ITALTEL GROUP
2011 DIRECTORS' REPORT &
CONSOLIDATED FINANCIAL STATEMENTS

ITALTEL

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholders,

2011 was for Italtel - as for most companies in the Information & Communication Technology sector - a particularly difficult year overall, made increasingly difficult by the international economic crisis which hit Italy particularly hard.

Following an extremely strong first part of the year, in which results were substantially in line with targets - both in relation to revenues and our proposal to clients - a sharp slowdown followed, exacerbated by the downturn in the national economy which had significant repercussions on our domestic market, in particular for a number of service providers and for the public administration, with serious impacts on our revenues and margins.

The Group however maintained its role as an innovator in the ICT Technology sector and successfully undertook a number of industrial innovation projects to support citizens and society. This was achieved due to the commitment with which the personnel of Italtel worked, employing extensive professionalism according to the technological guidelines identified.

We diligently pursued the strategic objectives established in the industrial plan and therefore grew in the international markets of Latin America, and in Italy, on the businesses segment and took more direct action on costs. Today the international market for us represents nearly 40% of revenues and, in particular in Latin America, we are growing year on year by 33% in revenues terms, which provides a strong signal of the capacity of the business to operate overseas. In relation to the reduction of costs a number of important steps were made through specific initiatives whose repercussions were evident in particular in the second part of the year.

An integral part of our efficiency policy was the industrial relations system which in 2011 saw ongoing dialogue with the social partners. At the beginning of the year we signed an important trade union agreement and, in continuity with this, at the end of 2011 a further agreement was reached which, taking account of the economic difficulties emerging in the second half of the year, constitutes an important part of the operational continuity of the business.

This commitment could not offset the joint effect of the general economic situation and the particularly weak ICT sector in Italy and in Europe. We were therefore required to extensively review the growth estimates of our industrial plan and this resulted in a significant reduction in goodwill which, together with the results in the period, necessitated a capital strengthening.

Therefore, as noted by shareholders, we undertook negotiations with shareholders and the banks in order to agree commercial and financial solutions which enable the rebalancing of the capital and financial structure and re-establish conditions for the long-term growth of our company.

We express a heartfelt thanks to all the Italtel personnel who enabled the company to continue on its path of development in such a difficult context.

Through the results reached and with the support which we continue to expect from our stakeholders, we will confidently accept and overcome the challenges presented by the market.

Umberto de Julio

INTRODUCTION

Italtel's mission is to enable people and devices to communicate without limits and to fully integrate technologies, applications and networks. Italtel designs innovative network architecture and offers high added-value consultancy services through unrivalled know-how, providing the basis for successful partnerships with clients. Client satisfaction is a primary objective which is delivered through tailor-made solutions and services to respond with optimal quality to specific demands.

The Italtel Group

The Italtel Group is a leading player on the telecommunications market. Technological leadership has been achieved through close focus on innovation and continued research and development investment. Our clients include fixed and mobile telecommunication players, Internet Service Providers, Large Businesses and the Public Administration.

Italtel designs, develops and manufactures IP based products and solutions for networks and new generation telecommunication services. The company utilises its network and system integration capacity to build reliable infrastructure, open to networking and technological development.

Italtel completes its portfolio of solutions and products and its network and system integration capacity with the best solutions on offer on the market and with third-party technologies to provide reliable infrastructure which is flexible to technological development. The company provides professional network engineering and consultancy services, managed services and ICT solutions for new communication services based on mobility, high definition video and extensive collaboration.

Key Financial Highlights

(thousands of Euro)

	2011 IFRS	2010 IFRS
Revenues	405,413	421,972
Profitability to external costs (1) %	*36.14*	*38.99*
EBITDA (2)	51,238	50,541
Margin %	*12.634*	*11.98*
EBIT (3)	(119,815)	7,082
Margin %	*(29.55)*	*1.68*
Net loss	(144,805)	(13,474)
Margin %	*(35.72)*	*(3.19)*
Revenues / Average NWC(4)	(9.47)	(7.24)
Revenues / Average NCE	1.33	1.23
ROI (5) %	*(39.17)*	*2.07*
Average workforce, excl. lay-off schemes	1,584	1,831
Value added (6)	120,612	135,595
Value added per employee	76	74
Revenues per employee	256	230
Cost of labour / Value added	0.89	0.94
	December 31, 2011	**December 31, 2010**
Capex (7)	28,073	27,121
Net debt (8)	290,454	230,152
Shareholders' Equity	(28,952)	120,187
NCE (9)	261,502	350,339
Adjusted NCE (10)	94,287	53,124
Cash flow from operating activities	(27,113)	(4,004)
Cash flow from investing activities	(28,755)	(25,965)
Cash flow from financing activities (11)	15,680	63,198
Fixed asset coverage ratio (12)	0.16	0.74
Current ratio (13)	0.46	0.85
Treasury ratio (14)	0.38	0.72
Immediate Liquidity ratio (15)	0.06	0.21
Treasury margin (16)	(270,162)	(90,597)
Client average (days)	97	117
Suppliers average (days)	181	216
Number of employees	1,806	1,867
of which Italy	1,626	1,715
of which Overseas	180	152

(1) Profitability to external costs: Margin / Revenues
(2) EBITDA comprises the operating result before amortisation, depreciation and write-downs
(3) EBIT is the operating result
(4) Net Working Capital (NWC)
(5) ROI – Return on investment = EBIT / Average NCE
(6) Value added = Profitability to external costs - operating expenses + operating grants
(7) CAPEX or capital expenditure is the sum of intangible and tangible asset investments without recognition of the new lease back concerning the Castelletto area
(8) Net debt is reported in Directors' Report at page 33
(9) Net Capital Employed (NCE)
(10) Net Capital Employed (NCE), adjusted for Goodwill
(11) In 2010 a capital payment of Euro 70 thousand was made
(12) Fixed asset coverage ratio: Net Capital + Non-Current Financial Liabilities / Non-Current Assets
(13) Current ratio: Current Assets / Current Liabilities
(14) Treasury ratio: Current Assets - Inventories / Current Liabilities
(15) Acid-test ratio: Liquidity / Current liabilities
(16) Treasury margin: Current Assets - Inventories - Current Liabilities

Information on Italtel Group S.p.A shareholders

Clayton Dubilier & Rice

Clayton Dubilier & Rice (holding of 48.77%, taking account of the ordinary "A" shares) is a leading US private equity company with a long tradition in the industrial sector and manages closed funds on behalf of institutional investors.

Telecom Italia

Telecom Italia (holding of 19.37%, taking account of the ordinary "A" shares)[1], listed on the Italian Stock Exchange, is a leading European industrial group. The group is now present abroad with a significant initiative in Latin America.

Cisco Systems

Cisco Systems (holding of 18.40%, taking account of the ordinary "A" shares), listed on the NYSE, is the global leader in Internet networking. The company has been present in Italy since 1994.

Capita Trustees Limited

Capita Trustees Limited, as Trustee of the Italtel Employees Benefits Trust (total holding of 10.81%, following the acquisition, with effect from March 8, 2012, of the 2.16% holding of Brera Italtel LLC, taking account of the ordinary "A" shares) is an English registered trust, exclusively established in order to hold and manage shares of Italtel Group S.p.A. for future employee share-based plans.

Cordusio Fiduciaria

Cordusio Fiduciaria (holding of 2.65%, taking account of the ordinary "A" shares) is a trust company of the UniCredit Group, appointed to manage the share-based plans and the existing stock options of employees and Directors of Italtel. The above-stated holdings represent both the shares of employees and Directors (or Ex-Directors), in addition to the treasury shares of the company.

