market, it is pertinent to mention the new contract of professional network migration services in Oman, the project for the companies in Saudi Arabia, the entrance into the Algeria market and the further development of the IP network in Libya. Italtel has also increased its presence in Vodafone Germany in relation to the NGN network for which it has been publicly acclaimed thanks to its high quality and reliability and, despite the financial crisis, the growth of its base installed NGN e IP has continued in Greece.

In the France Telecom group, the main results are the increase in traffic and presence in the international network; the adjudication for the continuous development of the NGN backbone network, through a new converging solution; the adjudication of the project for the companies in Poland and the beginning of the positioning of new proprietary products, like the compact Softswitch i-VLS.

In LATAM the main clients of the Group are found in Argentina, Brazil, Peru and Colombia.

In Brazil, for the client Tim Brasile, Italtel achieved an excellent result with the sale of a new release software for the NGN network, the important development of the IP backbone, the supply of new professional services and the awarding of a new contract in the IT area.

In Argentina Italtel has had a key role not only for the introduction of innovative Cisco solutions into the market, but also the support to the development of the solutions and the partnership with Cisco in the other LATAM markets. Peru, in keeping with the plan forecasts, has seen a considerable rise in business and the further development of the role of Cisco integrator for the client Telefonica.

Development and Innovation

European projects

Also in 2010 Italtel S.p.A. participated in collaborative European industrial research and pre-competitive development projects, both in relation to Eureka, where Italtel S.p.A. has been active since 1985, and in the European Union – Seventh Framework Programme.

Italtel's activity has entailed the implementation of projects already contracted in previous years, the launch of a new project approved in the first half of 2010 as well as the proposition of new initiatives, for which are still pending approval by the financing bodies.

In the context of Eureka, the industrial research support programme complementary to the Framework Programmes of the European Commission, Italtel S.p.A. is the founding company in the two main research and development consortiums in the ICT sector, called ITEA2 (Information Technology for European Advancement) and CELTIC (Cooperation for a European Leadership in Telecommunications).

Within the CELTIC programme, in particular, Italtel S.p.A. has collaborated with eight international partners including Orange-France Telecom, for the realization of the COMESI (Converged multimedia communication suite over IMS) project. The aim of the project is the study, implementation and field experimentation of a collection of standard OMA (Open Mobile Alliance) applications and multimedial services that experit on the potentiality of the IMS model. Of particular note amongst these are the converged messaging, the continuity of the audio and video service on the multiple services, the converged address book and content sharing applications that take advantage of the information by user presence on and belonging to social networks. An additional objective of the project is to provide technical guidance proposals both to the OMA (Open Mobile Alliance) standardization and the RCS (Rich Communication Suite) initiative. The project will be concluded in 2011.

In regards to the collaborative project in the European Union Framework Programmes, Italtel S.p.A. has conducted activities in the ICT (Information & Communication Technologies) area.

In this field, 2010 saw activities conducted on the “PANLAB Infrastructure Implementation” project, in collaboration with 19 international partners, including Deutsche Telekom, Telefónica, France Telecom, Nokia and Alcatel-Lucent. PANLAB II will bring about the realization of software instruments in 2011 for the functionality and implementation of a service-centre for sharing infrastructure compatibility testing and verification.
Over the course of 2010 the IP (Integrated Project) project called ANIKETOS was also contractualized with the European Commission and launched, it will last three years.

In December 2010 Italtel S.p.A. also presented a new project proposal in the EeB Call of the Seventh Framework Programme that involves intelligent energy management in the public spaces of the so/called “smart cities”.

Subsidised loans and contributions for Development and innovation

In the 2010 financial year, the Italtel S.p.A. income statement proceeds amounted to approximately 4.2 million Euros: of these, 1.3 million Euros regarded the Tax Credits for the years 2007 and 2008. The grants proceeds were approximately 0.9 million Euro and the proceeds for subsidised loans were approximately 4 million Euros.

The abovementioned incentives leveraged on the following national and international norms:

- FAR Revolving Fund – MiUR Fund for the promotion of Research (Ministry of University and Research), pursuant to Leg. 297/99 and previous;
- FIT Revolving Fund – Technological Innovation Fund (Ministry for Economic Development), pursuant to Leg. 46/82 (art.14);
- Implementation regulation of the Competitivity and Development Fund, which financed three large technological areas of Industrial Innovation: Energy Efficiency, Sustainable Mobility and Made in Italy, by MiSE decree of March and April 2008;
- Implementation regulation of the Masterplan, MiSE decree of 24/01/08;
- Implementation regulation of the European Commission on the Sixth and Seventh Framework.

During 2010 Italtel obtained the concession decrees of the PNGN (already included in previous years) and CAMP SURE (in progress) projects and contractualized the Integrated Project ANIKETOS with the European Commission.

The CAMP (Context Aware Mobility Platform) project is part of the “sustainable mobility” framework initiatives of the Industry 2015 program, and is developed over the 2009-2011 three year period and sees Italtel as leader of a company of 12 industrial partners and universities.

The SURE project (Ultra Wideband Sensors for Risk Management in the e-Health setting) was started in 2010 financed by the Regione Lombardia in the 2010-2011 two year period and developed in collaboration with Universities and other Lombardy companies.

The Masterplan proposal in collaboration with Telecom Italia (proposing party), despite having passed the admissibility and interlocution phase with INVITALIA, was suspended by the Ministry of Economic Development due to the lack of the base capital in non-eligible areas (North).

In April 2010, in response to the PON 2007/2013 competition issued by MiUR, Italtel presented four project proposals, in partnership with companies, Universities and Public Research Bodies in eligible areas (South). Two of the projects – called COMARE and ReMIDA – concern the ICT sector, one - SIAT – to the environment and safety sector and one – PING-US – to the aerospace/aeronautical sector. The proposals are currently in the phase of assessment by the Ministry.

2010 also brought the persistence of the absence of public funds for the incentives through the mechanism of tax credit on the costs sustained for Research and Development.

Corporate Governance and Corporate responsibility

Board of Directors

The Board of Directors of Italtel Group S.p.A.is composed of nine Directors, in office until the approval of the financial statements as of 31 December 2012.

The Board of Directors of Italtel Group's main subsidiary, Italtel S.p.A., following the adoption of a new text of the charter of association approved by a deliberation at the extraordinary Shareholders meeting on 16th September 2010, is currently composed of nine Directors, in office until the approval of the financial statements as of 31 December 2012.

During the last fiscal year, the Board of Directors of Italtel Group S.p.A. and Italtel S.p.A. met regularly, more frequently than prescribed by law and by statute, to examine the issues brought to their attention.
The Board of Directors of Italtel Group S.p.A. and Italtel S.p.A., in compliance with the provisions of the current company statute, comprises four components (equipped with the requirements of independence and professionalism) both executive (currently President to CEO) and non-executive who provide their contribution, with a large range of competence and experience, to the activities of these company bodies.

Fees payable to Directors and Statutory uditors

The amount of compensation paid to the Administrators and the Auditors of Italtel Group S.p.A. for the performance of these functions in other consolidated companies is as follows:

(thousands of Euros)

	2010	**2009**
Directors [1]	1,333	1,245
Statutory Auditors	114	100

(1) An overall and all-encompassing sum of Euros 50,0000 was deliberated upon (which will be paid by Italtel S.p.A.) for the two independent non-executive Administrators, for their role as components of the in-house consultation Committees, established at the Holding Company, for each company financial year and for the duration of the mandate. Furthermore, a payment of Euros 8,000 was deliberated upon for the external component (as well as the President) of the Supervisory Board pursuant to Leg. Decree 231/01 for each financial year of the duration of the position. The 2010 sum also includes the payment of the executive independent Administrators for the roles of President and CEO as per the specific contracts and all-inclusive of each emoluent owed to same for the abovementioned undertakings and/or Administrators in each company of the Group, including the Parent Company

Committees

The main activities carried out by the Committees during the year are reported below.

Executive Committee

With the introduction of the new Corporate Governance and with the adoption of a new text of the charter of Association for the company, and for its subsidiary Italtel S.p.A., the statutory forecast was annulled regarding the Executive Committee which, for Italtel S.p.A., remained in office until the expiry of the company appointments, on the occasion of the ordinary Shareholders meeting of 27th July 2010.

Internal Committees

The technical and/or consultation committees were founded as specific work groups within the Direction of Italtel Group S.p.A. and are currently the Internal Control Committee and the Compensation Committee. The Technological Committee was not renewed however, having been in office in the 2010 financial year until the expiry of the company appointments, terminating with the approval of the financial statement on 31/12/2009.

Committee for Internal Control

Over the course of the financial year just ended, the Internal Control Committee (formerly Audit Committee) met four times deliberating, as usual, the audit plan for the 2011 year and activating reinforcement measures by both the Corporate Governance and the Internal Control System.

In regards to the Internal Control Committee, the Committee implemented the predisposition of activities to verify the processes considered fundamental, by connection with the Internal Audit department.

During the financial year, relationships were established both with the Board of Auditors and with the audit company for examining themes of reciprocal interest.

Compensation Committee

The remuneration policy of the Group has assured, during 2010, that the retribution of the executive directors would adequately reflect the duties and responsibilities and would be able to attract, bargain with and motivate senior managers of high professional standing, capable of collectively achieving the Group objectives.

The Compensation Committee (formerly Pay Policies Committee) ascertained the failure to reach the financial results of the Group for the year 2009 and consequently did not allow the supply of the MBO assigned to those entitled to it. It has furthermore assigned the objectives to the top executives for 2010 and provided to establish the so-called “Group financial objectives” valid for all those with entitlement to the MBO.

Management and Control Organisational Model

In 2010 it was necessary to update the Management and Control Organisational Model adopted by the Company and aimed at preventing the crimes specified in the Leg. Decree 231/2001. The functional activities for updating the Model in fifth issue were developed and concluded.

The updates were necessary in order to:

- Adjustment to the new types of underlying offences introduced to the Leg. Decree 231/01 during 2009;
- Introduce new special parts in relation to new crimes;
- Organization company changes;

The modified and updated model in fifth issue was approved by the Supervisory Board during the meeting on 16th December 2010. The approval occurred by means of deliberation by the Italtel S.p.A. Board of Directors on 23rd February 2011.

The information activities regarding the Leg. Decree 231/2001, the Code of Ethics and the Management and Control Organizational Model are continuing, aimed at personnel in positions of responsibility and the actions of communication, taking particular care to update the informative content of the company intranet site dedicated to the activities of the Compliance Officer.

The Compliance Officer has also conducted Audits aimed at verify the correct application of the provisions of the Management and Control Organizational Model ex Leg. Decree 231/2001 and, in particular, in relation with the correct application within the company in the following risk areas:

- Prevention of crimes in violation of the norms regarding safeguarding of health and safety in the workplace regarding the activities carried out by Italtel:
  - at the premises of Castelletto and Carini;
  - at the clients premises.
- Prevention of computerized criminal offences: regarding the management:
  - of the computer networks and the company computer systems;
  - of the activities of professional services provided to the clients.

The Audits have brought to attention the general respect of the elements of control provided in the various protocols and the corrective actions, where identified, were cleared during 2010.

The Italtel S.p.A. Compliance Officer kept the Supervisory Office, the top management and the Auditor Board constantly updated in regards to the activities carried out for the implementation and the supervision of the Model.

During the 2010 financial year, the Italtel S.p.A. Supervisory Board, constituted by two independent Directors and by the Compliance Officer, met twice; the main activities performed were:

- the approval, prior to submission to the Italtel S.p.A. Board of Directors, of the updated protocol PRO231-S003 “Supply of technical products and/or projects covered by a state secret”;
- definition of the Model updating plan and finally of approval of contents of the fifth issue;
- Verification of the results of the information flows received periodically in compliance with to that defined by Protocols 231.

Regulation for conflict of interest

During 2010 the census of the cases of conflict of interest for Italtel S.p.A. personnel granted by authorizations and delegations continued.

Privacy, Programmatic Document on Safety

As provided by attachment B) to the Leg. Decree 30th June 2003 no. 196, as usual on 21st March the Group prepared the updated version of the Programmatic Document, ex art. 33 of the same Decree, relating to the safety measures adopted in relation to the treatment of personal data.

Human resources, environment and quality

Human resources

On 31st December there were 1,867 Italtel Group employees, of which 152 were abroad (in 2009 there were 2,119 of which 183 were abroad).

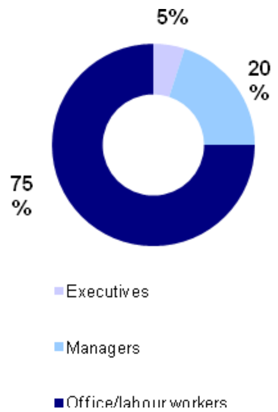
There were 12 persons hired during the year (essentially all abroad), 264 persons left their employment of which 109 were voluntary resignations and 155 between retirement incentives, long and short term redundancies and completed terms of fixed contracts. 19 directors left the company and the relative value was stated to be 100 on 31/12/2010.

The personnel are distributed in the following departments: Professional Services (33%), Development and innovation (38%), Marketing (21%) and Staff and Administration roles (8%).

A little more than half of the employees was composed of degree graduates (51%) while diploma-holders comprised approximately 44%.

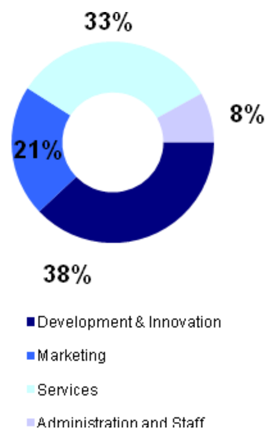
EMPLOYEES BY CATEGORY

31/12/2010



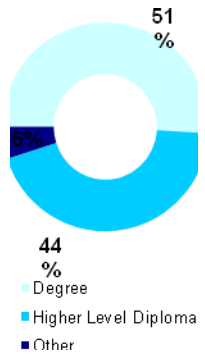
EMPLOYEES BY FUNCTION

31/12/2010



EMPLOYEES BY EDUCATION

31/12/2010



3 persons are included as office/labour workers

During 2010, Italtel continued a series of organizational initiatives aimed at supporting the achievement of the objectives of the Plan while guaranteeing increasing levels of operational efficiency. Essentially, a new structure of Italtel S.p.A. was launched in July with the aim of ensuring greater focus on objectives, results and processes related to the specific offers, especially in terms of economic profit, as well as strengthening the coverage on the market to increase the added value generated to the end Customer. Dedicated Product Units and Market Units were established to this end.

This led to a simplification and rationalization of the structures and the company processes which has enabled important recoveries in efficiency to be created which were, among others, confirmed in a reduction of around 35% of the organizational coordination positions. Consequent job rotation interventions were achieved on the management plan, carried out at various company levels, which have enabled numerous in-house resources to be valorized, and also the completion of the change management project launched during the previous year.

2010 was a particularly busy year in the field of Industrial Relations. Essentially, following the reduction in turnover expected from the main Italtel client, on 19th February 2010 Italtel S.p.A. opened an Extraordinary Wage Guarantee Fund (CIGS) for unforeseen and unforeseeable events, that involved 400 employees. The procedure accomplished with the trade union counterparts was concluded on 16th March 2010 at the Ministry of Labour with a failed agreement. Therefore, the early conclusion of the Job Security Agreement in place (already provided by the agreement signed at the Ministry of Labour and Social Policies on 16th June 2009) became necessary and, on 11th April 2010, 340 employees were placed in CIGS for zero hours contract.

This situation constituted a period of extreme friction for the company and gave rise to the activation of collective and individual dispute. Essentially, FIM-FIOM-UILM presented three distinct claims pursuant to art. 28 of the Workers' Statute at the Courts of Milan, Rome and Palermo against the company decision to activate the Guarantee Fund. While the judges of the Courts of Rome and Palermo denied the claims, the Court of Milan partially gathered them due to defect of form, ordering that 211 employees return to employment as of 6th August 2010. The company activated a new procedure of CIGS that, knowing the defect of form, it was able to conclude with a report of accomplished procedure to the Regione Lombardia on 17th August 2010. As of 23rd August 2010 the workers previously reintegrated were however once again placed in CIGS. A further 138 individual claims were filed by the same number of employees against the criteria of choice of the personnel placed in CIGS.

In regards to the recapitalization and the refinancing of the Group, to sustain the commitments of the 2011-2013 Plan in a climate of more peaceful industrial relations, from October 2010 negotiations were undertaken between Italtel and workers organizations that led to the signing of an agreement at the Ministry of Economic Development on 5th January 2011 that set out a series of instruments for managing the excesses for the period of January 2011-April 2013. The qualifying points of the understanding specify: the activation of the Job Security Agreement for 800 employees (which brings about a reduction in labour equal to 80 in excess); the CIGS for reorganization that will involve, for 24 months as of 12th April 2011, 170 persons of which 90 have six-month rotation periods; the termination of the collective and individual dispute regarding the CIGS procedure for company crises activated by the Company on 12th April 2010.

Training

Despite the difficulties of 2010, Italtel continued to promote supporting the training activities to encourage the development of the Company and respond to continuous changes dictated by a competitive market such as that of the TLC/ICT.

Around 20,500 hours of training were provided for a total of 1,092 shareholdings, on technical themes (Cisco technologies, protocols of telecommunication and operative systems, Information Technology) and managerial topics (general management, empowerment of the personal capabilities). A training plan was also implemented on the themes of People Management especially for the directors and focuses, in particular, on the Role of the head figure as relations manager.

Most of the training activities were implemented thanks to public financing and the use of The Fondimpresa and Fondirigenti training accounts.

Also for 2010, the certifications and the specializations that Cisco obtained have enabled Italtel to renew the Cisco Systems Gold Certification, the top recognition for the excellence partner.

Stock Option Plans

With reference to the Stock Options Plans with which options in three tranches (2000, 2002 and 2004) were assigned to the Managers, Key Contributors (top level executives) and the Key Managers and some Administrators, the options assigned in 2004 are still open, while those assigned in the first and second trances were annulled as eight years had passed since their assignation, as provided by the regulations of the Plans.

Environment and health

The company constantly monitors the environmental impact of the activities in its various premises.

In May 2010 Italtel updated the Policy for the Environment, Health and Safety in the Workplace, therefore keeping in line with the evolution of the guidelines issued on the subject.

For the Carini district, certified ISO 14001 since 2001, the Environmental Management System compliance with the requisites by the regulation was again confirmed following the three-year re-certification issued by the CSQ, in March 2010, without any instance of "non compliance".

It is to notice that among the initiatives of environmental improvement put in place in Carini, there is the increase in the environmental performance and the savings of the disposal costs following the consolidation of the activities and processes related to the differentiated collection of urban waste in canteens, also achieved thanks to the active contribution by the employees. Furthermore, a convention started in 2008 is still ongoing and was set up with the local public transport operators to encourage workers to travel by rail by the underground train that connects Palermo to the Italtel site.

In regards to energy saving, the software factory "virtualization" project is in progress, which will allow a consistent number of servers to be turned off, equal to the production capacity.

For the district of Settimo Milanese, the safety measures were strengthened with the launch of the necessary works required to obtain the last Fire Prevention Certificate, specified by the relative project approved by the Fire Service.

Furthermore, in compliance with the norm in force, the "Risk Assessment" documents for the health and safety of the workers were updated both for the activities carried out at the premises and the activities carried out at the client premises.

Finally, the company healthcare service supplied the employees with around 6,000 services for healthcare and emergency services assistance, preventive interventions and the vaccinations or pharmacological cover for the personnel sent abroad to countries whose hygiene-healthcare conditions require it.

Quality

Italtel has always placed particular attention on the theme of quality regarding both the products/solutions/services that it provides and the performance of its processes, inherent to the business or rather to the more general themes of the environment, health and safety.