(1) The subscribed and paid-in share capital of Italtel Group S.p.A., amounting to Euro 131,426,652 at December 31, 2012 is comprised of 17,762,976 shares, of which 8,881,488 Class "A" shares and 8,881,488 Class "B" preference and convertible shares. The Shareholders Telecom Italia Finance S. A., Cisco Systems International BV and Cordusio Fiduciaria per Azioni hold "B" shares in the following amounts: Telecom Italia: 4,440,365; Cisco Systems: 4,440,365 and Cordusio Fiduciaria per Azioni: 758.

Corporate Boards

Board of Directors (1)

Chairman (2)	Umberto de Julio (*)
Chief Executive Officer (3)	Stefano Pileri (*)
Directors	Giulio Agostini (4) (*) Roberto Cornetta (5) Ross Ian Fowler Brian Fukuhara (6) Luigino Giannini Paolo Leone (7) Salvatore Spiniello (8) (*)
Secretary of the Board of Directors	Nicolò de' Castiglioni

Board of Statutory Auditors (9)

Chairman	Marco Baccani
Statutory Auditors	Marco Tani Gaetano Troina
Alternate Auditors	Paolo Domenico Sfameni (10) Francesco Tabone

Independent Audit Firm

PricewaterhouseCoopers S.p.A.

(1) Appointed on August 10, 2010 and in office until the Shareholders' Meeting for the approval of the 2012 Annual Accounts
(2) Appointed Chairman through Board of Directors' Resolution of September 23, 2010, subsequently amended by the Board of Directors' Resolution of April 21, 2011
(3) Appointed Chief Executive Officer through Board of Directors' Resolution of September 23, 2010, subsequently amended by the Board of Directors' Resolution of April 21, 2011
(4) Chairman of Internal Control Committee
(5) Co-opted by the Board of Directors on February 15, 2012 (in replacement of the Director Francesca Petralia, who resigned on October 17, 2011) and therefore in office until the next Shareholders' Meeting
(6) Appointed on April 21, 2011 and in office until the Shareholders' Meeting for the approval of the 2012 Annual Accounts
(7) Chairman of Remuneration Committee
(8) Appointed on April 21, 2011 and in office until the Shareholders' Meeting for the approval of the 2012 Annual Accounts
(9) Appointed on April 22, 2009 and in office until the Shareholders' Meeting for the approval of the 2011 Annual Accounts
(10) Resigned on July 9, 2012
(*) Independent Director

DIRECTORS' REPORT

2011 consolidated revenues totalled Euro 405.4 million, compared to Euro 422.0 million in 2010; net loss of Euro 144.8 million, after the impairment of goodwill of Euro 130 million, compared to a loss of Euro 13.5 million in 2010; EBIT decreased from Euro 7.1 million in 2010 to a negative amount of Euro 119.8 million in 2011, with EBITDA improving from Euro 50.5 million to Euro 52.0 million (12.6% revenue margin). Financial charges reduced by Euro 1.9 million on 2010.

Investments were sustained at high levels in order to strengthen the Group's technological innovation capacity.

The Group net debt increased from Euro 230.2 million to Euro 290.5 million at December 31, 2011.

Basis of presentation

The Italtel Group consolidated financial data and that of its principal subsidiaries for 2011 was prepared in accordance with International Financial Reporting Standards (IFRS). These standards were applied from January 1, 2005 and the first annual accounts according to these standards concerned fiscal 2005 with comparison to 2004, published in 2006.

Market Overview and Position

Market overview

From the summer of 2011 the global economic environment began to further deteriorate: the sovereign debt crisis, the slowdown in growth in the emerging markets, in addition to the first effects from the austerity programs introduced by the industrialised countries and the rising raw-material prices fed a crisis of confidence which has impacted the financial markets and the economic system with a domino effect on good sectors and regions.

The Italian economy appears among the hardest hit in the Eurozone, as previously seen also in 2008-2009; in 2011 GDP increased by 0.4% compared to a Eurozone average of 1.4%. The US and the emerging countries in 2011 reported growth - but of a lacklustre nature (respectively 1.7% and 6.2%, with Brazil reporting 2.7% growth).

The continuation of the economic-financial crisis is expected however to have further repercussions on demand and economic growth, with a further global slowdown forecast, with significant contractions in a number of geographic regions, such as Europe and Italy.

Global growth is forecasted at 7.7% for the 2011-13 two-year period, with the United States continuing to grow at a gradual yet modest pace: +2.1% in 2012 and +2.4% in 2013, while China will continue to drive global growth (+8.2% in 2012, +8.8% in 2013), although at a lower level than previous forecasts, due in part to uncertainties surrounding the international environment and therefore export levels. Brazil and India are expected to grow respectively by 3.0%/4.1% and by 6.9%/7.3% in 2012-2013. The Eurozone contraction is expected to continue: -0.3% in 2012 with a 1.9% contraction in Italy and growth of 0.9% expected in 2013 for the Eurozone and with a contraction of 0.3% forecast for Italy.

The ICT sector has been impacted by the economic crisis and the TLC segment has overall maintained revenue levels thanks to telephone services and the mobile operators; these latter have seen particularly strong growth in Latin America, Asia/Pacific and North America. The Eurozone has seen even greater saturation also in the TLC mobile sector, related in part to regulatory changes and the cancellation of double/triple SIMs (particularly in Greece, Italy and Spain).
Analysts confirm that in 2011 a new cycle of infrastructure investment by TLC operators began for the further development of mobile broadband (3G/4G) but also fixed line development, with completion in 2014. The investment target for 2014 again highlights the Asia/Pacific region for significant growth, followed by CALA (Central America, Latin America) - this region principally driven by Brazil and Mexico - and by EMEA (Europe, Middle East and Africa) and North America.

In summary, the communications and ICT industry in general is today in an advanced stage of maturity and is establishing itself as a general purpose technology and as a fundamental asset for the economic development of individual countries. Therefore, although finding itself amid a serious economic crisis, the TLC sector can assist the recovery and development of countries.

The principal trends in the TLC sector were:

Contraction in revenues

Revenues continued to contract, particularly in relation to traditional telephone services, which present high margins. The decline of fixed network voice traffic was only partially offset by the increase of mobile network voice traffic. The mobile operators, however, despite the continued drop in prices and the saturation of market demand in the advanced economies, appear in a more stable position than the fixed line operators.

Strong price pressures

Significant price pressures persist due to increased market competition, also due to the confirmed presence on the mass market of new players such as the Over-the-Tops (for example Google, Facebook, Microsoft /Skype, etc.). Consumer electronics manufacturers (for example Apple, Samsung, Sony, etc.) have increased market fragmentation, with the situation in Europe exacerbated further by Directives concerning roaming and mobile termination rates.

Increased Broadband demand

Broadband demand continues to grow, particularly in the mobile sector and in general follows the trend of increased data traffic, driven particularly by the widespread use of IP video and video-based applications. Operators will prioritise therefore investments in technologies which extend network capacity, improving at the same time the efficiency of services and operations.

New Generation Ultrabroadband Networks

The building of the Next Generation Networks (NGN), needed for the provision of video, data and TV services, continues to essentially be out of reach for individual Operators. On the other hand, the development of the incumbent networks toward these technologies is a factor for the strategic development of the infrastructure of countries; the access networks therefore must be regulated in such a way to ensure a level playing field for services suppliers.

Simplification of the Core networks architecture

A simplification process of core networks (Control and Service Layers) has been introduced, in addition to the relative OSS/BSS systems, also through the use of IP technologies with the objective, in addition to more efficient traffic management, for high quality differentiated mode service and tariff innovations (e.g. OES monetisation).

In the Business and Public Administration sector analysts highlight the following future trends:

Upgrading of the wireline and wireless data networks

New technology investments by the most innovative businesses in the ICT sector will focus on upgrading the wireline and wireless (Wi-Fi) data networks to support the Unified Communication & Collaboration Solutions, based also on video, but also to begin to implement the cloud model. In this area we will continue to pursue the transformation of data centres to enable virtualisation, together with investments in security, the management of the IP networks, but also with a focus on Green Technologies to reduce the environmental and energy impact.

Digital agenda and enabling technologies

In the Public Administration sector the implementation of the digital agenda continues, introducing solutions to modernise processes and increase productivity.

Mobile & Wireless Solutions

The widespread adoption of mobile & wireless solutions will involve processes, services, relations with clients and with employees. These platforms, which play an increasingly central role in innovation - both in the private and public spheres - range from:

- those that support P2P (Person to Person interaction) or P2M (Person to Machine) interaction based on mobile networks, Wi-Fi, satellite networks, to those which support direct interaction M2M (Machine to Machine) based on RFID (Radio Frequency Identification), UWB (Ultra WideBand), NFC (Near Field Communication) and WSN (Wireless Sensor Networks).

Tablets, Smart Phones and the new Media Mobile ecosystem

The increasingly ubiquitous tablets provide a highly mobile outlet for business use: they are highly portable and have strong visualisation capacity and processing power.
It is probable that no specific platform will dominate and businesses must adapt to the wide array of platforms, devices and applications. The new hardware, in particular, differentiates itself from other traditional mobile devices due also to the capacity to impact the user experience: intuitive and effective interface for the sharing of multimedia content. Businesses will need to adopt targeted strategies, internal policies and digitalisation of corporate process programs to gain an immediate advantage from a technology which will become increasingly pervasive; this relates both to internal users and to adapting to the new needs and behaviours of client users (therefore mobility, portability, interactivity, speed and security, but also simplicity, social interaction, personalisation and privacy).

Product Offer

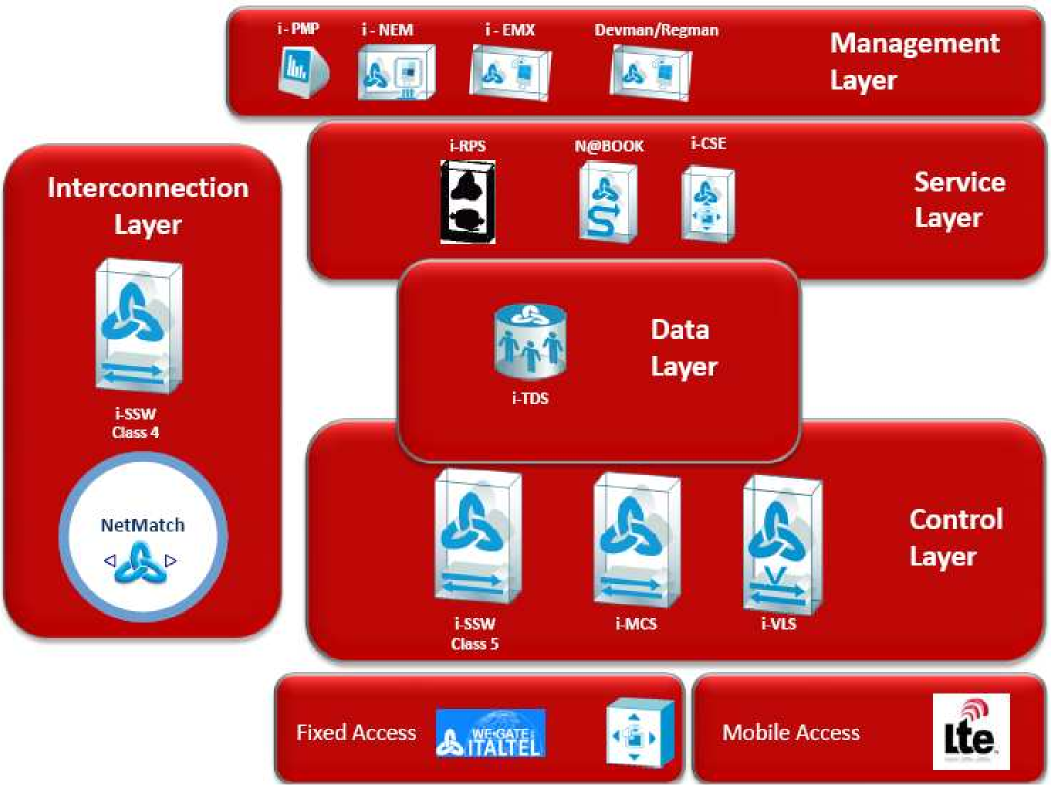
The Italtel's 2011 catalogue offered in-house products (Smart Networks & Products), strategic and technological partner products (Cisco & ICT Solutions), development, engineering, integration and certification solutions, together with a set of professional services (Advanced System Integration & Professional Services). In addition, to respond to the new opportunities presented on the ICT market, the company portfolio was extended to include, initially only for the Italian market: Cloud Computing, e-Health, Green Solution & Energy Management, Smart Grid & Smart Metering, e-Transaction & Mobile Payment, NGAN (Next Generation Access Network).

Smart Networks & Products

In 2011 the new line of in-house solutions was consolidated with the review and extension of the product catalogue and the management of their lifecycle.

The current line is broken down as follows:

- IMS Core & Services
- HSS & Subscriber Data Management System
- Session Border Controller & Media Gateway
- Intelligent Traffic Management
- Smart Gateway
- Network Management System.



The principle innovations introduced to the 2011 catalogue included:

- new releases for the OSS/BSS (Management Layer) products.

  i-NEM (Italtel-Neutral Element Manager) for the management of network devices and equipment, both in-house and third-party, based on the FCAPS (Fault-management, Configuration, Accounting, Performance and Security) standard and to be operated also through other operating systems on the clients' networks;

i-EMX (Italtel-Enhanced Service Management) for the configuring and end-to-end operation of Italtel/Cisco Business Voice solutions;

- Design and creation of a new product in the I-RPS (Italtel-Routing and Policy Server) virtualised environment for the optimisation of network resources and the operation of the guaranteed QoS.
- New Releases:

  N@book, a server application for the centralised management and synchronisation of business, personal and shared address books, integrated with Unified Communication & Collaboration services.

  i-CSE (Italtel-Expander Communication Server), a server application to improve the Cisco UCME (Unified Call Manager Express) offer with added value services of Unified Communication & Collaboration
- New Softswitch releases for the consolidation and development of the installed base (I-SSW 22.31.5x and 23.30.4x)
- Creation of a new call control product in a virtualised i-MCS (Italtel-Multimedia Communication Suite), satisfying the demands of fixed, mobile and convergent operators in IMS and/or NGN environments with a high level of scalability.
- Completion of the development and release of the new NetMatch GT 63 appliance, Signaling Gateway for the IP conversion of legacy TDM networks.
- Development of new appliances:

  NetMatch B, NetMatch M, Border and Media Gateway mid density for the management of multimedia traffic, also in High Definition

  NetMatch S, Session Border Controller for IP guaranteed quality interconnection, to be made available also in a software only version

  NetMatch D, Diameter Routing Server for the shift of mobile networks to LTE, applicable both internally and to roaming
- Development of the new We Gate access gateway for the home and SOHO segments, to manage guaranteed QoS services on the ADSL, VDSL and fiber access networks.

Cisco & ICT Solutions

The Cisco & ICT Solutions unit covers all aspects of the ICT sector, serving the needs of Telecommunication Operators and public and private enterprises. The offer includes, together with equipment and the development of ad hoc solutions, a full range of services from consultancy, for the positioning of the offer, up to the total management of the applied solution once rolled out. The solutions, certified in the Italtel R&D laboratories, integrate in-house services and products with those of third parties, adding value to the capacity as Global Integrators and the shared vision of the solutions. The principal lines include: IP network infrastructure and Traffic Management Systems, new generation Data Centre Solutions, tailor-made Solutions for Mobile Operators, communication and collaboration Solutions for businesses and TLC Operators, Video Communications solutions for businesses and TLC Operators, Vertical Solutions for the Health Sector (e-Health), Smart Grid and Energy Management solutions, Security solutions and operating solutions. These solutions are backed up by professional engineering services for the design and provision of solutions and by highly specialised post-sales support professional services. The solutions proposed are implemented utilizing the technologies of leading global technological partners (certified relations with various partnership levels, in particular with Cisco), ensuring us an excellent market position.