All product configurations are certified in accordance with the electromagnetic compatibility safety standards, created according to criteria regarding minimization of the environmental impact (i.e.: RoHS Directive - Restrictions of certain Hazardous Substances).

Moreover Italtel, being written to the Register of Producers of Electric and Electronic Equipment, guarantees which is provided in regards to the European Community (WEEE - Waste Electrical and Electronic Equipment) in relation to the disposal of products once they have reached the end of their life cycle.

Finally, in the context of the initiatives aimed at the continuous improvement of the quality of its processes – in particular of those aimed at the Clients - , the Customer Satisfaction measures, as well as the KPI (Key Performance Indicator) analysis activities, continue to the implemented as indispensable support tools for improving the company performances.

Finally, during 2010, following the inspection by the CSQ certification body, the company was confirmed to "comply" with the Quality Management System as per Norm ISO 9001, which the company has held since 1992. The Inspection Verification Report essentially stated that no instances of "non compliance" were detected for any of its processes.

Further Relevant Events

Evolution of relevant Potential Liabilities

Tecnosistemi TLC Engineering & Services S.p.A. (“TCS”) in liquidation and Extraordinary Administration

During 2010 the execution of the transaction agreement with the TCS Procedure was completed, which defined all the settlements pending between Italtel S.p.A. and the TCS group. A procedure charged to one of the former TCS administrators, director of Italtel at the time, is still pending, in regards to which Italtel S.p.A. has the undertaking of holding him as provided by the regulations in force on the matter. In connection with this procedure Italtel was cited, as civil authority, by some former employees that had already instituted a civil action in regards to the cited former administrator.

Fiscal Inspection in Brazil

On 19th December 2007 the tax administration of the state of San Paolo Brazil issued a deed of infraction and the imposition of a fine to the company of the Group, Italtel Brasil Ltda, for the importation operations carried out from 2002 to 2005. In this deed the court administration contests an infraction regarding the payment of the ICMS tax for the use of credits by the same imposed upon reduction of the payment of the debts of that tax, in addition to the application of sanctions and interests on the amounts contested. The overall sum for the two contested infractions and relative sanctions and interests amounts to around 18 million Euros. Neither the first instance of administrative judgement nor the second have had a favourable outcome for Italtel, which has resorted to the third instance of judgement. This last claim is in a suspended state in that the states of San Paolo and Espirito Santo have signed an agreement regarding the ICMS tax on commercial transactions performed prior to March 2009. This agreement was acknowledged in the Decree no. 56,045/2010 and will regulate the tax situation annulling all of the debts deriving from the ICMS tax. Italtel Brasile has forwarded specific instances in order to regulate its position as provided by the Decree mentioned.

Review and analysis of operating and financial results

This chapter provides an analysis of the income statement, balance sheet and financial statement of the Group for the financial years ending 31st December 2010 and 2009.

Income statement analysis

The income statements for the financial year ending 31st December 2010 and 2009 are shown below

(thousands of Euros)

	2010	% (a)	2009	% (a)
Revenue from sale of goods and services	421,972	100	405,964	100
Other income	39,853	9.4	36,267	8.9
Purchase of materials and services	(288,594)	(68.4)	(265,909)	(65.5)
Personnel costs	(135,170)	(32.0)	(149,868)	(36.9)
Depreciation and amortization (and impairment charge)	(43,459)	(10.3)	(189,864)	(46.8)
Other operating costs	(11,224)	(2.7)	(18,408)	(4.5)
Change in inventories	(1,825)	(0.4)	(488)	(0.1)
Addition in internal work	25,529	6.0	28,186	6.9
Operating Income	**7,082**	**1.7**	**(154,120)**	**(38.0)**
Financial income	17,105	4.1	17,473	4.3
Financial expenses	(36,755)	(8.7)	(51,504)	(12.7)
Net income expenses from valuation of shares by equity method	-	-	-	-
Pre-tax result	**(12,568)**	**(3.0)**	**(188,151)**	**(46.3)**
Income tax expenses	249	0.1	3,253	0.8
Net Income / (Loss) of the financial year deriving from the activities operations	**(12,319)**	**(2.9)**	**(184,898)**	**(45.5)**
Net Income / (Loss) from discounted operations	(1,155)	(0.3)	-	-
Net Income	**(13,474)**	**(3.2)**	**(184,898)**	**(45.5)**

(a) Percentage of revenue

EBITDA

The EBITDA for the Italtel Group is composed as follows:

(thousands of Euros)

	2010	2009
Operating income	7,082	(154,120)
Depreciation and amortization (and impairment charge)	43,459	189,864
EBITDA	**50,541**	**35,744**

Revenue

By client

(thousands of Euros)

	2010	% (a)	2009	% (a)	Variation % (b)
Telecom Italia [c]	132,909	31.5	133,877	33.0	(0.7)
Other TLC Italian Operators	88,841	21.1	99,775	24.6	(11.0)
Large Enterprises and Public Administration	60,363	14.3	56,256	13.8	7.3
Foreign operators [d]	139,859	33.1	116,056	28.6	20.5
Total	**421,972**	**100**	**405,964**	**100**	**3.9**

(a) Percentage of total value
(b) Change in percentage compared to the previous year
(c) Includes only Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A. and the other Group companies participating in the PEB project
(d) Excludes Telecom Italia Group's foreign subsidiaries participating in the PEB project

The strategy of the Italtel Group aimed at client diversification was carried out during 2010. In general, the overall sales show an increase of 16,008 thousand Euros, equal to 3.9%, changing from 405,964 thousand Euros in 2009 to 421,972 thousand Euros in 2010. This progress is related:

- to the decrease in revenue to Other Italian Telecommunications Operators, which decreased by 11%;
- to the growth in revenue from the segment comprising Large Enterprises and Public Administration, which increased by 7.3% in respect to the previous year;
- to the growth in revenue from foreign clients that increased by 20.5% in 2010.

EBITDA

The EBITDA of the 2010 financial year amounts to 50,541 thousand Euros (12% of the turnover) and is compared with 35,744 thousand Euros of the 2009 financial year (8.8% of the turnover) with a growth of 14,797 thousand Euros.

Depreciation and amortization (and impairment charge)

In 2010 this item amounts to 43,459 thousand Euros, in relation to 189,864 thousand Euros of the previous financial year, which included the devaluation of the goodwill of Italtel S.p.A. by 133,700 thousand Euros.

Operating income

The operating income (EBIT) returns to be positive and amounts to 7,082 thousand Euros in 2010, compared to the negative income before interest and taxes of the previous financial year, which amounted to 154,120 thousand Euros, which was also affected by the cited devaluation of the goodwill.

Financial expenses

The net Financial expenses changed from 34,031 thousand Euros of the previous financial year to 19,650 thousand Euros of the 2010 financial year, with a decrease of 14,381 thousand Euros, equal to 42.3% compared to 2009.

The net difference change shows an improvement of 2,389 thousand Euros.

The net payable interest change from 30,007 thousand Euros in 2009 to 14,775 thousand Euros in 2010, with a decrease of 15,232 thousand Euros. The variation in the net passive interests owed to 7,990 thousand Euros as the expiry of the overall loss of the IRS instrument that occurred in 2009; by 3,154 thousand Euros as lesser payable interests regarding the medium and long term debt, consequently jointly to the reduction in the reference interest rates, to the reduction in the spread applied and the minor exposure; by 2,363 thousand Euros to lesser charges deriving from the discharge of an Interest Rate Swap undersigned as cover against interest rate fluctuation risk on the medium-long term loans and now converted into a long term loan at a fixed rate; by 751 thousand Euros to smaller payable interests regarding the short term exposure, following the reduction in the reference interest rates, to the smaller spreads applied and the lesser volumes.

The increase in the net financial charges, equal to 3,240 thousand Euros, can primarily be attributed to the mark-to-market of the forward operations in USA Dollars, positive in 2009 by 2,349 thousand Euros and negative in 2010 by 946 thousand Euros, to the bank commissions due to the refinancing of the debt of 915 thousand Euros, to the net amount of 1,091 thousand Euros for proceeds related to the unwinding of the derivative rate risk cover.

Income tax expenses

The 2010 taxes show a positive sum of 249 thousand Euros against the positive sum of 3,253 thousand Euros of the previous financial year.

Net income

The 2010 financial year registers a loss of 13,474 thousand Euros compared to a loss of 184,898 thousand Euros of the 2009 financial year. On the 2009 income was burdened by the cited devaluation of the goodwill of Italtel S.p.A. for 133,700 thousand Euros. Net of this devaluation, the improvement in relation to the previous year is 37,724 thousand Euros.

Summary balance sheet

The table below details the summary balance sheet on 31st December 2010 and 2009.

(thousands of Euros)

	31/12/2010	**31/12/2009**
A) Non-current assets	481,652	491,785
B) Current assets	(55,200)	(61,351)
C) Termination indemnity liability (TFR)	(29,977)	(38,788)
D) Other non-current liabilities and provisions for risks and charges	(46,136)	(58,362)
Net invested capital	**350,339**	**333,284**
E) Net financial debt	**230,152**	**269,919**
F) Total equità	**120,187**	**63,365**
Share capital	131,427	115,459
Other reserves including profit/loss for the year	(11,240)	(52,094)
Total debt and equity	**350,339**	**333,284**

Investments

The investments of the financial year were 27,121 thousand Euros, of which 25,975 thousand Euros was invested in intangible assets and 1,146 thousand Euros in tangible assets. In particular 23,356 thousand Euros was invested in Development and innovation activities and 600 thousand Euros in applicative software acquired in a limited term user license and software development projects. Tangible assets are increased by 739 thousand Euros for investments in industrial equipment mainly regarding the apparatus used for the development of software solutions and for the plant tests of the products intended for the market. The plant and equipments register an increase of 127 thousand Euros and refer primarily to renovation interventions at the district of Palermo and the headquarters in Rome.

Financial results

The table below shows the main financial indicators on 31st December 2010 and 2009.

(thousands of Euros)

	31/12/2010	31/12/2009
Short term loans	61,141	216,763
Long term loans	232,651	70,626
Revolving credit facilities for guarantees	-	25,378
Derivative hedge instrument liabilities	-	12,544
Other financial liabilities	6,137	5,983
Accrued interests and expenses	544	1,359
GROSS FINANCIAL LIABILITIES	**300,473**	**332,653**
Cash and checks	(3,828)	(7,749)
Cash at banks	(63,667)	(25,724)
Restricted cash at banks	-	(25,378)
Short term financial assets	(2,566)	(3,192)
Pre-paid expenses	(102)	(530)
Other Securities	(158)	(161)
NET FINANCIAL DEBT	**230,152**	**269,919**

The net financial debt on 31st December 2010 is 230,152 thousand Euros and is decreased by 39,767 thousand Euros in relation to 31st December 2009, considering also the cited increase in capital. The gross financial liabilities, net of the Revolving credit facilities by guarantee, is decreased by 6,802 thousand Euros primarily due to: the reimbursement of the medium-long term loans of 16,419 thousand Euros, all at special rates, and the reimbursement of 1,852 thousand Euros of the liability of financial leases, net of raising new medium-long term loans of 7,173 thousand Euros, of which at a special rate for 3,709 thousand Euros, of an Interest Rate Swap underwritten as risk cover against interest rate fluctuation on medium-long term loans and its conversion into a long term loan at a fixed rate, with a net effect of 2,248 thousand Euros, and of the increase in the short term bank loans of 2,583 thousand Euros.

The restricted cash at banks is reduced by 25,378 thousand Euros due to the renegotiation of the Revolving credit line: in the new formulation there is no mechanism provided by the money pledge in regards to the issuing of bank guarantees.

The cash holdings and equivalent equity are increased by 34,022 thousand Euros due to the cash flow generated by the financing activity at 63,198 thousand Euros and the differences in translation by €793 net of the monetary flow absorbed by the investment activities for 25,965 thousand Euros and the monetary flow absorbed by the financial year for 4,004 thousand Euros.

Financial risk management

In respect to the objectives and the policies of the Group in regards to the management of financial risk and the relative cover policy, refer to Note 5 of the Notes on the consolidated financial statement.

Related party transactions

With reference to the activities carried out by associated counterparts during the financial year, refer to the relative section of the integrative Notes of the consolidated financial statement.

Post balance sheet events

With reference to the 2010 suspensions in CIGS and to the collective (ex art. 28 S.L.) and individual contentions put forward against Italtel S.p.A. by the Trade Union Organisations and the workers, a Trade union agreement was signed on 5th January 2011 between Italtel and the Trade Union Organisations. The parties met to reach the termination of pending contestations, among other matters; the judgements in opposition to the decree ex art. 28 S.L. pending at the Courts of Milan and Rome were therefore cleared; the clearing of the claims pending at the Court of Palermo are in progress and the individual claims were reconciled judicially..

During 2010 Italtel Group signed two important marketing agreements for clients that operate in the telephone sectors in Libya and Algeria. The political situation of the countries mentioned is closely monitored by the in-house bodies of the group that do not recognize elements to consider that the credits agreed on 31st December 2010 to the clients of the two countries, for a total of 2.5 million Euros (of which 1 million Euros is irrevocable guarantee cover) are not falling due.

Outlook for operations

The global macroeconomic situation and that of the telecom sector, although with the contradiction previously pointed out, allow the Administrators to have faith in the possibility of meeting the objectives set out in the Plan, which specifies an improvement in the operating profit, although with a worsening of the financial debt primarily related to the recovery of the marketing conditions dissimiliar from those obtained in 2010, but already forseen in the industrial plan.

Settimo Milanese, 21st March 2011

On behalf of the Board of Directors

The Chairman

Consolidated balance sheet as at 31st december 2010 and 2009

(thousands of Euros)

	Note	31/12/2010	31/12/2009
Assets			
Non-current assets			
Property, plant and equipment	(7)	50,781	60,785
Goodwill	(8)	297,215	297,215
Other intangible assets	(9)	44,179	51,112
Investment in associates valued at the equity method	(10)	194	194
Medium long term financial assets	(11)	580	557
Other assets	(12)	20,006	19,327
Deferred taxes	(13)	68,697	62,595
Total non-current assets		**481,652**	**491,785**
Current assets			
Inventories	(14)	40,957	42,964
Trade receivables	(15)	135,869	110,463
Current tax receivables	(16)	1,719	429
Other current assets and receivables	(17)	22,375	18,076
Current financial assets	(18)	2,826	3,883
Restricted cash	(19)	-	25,378
Cash and cash equivalents	(20)	67,495	33,473
Total current assets		**271,241**	**234,666**
Discontinued non current assets	(43)	**463**	**-**
Total assets		**753,356**	**726,451**
Equity and Liability			
Equity			
Share capital	(21)	131,427	115,459
Reserves	(22)	10,943	449,686
Own shares	(23)	(10,943)	(10,943)
Other reserves (including the income/loss of the year)	(24)	(11,240)	(490,837)
Equity attributable to Company’s shareholders		**120,187**	**63,365**
Minority interest		-	-
Total equity		**120,187**	**63,365**
Liabilities			
Non-current liabilities			
Termination indemnity liability	(26)	29,977	38,788
Provisions for risks and charges	(27)	31,565	42,082
Medium and long -term borrowings	(28)	235,712	86,231
Other liabilities	(29)	14,571	16,280
Total non-current liabilities		**311,825**	**183,381**
Current liabilities			
Trade payables	(30)	176,893	162,397
Tax payables	(31)	1,543	3,496
Other current payables and accrued expenses	(32)	78,143	67,390
Short-term borrowings	(28)	64,761	246,422
Total current liabilities		**321,340**	**479,705**
Discontinued non-current liabilities	(43)	**4**	**-**
Total liabilities		**633,169**	**663,086**
Total equity and liabilities		**753,356**	**726,451**

Consolidated income statements for the years ending 31st December 2010 and 2009

(thousand of Euros)

	Nota	2010	2009
Revenue from sale of goods and services	(33)	421,972	405,964
Other income	(34)	39,853	36,267
Purchases of materials and services	(35)	(288,594)	(265,909)
Personnel costs	(36)	(135,170)	(149,868)
Depreciation and amortization (and impairment charge)	(37)	(43,459)	(189,864)
Other operating costs	(38)	(11,224)	(18,408)
Change in inventories	(39)	(1,825)	(488)
Capitalization of internal costs (addition in internal work)	(40)	25,529	28,186
Operating income		**7,082**	**(154,120)**
Financial income	(41)	17,105	17,473
Financial expenses	(41)	(36,755)	(51,504)
Share of income of investments in associates valued by equity method		-	-
Income before taxes		**(12,568)**	**(188,151)**
Income tax expenses	(42)	249	3,253
Net income / (loss) deriving from operating activities		**(12,319)**	**(184,898)**
Net Income / (Loss) from discounted operations	(43)	(1,155)	-
NET INCOME / (LOSS)		**(13,474)**	**(184,898)**
Group equity		**(13,474)**	**(184,898)**
Minority interests		**-**	**-**

Comprehensive consolidated income statements for the years ending 31st December 2010 and 2009

(thousand of Euros)

	2010	2009
Net Income / (Loss)	**(13,474)**	**(184,898)**
Net income / (Loss) deriving from the conversion of foreign companies statements	302	48
Registration in Income statement of cash flow hedge reserve	-	8,815
Total other income / (loss) assigned directly to the net equity	**302**	**8,863**
Total overall income / (loss)	**(13,172)**	**(176,035)**
Group equity	**(13,172)**	**(176,035)**
Minority interests	**-**	**-**

Consolidated statements of cash flows for the years ended 31st December 2010 and 2009

(thousands of Euros)

	2010	2009
A – Cash and equivalents (net of bank overdrafts at the beginning of the year)	**33,473**	**98,391**
B – Cash flow from operating activities		
Net loss of the year	(13,474)	(184,898)
Depreciation and amortization (and evaluation charge)	43,459	189,864
Gains on disposals of property, plant and equipment (1)	(1,721)	(1,718)
Registration in Income statement of ex-cash flow hedge loss	-	7,990
Increase in deferred tax assets	(6,102)	(11,336)
Increase / (Decrease) of termination indemnity liability	(8,811)	4,580
Net changes in other porvisions	(10,517)	2,038
Cash provided from operating activities before changes in operating assets and liabilities	**2,834**	**6,520**
Changes in operating assets and liabilities		
(Increase) / Decrease in trade receivables and other current receivables	(31,458)	10,223
(Increase) / Decrease in inventory	2,007	151
(Increase) / Decrease in other assets	(679)	(20)
Increase / (Decrease) in trade payables and other current payables and accrued expenses	23,292	(17,723)
Total changes in operating assets and liabilities	**(6,838)**	**(7,369)**
Total (B) (2)	**(4,004)**	**(849)**
C – Cash flows from / (used in) investing activities		
Sales of securities (net of acquisitions)	(23)	22
(Increase) / Decrease in financial assets	1,057	3,851
Decrease in restricted cash flow (3)	-	-
Proceeds from sale of property, plant and equipment	122	26
Investments in property, plant and equipment	(1,146)	(2,646)
Investments in intangible assets	(25,975)	(32,637)
Total (C)	**(25,965)**	**(31,384)**
D – Cash flow from financial activities		
Proceeds from and repayment of short-term borrowings	2,583	13,654
Proceeds from new borrowings	21,965	1,253
Repayment of borrowings	(16,293)	(41,883)
Change in revolving credit facilities for guarantees (3)	-	-
Increase in share capital paid	70,000	
Liability reimbursement for financial leases	(1,852)	(2,123)
Disposal of own shares	-	(2)
Increase / (Decrease) in other financial liabilities	(13,205)	(3,524)
Total (D)	**63,198**	**(32,625)**
E – Net increase / (decrease) in cash and cash equivalents (net of bank overdrafts) (B+C+D)	**33,229**	**(64,858)**
Other changes in equity	793	(60)
F – Cash and cash equivalents (net of bank overdrafts at the end of the year)	**67,495**	**33,473**

(1) Includes €1,701 thousand relating to the release of the multi-year portion of the capital gains from the sale of the Castelletto plant
(2) Includes the payment of income tax amounting to €7,508 thousand and €3,719 thousand at December 31, 2010 and 2009 respectively
(3) In order to enable a more correct assessment of the cash flows from investing and financing activities, the decrease in restricted cash relating to the net decrease in the revolving credit facility for guarantees was excluded. Such decrease amounted to 25,378 thousand Euros and 8,796 thousand Euros on 31st December 2010 and 2009

Consolidated statement of changes in equity for the years ended 31st December 2009 and 2010

(thousands of Euros)

	Group equity					Minority interest	Total equity
	Share capital	Reserves	Own Shares	Other reserves (and income/loss of the year)	Total		
Total equity as of 1st January 2009	**115,459**	**449,686**	**(10,941)**	**(314,802)**	**239,402**	**-**	**239,402**
Overall Income / (Loss)	-	-	-	(176,035)	(176,035)	-	(176,035)
Purchase of own shares	-	-	(2)	-	(2)	-	(2)
Total equity as of 31st December 2009	**115,459**	**449,686**	**(10,943)**	**(490,837)**	**63,365**	**-**	**63,365**
Overall Income / (Loss)	-	-	-	(13,172)	(13,172)		(13,172)
Change in the scope of consolidation	-	-	-	(6)	(6)	-	(6)
Operations with shareholders:							
- Italtel Group S.p.A. previous financial years loss and loss of the period 1/ -30/04/2010 carried forward cover	(54,032)	(438,743)	-	492,775	-	-	-
- Share capital increase, fully paid up	70,000	-	-	-	70,000	-	70,000
Total equity as of 31st December 2010	**131,427**	**10,943**	**(10,943)**	**(11,240)**	**120,187**	**-**	**120,187**

Notes to the consolidated financial statements

Note 1 Introduction

General Information

Italtel Group S.p.A. (hereinafter the Holding Company) is a public trading company with legal premises in Castelletto, Settimo Milanese (MI) and is part owned, for the ordinary "A" actions, as described on page 6, by Clayton Dubilier & Rice with 48.77%, Telecom Italia with 19.37%, Cisco Systems with 18.40%, Capita Trustees Limited with 8.65%, Brera Capital Partners with 2.16%, and managers and employees with 0.75%. The remaining 1.90% of shares is held by the Company.

The Holding Company, through its subsidiary companies (hereinafter Italtel Group), offers solutions, products and services chiefly for telecommunications operators and also Major Companies and Public Administration. These solutions, products and services are generally proposed under the form of projects for voice-data and fixed-mobile convergence.

This consolidated annual financial statement, in relation to the financial year ending on 31st December 2010, is presented in Euros, as the Euros is the currency in the economy in which the Group currently operates, and is formed of the Financial statement, the Income statement, the overall Income statement, the Financial summary, the changes in the net worth and illustrative Notes. All of the values reported in the notes to the consolidated financial statement are expressed in thousands of Euros, unless indicated otherwise.

In regards to 31st December 2009, the company Italtel de Venezuela S.A., with a capital of 940,000 VEB (approx. 300,000 Euros), left the consolidation area as a result of being placed in liquidation.

Furthermore, the data of the company Italtel Middle East Fz-Llc also include the data of its branch established in Oman, which commenced activity in the last quarter of 2010.

Basis of preparation of the financial statements

In keeping up with the provisions of the regulation 809/2004/CE and by the recommendation 05-054b of the CESR (Committee of European Securities Regulators), Italtel Group arranged the consolidated financial statement from 31st December in compliance with the IFRS approved by the European Commission.

The changes made are shown below, with emphasis on the degrees of importance for the Group.:

- Change to the accounting principles and applicable interpretations from 1st January 2010 regarding the consolidated financial statement of the Group:
  - Improvements to the IFRS: On 23rd March 2010 the EC Regulation No. 243-2010 was issued which acknowledged, by the EU, the improvements to the following principles that came into effect as of 1st January 2010:
    - IAS 17 (Leasing): the modification in regards to the classification of the leasing of lands and buildings. When the leasing is in relation to both land and a building, the entity must evaluated each entity separately in order to classify them as financial leasing or operational leasing. At the date of application of the modification the classification of all the leasing contracts in place regarding lands must be revisited. The reclassification from "operational" leasing to "financial" leasing must be accounted for in retrospect.

- Change to the accounting principles and applicable interpretations from 1st January 2010 not of significance to the consolidated financial statement of the Group:
  - IFRS 5 (amendment) – "Non-current assets owned for sales and discontinued operational activities". The amendment implies that if an entity undertakes a sales programme that leads to loss of control of a subsidiary company, it must classify all the assets and liabilities of said subsidiary as owned due to the sale, despite the fact that, following the sale, it conserves a minority shareholding in the former subsidiary company.
  - IAS 39 (amendment) – "Financial instruments: evaluation and measurement". On 15th September 2009, the CE Regulation no. 839-2009 was issued which had acknowledged by the EU some changes to the IAS 39 which specify some aspects in regards to hedge accounting: identification of the cases in which the inflation can be covered as risk; specification that only the component of intrinsic value (and not also the time value) of the option can be designated for the cover of one or more risks of the cover element (so-called one-sided risk).
  - IFRIC 17 – "Distribution to shareholders of assets not represented by liquid assets". The interpretation clarifies that the liability in relation to the dividend to pay must be recognised when the dividend is appropriately authorised and that the entity must evaluate a liability related to the distribution of assets not represented by liquid assets as dividend for the shareholders at the fair value of the asset to distribute. At the time in which an entity proceeds to the regulation of the payable dividend, it must show in the separate income statement any difference between the book value of the assets distributed and the book value of the payable dividend.
  - IFRS 2 (amendment) – "Share-based payments". The amendment clarifies that the entity that receives goods or services in the setting of payment plans based on shares, must account for said goods and services regardless of which company of the group regulates the transaction, and independently from the fact that the regulation occurs by means of cash or in shares.
  - Improvements to the IFRS: On 23rd March 2010 the CE Regulation no. 243-2010 was issued that acknowledged by the EU, the improvements, that came into effect as of 1st January 2010, to the following principles:
    - IFRS 2 (Share-based payments): the modifications specify that, following the changes applied from the IFRS 3R to the definition of the company combination, the conferral of a business upon the founding of a joint venture and the combination of entities or activities under shared control are excluded from the application of the IFRS 2.
    - IFRS 5 "Non-current assets owned for sales and discontinued operational activities": the amendment, to be applied in the near future, specifies the information requirements regarding the non-current assets held for sale and discontinued operations. It establishes that the IFRS 5 and the other IFRS that refer specifically to these assets contain all the principles of reference for the disclosure of the financial statement of same.
    - IFRS 8 (Operation sectors): the amendment to the IFRS 8 specifies that the company must report the amount of the total assets for each operation sector only if this information is regularly provided to the highest managerial level. Firstly, in any case, this information must be supplied for each operational sector.
    - IAS 1 (Financial statement presentation): the amendment specifies that an entity must classify a liability as current when it has no unconditioned right to postpone the payment for a lapse in time of at least 12 months from the date of reference of the financial statement, which also if at the discretion of the counterpart the payment of the liability can be carried out by means of issuing equity instruments.
    - IAS 7 (Report cash flow statement): the amendment specifies that the only costs recorded as assets in the balance sheet-financial statement are classified as part of the financial summary in the setting of the cash from the investment asset.
    - IAS 36 (Reduction in assets value): the modifications entail the methods of allocating the goodwill to the cash flow generating units (or to groups of cash flow generating units) by the purchased in the case of company combination and for the purpose of the impairment test. In particular, it is specified that each cash flow generating unit (or groups of cash flow generating units) to which the goodwill is allocated must not be greater than an operational sector of the purchaser (as defined by IFRS 8) before the combination.

- IAS 39 (Financial instruments: measurement and evaluation): the main amendments, to be applied in the near future to all the contracts in place, regard:
    - the clarification regarding the exclusion of the forward contracts for the sale and purchase of a company that will become part of a company combination within the scope of an application of the IAS 39;
    - for the purpose of the separate accounting of a merged derivative in relation to the primary contact, it was done the following specification concerning the option of advance reimbursement incorporated in a contract of underlying debt: in the case in which the strike price of advance reimbursement is near to the current value of the interests lost for the remaining duration of the debt contract, the option must be considered closely related to the primary contract and consequently is not recognised separately.
- IFRIC 9 (Redetermination of the value of the incorporated derivatives): the amendments, applicable in the near future, exclude from the setting of application of the IFRIC 9 the derivatives incorporated in the purchase contracts of a company combination, in an entity combination or business under shared control or under the founding of a joint venture.
- IFRIC 16 (Cover of a net investment in a foreign management): the amendments regard the elimination of the restriction involving the foreign management to have the instruments that assure the cover of said foreign management.

- Change in the accounting principles and interpretations applicable from 1st January 2011:
  - IAS 32**-** (amendment) – classification of the rights of issue. The amendments regard the method of accounting of rights of issue (rights, options or warrants) that are named in a different value to the functional value of the issuer. Previously, these rights were accounted for as liability from derivative financial instruments. The amendments requires that, if certain conditions are satisfied, these rights are classified as representative instruments of equity, regardless of the value in which the strike price is named. The amendments to the IAS32 are applied with effect from 1st January 2011; the anticipated application is permitted, however.
  - IAS 24 – (amendment) – Financial statement information on the operations with associated parties. The amendments specify a partial exemption regarding the disclosure that the entities associated to the Public Administration must produce. Moreover, the definition was reviewed by the associated parties and some precisions were introduced in relation to the content of the disclosure. The amendments to the IAS 24 are applied as of 1st January 2011; advance application is allowed.
  - IFRIC 14 **-** (amendment) – Advance payments relative to a provision of minimum contribution. The amendments regard, in particular, the case in which an entity, subject to a minimum contribution to a fund, makes an advance payment in relation to that due. In this case, this payment can be treated as an asset. The amendments to the IFRIC 14 are applied as of 1st January 2011; advance application is allowed.
  - IFRIC 19 – Extintion of financial liability with instruments representative of equity. This interpretation clarifies the accounts treatment to apply in the case in which the entity renegotiates the terms of a financial liability with a creditor and the latter accepts shares of the company or other instruments representative of equity to regulate the financial liability in whole or in part. The IFRIC 19 is applicable as of 1st January 2011; advance application is allowed.
  - Improvements to the IFRS – On 18th February 2011, the EC Regulation no. 149-2011 was issued which acknowledged, by EU standards, the improvements that had come into force as from 1st January 2011, to the following principles:
    - IFRS 1 (First adoption of the International Financial Reporting Standards): the amendments refer to the information to supply for the following specific cases: change in the accounting principles in the year of first adoption of the IFRS and use of the so-called “deemed cost” after the transition data to the IFRS, also with reference to the operations subject to regulated rates.
    - IFRS 3 (Company combinations): the amendments regard:
        - the limitation of the possibility of evaluating the minority shareholdings at the relative fair value or, alternatively, in proportion to the relative rate in the net assets of the acquisition;
        - clarification that the IFRS 2 is applied upon the date of acquisition both for the transactions with payment based on shares of acquisition and for those replaced by the purchaser;
        - some clarifications on the treatment of the potential compensation.

- IFRS 7 (Financial instruments: integrative information): the amendment specify qualitative information in addition to the quantitative information requested to help the users to form an overall framework of the nature and the entity of the risks connected to the financial instruments. Furthermore, the amendment specifies the information requested regarding the credit risks, the guarantees held and simplifies the information regarding the loans negotiated.
- IAS 1 (Presentation of the financial statement): the amendment allows the detail to be presented of other components of the overall income statement either in the statement of "Net worth movements" or in the notes to the financial statement
- IAS 27 (Consolidated and separate financial statement): the amendment specifies the methods for adopting the amendments brought about to IAS 21, IAS 28 and IAS 31 following the review of IAS 27 in 2008.
- IAS 34 (Intermediate financial statements): the amendments underline that the exposure of the events and the significant operations in the interim financial statements in the course of the year update the relevant information in the last annual financial statement. In particular, they specify how to highlight the relevant operations with reference to the financial instruments and their fair value.
- IFRIC 13 (Customer loyalty programmes): the amendment specifies the method of determining the fair value for the award points.

The accounting principles shown below were continuously applied in all the periods presented.

Note 2 Accounting principles adopted

Consolidation method

The consolidated financial statement includes the financial statements of Italtel Group S.p.A. (Holding Company) and the companies on which it exercises control, either directly or indirectly, with effect from the date in which same was acquired and until the date the control is terminated. In this case the control is exercised both in regards to the direct or indirect possession of the majority of shares with right to vote, and due to the exercise of a dominating influence expressed by the power to determine, also indirectly in regards to contractual or legal agreements, the financial and managerial choices or the entity, thus obtaining the corresponding benefits, also regardless of the shareholding relationship. The existence of potential rights to vote that can be exercised on the date of the financial statement is taken into consideration in order to determine control.

The financial statements subject of consolidation are prepared on 31st December 2010 and are arranged and approved by the Board of Directors of the individual companies, and duly rectified, where necessary, to bring them in line with the accounting principles of the Holding Company.

The consolidation does not include, and so they are therefore not consolidated with the integral consolidation method, the subsidiary entities in which consolidation would not generate significant effects from either a quantitative or qualitative standpoint, for the purposes of correct representation of the equity, economic and financial position of Italtel Group. These entities can be accounted for at cost.

The criteria adopted for the integral consolidation of the wholly consolidated subsidiary companies are as follows:

- the assets and liabilities, charges and income are assumed line by line attributing, where applicable, to the minority shareholders the equity share and the net earnings of the period owed to them;
- the company combination operations in place, for which the control of an entity is acquired, are accounted for by applying the purchase method. The purchase cost corresponds to the fair value on the date of purchase of the assets transferred, the liabilities assumed, the capital instruments issued and any other directly attributable accessory charge. The difference between the purchase cost and the current value of the assets and liabilities purchased, if positive, is allocated at the Goodwill asset item and, if negative, accounted for in the income statement;
- the profits and losses deriving from operations produced between wholly consolidated companies, not yet realised in regards to third parties, are eliminated, if significant. Also eliminated are the reciprocal rapports of debt and credits, costs and revenue, in addition to charges and financial income;

- the profits or losses deriving from the transfer of shareholding quotes in consolidated companies are entered in the income statement for the amount corresponding to the difference between the sales price and the corresponding fractions of transferred assets and liabilities.

The shareholdings in companies in which Italtel Group has considerable influence (hereinafter “associated companies”), which is presumed to remain when the shareholding percentage is between 20% and 50% inclusive, are accounted for with the equity method, with the exception of cases in which it is evident that the application of this method of shareholder evaluation does not influence the net worth-economic-financial position of Italtel Group. In these cases, the shareholding is evaluated at cost. Described below is the application method of the equity method:

- the shareholding accounting value is aligned to the adjusted equity of the affiliate company, where necessary, to reflect the application of the accounting principles in keeping with those applied by the Holding Company and includes, where applicable, the recording of any goodwill identified at the time of the acquisition;
- the profits or losses relevant to Italtel Group are accounted for in the consolidated income statement as of the date in which the considerable influence began and until it ends. In the case in which, due to company losses, a negative equity is indicated, the book value of the shareholding is cancelled and any excess relevant to of Italtel Group is shown in an appropriate fund, only in the case in which Italtel Group is engaged to fulfil legal or implicit obligation of the associated company or to cover the losses in any way. The net worth changes of the associated companies not determined by the income statement result are accounted for directly by adjustments of the reserves;
- the profits and losses not achieved generated on operations done between the Holding Company/subsidiary companies and associated companies are eliminated in relation to the value of the shareholding share of Italtel Group in the affiliated companies. The losses not achieved are eliminated with the exception of the case in which they represent reduction in value.

The financial statements of the companies included in the consolidation area are prepared using the currency of the primary economic environment in which they operate (the “functional currency”). The consolidated financial statement is presented in Euros, which is the functional currency of the Holding Group and the representative currency of the consolidated financial statement. The rules for the translation of the financial statements of the companies expressed in foreign currencies different to the Euros are as follows:

- the assets and liabilities are converted using the exchange rates in place on the date of reference of the financial statement;
- the costs and earnings are converted into the average exchange rate of the financial year;
- the “currency conversion reserve” encompasses both the differences in exchange rate generated by the conversion of the financial figures of a rate different from that of closure, and those generated by the translation of the opening equity at a different exchange rate to that at the end of the reporting period;
- the goodwill and adjustments deriving from the fair value related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the period;
- the average exchange rates for the period are used when preparing the consolidated financial summary to convert the cash flows of the foreign subsidiary companies.

The exchange rates applied are reported below.

	Average 12 months at 31st December 2010	Closing at 31st December 2010	Average 12 months at 31st December 2009	Closing at 31st December 2009
Argentinian Peso	5,1856	5,30994	5,21103	5,46185
Russian Ruble	40,2629	40,82	44,1376	43,154
Kenyan Shilling	105,012	107,943	107,66	109,247
Brazilian Real	2,33143	2,2177	2,76742	2,5113
UK Sterling	0,857844	0,86075	0,89094	0,8881
USA Dollar	1,32572	1,3362	1,39478	1,4406
Polish Zloty	3,99467	3,975	4,32762	4,1045
United Arab Emirates Dirham	4,86925	4,90781	5,12294	5,29142
Peruvian Nuevo Sol	3,74495	3,75086	4,19064	4,16189
Saudi Arabia Riyal	4,97165	5,0106	5,23092	5,40329
Venezuelan Bolivar Fuerte	-	-	2,99502	3,09334
Oman Rial	0.509948	0,51403	-	-

The list of the Group's subsidiaries and associates si reported in Note 48.

Summaries of accounting and evaluating principles adopted

The consolidated financial statement was arranged in application of the cost criteria, except in cases specifically described in the following notes, for which the *fair value* was applied and was presented, unless indicated otherwise, in thousands of Euros.

The main evaluation criteria used are described below.

A – Property, plant and equipment

The property, plant and equipment are evaluated at the cost of acquisition or production, net of accumulated amortization and any loss in value. The cost includes any charge directly sustained to arrange the assets to their use, as well as any disposal and removal charges that will be incurred as a result of contractual obligations that require returning the item to its original conditions. Any payable interests regarding the construction of tangible assets are not capitalized.

The charges incurred for the ordinary and/or cyclical maintenance and repairs are directly entered in the income statement of the financial year in which they took place. The capitalization of the costs inherent to the expansion, modernization or improvement of the structural elements owned or in use by third parties, is carried out exclusively within the limits in which they respond to the requirement to be separately classified as assets or part of an asset by applying the "component approach" criterion. Similarly, the costs of replacing identifiable components of complex goods entered in the net asset and amortizated according to their useful life; the value of residual entry of the component subject of replacement is recorded in the income statement.

The value of recording of the property, plant and equipments is adjusted by the systematic amortization, calculated by the straight line method from the moment in which the fixed asset is available and ready for use, in relation to the estimated useful life net of the remaining recoverable value.

The estimated useful life by Italtel Group, for the various categories of fixed assets, is as follows:

- Industrial buildings 33 years
- Plant and equipment 5-10 years
- Industrial and commercial equipment 4 years
- Other goods 4-10 years

The useful life of the tangible assets and the residual value are reviewed annually and updated, where applicable, at the end of each financial year.

Lands are not depreciated.