System Integration & Advanced Professional Services

The "System Integration & Advanced Professional Services" business line includes the following offers:

- IT System Integration & OSS: concerns "OSS solutions" - projects based on best of breed IT technologies and customisation, addressing the specific business needs of clients. These solutions principally cater for critical Telco Processes such as Assurance, Provisioning and Inventory. They Include IT Consulting, in which clients are offered highly specialised professional profiles for their ad hoc or technological consultancy needs (analysis, development, integration, existing systems operation), design (Lifecycle) or complex migration projects of applications on a Cloud Computing model. Finally, they include System Integration Services on innovative solutions such as Energy Management and Smart Grid.

- Engineering & Consulting: TLC Technical Consultancy Services (design, integration, validation, NGN network conversion, etc.) on Italtel and third party technologies (Acme, Cisco, innovative solutions, etc.), without necessarily being equipped with Italtel or Cisco HW/SW products; consultancy services for the engineering of network management operating processes and services for the control and improvement of the final user Quality of Experience.
- Infrastructure Services: site design services and related facilities (energy and conditioning), installation services independent of the in-house or Cisco products and staging and specialised testing services on third-party technologies supplied by other vendors.
- Managed/Operational services: advanced managed services for the support of client Operations and the total or partial management of their infrastructure and services, both at client offices and Italtel in-house. This concerns network and security management activities (Technical Operations Center), Customer Care Services (Contact Center).

Positioning

In 2011 Italtel also confirmed its place among the leaders in the EMEA region for innovative NGN solutions. In the Softswitch segment Italtel was confirmed as a visionary by the *Magic Quadrant Gartner 2011*, although the Softswitch market is mature and presents limited space for innovation. Responding to the changed needs of the market Italtel continues to develop its portfolio, particularly in the IP-IP Gateway, Virtualisation, Cloud Computing and energy efficiency areas which, as anticipated, have become the mainstream of the market.
In 2011 Italtel strengthened its in-house product offer for Next Generation Networks, rolling out on the domestic market a new line of NetMatch products (NetMatch-S - Session Border Controller, M-NetMatch - Media Gateway, Signaling Gateway and NetMatch -B - Border Gateway).
In repositioning the network and services within the Mobile Networks, in particular focusing on development of the LTE market, Italtel created for the new operator Vistream (MVNO) its network infrastructure, integrating a Cisco ASR5000 with the H3G network which provides access connectivity. All network design and connection activities, in addition to the integration tests, were overseen by Italtel.
In relation to the ICT solutions segment Italtel consolidated its Data Center offer through the construction of two new generation Data Centers for the Italian Army which will simplify the technological infrastructure thanks to a reduction in physical servers and in the network elements complexity.
A new Service Centre was also created in extending the ICT offer, which supports the Energy Management activities to satisfy the plant and buildings Energy Monitoring service needs, for video communication and video surveillance within the Public Administration and Business segments.
The Italtel Group confirmed again in 2011 its position in the data networks solutions segment for Service Providers in Latin America and strengthened its presence in the access solutions segment through the partnership with ECI.

Partnerships and Alliances

Italtel responds to the most significant domestic and international business opportunities through a partnership and alliances ecosystem which consolidates the company's technology and market positioning.
In particular within the Managed Services, Italtel, with a view to strengthening its Global System Integrator role, undertook further partnerships (i.e. Avanade, Google, Ericsson), extending therefore the offer scope for the medium/long-term.
The special relationship with its shareholders Telecom Italia and Cisco continued, consolidating the technological and commercial choices. In relation to Telecom Italia, Italtel confirmed itself as the leader for the continuation of the development and transformation process towards a "full IP multiservice network", focused both on the creation of new market services in all categories (Consumer, Business and Top Client) and on the updating and maintenance of the network infrastructure and information technology components which contain and reduce operating costs.
The strategically important partnership in all segments internationally with Cisco was strengthened in 2011: Cisco and Italtel have been involved in the co-development of joint solutions for TLC Operators, both for product and services. These include: the introduction of the new Italtel i-MCS, based on Cisco technology (UCS), value-added solutions for small and medium-sized enterprises based on the integration of Cisco products with Italtel products, products and services for mobile operators, integration of the Cisco collaboration solution (HCS) with Italtel products, intra-and inter-carrier videoconferencing (Telepresence) solutions and services .
In 2011 Italtel was recognised as a Cisco "gold" partner for Brazil and also confirmed in this role for Italy and Argentina.

Markets and Client Relationships

Domestic market (Telecommunications Operators)

Italtel works with all the major Italian Service Providers as a supplier of technology services, implementing products and solutions within the new generation networks.
Italtel is a leading partner in the development and transformation towards "full IP multi-service networks" for all market segments (Consumer, Business and Top Client) within the client portfolio.
In 2011 the ICT market in Italy was affected by the international crisis which began in 2008. The ongoing challenging economic environment resulted in a further contraction in investments by operators and an increasing focus on a reduction of the "total cost of ownership" of infrastructure.
The client development activities however offset this reduction in revenue through the launching of new projects in innovative areas.
In 2011 the Telecom Italia Domestic Operations segment revenues totalled Euro 112.6 million, with the OLO (Other Licensed Operators) segment reporting Euro 71.3 million, a reduction therefore on 2010, due principally to the intense competition in the IP networks and IT System Integration areas.
In fact, in addition to the consolidation of the traditional areas (IP networks, VoIP networks, System Integration) in 2011 Italtel confirmed its role as a Global System Integrator, implementing a number of innovative projects and overseeing the design and roll-out of the service on the multi-vendor networks.
We highlight the major activities with a number of clients below:

- Delivery of the first IP-IP interconnection projects between the principal Service Providers in accordance with the AGCOM recommendations
- Launching of new interconnection products (NetMatch platform) to improve working between different VoIP domains within the Service Provider network
- Implementation of NGN networks for the provision of residential/ business client services and the integrated transport of voice, data and video traffic Italtel provided solutions based on i-SSW (Italtel Softswitch), managed by the i-NEM product which enables the monitoring, diagnostics and configuration of Network Elements
- High definition video communications networks and services, developing also interoperable solutions
- Development of the services (for example Collaboration or for the Contact Centres) for a convergent and a "full IP" structure
- Integrated applications for the management of content within the Content Delivery Network and VAS mobile environment
- Multimedia Enterprise Communication Solutions providing a wide range of convergent broadband services for small to medium size enterprises. The solutions are based on i-SSW and on Cisco products and provide businesses with a high quality VoIP service, in addition to a series of added value services. The i-EMX product enables the provisioning and the configuration in real time of the Cisco devices, forming an integral part of the solution
- Backbone Infrastructure, edge and metropolitan network multiservice IP
- Infrastructure technologies for IT projects and the development of projects based on Italtel IT platforms (i-NEM, N@book, DevMan)
- On the domestic market Italtel provided high added value professional services for migration and certification with the objective to support clients in network transformation In particular:
- QoS Monitoring, proactively providing information to operators on the state of use of the network and the quality of service experience of final clients (for both voice and video)
- Tools supporting network operations
- Solution Design, Integration & Testing and Network Transformation
- Technical Support, Consultancy & Trend Analysis

Enterprise Market and Public Sector

In 2011, the Italian and European economy saw a contraction in investments by business and substantially no expenditure increases by the Public Administration. Italtel, despite the challenging environment, strengthened its position in the segment with growth of 7.7% in revenue terms on the previous year. This result was made possible by the strengthening of the direct sales model, the improved capacity and the consolidated know-how as a as a Global System Integrator and a restyled offer focused on the needs of businesses and the Public Administration. Italtel was therefore awarded in 2011 the tender for the management and maintenance of the VoIP network of Eni, one of the largest IP networks in Italy and in Europe. In the Public Administration sector, Italtel in a consortium together with Cisco, was awarded the project for the building of two New Generation Data Centres for the Italian Army. The two data centres, named CVH (Concentration and Virtualisation Hubs), will allow the Italian Army to update its technological infrastructure and therefore be fully able to take advantage of the Cloud Computing offers in terms of strengthening and virtualisation of IT applications, guaranteeing at the same time the reliability demanded of the network and the security of the data handled. In relation however to the non-direct sales, Italtel also in 2011 continued its fruitful partnership with the principal Italian operators for the development of United Communication & Collaboration solutions for business clients.