If the object subject of depreciation be composed of separately identifiable elements, the useful life of which differs significantly from that of the other parties that comprising the activity, the depreciation is performed separately for each of the parts that form the asset, applying the “component approach” principle.

B – Leases

The assets owned by means of financial leasing contracts, through which the risks and benefits related to the property are essentially transferred to Italtel Group, are recognised as assets of Italtel Group at their current value or, if less, at the current value of the minimum payments owed for the Leasing. The corresponding liability towards the lessor is represented in the financial statement among the financial debts. The goods are depreciated by applying the criteria and the rates previously indicated for the tangible assets, unless the duration of the lease contract is less than the useful life represented by said rates and in the absence of reasonable certainty of the transfer of the ownership of the leased asset upon the natural expiry of the contract; in this case the amortization period will be represented by the duration of the leasing contract. Any capital gains achieved on the transfer of leased back assets based on financial leasing contracts are recorded among the prepaid expenses and entered in the income statement on the basis of the duration of the leasing contract.
The leases in which the lessor essentially maintains the risks and benefits related to the ownership of the goods are classified as operative leasing. The costs referred to operative leasing are shown line by line on the income statement for the duration of the leasing contract.

C – Intangible assets

Intangible assets are formed of non-monetary elements, identifiable and free of physical consistency, controllable and in order to generate future economic benefits. These elements are shown at the cost of purchase and/or production, inclusive of the costs directly attributable to arranging the asset at use, net of the accumulated depreciations and any loss in value. Any payable interests matured during and for the development of the intangible assets are recorded in the income statement. The depreciation begins at the moment the asset is available for use and is systematically distributed in relation to the residual possibility of its use and thus on the basis of the estimated useful life, net of the residual redeemable value.

(i) Goodwill

The goodwill is represented by the excess cost of acquisition incurred in relation to the net *fair value*, upon the date of acquisition, of assets and liabilities composing companies. The goodwill is not subject to systematic depreciation, but rather to test periodic of verification of the suitability of the relative value of recording in the financial statement (impairment test). The Impairment test on the goodwill takes place at least annually. This test is performed with reference to the organizational cash generating unit to which the goodwill is attributed. Any reduction in value of the goodwill occours in the event that the redeemable value of the goodwill is less than its value of recorded in the financial statement. Redeemable value is the greater between the *fair value* of the cash generating unit, net of the sales charges, and the relative usage value (cf. point D below for further details regarding the determination of the usage value). The restoration of the goodwill value is not allowed in the case of a previous devaluation due to loss in value.

In the case in which the reduction of value deriving from the test is higher than the goodwill value allocated to the cash generating unit, the residual excess is allocated to the assets included in the cash generating unit in proportion to their book value. The minimum limit of this allocation is the higher amount between:

- the fair value of the asset net of the sales costs;
- the usage value, as defined above.

(ii) Research and development costs

The costs regarding research and development activities entered in the income statement of the financial year in which they are incurred, with the exception of the development costs recorded as part of the intangible assets whereby all the following conditions are met:

- the project is clearly identified and the costs referring to it can be identified and measured reliably;
- the technical feasibility of the project is demonstrated;
- the intention to complete the project and sale the intangible goods generated by the project is demonstrated;
- there is a potential market or, in the case of internal use, the use of intangible assets for the production of intangible goods generated by the project is demonstrated;
- the technical and financial resources necessary for completing the project are available.

The depreciation of the development costs recorded among the intangible assets begins from the date in which the result generated by the project is marketable. The depreciation is performed in consistent rates over a period of three years, which represents the duration of the estimated useful life of the capitalized costs.

(iii) Trademarks and licenses

The charges relating to the acquisition of industrial patent rights and use of the intellectual property, licenses and similar rights are capitalized based on the costs incurred for their acquisition.

The depreciation is calculated with the linear method in such a way as to allocate the cost incurred for the acquisition of the right along the shortest period expected use and the duration of the relative contracts, starting from the moment in which the right acquired becomes exercisable.

D – Impairment of assets

At each date of reference of the financial statement, the tangible and intangible assets with finite life are analyzed in order to identify the presence of any indicators, resulting both from external sources and internal sources, of reduction of the value of those assets. In the event of identifying the presence of these indicators, the redeemable value of the abovementioned activities is estimated, attributing any devaluation to the income statement. The redeemable value of an activity is the greater value between its *fair value* reduced by the sales costs and its value of use, whereby the latter is the current value of the estimated future cash flows originating from the use of the asset and those deriving from its decommissioning at the end of the useful life. In determining the value of use, the expected future cash flows are implemented using a pre-tax discount rate that reflects the current market evaluation of the cost of the money compared to the time of the investment and the risks specific to the activity. For an activity that does not generate largely independent cash flows, the value of realization is determined in relation to the cash generating unit to which this activity belongs.

A reduction in value is recognized in the income statement when the recorded value of the asset, or rather the cash generating unit allocated to it, is higher than the redeemable value. In the case that the presuppositions for a previously performed devaluation is less, the accounts value of the asset is restored with entry in the income statement, within the limits of the net book value that the asset in question would have had if the devaluation had not occurred and the amortization had been recognized.

In the case in which the value in use is less than the book value of the cash generating unit, the negative difference is firstly attributed to the goodwill, if present, until its total devaluation. The further reduction in value is attributed proportionally to the other activities of the cash generating unit. The book value of the assets is never reduced below the greater of their redeemable and zero.

E – Financial liabilities

Financial assets

The financial assets are classified in one of the following categories at the moment of the first registration and are evaluated as follows:

- Loans and receivables: financial instruments, primarily regarding credits to clients, non-derivative and not quoted in an active market from which fixed or determinable payments are expected. They are included in the current section with the exception of those that expires over than 12 months in relation to the date of the financial statement, which are classified in the non-current section. These assets are evaluated at the time of the first registration at fair value and subsequently at the depreciated cost base on the actual interest rate method. Whenever there is objective evidence of indicators of reductions in value, the asset is reduced to such a degree as to result as equal to the discounted value of the future achievable earnings. The losses in value are recorded in income statement. If, in the subsequent period, the motivations of the previous devaluations disappear, the value of the asset is restored until the limit of the value that would be derived by applying the amortised cost in the case the devaluation has not been performed.
- Available-for-sale financial assets: they are non-derivative financial instruments explicitly designated in this category, or which are not classified in any previous category. These financial instruments are evaluated from the first registration at the fair value and the profits and losses from evaluation recorded in a reserve reflected into the income statement only when the financial asset is actually transferred or, in the case of cumulate negative variations, when it is apparent that the reduction in value already shown in the equity cannot be recovered. Limited to debt securities if, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the loss resulting from a reduction in value has been recorded in the income statement, the loss resulting from reduction in value must be eliminated, with the sum transferred recorded in the income statement. Furthermore, for debt securities, the recording of the relative performances based on the technique of the amortised cost is recorded in the financial statement as offset of the income statement, similar to the relative effects of the exchange rate variations, while the exchange variations relative to capital instruments available for the sale are shown as part of the specific reserve of equity. The classification as current or non-current asset depends on the strategic choices regarding the duration of possession of the asset and the actual negotiability of same; shown among the current assets are the assets expected to be saleable within 12 months from the date of reference of the financial statement.

The financial activities are removed from the balance sheet when the right to receive the cash from the instrument is expired and Italtel Group has essentially transferred all the risks and benefits regarding said instrument and the relative control.

Financial liabilities

The financial liabilities regard the financing, commercial debts and other obligations to pay and are evaluated at the moment of the first registration at the *fair value* and subsequently at the depreciated cost, using the criterion of the actual interest rate. In the case that there is a change in the expected cash flows and there is the possibility of estimating them reliably, the value of the loans is recalculated to reflect this change based on the current value of the new expected cash flows and of the internal rate of return initially determined. The financial liabilities are classified among the current liabilities, with the exception that Italtel Group has an unconditional right to defer their payment for at least 12 months after the date of the financial statement.

The financial liabilities are removed from the financial statement upon expiry, so when the contractual obligation is satisfied, or cancelled or expires.

Derivative instruments

The derivative instruments are assets and liabilities recognized at the *fair value*. The derivatives are classified as cover instruments when the relation between the derivative and the object of the cover is officially documented and the periodically verified effectiveness of the cover is high. When the cover derivatives cover the risk of change of the *fair value* of the instruments subject of the cover (*fair value hedge*; i.e. Cover in relation to the change in the *fair value* of assets/liability at a fixed rate), the derivatives are shown at the *fair value* with the entering of the effects in the income statement; consistently, the instruments subject of cover are adjusted to reflect the variations of the *fair value* associated to the cover risk.

When the derivatives cover the risk of change in the cash flow of the instruments subject of cover (*cash flow hedge*; i.e. Cover of the variability of the asset/liability cash flows as a result of interest rate fluctuations), the variations of the *fair value* of the derivatives are initially recorded as equity and subsequently entered in the income statement consistent with the economic effects produced by the cover operation.

Periodic verifications are performed to ensure that the requirements defined by the IAS 39 for the purposes of *hedge accounting* are satisfied.
Changes in the *fair value* of the derivatives that do not fulfill the conditions required for qualification as cover are shown in the income statement.

Determination of fair value of derivative instruments
The relative *bid price* at the date of closure of the period subject of recording is used to determine the *fair value* of financial instruments quoted on active market. In the absence of an active market, the *fair value* is determined using evaluation models based primarily on objective financial variables, as well as keeping account, where possible, of the prices shown in recent transactions and similar financial instrument quotations.

F - Inventory

Inventories are recorded at the lesser amount between the purchase cost and the production cost and the net realization value represented by the amount that the company expects to obtain from their sale in the normal performance of the activity. The cost of the inventory of raw materials, subsidiaries and consumption, as well as the finished products and goods is determined by applying the FIFO method.

G – Cash and cash equivalents

Cash and cash equivalents include primarily the cash, deposits on demand with the banks, and other highly short term investments that can be liquidated easily (transformed into cash within 90 days). The elements included in the net liquidity if in Euros, are recorded at the nominal value corresponding to the *fair value*, if in other currency at the current exchange rate at the end of the period. In order to determine the net liquidity, the bank account liabilities, included in the item “Short term financial liabilities”, are recorded in deduction of the cash and cash equivalents.

H – Equity

(i) Share capital
The share capital is represented by the capital underwritten and paid by the Holding Company. The costs closely related to the issuing of new shares are classified less the share capital, net of any deferred tax.

(ii) Reserves
They are formed by capital reserves with a specific designation in regards to the Holding Company. In particular, it includes the legal Reserve changed by means provisions recorded pursuant to art. 2430 of the Italian Civil Code, or rather it is increased in measures equal to the 20th part of the net profits achieved by the Holding Company, until the reserve in question reaches the fifth of the share capital of the Holding Company. On reached the fifth of the capital, if the reserve for whatever reason, is reduced, this is reintegrated with annual provisions in minimum measure equal to that indicated above.

(iii) Own shares
In the case in which the Holding Company or an entity of Italtel Group acquires shares of the Holding Company, the value of the shares acquired is deducted from the consolidated equity until the time when the shares are annulled or transferred. The value of the own shares is represented by the purchase costs determined through the FIFO method. The economic effects deriving from any subsequent sales are shown in equity.

(iv) Other reserves (including income/loss of the year)
They include the profits and losses of the period and the previous financial years for the part not distributed or restrained to reserves (in the case of profits) or minimized (in the case of losses), the *fair value* of the derivatives of cover on future transactions net of the relative tax effects (cf. point E above – Derivative instruments), the effects deriving from the conversion into Euros of the financial statements of foreign companies that have a functional currency different from the Euros.

I – Employee benefits

(i) Provisions for employee benefits

Italtel Group acknowledges various forms of pension plans of defined benefits and defined contributions, in line with the conditions and practices commonly applied in the countries in which the activities are carried out. The premiums paid in regards to the defined contribution plans are shown in the income statement for the part matured in the financial year.

The pension plans defined benefits, which also include the staff leaving indemnity owed to employees pursuant to article 2120 of the Italian Civil Code, are based on the working life of the employees and the compensation received by the employee over the course of the period of service. In particular, the liability regarding the staff leaving indemnity is recorded in the financial statement based on the actuarial value of same, in that it is quantifiable as benefit to employees owed based on a defined plan of services. Recording the defined services plans in the financial statement requires estimation by means of the actuarial techniques of the amount of the services matured by the employees in exchange for the working activity rendered in the current financial year and in previous financial years and the actualization of those services in order to determine the current value of Italtel Group obligations. The determination of the current value of the obligations of Italtel Group is carried out with the Projected Unit Credit Method. This method, which comes under more general techniques regarding the so-called “matured benefits”, considers each period of service rendered by the workers at the Company as a unit of additional right: the actuarial liability must therefore be quantified on the basis of the seniority matured on the date of evaluation; therefore, the total liability is re-proportioned based on the rapport between the years of service matured on the date of reference of the evaluations and the overall seniority reached at the time foreseen for the liquidation of the benefit. Moreover, the aforementioned method considers the future salary increases, for whatever reason (inflation, career, contract renewal, etc.), until the termination of the working relationship.

The cost matured in the financial year relative to benefit-defined plans, and recorded in the income statement under the heading of costs for personnel, is equal to the sum of the current average value of the rights matured by the workers present for the activity rendered in the financial year and the annual interest matured on the current value of the Italtel Group obligations at the beginning of the year, calculated by using the discount rate of future expenses adopted to estimate the liability at the end of the previous financial year. The annual discount rate adopted for the processing is assumed to be equal to the value of the Iboxx Eur Italy 10+ with expiry related to the average residual duration of the stay in the company of the collective object of evaluation.
The actuarial profits and losses, related to the modification to the actuarial parameters used previously, are recorded based on the “corridor” method, so only when they exceed 10% of the current value of the Italtel Group obligations at the end of the previous period. In this circumstance, the surplus in relation to 10% is entered in the income statement.

With the introduction of the Legislative Decree no. 124/93, the possibility was provided to allocate staff leaving quotas for financing the supplementary social security. In this sense, the Financial Law 2007, which anticipated on 1st January 2007 the expiry of the new regulation on the supplementary social security introduced by the Law no. 296/2006, specifies the conferral of the staff leaving indemnity maturing by 30th June 2007 to the supplementary social security, automatically or explicitly.

Following the publication of the implementing decrees of the 2007 Budget dictates in regards to the reformation of the supplementary social security inherent to the STAFF LEAVING INDEMNITY, the net worth positions prepared after the publication of said decrees must apply evaluation criteria consistent with the new regulation.

The effects deriving from the new arrangements are held in consideration, evaluating only the liability relative to the STAFF LEAVING INDEMNITY matured remaining in Company for the purposes of IAS, since the quota maturing is paid to a separate economic entity (Complementary pension scheme or INPS Fund), without these payments constituting further obligations for the company, connected to the working activity rendered in the future by the employee and are therefore considered defined contribution pension plans and consequently accounted for.

Also for those that, with explicit method, have decided to retain the staff leaving indemnity in company under the regulation previously in force, the staff leaving indemnity maturing as of 1st January 2007 is paid to the Treasury Fund managed by INPS and therefore considered defined contribution plan.

(ii) Share based plans

Italtel Group recognizes additional benefits to all the employees in force in Italy and abroad, with free allocation of shares of the Holding Group, which entail a right of put that can be exercised at the end of a pre-established period. Moreover, some administrators, employees, managers and key contributors are involved in stock plan options.

According to that established by the IFRS 2 – *Share-based payments*, the current value of the rights allocated is determined, for the stock options, on the date of allocation by applying the "Black & Scholes" method and, for the allocated shares, by showing the current value of the share on the date of allocation, less the current value of the dividends expected in the period of maturation. The cost value determined in this way is recorded in the income statement among the personnel costs throughout the period existing between the date of allocation of the right and the date of maturation, with offset acknowledged directly in specific reserve of the equity in the case of stock options and between the liabilities in the case of allocating shares. Furthermore, in the case of assigning shares the *fair value* is reviewed on the date of reference of the financial statement and the variation of the value of the liability recorded is recorded in the income statement as a personnel cost.

These plans foresee, in the case of quotation of the company, that the periods of the financial year of the options are advanced. In evaluating the *fair value* of the options, the company has considered these contractual conditions.
In the case of instruments subject to non-market maturation conditions, the accumulated cost reflects the expectations on the number of instruments that reach maturation.

At the moment of exercising the stock options:

- in the event new shares are issued, the allocation value of the stock options exercised, net of the costs directly attributable to the transaction, for the part equal to the nominal value of the shares issued, is accredited to the share capital, the remaining part is shown as a variation of the item "Reserve";
- in the case that shares held in portfolio are used, the book value of the shares used represent a reduction in the "Own shares" item and the difference between this value and the allocation value of the stock options exercised represents a variation if the item "Reserve".

At the time of exercising the put on shares subject to free allocation, the *fair value* of the shares acquired by Italtel Group is shown in the equity item "Own shares".

J – Provisions for risks and charges

The funds for risks and charges regard costs and charges of a determined nature and certain and probable, the amount and date of contingency of which are not determined on the date of end of financial year. The provisions to the funds are shown when: (i) the existence of a current, legal or implicit obligation is possible, deriving from a past event; (ii) it is probable that the fulfillment is by payment; (iii) the amount of the obligation can be reliably estimated. The provisions are shown at the value representative of the best estimate of the amount that the company would reasonably pay to extinguish the obligation or to transfer it to third parties on the date of the end of the financial year. When the financial effect of the time is significant and the payment dates of the obligations are reliably estimable, the provision is subject to actualization; the increase in the fund in relation to the passing of time is recorded in the income statement at the item "Financial income (charges)".

The costs that the company foresee to sustain to implement reorganization programmes are recorded in the financial year in which the programme is officially defined and the valid expectation that the restructuration will take place is instilled in the interested parties.

The funds are periodically updated to reflect the variations of the cost estimates, realization times and the rate of actualization the revisions of the fund estimates enter in the same item of the income statement that has previously contained the provision.
Illustrated in the notes to the financial statement are the potential liabilities represented by: (i) possible (but not of one or more uncertain future events not completely under the company control; (ii) current obligations deriving from past events, the amount of which cannot be reliably estimated or the fulfillment of which is probably not by payment.

K – Revenue recognition

The revenue from the sales are recorded when the actual transfer of the relevant risks and benefits typical of the ownership are verified.

The revenue regarding the performances of services are shown based on the status of actual completion of the service.

The revenue is shown net of the unsold, discounts, allowances and premiums, as well as the directly related taxes.

L – Government grants

Government grants are recorded in the financial statement when there is a reasonable certainty that the conditions provided by the Governing Bodies grating their achievement will be met and shown accrued in direct relation to the costs sustained.

Public capital account contributions that refer to properties, plant and equipments are recorded as deferred earnings in the item “Other liabilities” of the non-current liabilities and “Other debts and liabilities” of the current liabilities respectively for the long and short term. The deferred earning is recorded in the income statement as proceeds at a constant rate determined with reference to the useful life of the asset that refers directly to the contribution received.

The contributions different to capital account contributions are credited to the income statement in the “Other income” item.

M – Cost recognition

The costs are recognized when they are relative to the goods and services sold or consumed in the financial year, or for systematic allocation or when the future use of same cannot be identified.

N - Taxation

The current taxes are calculated on the basis of the estimate of the taxable income of the financial year, applying the tax rates in force on the date of the financial statement.

The deferred/advance taxes are calculated on the temporary differences that emerge between the base of taxable assets and liabilities and the relative accounting values in the separate financial statement. The assets for advance taxes are recognized in the measure of probability in which a future taxable income is available in regards to which they can be redeemed.

The current and deferred tax assets and liabilities are compensated when there is a legal right to compensation. The deferred tax assets and liabilities are determined by adopting the provided tax rate that will be applicable in the financial year in which the time differences are annulled.

The current and deferred taxes are shown in the income statement, with the exception of those regarding items directly debited or credited to equity, in which cases the tax effect is acknowledged directly in the equity. The taxes are compensated when the taxes on the income are applied by the same tax authority, there is a legal right to compensation and liquidation of the net balance is expected.

The other taxes not related to the income, such as those on property, are included among “Operating costs”.

O – Translations of items expressed in foreign currencies

Transactions in foreign currency are changed into Euros by using the exchange rate in force on the date of the transaction.

The profits and losses on exchange resulting from the termination of the transactions in question and the translation at the exchange at year end of the monetary assets and liabilities denominated in currency are accounted for in the income statement.

P - Dividends

These are shown when the right of the shareholders to receive the payment that normally corresponds to the deliberation at the shareholders meeting to distribute the dividends arises.

Note 3 Use of estimates

The arrangement of the financial statements requires that the Administrators apply accounting principles and methods which, in each circumstance, rely on difficult and subjective evaluations and estimates based on the historical experience and assumptions that are from time to time considered reasonable and realistic in regards to the relative circumstances. The application of these estimates and assumptions influences the amounts reported in the tables of the financial statement, such as the balance sheet, the income statement and the cash flow statement, as well as the information supplied. The final results of the financial statement accounting entries, for which the abovementioned estimates and assumptions are now used, can differ to those reported in the financial statements that show the effects of the appearance of the event subject of estimate, due to the uncertainty that characterizes the assumptions and conditions on which the estimates are based.

Nota 4 Critical accounting principles

Described in brief below are the accounting principles that require greater subjectivity than other by the Administrators in the processing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the consolidated data modified.

- Asset impairment: in agreement with the accounting principles applied by the Group, the tangible and intangible assets with finite life are subject to analysis in order to ascertain if a reduction in value has been verified, which is shown by means of a devaluation, when there are indicators that cause difficulties for the recovery of the relative net value to be accounted for through use. The verification of the existence of the abovementioned indicators requires the Administrators to perform subjective evaluations based on the information available within the Group and the market, in addition to the historical experience. Furthermore, when it is determined that a potential reduction in value can be generated, the Group proceeds to determine the same by using evaluation techniques considered suitable. The same evaluation techniques are applied in the context of verifications aimed at the recovery of the goodwills in relation to which these verifications are carried out at least once a year. The correct identification of the indicator elements of the existence of a potential reduction in value, as well as the estimates for determining the same, depend on factors that can vary over time, influencing the evaluations and estimates carried out by the Administrators.
- Depreciation rate: the depreciation of the assets constitutes a relevant cost for the Group. The cost of property, plant and equipments is amortised at costant rate throughout the estimated useful life of the relative fixed assets. The economic useful life of the assets of the Group is determined by the Administrators at the time in which the asset was acquired; it is based on the historical experience for similar assets, market conditions and anticipations regarding future events that could have an impact on the useful life, among which are changes in technology. Therefore, the actual economic life can differ from the estimated useful life. The Group periodically evaluates the technological and sector changes to update the remaining useful life. This periodic update could lead to a variation in the amortisation period and therefore also the rate of amortisation of future financial years.
- Deferred taxes: the accounting of the active deferred taxes is performed on the basis of expected income in the future financial years. The evaluation of the expected income for the purposes of accounting the deferred taxes depends on factors that can change over time and determine significant effects on the evaluation of the active deferred taxes.
- Provisions for legal and fiscal risks: in regards to the legal and tax risks, provisions represent the reserve against legal proceedings. The value of the funds recorded in the financial statement regarding these risk represents the best amount estimated on the date operated by the management. This estimate carries the adoption of assumptions that depend on factors that can change over time and that could, therefore, have significant effects in relation to the current estimates carried out by the Administrators for preparing the consolidated financial statement of the Group.
- Warranty provisions: in regards to the system provided, the Group guarantees technical assistance for a determined period following the sale. The representative cost of the value of the assistance that will be rendered, in fulfilment of the guarantee provided, is estimated by the management. The value of the funds recorded in the financial statement relative to these costs representes the best estimate on the date operated by the management. This estimate entails the adoption of assumptions that depend on factors that can chance over time and that could, therefore, have significant effect in relation to the current estimates performed by the Administrators for preparing the consolidated financial statement of the Group.

Note 5 Financial risks management notes

Credit Risk

The Group is exposed to credit risk both in relation to commercial relationships and inter-company financing activities.

The financial management of the Group monitors monthly the risk of solvency of credit, expiries and credit lines entrusted for the major clients of each company of the Group.

The Group credit risk in relation to the commercial relations with foreign counterparts (with the exception of the credits in regards to the Telecom Italia group and a few other company structures) is insured by S.A.C.E. at a minimum percentage of 80% and a maximum of 90%.

The maximum theoretic exposure to the credit risk on 31st December 2010 is represented by the accounting value of the Other assets, the Trade recevaibles of the short term financial Assets and the postal, bank and financial institutes liquid assets for an overall sum of 226,196 thousand Euros (167,146 thousand Euros on 31st December 2009).

The financial assets are recorded in the financial statement net of the devaluation calculated on the basis of the risk of non-fulfillment by the counterpart, determined by considering the information available on the solvency of the customer and considering the historical data.

On 31st December 2010, the Trade recevaibles Credits of 135,869 thousand Euros (110,463 thousand Euros on 31st December 2009) are shown net of a devaluation fund of 8,656 thousand Euros (8,550 thousand Euros on 31st December 2009).

The Group policy specifies strictly defined terms for the normal payment extensions.

The liquid assets of the Group are deposited with primary counterparts.

Liquidity risk

The risk of liquidity to which the Group is subject to is related to the potential difficulty of obtaining financing to support the operational activities within the correct timeframe.

The cash flows, the need for financing and the liquidity of the companies of the Group are centrally monitored or managed under the control of the Group Treasury, with the object of guaranteeing an effective and efficient management of the financial resources.

The Group avails of short term credit openings, which for the main part, refer to the Revolving financing connected to Italtel Group and defined in September 2010.

The Revolving credit line, which expires in December 2017, has the aim of financing the working capital and other financial requirements of Italtel Group and its subsidiaries and amount, on 31st December 2010, to 178.5 million Euros, of which 48 million Euros can be used in the form of unsecured guarantee and in the course of 2011 will amount to 203.5 million Euros, 48 million Euros of which can be used as unsecured guarantee.

The management believes that the funds and credit lines currently available, together with those generated by the operating activity and financing, will enable the Group to satisfy the requirements deriving from the activities of investment, working capital management and debt reimbursement when due.

Interest rate risk

The Group uses external financial resources under the form of debt and uses the cash available in short term deposits. Furthermore, the companies of the Group perform on recurring basis an assignment of credits deriving from their commercial activity. Variations in the levels of market interest rates influence the cost and performance of the various forms of financing, use and assignment of credits, with effect on the level of net financial charges of the Group.

Foreign currency risk

The Group is subject to market risk deriving from the fluctuation of the currency exchange rates because it operates in an international setting.

Italtel Group concludes purchasing operations and, to a lesser degree, sales operations in USA Dollars. As the Euros is the currency of representation of the consolidated financial statement of the Group, any changes in the exchange rate between the Euros and the USA Dollar determine the following effects:

- the appreciation of the Euros has positive effects on the operational profit and negative effects on the income of sales and services;
- the depreciation of the Euros has negative effects on the operational profit and positive effects on the income from sales and services.

Operations expressed in other currencies different from the Euros have little effect on the Italtel Group activities; therefore, the effects of the changes in the exchange rates between the Euros and foreign currencies different from the USA Dollar could marginally influence the financial year performance of the Group.

The Group, in order to reduce the effects of the changes in exchange rate between the Euros and the American Dollar, is part in contracts with the aim of covering the exchange risks on the acquisitions nominated in American dollars. In the financial statements arranged in agreement with the IFRS approved by the European Commission, the derivative contracts must be evaluated at the relative *fair value* on the date of reference of the financial statement. The notional amounts of these derivative contracts can be detailed as follows:

	Forward(*)	**Other (*)**	**Total**
31 December 2010	35.167	-	35.957
31 December 2009	35.957	-	35.957

(*) Equivalent at the exchange rate on 31st December

On 31st December 2010 and 2009 the *fair value* of the derivative contracts in place were as follows:

	31/12/2010	**31/12/2009**
Interest rate swap	-	(12.544)
Exchange rate hedging instruments	(178)	768

Some subsidiary companies of the Group are located in countries that are not part of the European Monetary Union. As the currency of reference for the Group is the Euros, the income statements of these companies are converted into Euros at the average exchange rate of the period and, for the same earning and margins of local currency, changes in the exchange rates can bring about effects on the equivalent in Euros of earnings, costs and economic performances.

Assets and liabilities of the consolidated companies with currencies of reference different from the Euros can assume different equivalent values in Euros depending on the progress of the exchange rates. As provided by the accounting principles adopted, the effects of these variations are directly shown in the equity.

The Group monitors the main exposures to the exchange risk from conversion; moreover, on the date of the financial statement there were no covers in place in regards to these exposures as they were not deemed necessary.

Note 6 Principles adopted in the transition from Italian GAAP to IFRS approved by the European Commission

Presentation of financial statements

The "non-current/current" criterion was adopted for the Balance Sheet, while for the Income statement the layout adopted provides the classification by nature of the cost components. The indirect method was adopted for the report cash flows statement.

Description of the material effects of the transition to IFRS on the balance sheets, income statements and on the statements of cash flows

The effects of the transition to the IFRS approved by the European Commission, both in terms of reclassification and adjustment on the consolidated financial statement on 1st January 2004 (date of transition) and on 31st December 2004, in addition to the consolidated equity on 1st January 2004 and 31st December 2004, and also on the income statement of the financial year 2004, are those highlighted in the Notes to the consolidated financial statement ending on 31st December 2005.

The nature and amounts of the adjustments that were made on the occasion of the transition to the IFRS are also described in the Notes to the consolidated financial statement ending 31st December 2005.

Note 7 Property, plant and equipment

The item *Property, plant and equipment* and the corresponding movements are detailed as follows:

2009	**Land**	**Buildings**	**Plant and equipment**	**Industrial equipment**	**Other assets**	**Assets under construction**	**Total**
Cost							
As of 1st January 2009	327	71.475	30.619	48.784	93.717	1.277	246.199
Additions	-	26	596	1.393	235	396	2.646
Impairment charges / reinstatements	-	-	-	-	-	(18)	(18)
Disposals and write-offs	-	-	(60)	(319)	(4.845)	-	(5.224)
Exchange differences	-	-	(23)	(40)	225	-	162
Reclassifications	-	(186)	1.069	105	(299)	(1.078)	(389)
As of 31st December 2009	**327**	**71.315**	**32.201**	**49.923**	**89.033**	**577**	**243.376**
Accumulated depreciation							
As of 1st January 2009	-	(27.962)	(23.042)	(36.725)	(88.382)	-	(176.111)
Depreciation charges	-	(3.381)	(1.096)	(5.169)	(2.362)	-	(12.008)
Disposals	-	-	61	313	4.836	-	5.210
Reclassifications	-	210	(551)	327	435	-	421
Exchange differences	-	-	17	11	(131)	-	(103)
As of 31st December2009	**-**	**(31.133)**	**(24.611)**	**(41.243)**	**(85.604)**	**-**	**(182.591)**
Net book value							
As of 1st January 2009	**327**	**43.513**	**7.577**	**12.059**	**5.335**	**1.277**	**70.088**
As of 31st December2009	**327**	**40.182**	**7.590**	**8.680**	**3.429**	**577**	**60.785**

2010	**Land**	**Buildings**	**Plant and equipment**	**Industrial equipment**	**Other assets**	**Assets under construction**	**Total**
Original cost							
As of 1st January 2010	327	71.315	32.201	49.923	89.033	577	243.376
Additions	-	29	127	739	157	94	1.146
Impairment charges / reinstatements	-	-	-	-	-	(18)	(18)
Disposals and write-offs	-	-	(133)	(1.068)	(196)	-	(1.397)
Exchange differences	-	-	4	51	184	-	239
Reclassifications	-	-	23	453	15	(499)	(8)
As of 31st December2010	**327**	**71.344**	**32.222**	**50.098**	**89.193**	**154**	**243.338**
Accumulated depreciation							
As of 1st January 2010	-	(31.133)	(24.611)	(41.243)	(85.604)	-	(182.591)
Depreciation charges	-	(3.865)	(1.157)	(4.090)	(1.477)	-	(10.589)
Disposals	-	-	119	502	186	-	807
Reclassifications	-	-	(33)	-	33	-	-
Exchange differences	-	-	(2)	(22)	(160)	-	(184)
As of 31st December2010	**-**	**(34.998)**	**(25.684)**	**(44.853)**	**(87.022)**	**-**	**(192.557)**
Net book value							
As of 1st January 2010	**327**	**40.182**	**7.590**	**8.680**	**3.429**	**577**	**60.785**
As of 31st December2010	**327**	**36.346**	**6.538**	**5.245**	**2.171**	**154**	**50.781**

Tangible assets are increased by 1,146 thousand Euros, of which 739 thousand Euros is for investments in industrial equipment regarding primarily the apparatus used for the development of software solutions and for the test plants of products intended for the market, while the plant and equipments are increased by 127 thousand Euros primarily for reorganization interventions at the Palermo district and the headquarters in Rome. Other assets refer chiefly to investments in computerized systems and the strengthening of the company computer system.

On 31st December 2010 and 2009 the items Industrial buildings and Plant and equipments include financial lease, the gross value of which is 47,285 thousand Euros and 4,109 thousand Euros respectively and an accumulated amortization fund on 31st December 2010 of 22,066 thousand Euros (18,914 thousand Euros on 31st December 2009) and 1,917 thousand Euros (1,644 thousand Euros on 31st December 2009) respectively. These financial lease are represented by the industrial property of Castelletto, and also by accessory systems to that property, which was subject to a transfer operation and simultaneously partial lease back during 2003.

On 31st December 2010, the lands, industrial buildings, plant and equipments, industrial equipment and other assets, include goods subject to first mortgages, securities and special privilege, the gross value of which was equal to 193.528 thousand Euros, given in guarantee in favour of UniCredit S.p.A. in relation to financing received by Italtel Group and described in Note 28.

Note 8 Goodwill

The item *Goodwill* and the relative movement are detailed as follows:

	31/12/2010	31/12/2009
Amount as of 1st January	**297.215**	430.915
Additions	-	-
Impairment charges	-	(133.700)
Amount as **of 31st December**	**297.215**	**297.215**

The Italtel S.p.A. goodwill is a consequence of the taking on of total control of the former Italtel S.p.A. by the then subsidiary company Italtel Acquisition S.p.A., named Italtel S.p.A. following the merger through acquisition, and represents the difference between the cost of acquisition and the consolidated net worth on 31st December 2000, net of the accumulated amortization on 31st December 2003 and the devaluation shown on 31st December 2009.

On 31st December 2010 and 2009 verifications (impairment tests) were carried out in order to ascertain the existence of any losses in value of the recorded goodwills.

The impairment test was carried out by comparing the accounting value of the goodwill and the collection of the related net assets able to generate cash autonomously (CGU) with the greater value between that in use by the CGU and that redeemable by the same through transfer.

The CGU to which the goodwill was allocated, substantially coincides with Italtel Group given the high interdependence of the cash generated by the foreign subsidiaries.

In particular, the value in use was determined with the “discounted cash flows” method, based on the current value of the operating cash resulting from the three-year consolidated plan approved by the Board of Directors.

The discount factor (WACC) is shown with reference to the sector in which the CGU operates, and takes account of the timeframe value of money, and of the specific risks of the activity.

The evaluation model determines the value in use as a sum of the operating cash for each year of the plan and of the end value, determined by applying a perpetual growth factor to the flow of the last year of the appropriately normalized plan, essentially representative of the growth rate of the gross domestic product expected for the Italian economy (main market of reference).

For the Italtel S.p.A. goodwill test the main assumptions used are the following:

- the explicit earnings and margins of the plan are based on the consolidated three-year plan examined and officially approved by the Board of Directors on 28th February 2011; this plan does not substantially move, from that used to support the refinancing project, declared by an independent expert. The plan specifies a substantial consistency of the margins of different offer lines through the years;

- 9.50% WACC (9.04% on 31st December 2009);
- perpetual growth factor of 2.1% (1.5% on 31st December 2009) in line with the growth expectations of the consumption prices in the 2011-2012 two-year period of 2.2%, according to an investigation by Banca d'Italia performed in December 2010[2], and with ISTAT findings in February 2011of the harmonised European inflation (IPCA) based on 2.1% annually.

The impairment test carried out on 31st December 2010 revealed no reductions in value with reference to the goodwill recorded resulting from the assumption of control of the former Italtel S.p.A. A 5% increase variation of the WACC used would determine a devaluation of 24.200 thousand Euros; a 5% decrease variation in the WACC used would determine a greater value in use of 27.900 thousand Euros. Carrying out the test with a perpetual growth factor of 1.6% would generate a devaluation of 23.600 thousand Euros; with a perpetual growth factor equal to 2.6% it would bring to greater value in use of 27.300 thousand Euros.

Note 9 Intangible assets

The item *Intangible assets* and the corresponding movements it has been subject to are detailed as follows:

	Patents, intellectual property and licenses and other similar rights	Development costs	Intangibles in progress	Other	Total
Cost					
As of 1st January 2009	**11.955**	**50.398**	**507**	**7**	**62.867**
Additions	4.891	27.356	389	1	32.637
Write-offs	(14)	-	(208)	-	(222)
Disposals	-	-	-	-	-
Amortization charges	(8.895)	(35.257)	-	(4)	(44.156)
Exchange rate differences	(14)	-	-	-	(14)
Reclassifications	272	-	(272)	-	-
As of 31st December2009	**8.195**	**42.497**	**416**	**4**	**51.112**
Additions	600	25.356	18	1	25.975
Write-offs	-	-	-	-	-
Disposals	-	-	-	-	-
Exchange rate differences	7	-	-	-	7
Amortization charges	(4.723)	(28.145)	-	(2)	(32.870)
Reclassifications	371	-	(416)	-	(45)
As of 31st December 2010	**4.450**	**39.708**	**18**	**3**	**44.179**

The investments of the financial year in intangible assets amounted to 25.975 thousand Euros. In particular, 25.356 thousand Euros was invested in Development and innovation activities and 600 thousand Euros in industrial patent right and rights for the use of the intellectual property, licenses and similar, that mainly refer to applicative software acquired with a fixed term license and software development projects.

[2] "Survey on the inflation and growth expectations in December 2010" Banca d'Italia.

In the financial year ending 31st December 2010/2009 the Research and Development activities performed by Italtel Group can be detailed as follows:

	31/12/2010	31/12/2009
Research and development activities costs	50.800	58.065
of which:		
- capitalized	25.356	27.356
- recorded in income statement	25.444	30.709
Development cost amortization	28.145	35.257

The net value of intangible assets generated internally equals 39.708 thousand Euros and 42.497 thousand Euros respectively on 31st December 2010 and 2009.

Note 10 Investment in associates accounted for equity method

The item *Investment in associates* follow these movements:

	31/12/2010	31/12/2009
Amount as of 1st January	194	194
Adjustments equity movements	-	-
Reclassifications to assets held for sale	-	-
Amount as **of 31st December**	**194**	**194**

On 31st December 2010 none of the associated entities had stocks listed on regulated markets.