Another positive result in the year was the project for the building of the Unified Communication & Collaboration component in the Enel Group which, thanks its presence in 40 countries and in 4 continents, allows Italtel to position itself also outside the domestic market in the Enterprise and Public Sector segment.

EMEA Market

In 2011, Italtel achieved significant results in the European market both through the consolidation and extension of its presence in the principal telecommunication groups Vodafone, France Telecom and Telefonica and through sales of new solutions and in-house products for NGN/IMS Networks, such as the new VoIP convergent release, the data base and the multi-vendor management system.

In particular we highlight the development of the Vodafone Germany VoIP network through the connecting of new fixed clients through LTE, the extension project of the OBS (Orange Business Services) International Network, the acquisition of a new virtual mobile network Operator with the mobile access solution and the building of the first virtualised system for the business clients of Vodafone Romania. In Poland, the network of the incumbent operator was further developed with innovative disaster recovery solutions and also for the business clientele, while in the UK for Cable & Wireless Worldwide the international network was extended. In Belgacom the foundations were laid for the development of the network through the introduction of new services. The VoIP network of SFR in France will be completely renewed thanks to the introduction shortly of the new data base, the operating system and the new releases for the Italtel hubs.

In Greece, for the operator Wind Hellas, which continues to increase the users on the VoIP platform of Italtel, a new hub in Athens was constructed.

For the Telefonica group in Spain new innovative video solutions, IP networks and solutions of Unified Communications & Collaboration for the corporate clients, together with advanced professional services were created.

For Generalità of Catalonia, the collaboration for IP solutions continued and new opportunities created for joint developments with Cisco.

In relation to the Middle East market, in Saudi Arabia advances were made in the development activities of solutions based on in-house projects and ad hoc projects to address demands in the capital. In addition, Italtel continued the accreditation process with the large enterprises and with Cisco solutions through the designing of complex solutions based on Italtel and Cisco systems with high added value integration. In Oman, the migration project of the network continued successfully and the foundations were laid for new opportunities in the region.

On the North African market, which has seen a number of successes in recent years, a sharp slowdown was reported due to the political conditions, an issue which did not affect Kenya and, in particular the incumbent operator belonging to the France Telecom group, in which a number of IP projects continued.

LATAM Market

In 2011 Italtel in the LATAM region, in addition to the recognised presence in Brazil and Argentina, improved its position in Perù and Colombia, becoming a key player on the ICT market and one of the principal Global System Integrators of Cisco products.

In Brazil, for the client Tim Brasil, Italtel completed an upgrade of the IP backbone with the introduction of high capacity new generation equipment and agreed the development lines of NGN infrastructure, enabling the

deployment of new software releases and the inclusion of new solutions in the Italtel catalogue. In addition, the company, thanks to its recognised capacity as a Global System Integrator began the creation of a Corporate TelePresence solution. In relation to the professional services area, Italtel significantly increased the level of activities and the presence in various market segments - from "operations" to "network planning" and to IT- due to the recognised know-how of TIM Brasil.
In Argentina, Italtel, in addition to carrying out a fundamental role in the introduction to the market of innovative Cisco solutions, had its excellence as a Global System Integrator recognised through awarding of an important tender for the supply of “MiniDslam outdoors” broadband access systems.
In Perù and Colombia, in line with plan forecasts, an increase in business was reported and a further confirmation of the Cisco integrator role (in Perù for the client Telefonica).

Development and Innovation

European projects

In 2011 Italtel carried out industrial research and development activity within collaborative European projects, both as part of Eureka, where Italtel has been active since 2005, and within the European Union - Seventh Framework Programme.
The Italtel activities related to implementation of projects already begun in previous years and the proposition of new initiatives, a number of which have already been approved in 2011 by the financing bodies.

In Eureka, Italtel is a founding company of the two principle research and development industrial consortiums in the ICT sector, called ITEA2 (Information Technology for European Advancement) and CELTIC (Cooperation for a European Leadership in Telecommunications). The ITEA2 and CELTIC consortiums enabled the implementation of new project proposals, financed in a complementary manner to the opportunities and the instruments offered by the Framework Programmes of the European Commission.

Within the CELTIC program, Italtel continued the collaboration with eight international partners for the creation and conclusion of the COMESI (COnverged MultimEdia communication Suite over IMS) project. Specifically Italtel contributed to the drawing up of scenarios based on the presence and the context, in addition to the architectural specifications implemented in the project, which conform with the OMA (Open Mobile Alliance) and the RCS (Rich Communication Suite) standards.

In relation to the collaborative projects within the European Union Framework Programme in 2011 Italtel carried out activities in the ICT (Information & Communication Technologies) sector.
In this area, in 2011 activities on the "PANLAB Infrastructure Implementation" project were concluded, in collaboration with 19 international partners, with the creation of software instruments for the functioning and operations of a services centre for the sharing of testing infrastructures and the testing of compatibility.

In 2011 the IP (Integrating Project) activities ANIKETOS continued together with 16 international partners, for the drawing up and creating on an experimental level of a Secure Service Composition platform.

In December 2011 Italtel began the preparation of three new proposals for projects to be addressed within the Call8 – ICT section of the Seventh Framework Programme. These comprised the COBALT (Integrating Projects) for the virtualisation of networks to overlay the physical networks, EDUENTECH (Special Targeted REsearch Project) for the establishment of self-learning training and Mobile Cloud (Integrating Project) models for the architectural development of mobile networks and the virtualisation of the “core” functionality, according to Cloud Computing paradigms.

Subsidised loans and grants for Development and Innovation

In 2011 Italtel SpA recognised income of approx. Euro 4.3 million, of which Euro 0.4 million for the tax credits concerning 2007 and 2008. Grants amounted to approx Euro 530 million, while no subsidised loan were received.
The above stated incentives were based on the following domestic and international regulations:

- Rotating Funds - Ministry of University and Research Assistance Fund, established by Law 297/99 and previous;

- Rotating Fund - Ministry for Economic Development Technological Innovation Fund, established by Law 46/82 (Article 14).
- Enacting Regulation of the Fund for Competitivity and Development, which financed three major areas of Industrial Innovation Technology: Energy Efficiency, Sustainable Mobility and Made in Italy, Ministry for Economic Development decrees of March and April 2008.
- Enacting Regulation of the European Commission on the Sixth and Seventh Framework Programmes.

In 2011 Italtel passed the first level ministerial inspections on the PNGN and ASIC projects, presented new proposals on the PON 2007-2013 (National Research Programme) “Technology Districts and Public-Private Laboratories SOUTH” tender in the Lombardy Region and Sicily Region, concluded the CAMP project activities and continued the SURE project activities.

The CAMP project (Context Aware Mobility Platform) is part of the “sustainable mobility” initiatives of the 2015 Industry programme, developed over the three-year period 2009-2011 and with Italtel as the leader of 13 industrial partners and universities.

The SURE project (Ultra Wideband Detection for Risk Management in e-health) is financed by the Lombardy Region in the three year 2010-2012 period and developed in collaboration with universities and other Lombardy businesses.

In 2011, the COMARE, SIAT and PING-US projects, presented within the PON 2007-2013 tender of the Ministry for Universities and Research, did not reach the final stage due to the bankruptcy of the partner CRES. Italtel SpA presented an appeal to the Regional Administrative Court for the cancellation of the non-admission ruling.

The PA-IMS project (Access Platform - IP Multimedia Subsystem), whose activities concluded in 2009, saw in 2011 the reopening of the preliminary process.
In 2011 Italtel was particularly active in the presentation of projects in response to national and regional tenders (in the Lombardy region and the Sicily Region).

Italtel SpA participated in the new Lombardy Region and Ministry for Universities and Research tender “FESR 2011” presenting the ASSET project (Advanced Sensor-based Social-Environment-Friendly Teleassistance) for the establishment of remote assistance systems within the healthcare and RETEmia environments, for the creation of technological platforms and company support services.

The Programme Contract in collaboration with Telecom Italia (proposing party), presented in 2009 and suspended by the Ministry for Economic Development due to the lack of financing provided to a non-eligible area (North) was re-modelled with a SOUTH focus and presented to INVITALIA with a formal request for a switch to the new Development Contracts instrument.

Also within the PON 2007-2013 programme, Italtel participated in the tender for the creation and/or development of “Technological Districts and Public-Private Laboratories”, presenting two projects within the Micro and Nano Systems District (ENERGETIC: technologies for energy and energy efficiency, and HIPPOCRATES: Development of Micro and Nano-technologies and Advanced Health Systems), two feasibility studies for new public-private partnerships (SI-Lab: Service Innovation Network Laboratory and CLOUD TESTING) and application for admission to the future bio-medic district.

Within the Regional Contract Programme - Sicily Region, Italtel presented the “Carini Project: Future Internet Innovation Lab” which establishes for the creation of two Competence Centres “WSN Competence Centre” "(Wireless Sensor Networks Competence Centre, WSN-CCG) and the “NGN Competence Centre” "(Next Generation Networks Competence Centre, NGN-CdC). The solutions produced by the specialty centres may be provided to clients also through Cloud Computing Services, with the prior installation of a Cloud Computing Service Centre.

At the end of 2011 Italtel applied to the Research and Competitivity tender of the Sicily region, presenting the IPA (Intelligent Parking Assistant Project), within the “Sustainable Transport and Mobility” sector for the design and creation of a new solution for the management and booking of parking spaces.

In 2011, the lack of public funds to support the tax break mechanism on costs incurred for research and development continued.

Corporate governance and social responsibility

Board of Directors

The current Board of Directors of Italtel Group S.p.A. is comprised of nine Directors, in office until the approval of the 2012 financial statements (with the exception of one Director, co-opted by the Board of Directors on February 15, 2012 in replacement of a resigning Director and therefore in office until the next Shareholders' Meeting).

The Board of Directors of the principal subsidiary Italtel S.p.A. also comprises in accordance with the by-laws nine Directors, with nine Directors currently in office until the approval of the 2012 financial statements (with the exception of one Director, co-opted by the Board of Directors on February 15, 2012, in replacement of a resigning Director and therefore in office until the next Shareholders' Meeting).

During the year, the Directors of Italtel Group S.p.A. and of Italtel S.p.A. met frequently and in compliance with the legal and by-law obligations to examine the matters submitted for their attention.

In accordance with the current by-laws, four independent directors, both executive (currently the sole Chief Executive Officer) and non-executive, with a wide range of skills and experience, sit on the Boards of Directors of Italtel Group S.p.A. and Italtel S.p.A..

Remuneration of Directors and Statutory Auditors

The remuneration of the Directors and Statutory Auditors of Italtel Group S.p.A. for the carrying out of their duties - also in other consolidated companies - is as follows:

(thousands of Euro)

	2011	2010
Directors (1)	1,061	1,333
Statutory Auditors	105	114

(1) For the two Independent Directors (other than the Chairman and the Chief Executive Officer), for their role as members of the Internal consultative committees, set up by the parent company, the respective Shareholders' Meetings approved a total amount of Euro 50,000 (which will be paid by Italtel S.p.A.) for each fiscal year and for the duration of the mandate. The Independent Director M. Giordani – whose mandate concluded on April 21, 2011 – did not receive remuneration having expressly revoked such. Remuneration of Euro 8,000 thousand was approved for the external member (in addition to the Chairman) of the Supervisory Board as per Legislative Decree 231/01 for each year of the mandate. The 2011 amount includes also the remuneration for the offices of Chairman and Chief Executive Officer, as established by the relevant contracts and including all emoluments devolving to these parties for the above-stated offices and/or Directorships in Group companies, including the Parent Company

Committees

The principal activities carried out by the Committees in the year are reported below.

Internal Committees

The technical and/or consultative committees were set up as specific work groups within the Board of Directors of Italtel Group S.p.A. and currently are the Internal Control Committee and the Remuneration Committee.

Internal Control Committee

During the year the Internal Control Committee (previously the Audit Committee) met periodically, approving the Audit plan for 2011 and introducing measures to strengthen both the corporate governance and Internal Control system.

In relation to the Internal Control System, the Committee continued in the preparation activities for the testing of fundamental processes, through the Internal Audit Department.

During the year, meetings took place with the Board of Statutory Auditors and the Independent Audit Firm to examine issues of common interest.

Remuneration Committee

The remuneration policy of the Group ensured in 2011 that the compensation of Executive Directors adequately reflected the duties and responsibilities afforded and was such as to attract, reward and motivate highly qualified Senior Managers, capable of collectively achieving the Group's objectives.
The Remuneration Committee declared the reaching of the 2010 group results targets and therefore issued MBOs to the beneficiaries. They also established objectives for the Seniors Managers subject to evaluation by the Committee for 2011 and drew up the so-called "Group financial objectives" for the MBO beneficiaries.

Management and Control organisational model

In 2011 the approval process of the Model adopted by the Company was completed, which focuses on the prevention of offenses established by Legislative Decree No. 231/2001. The amended and updated Model, in its fifth edition, was approved with Board of Directors of Italtel resolution of February 23, 2011.
The updates concerned:

- Adjustment to the new categories of offences established by Legislative Decree No. 231/01 in 2009;
- Introduction of new special parts for the new offenses;
- Company organisational adjustments.

The disclosure activities concerning Legislative Decree No. 231/2001, the Ethics Code and the Management and Control Organisational model continued targeting personnel with roles of responsibility, in addition to the communication actions in particular focused on updating the content on the company intranet site dedicated to the Compliance Office activities.
The Compliance Office also conducted audits verifying the correct application of the Management and Control Organisational model as per Legislative Decree No. 231/2001 and in particular relating to the correct application of corporate risk policy:

- Prevention of offences against industrial patents and intellectual property rights in the following areas of activity:
- Management of partnerships;
- Purchase of hardware and software products.

The Audits highlighted general compliance of the control elements established in the various protocols and the corrective actions, where identified, were partly completed in 2011 and in part scheduled for 2012.
The Compliance Officer of Italtel S.p.A. updated on an ongoing basis the Supervisory Board and senior management in relation to the activities for the implementation and supervision of the Model.
In 2011 the Supervisory Board of Italtel S.p.A., comprising two members of the Board of Directors, the Compliance Officer and the Internal Audit Manager, met on two occasions.
The principal activities carried out are listed below:

- Approval, prior to presentation to the BoD of Italtel S.p.A., of the following protocols:
  - PRO231-S020 Prevention of crimes in relation to trademark infringement
  - PRO231-S021 Prevention of crimes against industry and commerce
  - PRO231-S022 Prevention of crimes against copyright law
  - PRO231-S023 Prevention of crimes against the administration of justice
  - PRO231-S024 Prevention of organised criminal activity
- The above-stated protocols were approved by the BoD of Italtel S.p.A. in the meeting of May 26, 2011.
- Verification of the results of the information received periodically in accordance with Protocol 231.
- Approval of the Compliance Activity Plan for 2012 and the relative budget.