Note 11 Financial assets mid-long term maturity

The item *Financial assets* and the relative movement can be detailed as follows:

	Investments in subsidiaries	Investments in other financial assets	Financial receivables and other non-current assets	Total
Balance as of 1st January 2009	**575**	**4**	**-**	**579**
Acquisitions / changes	-	(3)	38	35
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Impairments charges/Revaluation	(57)	-	-	(57)
Balance as of 31st December 2009	**518**	**1**	**38**	**557**
Acquisitions / changes	-	-	2	2
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Impairments charges/Revaluation	21	-	-	21
Balance as of 31st December 2010	**539**	**1**	**40**	**580**

Shareholdings in other companies are all evaluated at cost, with the exception of the investment in Alice Lab Netherlands N.V, classified as available for sale and evaluated at *fair value*.

The revaluation of 21 thousand Euros of the shareholdings in other companies is relative to the Italtel Telesis consortium in liquidation.

The book value of the other financial assets is considered approximate to their *fair value*.

Nota 12 Other assets

Other assets are composed as follows:

	31/12/2010	31/12/2009
Guarantee deposits	12.551	12.500
Tax receivables	882	404
Tax receivables to be reimbursed	6.853	6.724
Other	93	72
Allowance for other non-current doubtful receivables	(373)	(373)
Total	**20.006**	**19.327**

The security deposits include 12,000 thousand Euros, established in relation to the lease rental contract related to the Castelletto industrial plant in Settimo Milanese.

The increase in tax receivables to be reimbursed is related to the interests matured on the credits requested to be refunded.

The book value of the other asses net of the funds approximates their *fair value*.

Note 13 Deferred taxes

Deferred taxes are composed as follows:

	31/12/2010	31/12/2009
Deferred tax assets	72.280	77.834
Deferred tax liabilities	(3.583)	(15.239)
Total	**68.697**	**62.595**

The Group has offset deferred taxes through assets and liabilities due to the legal right of compensation.

The detail of the composition by nature of deferred taxes is:

	Deferred tax assets		Deferred liabilities	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Temporary differences originating from:				
- Contributions in capital account and profit and loss account	-	-	2.454	2.646
- Advance depreciations	-	-	134	134
- Credit depreciation fund	2.602	2.602	-	-
- Stocks depreciation fund	10.632	10.534	-	-
- Tangible and intangible depreciation	98	74	-	-
- Other funds for charges and risks	10.774	15.507	-	-
- Claimable surplus payable interest	13.461	5.248	-	-
- Others	225	133	-	-
- For temporary difference relevant to the foreign subsidiaries in agreement with the local tax laws	928	326	-	-
- Advance taxes relevant to accumulated losses of the previous financial years	21.694	20.359	-	-
- Advance taxes relevant to accumulated losses of the foreign subsidiary companies	1.454	1.287	-	-
Changes due to IFRS adoption				
- Discounted TFR provisions	-	-	942	1.096
- Sale and leaseback of the Castelletto property	-	-	-	10.365
- Financial liabilities on finance sale and leaseback	-	12.918	-	-
- Capital gains on finance sale and leaseback	4.273	4.807	-	-
- Depreciation of Castelletto property	1.470	1.036	-	-
- Adjustment to depreciation of fixed assets	-	-	18	458
- Long-term borrowing costs	-	415	-	-
- Capitalization of development costs	-	-	-	473
- Inventory (FIFO assessment)	-	-	-	-
- Discounting back of mobility liabilities	-	-	35	67
- Differences on amortization of development costs	4.669	2.588	-	-
Total	**72.280**	**77.834**	**3.583**	**15.239**

On 31st December 2010 and 2009 Italtel Group presented a sum of accumulated claimable losses brought forward of 170.871 thousand Euros and 149.112 thousand Euros respectively. In regards to said losses, there are no records of advance taxes of 25.295 thousand Euros and 19.546 thousand Euros respectively on 31st December 2010 and 2009 because is considered that Italtel Group will not be able to benefit from the use of the said losses.

The advance taxes relevant to claimable losses of the foreign subsidiaries refer to Germany and Brazil.

On December 31st 2010 and 2009, the Deferred active taxes and the Deferred passive taxes directly referable to the Net worth item "First time adoption reserve IAS 32 and 39" can be detailed as follows:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2010	**31/12/2009**	**31/12/2010**	**31/12/2009**
- Non-current liabilities for early employment termination	-	-	-	-
- Debt issuance cost	-	255	-	-
Total	**-**	**255**	**-**	**-**

Note 14 Inventory

Stocks and relative movements can be detailed as follows:

2009	**Raw, materials and supplies**	**Work in progress**	**Finished products**	**Advance payments**	**Total**
Cost of stock					
As of 1st January	6.241	20.636	51.465	300	78.642
Movements in the period	443	(1.054)	(138)	(19)	(768)
As of 31st December	**6.684**	**19.582**	**51.327**	**281**	**77.874**
Allowance for obsolescence					
As of 1st January	(4.933)	(8.570)	(22.024)	-	(35.527)
Accruals / utilizations	(1.666)	52	2.231	-	617
As of 31st December	**(6.599)**	**(8.518)**	**(19.793)**	**-**	**(34.910)**
Net inventory					
As of 31st December	**85**	**11.064**	**31.534**	**281**	**42.964**

2010	**Raw, materials and supplies**	**Work in progress**	**Finished products**	**Advance payments**	**Total**
Cost of stock					
As of 1st January	6.684	19.582	51.327	281	77.874
Movements in the period	**(358)**	**293**	**(1.822)**	**-**	**(1.887)**
As of 31st December	**6.326**	**19.875**	**49.505**	**281**	**75.987**
Allowance for obsolescence					
As of 1st January	(6.599)	(8.518)	(19.793)	-	(34.910)
Accruals / utilizations	290	(38)	(372)	-	(120)
As of 31st December	**(6.309)**	**(8.556)**	**(20.165)**	**-**	**(35.030)**
Net inventory					
As of 31st December	**17**	**11.319**	**29.340**	**281**	**40.957**

On 31st December 2010 and 2009 Inventory included goods that have been pledged.

Note 15 Trade receivables

"Trade receivables" are detailed as follows:

	31/12/2010	31/12/2009
Trade receivables	144.438	118.927
Receivables from unconsolidated subsidiaries	1	-
Receivables due from associates	86	86
Allowance for doubtful receivables	(8.656)	(8.550)
Total receivables	**135.869**	**110.463**

Movements in the allowance for doubtful receivables are detailed below:

	31/12/2010	31/12/2009
Balance as of 1st January	**8.550**	**13.187**
Movements in the period:		
- Increases	282	165
- Utilization	(176)	(4.802)
Balance as of 31st December	**8.656**	**8.550**

Increases in the allowance for doubtful receivables have been recognized within "Other operating costs". and for 63 thousand Euros under the item "Financial costs".

Trade receivables due from the Telecom Italia Group and Cisco Group are detailed in Note 44 – Related party transactions.

The carrying value of trade receivables is believed to approximate their fair value.

Trade receivables stated in currencies other than the Euro, the functional currency of the Group, are detailed below:

(thousands)

	31/12/2010		31/12/2009
	Foreign currency	**Euros**	**Foreign currency**
USA Dollar	43.465	32.529	8.778
UK Sterling	153	178	-
Argentinian Peso	-	-	39.316
Brazilian Real	30.002	13.529	45.293
Russian Ruble	-	-	6.216
Polish Zloty	6.811	1.714	3.146
Saudi Arabia Riyal	11.187	2.233	13.629
Colombian Peso	3.806.926	1.480	957.275
Guatemalan Quetzal	565	53	5.707
Philippine Peso	430	7	430
Venezuelan Bolivar Fuerte	-	-	6

Note 16 Current taxe receivables

The item *Current tax recivables* on 31st December 2010, equal to 1.719 thousand Euros (on 31st December 2009 it was 429 thousand Euros), represents the surplus tax deposits paid for the IRAP and by some foreign companies.

Note 17 Other current assets

Other current assets are detailed as follows:

	31/12/2010	31/12/2009
Receivables due from employees	2.753	3.838
Receivables due from social entities	1.109	1.731
Pre-paid expenses	3.414	2.575
Other tax receivables	8.072	5.805
Receivables from government grant	5.220	3.150
Other receivables	3.244	2.411
Cumulated allowance for doubtful current receivables	(1.437)	(1.434)
Total	**22.375**	**18.076**

The receivables from employees refer mainly to advances paid for business trips.

Recivables due from social entities include the credit to INPS for the advance retributions by Italtel S.p.A. to the CIGS personnel, for the months of November and December 2010 for 544 thousand Euros. Last year the balance included the credit to INPS for 1.140 thousand Euros, due to the advance retributions by Italtel S.p.A. to the personnel in Job Security Agreement for the months from July to December 2009.

The increase in short term tax credits is primarily due to the entry of the advance tax withholding paid abroad.

The other different credits include positions open in previous years, prudently devaluated by 1.434 thousand Euros.

The book value of the other assets is considered to approximate their *fair value*.

Note 18 Short term financial assets

The *Current financial assets* item and the movements it has been subject to can be detailed as follows:

	31/12/2010	31/12/2009
Other from securities	158	161
Other financial assets	2.022	1.888
Short term pre-paid expenses	102	530
Financial assets in unconsolidated subsidiaries	544	536
Asset for derivative financial instruments	-	768
Total	**2.826**	**3.883**

Other financial assets are composed mainly by credits for interests matured on tax credits granted to factoring companies during past years.

The carrying value of Current financial assets is believed to approximate their fair value.

Note 19 Restricted cash

The item *Restricted cash*, equal to 25.378 thousand Euros on 31st December 2009, included the liquidity obtained by the activation of the Revolving credit line and given as guarantees. In particular part of the loans without real guarantee at subsidised rates was backed by the release of sureties by Telecom Italia S.p.A. as indemnity of the guarantee issued by Telecom Italia S.p.A., UniCredit S.p.A. guaranteed with sureties equal to 5.378 thousand Euros on 31st December 2009 the punctual fulfilment of the main obligation by Italtel S.p.A. The guarantee by UniCredit S.p.A. had been officially structured with the opening of a fixed term current account, in regards to an equivalent financing, as part of the Revolving credit line. The remaining part of the item, equal to

20.000 thousand Euros on 31st December 2009, was formed as guarantee of the issuance of sureties of a different type, the more relevant of which, equal to 10.000 thousand Euros on 31st December 2009, issued by UniCredit S.p.A. in favour of the lessor, in relation to the punctual payment of fees provided by the leasing contract for Castelletto property complex at Settimo Milanese.
Over the course of 2010 the item Fixed term current accounts was reset following the renegotiation of the Revolving credit line as in the new formulation there is no provision for the mechanism of the security in cash in regards to the issuances of bank guarantees.

Note 20 Cash and cash equivalents

The following table shows the details of *Cash and cash equivalents*:

	31/12/2010	31/12/2009
Cash at banks	63.667	25.724
Checks	3.658	7.584
Cash	170	165
Cash and cash equivalents	**67.495**	**33.473**

Checks are all held by the company Italtel Argentina S.A. and can be cashed within sixty days from the date of the financial statement.

The values shown can readily be converted into cash and are subject to an insignificant risk of variation in value.

Note 21 Share capital

The amounts indicated in this note are expressed in Euros.

On 31st December 2009 the share capital of the Holding Company, equal to Euros 115,459,344, was composed of 222,037,200 ordinary actions of a nominal value of Euros 0.52 each.

On 31st December 2009 all the shares issued were underwritten and paid; no privileged shares were issued.

The ordinary shareholders meeting of the Holding Company, Italtel Group S.p.A., held on 10th August 2010, deliberated:

- to eliminate the indication of the nominal value of the shares of the Company, therefore leaving the nominal value of the same unexpressed;
- the grouping of the shares in circulation according to the ratio of 1 new share every 25 shares owned, by which, due to the aforementioned grouping, the total number of shares was reduced to 8,881,488 shares: the remaining resulting from the grouping operation were managed by rounding up the fractions higher than 5 decimals and rounding down those less than 5 decimals.

The same extraordinary session Shareholders meeting also approved the net worth position of the Holding Group on 30th April 2010 prepared by the Board of Directors as part of the provision to adopt pursuant to art. 2446 of the Italian Civil Code, which shows a period loss of Euros 159,924.

This loss, added to the accumulated losses of the previous financial year of Euros 492,616,045, brought the losses carried forward to Euros 492,775,969.

The extraordinary Shareholders meeting therefore deliberated to cover the overall loss of Euros 492,775,969, as follows:

- in relation to Euros 415,651,408, through the use of the share premium reserve for a corresponding amount;
- in relation to Euros 23,091,869 through the use of the legal reserve for a corresponding amount;
- in relation to the residual loss of Euros 54,032,692, through reduction of the share capital for a corresponding sum.

As part of the provisions assumed pursuant to art. 2446 of the Italian Civil Code, the share capital was reduced from Euros 115,459,344 to Euros 61,426,652, with consequent amendment of art. 5 of the Charter.

Hereafter, the extraordinary Shareholders meeting held on 16th September 2010 deliberated on the paid increase in share capital, in tranches, to be freed in cash, from Euros 61,426,652 to Euros 131,426,652 and therefore for an overall of Euros 70,000,000, through the issuing of 8,881,488 new special shares without the nominal value, equipped with characteristics different to those previously in circulation and the right to conversion. The newly issued shared are called “B” shares.

The 8,881,488 shares previously in circulation were renamed “A” shares.

Consequently the share capital deliberated by the Holding Company Italtel Group S.p.A. in virtue of the abovementioned shareholders meeting deliberation was equal to Euros 131,426,652 composed as follows:

- Euros 61,426,652 divided into 8,881,488 “A” shares”;
- Euros 70,000,000 divided into 8,881,488 “B” shares.

On 31st December 2010, the underwritten and paid capital amounted to Euros 131,426,652

Note 22 Reserves

The following table presents the Group’s reserves:

	31/12/2010	31/12/2009
Share premium reserve	-	415.651
Legal reserve	-	23.092
Undistributable reserve (own shares)	10.943	10.943
Total	**10.943**	**449.686**

The share premium reserve and the legal reserve equal zero on 31st December 2010, being used as cover for the previous losses by the Holding Company, as explained in the previous Note.

Nota 23 Own shares

The following table presents the movements relating to own shares:

As of 1st January2010	**(10. 943)**
Acquisitions	-
Disposals	-
As of 31st December 2010	**(10.943)**

The item *Own shares* on 31st December 2010 represents the value of 168,463 shares of the Holding Company, grouped as deliberated on 10th August 2010, held in a portfolio and used simultaneously to the financial year by the assignees of stock options of the relative rights, in regards to the reserve of equal amount. There were no variations in the 2010 financial year.

Note 24 Other reserves (and income/loss of the year)

The item *Other reserves* may be detailed as follows:

	31/12/2010	31/12/2009
Retained earnings	(3.939)	(311.650)
Loss cover reserve - Italtel Group S.p.A. 1/1 – 30/4/2010	160	-
Currency translation reserve	854	552
Stock option reserve	706	706
Share schemes	4.453	4.453
Net income / (loss) for the year	(13.474)	(184.898)
Total	**(11.240)**	**(490.837)**

The 160 thousand Euros Italtel Group S.p.A. Holding Company Loss cover reserve was established following the deliberationof the extraordinary Shareholders meeting on 10th August 2010.

The Currency translation reserve represents the effects originating from the conversion into Euros of the financial statements of the subsidiary companies that draw up their financial statements in functional currencies different to Euros.

The movements of the Currency translation reserve can be detailed as follows:

	2010	2009
As of 1st January	**552**	**504**
Currency translation of opening equity and consolidation adjustments	247	(11)
Gain / (loss) during the year	55	59
As of 31st December	**854**	**552**

On 1st January 2004, date of the first application of the IFRS, the Group had shown in accordance with IFRS 2 the negative variation on the equity of the value of the right matured on the shareholdings in the Holding Company, assigned free of charge to the employees and not exercised at the date.
The value of 4.453 thousand Euros of the financial year shareholding reserve, represents the value of the Italtel Group S.p.A. shares, for which the right of sale of the company successors and assignees was exercised.

Pursuant to the Revolving Facility and the Senior Facility, Italtel Group undertook to not deliberate in regards to the financing banks, until the whole reimbursement of the financing amounts, the distribution of financial year profits outside of the Group.

Note 25 Stock option plans and shares

On 11th December 2000 the Board of Directors of the Company approved (a) a public offer plan for all Italtel Group employees; (b) a stock option plan reserved for employees, management hired on an open-ended contract and Administrators of the Italtel Group companies and (c) a share purchase request by payment with related stock options, reserved for managers and Administrators of the Italtel Group companies.

On 27th February 2006, the Company in service of the public offer share plans, stock options and stock treasury purchase by payment with related stock options at the number of shares and options currently related to and/or assigned on the same date.

Share scheme

Shares assigned in execution of the public offer share plan attribute the right to vote only for the subjects involved in the extraordinary Shareholders meeting until any public offer of shares of the Company. The shareholders can perform acts of arrangement on the same shares upon the occurrence of one of the following events:

- the shares can be transferred freely in the event that a public offer of Company shares happened. In this case shares cannot in any way be subject to transactions in the period between the 20 days preceding and the 180 days following the beginning of the public offer, inclusive;
- shares can be transferred whenever the termination of the employment occurs, only in the cases specified by regulation.

On 31st December 2010 another 54,354 type A shares were assigned, considering the grouping of the shares deliberated by the Italtel Group S.p.A. Extraordinary Shareholders meeting on 10th August 2010 described in Note 21.

Managers & Key Contributors stock option plan

Managers and Key Contributors stock option is reserved for employees, managers hired on open-ended contracts and Administrators of Italtel group chosen at the discretion of the Italtel Group Board of Directors or members of the Board of Directors to which it is delegated and specifies the complimentary assignment of non-transferable options, unless *mortis causa*, for the acquisition of just as many ordinary shares of the Company. The options assigned mature on the basis of the following timeframes:

- 25% of the options assigned matures after two years from the date of assignation;
- another 25% of the options assigned matures after three years from the date of assignation;
- the remaining 50% of the options assigned matures after four years from the date of assignation.

In the event of termination of employment or transfer of a role of Administrator the options can be exercised, subject to certain conditions. Particular arrangements regulate the right to exercise the options assigned in the case of a public offer or extraordinary management operations that involve said Italtel Group.

In the month of December of the 2008 financial year, pursuant to regulation, the rights of option assigned in December 2000 were automatically annulled, due to the expiry of an eight year period. Similarly, in the month of November 2010, as per regulation, the rights of options assigned in November 2002 were annulled as an eight year period had expired.

On 31st December 2010 another 416 type A shares were held, considering the grouping of the shares deliberated by the Extraordinary Shareholders meeting by Italtel Group S.p.A. on 10th August 2010 as described in Note 21.

Stock Option plan and Share Purchase plan for the Key Managers

The stock option plan and share purchase plan reserved for managers and Administrators of the companies of the Group provide for Italtel Group managers and Administrators to be allocated complementary non-transferrable options (unless *mortis causa*), conditioned by the prior underwriting of a minimum number of ordinary shares by the Company according to the conditions of three options (one of which is a service option and two are performance options) for each underwritten share.

On 31st December 2010 the options assigned and matured are automatically annulled due to the expiry of the eight year period from the date of allocation.

On 31st December 2010 11,850 type A shares are still held, taking into consideration the grouping of the shares deliberated by the Italtel Group S.p.A. Shareholders Meeting on 10th August 2010 as described in Note 21.

Note 26 Termination indemnity liability

The item "Termination indemnity liability" is composed as follows:

	31/12/2010	31/12/2009
Termination liability (TFR)	27.053	30.609
Indemnity for the early employment termination	2.857	8.130
Foreign employees deferred benefit funds	67	49
Total	**29.977**	**38.788**

The Termination Indemnity (TFR) refers to Italtel S.p.A. only.