Conflict of Interest Regulation

In 2011 the monitoring of cases of conflict of interest of Italtel S.p.A. personnel with legal representative powers and specific roles continued.

Privacy and the Data Protection Document

Article 45, Paragraph 1, Letter D of Legislative Decree of February 9, 2012 No. 5 (Published in Supplement No. 27 of The Official Gazette of February 9, 2012 No. 33), repealed Articles 19 to 19.8 and 26 of Attachment B of Legislative Decree No. 196 of 2003, consequently the obligation to prepare and update the personal data protection document was removed.

Human resources, the environment and quality assurance

Human resources

The employees of Italtel Group at December 31, 2011 numbered 1,806, of which 180 overseas (at December 31, 2010 numbering 1,867, of which 152 overseas).

The new hires in the year numbered 77, of which 50 overseas, with 138 departures, of which 75 voluntary departures and 63 under leading incentives and the short-term mobility.
Of the total, senior manager hires amounted to 3 and departures from the company totalled 19; at December 31, 2011 there were 85 senior managers within the workforce.

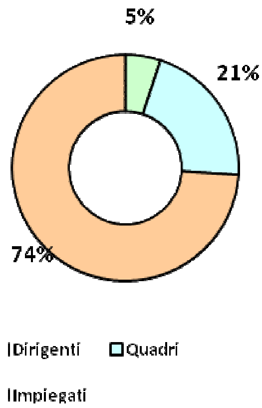
Personnel is broken down into the following departments: Development and Innovation (40%), Service (30%), Commercial (22%) and Administration and Staff (8%).

Over half possessed Degrees (51%), while approx. 44% held Diplomas.

EMPLOYEES BY CATEGORY

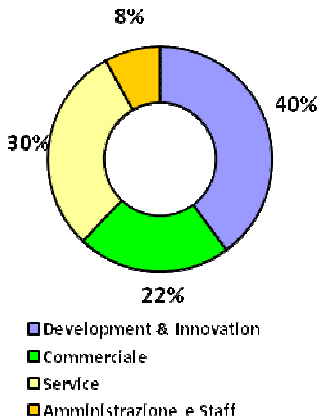
31/12/2011

The white collar section comprises three employees classified as blue collar



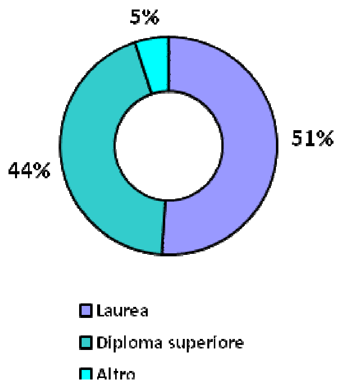
EMPLOYEES BY DEPARTMENT

31/12/2011



EMPLOYEES BY QUALIFICATION

31/12/2011



Organisation

Operations in 2011 continued in line with the model implemented at the beginning of the year, characterised by Product Units focused on the management of specific offer lines and Market Units with P&L responsibility. In the year the international sales departments were structured into two separate Market Regions focused on the principal markets of the company, respectively LATAM and EMEA. A number of fine tuning exercises were carried out in specific corporate sectors. In the second part of the year the foundations were laid for a review of the general structure of the company, whose principles and characteristics were established and communicated in November and with effect from January 2012. The key elements of the new organisation concern the redefinition of the offer scope of the Product Units, which from the current four reduced to three, the extension of scope of the Market Units, both through the unification of the current Telecom Italia Market Unit and Other Licensed Operators Market Unit into a single department dedicated to the Service Providers on the domestic market and through the strengthening of the proposal capacity of the Enterprises & Public Sector Market Unit. More in general, simplification and restructuring actions of the organisational levels and of the processes will be undertaken in order to ensure accountability and cost reduction.

Industrial relations

On the Industrial Relations front in 2011, following the resumption in October 2010 of negotiations between the company and the Trade Union Organisations, on January 5, 2011 an agreement with the Ministry for Economic Development which established a series of instruments for the management of excess personnel for the period January 2011 - April 2013 was signed. In January the instruments established by the agreement were made operative: a Solidarity contract was introduced for 800 employees for a duration of 12 months, extendable for a further 12 months. 110 persons (80 in January, 30 in April) were placed in the Temporary Lay-off Scheme for crisis situations, which was terminated on April 11. On April 12 the Extraordinary Temporary Lay-off Scheme for reorganisation was introduced, which at December 31 involved 106 persons among the three corporate office locations, in addition to 45 in rotation for 6 months a number of collective contracts regulations were reviewed (availability, travel hours). Finally the collective and individual dispute concerning the Extraordinary Temporary Lay-off Scheme for crisis situations procedure began by the company on April 12, 2010 was discontinued. From September, the company outlined to the Trade Union Organisations the new deteriorated economic, productive and financial environment in 2011 with a poor outlook for 2012, highlighting the necessity to review the above-stated agreement of January 5 as no longer suitable for the new corporate reality. On December 14, 2011 two agreements were therefore signed to ensure the reduction of industrial costs through the management of excess personnel in 2012. Replacing that established on January 5, the first agreement provides for the creation of a new Solidarity Contract from January 17, 2012 and concluding on April 11, 2013 for 1,078 employees with an average reduction in hours of 25%. Under the second agreement the parties confirmed the use of the Extraordinary Temporary Lay-off Scheme for reorganisation until April 11, 2013 for a maximum 170 employees, with rotation also of 45 employees but reduced to 3 months from that previously agreed.

Staff Training

In 2011, 144 training events were carried out, principally of a technological nature, for a total of 19,800 training hours with 997 participations. Courses principally centred on Cisco, Telepresence, Avaya and VMware virtualisation issues, in addition to updates on SAP functionality and on the relative development environment. The People Management plan for the Senior Managers was also completed and a similar plan for Managers with team responsibility was created. For both the initiatives financing from the Fondirigenti or through the Law 236/93 provisions were received. Overall more than 70% of the total training expenses were covered by training grants. In addition we highlight the introduction of a plan for the development of skills for employees within the Temporary Lay-off Scheme for a total of 327 participations with approx 8,200 training hours.
The Italtel Managerial Skills Model was updated to align it with the current corporate needs. Within this an employee potential evaluation programme was begun.

Stock options plans

No significant events are highlighted.

Environment and Health

The company monitors on an ongoing basis the environmental impact of activities in the various offices, in line with the Italtel policy for the Environment, Health and Workplace Security.
In relation to the Palermo-Carini area, in March 2011 compliance of the Environment Management System to the requirements of the IS 14001 regulation was fully reconfirmed.
Also in Carini, within the environmental improvement initiatives, the Energy Service Centre (developed by Italtel) was built for the control of energy consumption, both at the Carini site and the Settimo Milanese site.
Also in relation to energy saving the process for the "virtualisation" of the servers is in the completion phase- these are dedicated to SW development i.e. industrial productivity- which covered approx 80% of servers in use.
In relation to health, Italtel introduced in November 2011 a Free Anti-Flu Vaccination Campaign.
The "Valuation of Risks" documents for health and workplace safety were updated, in accordance with applicable regulations, both for the activities at our offices and for those directly carried out at client locations.
The company healthcare service provided employees with 6,600 instances of obligatory health screening and first aid, for preventative health care and for vaccinations or medicines for personnel abroad (for the countries in which the hygiene/sanitary conditions require such).