The actuarial differences not acknowledged amount to proceeds of 171 thousand Euros and proceeds of 1.432 thousand Euros respectively on 31st December 2010 and 2009.

The charges for "Interest cost" amount to 1.488 thousand Euros on 31st December 2010 and 1.598 on 31st December 2009.

With the coming into effect during 2007 of the provisions specified by the pension reform, the net worth position prepared, following this reform, must apply to evaluation criteria consistent with the new regulation, illustrated in note 2 – *I – Benefits to employees*, evaluating for the purposes of the IAS only the liability regarding the TFR maturing with the regulation previously in force. That matured following the pension reform represents a retribution plan of defined contributions in that these payments do not carry further obligations borne by the company in relation to the working activity rendered in future by the employee.

The "Projected Unit Credit Cost" method was used in the application of the Accounting Principle IAS 19 for the evaluation of the TFR:

	31/12/2010	31/12/2009
ECONOMIC ASSUMPTIONS		
Increases in the cost of living	2.00% per year	2.00% per year
Discount rate	4.60% per year	5.10% per year
Salary increases	-	-
Annual TFR increase rate	3.00% per year	3.00% per year
DEMOGRAPHIC ASSUMPTIONS		
Expected mortality rate	2002 ISTAT data on the Italian population	2002 ISTAT data on the Italian population
Expected invalidity rate	Separate tables for gender, adopted in the INPS model for the 2010 forecasts. These probabilities were formed starting from the distribution by age and gender of the pensions in force on 1st January 1987 effective from 1984, 1985, 1986 in relation to the personnel of the credit branch	Separate tables for gender, adopted in the INPS model for the 2010 forecasts. These probabilities were formed starting from the distribution by age and gender of the pensions in force on 1st January 1987 effective from 1984, 1985, 1986 in relation to the personnel of the credit branch
Expected termination rate	A rate of 7.5% p.a. has been applied	A rate of 7.5% p.a. has been applied
Expected retirements	It is expected that employees will reach the pensionable age provided within local laws	It is expected that employees will reach the pensionable age provided within local laws
Expected early repayment rate	A rate of 3% p.a. has been applied	A rate of 3% p.a. has been applied

The following table presents the occurred changes in termination liability (TFR):

	31/12/2010	31/12/2009
As of 1st January	**30.658**	**33.408**
Increase	1.488	1.598
Foreign employee deferred benefit fund reclassification	-	27
Foreign companies increase	22	22
Utilisations	(5.044)	(4.397)
Foreign company utilisations	(4)	-
As of 31 December	**27.120**	**30.658**

The following table presents the occurred changes in Indemnity for early employment terminations:

	31/12/2010	31/12/2009
As of 1° January	**8.130**	**800**
Provisions	2.270	7.918
Foreign employee deferred benefit fund reclassification	-	(19)
Utilisation	(7.543)	(569)
As of 31 December	**2.857**	**8.130**

Note 27 Provisions for risks and charges

The following table represents the changes in Provisions for risks and charges:

	Warranty provisions	Other risks	Total
As of 1st January 2009	**15.064**	**24.980**	**40.044**
Change:			
- Increases	1.508	5.963	7.471
- Utilisations	-	(5.433)	(5.433)
As of 31st December 2009	**16.572**	**25.510**	**42.082**
Change:			
- Increases	529	3.714	4.243
- Utilisations	(2480)	(12.280)	(14.760)
As of 31st December 2010	**14.621**	**16.944**	**31.565**

Warranty provisions of 14,621 thousand Euros represent the estimated value of costs of suppling technical support guaranteed on systems sold.

The Other risks fund of 16.944 thousand Euros on 31st December 2010 (25.510 thousand Euros on 31st December 2009) is relative to risks tied to contentioues in progress for 7.060 thousand Euros, risks for penalties and other contractual risks for 7,100 thousand Euros and risks of a tax and contributory nature also regard foreign company or branch activities, ended or liquidated, but which can refer to undefined tax periods for 2,478 thousand Euros. The item also includes the clientele additional indemnity fund for 6 thousand Euros.

Note 28 Short and long term borrowings

The item “Borrowings” is composed as follows:

	31/12/2010			31/12/2009		
	Short	**Medium-long**	**Total**	**Short**	**Medium-long**	**Total**
Secured borrowings	-	170.322	170.322	152.341	-	152.341
Unsecured borrowings	-	401	401			
Unsecured borrowings at facilitated interest rates	7.052	23.973	31.025	13.917	29.818	43.735
Finance lease obligations	2.852	37.955	40.807	1.851	40.808	42.659
Long term loans	**9.904**	**232.651**	**242.555**	**168.109**	**70.626**	**238.735**
Revolving credit facilities for guarantees	-	-	-	25.378	-	25.378
Short term borrowings	51.237	-	51.237	48.654	-	48.654
Total due on external borrowings	**61.141**	**232.651**	**293.792**	**242.141**	**70.626**	**312.767**
Derivative hedge instrument liabilities	-	-	-	-	-	-
Non-cover derivative liabilities	-	-	-	-	12.544	12.544
Other payables	3.076	3.061	6.137	2.922	3.061	5.983
Accrued interest and expenses	544	-	544	1.359	-	1.359
Total	**64.761**	**235.712**	**300.473**	**246.422**	**86.231**	**332.653**

On 24th September 2010 the agreements signed in July 2010 between Italtel Group S.p.A., its Shareholders, Italtel S.p.A. and the Financial Institutes came into full effect. The refinancing of the debt was concluded positively, according to two main guidelines:

- an increase in capital of the Holding Company for 70 million Euros signed by the Telecom Italia and Cisco shareholders and fully paid up;
- the refinancing of the medium-long term debt with real guarantee and the availability of lines for financing the circulating capital with reference to the lines connected by a pool of banks, led by UniCredit Corporate Banking S.p.A., now UniCredit S.p.A.

Loans with real guarantee refer to two credit lines (Senior 1 and Senior 2) of 152.467 thousand Euros, fully utilised, granted on 6th June 2002 by a pool of banks led by UniCredit Spa (hereinafter "Financing banks"), which will expire on 1st June 2012, as originally specified in the contract. Upon expiry of the abovementioned credit line the Financing Banks undertake to grant further lines of credit for an overall sum of 137.500 thousand Euros with expiry date by 6th December 2017.

On 24th September 2010, the contract was written between Italtel and a pool of banks led by UniCredit SpA, as provided by the plan by which the Financing Banks grant the Financing to the Borrowing party, which accepts, at the terms and conditions pursuant to the Financing Contract, for an overall maximum capital of up to 203.500 thousand Euros.

The Financing is divided into the following Credit Lines:

- revolving line of the maximum capital sum of up to 200,437,000.00 (two hundred million fourhundredandthirtyseventhousand/00), the A1) Credit Line available as follows:
  - in the form of basic Borrowings (each one a Basic Borrowing) up to a maximum amount of 31,937,000.00 Euros (thirtyone million ninehundreandthirtyseven thousand/00);
  - in the form of additional Cash Utilisations (each one an Additional Cash Utilisation) up to a maximum amount used of:

(I) 10,000,000.00 Euros (ten million/00) until 31st March 2011;
(II) 25,000,000.00 Euros (twentyfive million/00) from 1st April 2011 to 30th June 2011;
(III) 35,000,000.00 Euros (thirtyfive million/00) from 1st July 2011 until 6th December 2013;
(IV) 23,334,000.00 Euros (twentythree million threehundredandthirtyfour thousand /00) from 6th December 2013 to 6th December 2014;
(V) 11,668,000.00 (eleven million sixhundredandsixtyeight thousand/00) from 6th December 2014 to 6th December 2015;
(VI) 0 Euros (zero/00) subsequently.

- In the form of Bill Utilization, and without prejudice to that provided by Article 8.2 (Automatic cancellation of the Credit Line A1), up to a maximum used amount of:
  (I) 85,500,000.00 (eightyfive million/00) until 6th December 2013;
  (II) 97,166,000,00 (ninetyseven million onehundredandsixtysix thousand/00) from 6th December 2013 to 6th December 2014;
  (III) 108,832,000.00 Euros (onehundredandeight million eighthundredandthirtytwo thousand/00) from 6th December 2014 to 6th December 2015;
  (IV) 120,500,000.00 Euros (onehundredandtwenty million fivehundred thousand/00) from 6th December 2015.

- in the form of Company Utilization, and without prejudice to that provided by Article 8.2 (Automatic cancellation of the Line of Credit A1), up to a maximum amount of:
  (I) 3,000,000.00 Euros (three million/00) in non-revolving form (and therefore without the possibility of reuse) for Company Utilization in relation to Unsecured Guarantee Roll-Over relative to Subsidise Financing or Grant;
  (II) 30,000,000.00 Euros (thirty million/00) for Company Utilization in relation to the Castelletto Guarantee;
  (III) 15,000,000.00 Euros (fifteen million/00) for Company Utilization in relation to Bids and Performance Bonds (where the Roll-Over Unsecured Guarantees relative to Bids and Performance Bonds are included.

Without prejudice that:

- the overall amount of the Borrowings and the Bill Utilization supplied and not repaid cannot exceed, for the period from the first Date of Use until 30th June 2011, 135,000,000.00 Euros (onehundredandthirtyfive million/00) and, subsequent to this date, 155,500,000.00 Euros (fivehundredandfive million and five hundred thousand/00);
- the Borrowing party will have the authority to use up to 10,000,000.00 (ten million/00) of Borrowings in support of additional Company Utilization in relation to Subsidised Financing or to Grant or rather, subject to the reaching of an agreement between the Borrowing party and the Financing Banks A1 Line regarding the technical forms of this use, for the supply of the part share of the Subsidised Financing or the Grant possibly not the object of obligations, and complementary to the quota of use, of the relative public body or subject.

▪ medium-long term cash line of the maximum capital sum of 3,063,000.00 Euros (three million and sixtythree thousand/00) (Line of Credit B1).

The last was fully used in the financial year and the relative sum was included in the balance of the financings with real guarantee.

Furthermore, the balance of the loan with secure guarantee on 31st December 2010 includes 14.972 thousand Euros relative to the multi-year Unicredit financing. Upon signing the Waiver, Amendment and Undertaking Agreement signed by the companies with the counterparts, Unicredit Corporate Banking S.p.A., Banca Popolare di Milano S.C.a.R.L., GE Capital S.p.A., ABC International Bank PlC, Banca Popolare di Verona, Banco di Brescia S.p.A. and Centrobanca S.p.A on 16th September it was specified that the hedging contract in place until this date was terminated and for the overall amount due equal to 14,689,955 Euros and, corresponding on the same date to the *fair value* of the derivative, a financing was granted with a repayment provided in a single payment on 6th December 2017.

The loans without real guarantee represent part of a loan obtained by Unicredit Mediocredito Centrale S.p.A. for 4.011 thousand Euros for the research activities of which 3.610 thousand Euros is at subsidised rates.

The loans without real guarantee at subsidised rates are composed by loans at rates of between 0.5% and 0.886% inclusive and refer to the subsidised loans supplied based on the laws for industrial research, development and innovation.

In compliance with IAS 20 the loans at subsidised rates are recorded based on the nominal value at the moment of supply and the government contribution is performed by means of entering the financial charges on the income statement.
The item Liabilities for financial leasing refer to the debt that arose in 2004 due to the sale and successive back leasing of part of the Settimo Milanese district in application of the IAS 17 principle. The debt amounts to 40.807 thousand Euros on 31st December 2010 and 42.659 thousand Euros on 31st December 2009 and can be repaid by 2018. Below is the reconciliation of the debt for the financial leasing with the fees to pay:

	31/12/2010	31/12/2009
Total future lease payment	65.328	71.052
Implicit interest	(24.521)	(28.393)
Present value of future lease payment	**40.807**	**42.659**

The table below discloses the movements in the periods relative to the aforementioned borrowings:

2009	Secured borrowings	Unsecured borrowings	Unsercured borrowings at facilitated interest rates	Financial lease obligations
As of January 1st, 2009	174.004	-	62.702	44.782
Proceeds	-	-	1.253	-
Repayments	(21.663)	-	(20.220)	(2.123)
As of December 31st, 2009	**152.341**	**-**	**43.735**	**42.659**

2010	Secured borrowings	Unsecured borrowings	Unsercured borrowings at facilitated interest rates	Financial lease obligations
As of January 1st, 2010	152.341	-	43.735	42.659
Proceeds	17.855	401	3.709	-
Repayments	126	-	(16.419)	(1.852)
As of December 31st, 2010	**170.322**	**401**	**31.025**	**40.807**

The long term loans indicated above are repayable as follows:

	31/12/2010	31/12/2009
- less than one year	9.904	168.108
- between one and two years	160.382	9.160
- between two and three years	11.016	9.685
- between three and four years	9.852	10.276
- between four and five years	8.493	8.914
- after five years	42.908	32.592
Total	**242.555**	**238.735**

The item "Revolving credit facilities for guarantees" represented in 2009 the use of the Revolving line at the service of the fixed term guarantee deposit of the release of the sureties by UniCredit Corporate Banking S.p.A. (cf. comment on the item Fixed term current bank accounts). During 2010 the item Revolving Financing for guarantee was reset following the renegotiation of the Revolving line of credit as the new formulation did not provide for the mechanism of the cash security in regards to the issues of bank guarantees.

The item Short term bank loans of 51.237 thousand Euros on 31st December against 48.654 thousand Euros on 31st December 2009, represents the use of the Revolving line of credit.

The Liability for non-cover derivatives on 31st December 2009 represented the fair value of derivative instrument of the Interest Rate Swap type (cf. Note 24); this instrument, wholly accounted for application of the Hedge Accounting on 31st December 2008 in the Liabilities for cover derivatives was reclassified in the financial statement on 31st December 2009 as Liabilities for non-cover derivatives. The refinancing of the bank debt during 2010 also entailed the expiry of the derivative instrument Interest Rate Swap underwritten as cover of risk of interest rate fluctuation on the medium-long term loans and its conversion into a loan with a long term real guarantee at a fixed rate.

Within the item "Other debts" can be found relative to the transfer of credits to the tax authority. In the 2005 financial year the Group transferred an IRPEG credit for a nominal sum of 6.861 thousand Euros. In compliance with IAS 39, the Group showed a liability of 3.061 thousand Euros (3.061 thousand Euros in 2009), corresponding to the measure of its remaining involvement in the activity subject to transfer. Based on the contractual agreements, the Group will pay until the right to collect by the assignee, but for a period of no more than 15 years from the date of transfer, a variable rate of interest plus a spread. The Group maintains the right to recognition of legal interests that mature on the credit until the date of collection.

The item "Accruals and deferrals" refers to the interest rates matured on financial debts and to liquidate in the subsequent financial year.

Cash flows

Cash and cash equivalents net of bank overdrafts at December 31, 2010 and 2009 are composed as follows:

	31/12/2010	31/12/2009
Cash and checks	3.828	7.749
Cash at banks	63.667	25.724
Total	**67.495**	**33.473**

Net cash flows variations for the Group are summarized below:

	31/12/2010	31/12/2009
Net cash provided by operating activities	(4.004)	(849)
Net cash used in investment activities	(25.965)	(31.384)
Net cash used in financing activities	63.198	(32.625)
Other changes in equity	793	(60)
Variations in cash flow	**34.022**	**(64.918)**

In the financial year on 31st December 2010, the Group generated liquidity for an amount equal to 34.022 thousand Euros against a cash consumption of 64.918 thousand Euros in the previous financial year, as shown below:

Cash used by the operating activity

The cash flow deriving from the operating activity shows a negative variation of 3.155 thousand Euros changing from 849 thousand Euros negative in the financial year ending 31st December 2009 to 4.004 thousand Euros negative in the financial year ending on 31st December 2010.

The negative difference of 3.155 thousand Euros follows a smaller cash contribution of 3.686 thousand Euros generated by the operating flow before the variations of the net floating capital of a greater cash contribution of 531 thousand Euros deriving from the variations of floating capital.

The lower cash contribution generated by the operating activity before the variations of the floating capital is primarily consequential to the reduction in funds for employee benefits following the leaving of the personnel during 2010, with a negative variation in relation to the previous year of 13.391 thousand Euros and the reduction in the fund for diverse risks and charges with a negative variation in relation to the previous year of

12.555 thousand Euros, net of the increase of the EBITDA of 14.797 thousand Euros and of lesser financial charges paid.

The variation in floating capital has consumed 6.838 thousand Euros to the operating flow, while in 2009 it consumed 7.369 thousand Euros with a positive variation in the two financial years of 531 thousand Euros.

The variation of the floating capital is to be analysed considering the following phenomena:

- an increase in the exposure to clients for 31.458 thousand Euros in the 2010 financial year in regards to 10.223 thousand Euros in 2009, with a negative net variation of 41.681 thousand Euros in the two financial years;
- an increase in the exposure to the suppliers for 23.292 thousand Euros in the financial year ending on 31st December 2010 in regards to a reduction of 17.723 thousand Euros in the financial year ending on 31st December 2009, with a positive net variation of 41.015 thousand Euros.

Cash used in investing activities

Over the course of the financial year on 31st December 2010 the investment activity consumed 25.965 thousand Euros against consumption during the previous financial year of 31.384 thousand Euros.

Cash generated in finance activities

During the financial year on 31st December 2010 the financial activity generated cash of 63.198 thousand Euros against a cash consumption during the previous financial year of 32.625 thousand Euros. The positive difference of 95.823 thousand Euros revealed between the financial year on 31st December 2010 and the financial year on 31st December 2009 essentially follows the increase in capital, greater initiations of new financings, fewer repayments of medium-long term debts and a smaller net variation in the initiations and repayments of short term bank loans.

On 31st December 2010 the medium-long term loans, including the short term, present the following characteristics:

31st December 2009	Variable rate	Fixed rate	Total
- less than one year			
- between one and two years	-	9.904	9.904
- between two and three years	152.467	7.915	160.382
- between three and four years	-	11.016	11.016
- between four and five years	194	9.658	9.852
- after five years	207	8.286	8.493
Total	3.063	39.845	42.908
- less than one year	**155.931**	**86.624**	**242.555**

Note 29 Other liabilities

The item *Other liabilities* is composed as follows:

	31/12/2010	31/12/2009
Deferred income on sale and leaseback	11.908	13.609
Non-current liabilities for early employment terminations	2.449	2.335
Non-current accruals and deferred income	2	124
Deposits received	212	212
Total	**14.571**	**16.280**

The item Deferred income on sale and leaseback encompasses the capital gain on the transfer of assets leased back in 2004 based on financial leasing contracts for the quota entered in the income statement of the following financial year based on the duration of the leasing contract.
The carrying value of Other non current-liabilities is believed to approximate their fair value.

Nota 30 Trade payables

The item *Trade payables* is composed as follows:

	31/12/2010	31/12/2009
Trade payables due to suppliers	176.773	162.291
Payables due to associated companies	120	106
Total	**176.893**	**162.397**

Payables to the Telecom Italian group and Cisco are detailed in Note 44 – Relationships with associated bodies.

The carrying value of Trade payables at the balance-sheet date is believed to approximate their fair value.

Trade payables expressed in currencies different to the Euro, the functional currency of the Group are listed below:

(thousands)

	31/12/2010		31/12/2009
	Foreign currency	Euros	Foreign currency
USA Dollar	137.789	103.120	111.326
UK Sterling	213	247	272
Iranian Rial	-	-	816.000
Japanese Yen	180	2	180
Swiss France	3	2	2
Argentinian Peso	901	170	1.774
Brazilian Real	4.782	2.156	3.514
Russian Ruble	151	4	91
Polish Zloty	5	1	407
Colombian Peso	379.952	148	184.489
Peruvian Nuevo Sol	141	38	125
Guatemalan Quetzal	206	19	676
Philippine Peso	474	8	474
Unite Arab Emirate AED	1.990	405	224
Kenyan Shilling	-	-	335

Note 31 Current Tax payables

The item *Tax payables*, equal to 1.543 thousand Euros and 3.496 thousand Euros on 31st December 2010 and 31st December 2009 respectively, represents the debt to the tax authority for income taxes:

	31/12/2010	31/12/2009
IRES	-	4
IRAP	-	1.228
Foreign income taxes	1.543	2.264
Total	**1.543**	**3.496**

Nota 32 Other current payables and liabilities

The item *Other current payables and liabilities* can be detailed as follows:

	31/12/2010	31/12/2009
Employees related payables	34.366	28.402
Social security payables	4.502	5.057
Accruals and deferred income	10.206	9.791
Short-term portion of capital gains from the sale of the Castelletto plant	1.701	1.701
VAT	10.559	4.290
Withholding tax payables	3.250	3.435
Other tax payables	1.194	1.776
Customer advances	6.825	6.107
Other liabilities	5.540	6.831
Total	**78.143**	**67.390**

The increase in employee related payables is due mainly to the provisions for deferred retributions relative to the MBO concerning the 2010 financial year, not present on 31st December 2009.

On 31st December 2010 the item Accruals and deferred income includes the sum of 434 thousand Euros (1.715 thousand Euros on 31st December 2009) relative to the quota of contribution for research and development activities capitalised and depreciated in a three-year period.

The accounting value of the other liabilities is considered to approximate their *fair value*.

Nota 33 Revenues from the sale of goods and services

The following table discloses revenues from the sale of goods and services for the years ended December 31, 2010 and 2009, by client and geographical destination.

i) Revenues from the sales of goods and services by client

	2010	2009
Telecom Italia [(a)]	132.909	133.877
Other Italian operators	88.841	99.775
Large enterprises and Public Administration	60.363	56.256
Foreign operators	139.859	116.056
Total	**421.972**	**405.964**

(a) Includes only Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A. and the participating companies in the PEB project

ii) Revenues from the sales of goods and services by geographical destination

	2010	2009
Italy	277.406	281.386
Other European countries	42.931	45.151
Central and Latin America	86.029	69.008
USA	1.811	1.907
Africa	9.566	2.463
Asia	4.229	6.049
Total	**421.972**	**405.964**

Note 34 Other income

The item *Other income* is composed as follows:

	2010	2009
Contributions	4.194	2.840
Gains on disposals of property, plants and equipment	1.721	1.718
Provision releases	33.938	31.709
Total	**39.853**	**36.267**

The item Provision releases refers to contingent assets of 14.375 thousand Euros (10.236 thousand Euros in 2009), 1.882 thousand Euros in Cisco contributions on the VIP Program contract and SRS Agreement (15.692 thousand Euros in 2009) and fund consumption of 14.716 thousand Euros.

Note 35 Purchases of materials and services

The item *Purchases of materials and services* is composed as follows:

	2010	2009
Materials and supplies purchases	207.662	168.391
Third party services purchases	80.932	97.518
Total	**288.594**	**265.909**

Note 36 Labour cost

The item *Labour cost* is composed as follows:

	2010	2009
Wages and salaries	96.225	92.813
Social contributions	25.443	30.885
Termination indemnity liability	7.140	7.916
Mobility and other non-recurring expenses	5.418	17.423
Other	944	831
Total	**135.170**	**149.868**

Labour costs include non-recurring restructuring costs for an overall 5.418 thousand Euros (17.423 thousand Euros in 2009).

The average of the staff changed from 2.239 in 2009 to 2.084 in 2010.

Note 37 Depreciation and amortization

The item *Depreciation and amortization* is composed as follows:

	2010	2009
Development costs	28.145	35.257
Other intangible assets	4.725	8.900
Buildings	3.865	3.381
Plant and equipment	1.157	1.096
Industrial and commercial equipment	4.090	5.169
Other assets	1.477	2.361
Goodwill impairment charges	-	133.700
Total	**43.459**	**189.864**

Note 38 Other operating costs

Other operating costs is composed as follows:

	2010	2009
Other operating expenses	6.765	10.707
Accruals for risks and charges provisions	4.239	7.575
Allowance for doubtdful receivables	220	126
Total	**11.224**	**18.408**

Other operating costs include contingency liabilities of 1.267 thousand Euros (4.395 thousand Euros in the 2009 financial year).

Note 39 Change in inventories

The main components of the item in object are detailed in the following table:

	2010	2009
Raw materials and supplies	(27)	(1.543)
Work in progress and semi-finished goods	345	(839)
Finished goods	(2.143)	1.894
Total	**(1.825)**	**(488)**

Note 40 Additions in work in progress

The item *Addictions in work in progress* equal to 25.529 thousand Euros in the financial year ending on 31st December 2010 (28.186 thousand Euros in 2009) refers to capitalisations between the tangible and intangible assets of the production costs, not inclusive of financial charges.

In the financial year on 31st December 2010 the item refers for 25.356 thousand Euros (27.356 thousand Euros on 31st December 2009) to the capitalisation of development costs with the characteristics described in the relative accounting principle.

Note 41 Financial income and expenses

The main components of the item in object are detailed in the following table:

	2010			2009		
	Expenses	Income	Net Expenses/ (Income)	Expenses	Income	Net Expense / (Income)
Foreign exchange differences	16.915	15.301	1.614	17.569	13.566	4.003
Interest	15.057	282	14.775	30.781	774	30.007
Other	4.783	1.522	3.261	3.154	3.133	21
Total	**36.755**	**17.105**	**19.650**	**51.504**	**17.473**	**34.031**

The Net financial income and expenses change from 34.031 thousand Euros of the previous financial year to 19.650 thousand Euros of the 2010 financial year, with a decrease of 14.381 thousand Euros, a reduction equal to 42.3% in relation to 2009.

The net foreign exchange differences result in an improvement of 2.389 thousand Euros.

The net interests change from 30.007 thousand Euros in 2009 to 14.775 thousand Euros in 2010, with a decrease of 15.232 thousand Euros. The variation in the net payable interests is due at 7.990 thousand Euros upon the expiry of the overall loss of the IRS instrument that took place in 2009; 3.154 thousand Euros at lower payable interests relative to the medium and long term debt, consequently jointly to the reduction of reference interest rates, the reduction in the spreads applied and the reduced exposure; 2.363 thousand Euros for reduced charges due to the extinguishment of an Interest Rate Swap underwritten as risk cover against interest rate fluctuation on medium-long term loans and now converted into a long term loan at a fixed rate; 751 thousand Euros at reduced payable interests relative to the short term exposure, consequential to the reduction in reference interest rates, the reduced spreads applied and the reduced volumes.

The increase in other net financial charges, equal to 3.240 thousand Euros, is chiefly due to the mark-to-market of the forward operations in USA Dollars, positive in 2009 by 2.349 thousand Euros and negative in 2010 by 946 thousand Euros, bank commissions due to the refinancing of the debt of 915 thousand Euros, net of 1.091 thousand Euros for income related to the unwinding of the derivative of risk rate cover.

Note 42 Income tax

Taxes on the income in the 2010 financial year have a positive balance of 249 thousand Euros (positive for 3.253 thousand Euros in 2009) and include: IRAP at 2.450 thousand Euros, taxes on the foreign income of 3.501 thousand Euros, reduced taxes relating to previous financial years of 239 thousand Euros and the positive net balance of the active deferred taxes of 5.961 thousand Euros.

The following table illustrates the reconciliation of the Group's income tax expense:

	2010	**2009**
Theoretical income tax expense[(a)]	(3.257)	(51.741)
IRAP	2.450	3.300
Difference on tax rates in foreign entities	(1.734)	1.237
Non-deductible (tax exempt) costs	1.904	4.970
Non-deductible impairment loss on Italtel S.p.A.'s goodwill	-	37.768
Write-off non recognized deferred tax assets	315	1.627
Exempt income	(352)	(881)
Other differences	425	467
Income tax expense	**(249)**	**(3.253)**

(i) Determined by applying the theoretical tax rate of 27.5% at earnings before tax

Note 43 Discontinued operations

The non-current assets and discontinued liabilities, as well as the net losses from discontinued operations refer to the company Italtel Russia OOO in liquidation.
The Shareholders meeting on 26th November 2009 deliberated to launch a progressive programme of reducing the operating activities in Russia. During 2010 all the maintenance contracts in place with clients were concluded, the branches in Moscow and Tyumen were closed, warehouse and unusable assets were scrapped. Furthermore, all the employment contracts were terminated, except for people on maternity leave.

As the activity reduction programme has been terminated, the Shareholders meeting on 6th October 2010 deliberated to liquidate the company and appointed a specific liquidation commission at San Petersburg.

The activities for an overall 463 thousand Euros are composed of equipment of 14 thousand Euros, equipment in warehouses of 21 thousand Euros, credits to Russian tax authorities of 196 thousand Euros and liquid assets of 232 thousand Euros.

The liabilities of 4 thousand Euros are owed by the studio appointed to perform the liquidation of the company.

The net loss of 1.155 thousand Euros is divided as follows:

	2010
Revenue	201
Operating income	(1.202)
Net income / (loss) by discontinued activities	(1.155)

Note 44 Related party transactions

The related party transactions can be detailed as follows:

31st December 2009	Trade receivables	Finance assets	Trade payables	Finance liabilities	Other liabilities
Non-consolidated subsidiary companies:					
Consortium Italtel Telesis in liquidation	-	536	-	(40)	-
Associated companies:					
Cored – Consortium Reti Duemila in liquidation	59	-	-	-	(37)
Consortium Hermes in liquidation	27	-	-	-	(69)
Other related parties:					
Clayton Dubilier & Rice	-	-	-	-	(444)
Telecom Italia Group	34.952	-	(843)	(145)	(2.804)
Cisco Systems Group	117	-	(66.254)	-	-
Total	**35.155**	**536**	**(67.097)**	**(185)**	**(3.354)**

31st December 2010	Trade receivables	Finance assets	Trade payables	Finance liabilities	Other liabilities
Non-consolidated subsidiary companies:					
Consortium Italtel Telesis in liquidation	1	544	-	-	-
Associated companies:					
Cored – Consortium Reti Duemila in liquidation	59	-	-	-	(45)
Consortium Hermes in liquidation	27	-	-	-	(75)
Other related parties:					
Clayton Dubilier & Rice	-	-	-	-	(513)
Telecom Italia Group	44.848	-	(1.240)	(157)	(2.896)
Cisco Systems Group	5.110	-	(91.867)	(3)	-
Total	**50.045**	**544**	**(93.107)**	**(160)**	**(3.529)**

The Italtel Group entered into the following related party transactions in the periods ended December 31, 2007 and 2008:

31st December 2009	Revenue	Purchases	Financial Income	Other
Non-consolidated subsidiary companies:				
Consortium Italtel Telesis in liquidation	-	-	8	-
Associated companies:				
Cored - Consortium Reti Duemila in liquidation	-	-	-	(6)
Consortium Hermes in liquidation	-	-	-	(4)
Other associated parties:				
Clayton Dubilier & Rice	-	-	-	(56)
Telecom Italia Group	178.181	(2.088)	-	-
Cisco Systems Group	1.978	(160.994)	-	15.692
Total	**180.159**	**(163.082)**	**8**	**15.626**

31st December 2010	Refenue	Purchases	Financial Income	Other
Non-consolidated subsidiary companies:				
Consortium Italtel Telesis in liquidation	-	-	8	1
Associated companies:				
Cored - Consortium Reti Duemila in liquidation	-	-	-	(6)
Consortium Hermes in liquidation	-	-	-	(4)
Other related parties:				
Clayton Dubilier & Rice	-	-	-	(29)
Telecom Italia Group	219.386	(2.617)	-	-
Cisco Systems Group	4.116	(176.246)	-	1.882
Total	**223.502**	**(178.863)**	**8**	**1.844**

In 2010 and 2009 key management compensation amounted to a total of €2.865 thousand and €3.770 thousand respectively

These emoluments can be detailed as follows:

	2010	2009
Short term emoluments	2.690	3.538
Post-employment benefits	175	232
Total	**2.865**	**3.770**

Certain members of the Board of Directors of the Company and Italtel Group key management participate in the Share Scheme (Plan A), Managers and Key Contributors Stock option Plan (Plan B) and Stock option Plans and Shares Purchase Plans for Key Managers (Plan C).

Note 45 Commitments

Italtel Group is part of operational leasing contracts essentially concerning vehicles and computer systems. The following table summarises the obligations in place regarding these contracts.

	31/12/2010	31/12/2009
To repay		
- less than one year	2.479	2.113
- between one and two years	1.595	1.257
- between two and three years	1.438	517
- between three and four years	307	365
- between four and five years	314	251
- after five years	191	270
Total	**6.324**	**4.773**

Note 46 Payments to the auditor firm

Pursuant to art. 37 paragraph 16 of the Leg. Decree no. 39/2010, containing amendments to the Italian Civil Code, which introduced point 16-bis into art. 2427 of the Italian Civil Code, the following statement reports the payments involving the 2010 financial year for the legal auditing services of accounts and for those different from the audit made to the companies of Italtel Group by PriceWaterhouseCoopers.

	Italtel Group S.p.A.	Subsidiary companies	Italtel Group
Auditor services	44	304	348
Tax consultation services	-	100	100
Total 2010 costs for auditor and other services	**44**	**404**	**448**

Note 47 Post balance sheet events

The events subsequent to the end of the financial statement on 31st December 2010 are reported in the chapter of the same name in the Management Report.

Nota 48 Subsidiaries and associates

A) Subsidiaries included in the scope of consolidation

	Entity (activity)	Location	Currency	Share capital	Shareholding %	
1)	Italtel Group S.p.A.	Settimo Milanese	Euro Euro	131,426,652		
Italian subsidiaries						
2)	Italtel S.p.A. (telecommunications systems and services)	Settimo Milanese	Euro	196,830,400	100	Italtel Group S.p.A.
3)	Italtel N.G.A. S.p.A. (formerly CERM Palermo S.c.p.A.) (research)	Carini (PA)	Euro	212,500	100	Italtel S.p.A.
Foreign subsidiaries						
4)	Italtel BV (commercial and financial)	Amsterdam (Holland)	Euro	6,000,000	100	Italtel S.p.A.
5)	Italtel S.A. (telecommunications systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel BV
6)	Italtel Argentina S.A. (telecommunications systems)	Buenos Aires (Argentina)	A.P.	806,000	71.46 28.54	Italtel BV Italtel S.p.A.
7)	Italtel OOO in liquidation (telecommunications systems)	S. Petersburg (Russia)	Ruble	20,000	99.995 0.005	Italtel BV Italtel S.p.A.
8)	Italtel Kenya Ltd (telecommunications systems)	Nairobi (Kenya)	Kenyan shilling	500,000	99.98 0.02	Italtel BV Italtel S.p.A.
9)	Italtel Brasil Ltda (telecommunications systems)	San Paolo (Brazil)	Brazilian Real	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
10)	Italtel Deutschland GmbH (marketing)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel Group S.p.A. Italtel BV
11)	Italtel France Sas (marketing)	Suresnes (France)	Euro	40,000	100	Italtel S.p.A.
12)	Italtel Telecommunication Hellas EPE (marketing)	Athens (Greece)	Euro	18,000	80 20	Italtel Group S.p.A. Italtel S.p.A.
13)	Italtel U.K. Ltd (marketing)	Staines (Great Britain)	UK Sterling	26,000	60 40	Italtel Group S.p.A. Italtel BV
14)	Italtel Belgium Sprl (marketing)	Brussels (Belgium)	Euro	500,000 (200,000 paid)	60 40	Italtel Group S.p.A. Italtel BV
15)	Italtel Poland Sp.Zo.O. (marketing)	Varsavia (Poland)	Zloty	400,000	100	Italtel S.p.A.
16)	Italtel Middle East Fz-LLC (marketing)	Dubai (United Arab Emirates)	UAED	2,500,000	100	Italtel S.p.A.
17)	Italtel Arabia Ltd (marketing)	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
18)	Italtel Perù S.a.c. (marketing)	Lima (Peru)	Nuevo Sol	641,000	90 10	Italtel BV Italtel S.p.A.

B) Subsidiaries and associated compagnie valued using the equità method

	Entity (activity)	Location	Currency	Share capital	Shareholding%		Value €, 000
Associated companies							
19)	Cored - Consortium Reti 2000 in liquidation (broadband networks)	Milan	Euro	260,000	30	Italtel S.p.A.	76
20)	Consortium Hermes in liquidation (transmission systems)	Milan	Euro	510,000	24	Italtel S.p.A.	118

C) Subsidiaries and associated companies valued at cost

	Entity (activity)	Location	Currency	Share capital	Shareholding %		€ ,000
Non-consolidated Italian subsidiaries valued at cost							
21)	Consortium Italtel Telesis in liquidation (integrated telematic systems)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	21
Non-consolidated foreign subsidiaries valued at cost							
22)	Italtel Inc. (marketing)	Delaware (USA)	Dollaro USA	100	60 40	Italtel Group S.p.A. Italtel BV	-
23)	Italtel de Venezuela S.A. (marketing)	Caracas (Venezuela)	Bolivar Fuerte	940,000	95 5	Italtel S.p.A. Italtel BV	-

D) List of shareholdings in other companies evaluated at cost

	Entity (activity)	Location	Currency	Share capital	Shareholding %		€ ,000
Other investment valued at cost							
24)	Cefriel - S.c.r.l. (training and research)	Milan	Euro	100,350	5.8	Italtel S.p.A.	36
25)	Consortium Milano Ricerche (planning and research)	Milan	Euro	186,431	8.3	Italtel S.p.A.	15
26)	Consel - Consortium Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A.	1
27)	SISTEL - Comunicaçoes, Automaçao e Sistemas S.A. (telecommunications systems)	Monte de Caparica (Portugal)	Euro	10,338,838	0.88 0.72	Italtel S.p.A. Italtel BV	29 7
28)	Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	13,531,173	0.04	Consortium Italtel Telesis in liquidazione	-
29)	Consortium MIP - Politecnico di Milano	Milan	Euro	150,000	5.88	Italtel S.p.A.	-
30)	Consortium Nazionale Imballaggi CONAI (packaging management)	Rome	Euro	variabile	0.005	Italtel S.p.A.	1
31)	Consortium COFRIDIP	Padova	Euro	28,402	9.09	Italtel S.p.A.	3
32)	Alice Lab Netherlands N.V.	Amsterdam (Netherlands)	Euro	128,850.95	0.155	Italtel BV	403
33)	Distretto Tecnologico, Sicilia Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	3.83	Italtel S.p.A.	23

Settimo Milanese, 21st March 2011

On behalf of the Board of Directors

The Chairman

pwc

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the shareholders of
Italtel Group SpA

1. We have audited the consolidated financial statements of Italtel Group SpA and its subsidiaries ("Italtel Group Group") as of 31 December 2010 which comprise the balance sheet, income statement, comprehensive income statement, statement of cash flows, statement of changes in equity and related notes. The directors of Italtel Group SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

3. For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 26 July 2010.

4. In our opinion, the consolidated financial statements of the Italtel Group Group as of 31 December 2010 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Italtel Group Group for the period then ended.

5. The directors of Italtel Group SpA are responsible for the preparation of a report on operations in compliance with the applicable laws. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and recommended by CONSOB. In our opinion, the report on operations is consistent with the financial statements of Italtel Group SpA as of 31 December 2010.

Milan, 6 April 2011

PricewaterhouseCoopers SpA

Signed by
Enrico Picasso
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.