Quality

Italtel - as always - places particular attention on quality concerning products, solutions and services, but also in relation to the performance of processes, fulfilling in addition environmental, health and security requirements.
Italtel confirmed also for 2011 compliance with the Quality Management System for the ISO 9001 standard, renewing the certification which has been held since 1992.
Ongoing re-examination of corporate processes, in addition, is one of the instruments used to evaluate and select internal initiatives to improve corporate performance.
In relation to the products developed, the relative configurations are certified according to the electromagnetic safety compatibility standards and created in accordance with environmental impact minimisation criteria (for example: the RoHS - Restrictions of Hazardous Substances Directives); in relation to this, the Company – enrolled in the Manufacturers of Electrical and Electronic equipment register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment) in relation to the disposal of products at the end of the lifecycle.
Great attention in fact has been focused on customer needs, also through the carrying out of Customer Satisfaction Campaigns, considered as indispensible instruments to ensure the improvement of corporate performance.

Other events in the year

Potential significant liabilities

Tecnosistemi TLC Engineering & Services S.p.A. in Extraordinary Administration (in short "TCS").

A case has been taken against an ex-Director of TCS, at the time an executive of Italtel, under which Italtel S.p.A. must indemnity the ex-Director pursuant to applicable regulations. In relation to this case Italtel was cited, in terms of civil responsibility, by a number of ex-employees who have begun the case against the ex-Director.

Tax inspection in Brazil

On December 19, 2007, the Tax Agency of the State of Sao Paulo in Brazil issued an Infraction Notice and a penalty to the Group Company, Italtel Brasil Ltda for importation operations carried out between 2002 and 2005. In this notice the Tax Agency alleged an infraction concerning the payment of ICMS taxes and an infraction for the use of tax credits on the tax to reduce the payment of the amount owing, in addition to the application of penalties and interest on the disputed amounts. The overall amount for the alleged infractions and relative penalties and interest totals approx. Euro 18 million. Italtel did not receive a favourable outcome at the first level of judgment, nor at the second level in 2009 and an appeal has been made at the third level. This last appeal is currently suspended as the States of Sao Paulo and Espirito Santo have signed an agreement concerning ICMS tax on commercial transactions carried out before March 2009. This agreement was enacted through Decree No. 56.045/2010 and will regularise the tax situation, cancelling all debts relating to ICMS tax. Italtel Brasil has prepared and sent a request to ensure recognition of the cancellation of the payables demanded by the Infraction Notice.
In December 2011, the Tax Authority of San Paolo completed a tax inspection and informed the company that all legal requirements to avail of the above-mentioned Agreement between the states of San Paolo and Espirito Santo had been complied with. The last and only document required to consider as definitive the closure of the dispute is the issue by the state of Espirito Santo of a certification which declares that the company has paid the ICMS tax for all imports between 2002 and 2005.

In 2012 a new Infraction Notice was received for identical tax issues as expressed above, but in relation to a subsequent period (2006) to that initially contested (i.e. 2002-2005). The contested amount totals approx Euro 9 million. The company's lawyers have filed supplementary notices to those already presented for the first infraction period (reported above). If this supplementary notice is not accepted, a separate appeal will be made. As the issue falls within the same Decree No. 56.45/2010 which regularises the tax situation, it is considered that also these new writs will be regularised in the same manner as those previously put forward.

Tax dispute in Italy

Currently Italtel has a number of pending tax disputes at the Milan Tax Commission which concern inspections by the Tax Agency - Lombardy Region - Office of Large contributions, in relation to the tax periods 2004, 2005 and 2006. In summary, under these tax inspections the Agency principally contested in relation to IRES (i) the non-recharging CRDR Investment III S.a.rl. (48.77% shareholder of Italtel Group SpA) of interest charges and costs related to loans granted in relation to the Leveraged Buy-Out operation under which in 2002 Italtel Group S.p.A. (previously Italtel Holding S.p.A.) acquired the company Italtel S.p.A. (through Italtel Acquisition S.p.A.) for an amount of approx Euro 19.5 million for 2004, Euro 18.9 million for 2005 and Euro 17.5 million for 2006, and in addition (ii) the non-deductibility of costs for services in favour of Italtel S.p.A. by group companies not resident for tax purposes in Italy as not fulfilling the relevance requirement or lacking appropriate supporting documentation for an amount of approx Euro 5.1 million for 2004, Euro 2.9 million for 2005 and Euro 3.5 million for 2006.
The higher income imposed for IRES purposes did not result in any higher tax and penalties, in that fully offset through the use of tax losses carried forward.
In addition, the Tax Agency considered the costs at point (ii) non-deductible for IRAP purposes and recovered the VAT deducted in accordance with Article 19 of Presidential Decree No. 633/1972.
The amount of the higher tax imposed (VAT and IRAP) and the penalties imposed based on the above-mentioned tax inspections, amount overall to approx Euro 4.8 million (plus interest).
The Tax Agency also sent a questionnaire for the tax period 2007 requesting documentation in relation to the above-stated issues (interest charges and inter-company services).

Currently Italtel considers that these potential liabilities represent only a possible risk and therefore did not make any provision. Given the complexity of the disputed issues and the significant amounts concerned, it was however considered appropriate to provide the present disclosure.

Comment and analysis on the Income Statement, the Balance Sheet and the Financial Situation

The present section provides an analysis of the Income Statement, Balance Sheet and Financial Situation of the Group for 2011 and 2010.

Income Statement

The reclassified income statement for 2011 and 2010 is reported below.

(thousands of Euro)

	2011	2010	Changes
Revenues from sales and services	**405,413**	**421,972**	**(16,559)**
Profitability after external costs	**146,534**	**164,521**	**(17,987)**
% of revenues	36.1%	39.0%	
Personnel costs	(107,783)	(126,899)	19,116
Operating expenses	(30,254)	(33,120)	2,866
Operating grants	4,332	4,194	138
Gross operating margin	**12,829**	**8,696**	**4,133**
% of revenues	3.2%	2.1%	
Capitalisation of Research & Development costs	23,689	25,356	(1,667)
Other costs and income	22,803	25,468	(2,665)
Restructuring and refinancing charges	(8,083)	(8,979)	896
EBITDA	**51,238**	**50,541**	**697**
% of revenues	12,8%	12,0%	
Amortisation, depreciation and write-downs	(171,053)	(43,459)	(127,594)
EBIT	**(119,815)**	**7,082**	**(126,897)**
Net Financial charges	(17,776)	(19,650)	1,874
Loss before taxes	**(137,591)**	**(12,568)**	**(125,023)**
Income taxes	(7,177)	249	(7,426)
Discontinued activities profit/(loss)	(37)	(1,155)	1,118
Net loss for year	**(144,805)**	**(13,474)**	**(131,331)**

Revenues from sales and services in 2011 amounted to Euro 405,413 thousand, decreasing overall by Euro 16,559 thousand (-3.9%) on 2010 (revenues of Euro 421,972 thousand).

In particular a decrease in revenues from Italian Operators[2] was reported, with a reduction from 53% to 45% of total revenues from this source. At the same time we highlight the increased revenues from the Public Administration and Large Enterprises (which increased as a percentage of total revenues from 14% in 2010 to 16% in 2011) and, particularly, the increase in revenues from overseas operators (in particular Latin America) increasing from 33% of total revenues in 2010 to 39%.

The revenues from the domestic Service Providers of the Telecom Italia Group (Telecom Italia S.p.A. and Telecom Italia Sparkle S.p.A.) (Telecom Italia) amounted to Euro 112,580 thousand, compared to Euro 132,909 thousand in 2010, a decrease of Euro 20,329 thousand (-15.3%). This decrease is due also to the focus in 2011 by Telecom Italia on projects dedicated to the mobile networks with a consequential reduction in investment expenditure on the fixed network, for which Italtel is one of the leadings partners in relation to hardware and software supply. Telecom Italia has also begun an international expansion process which resulted in a significant reduction in the professional services provided by Italtel.

2 Includes Telecom Italia and Other Italian Operators

Revenues from the Other Local Operators (OLO) amounted to Euro 71,353 thousand, compared to Euro 88,841 thousand in 2010, a decrease of Euro 17,488 thousand (-19.7%). The OLO market in 2011 saw a significant reduction in network infrastructure investments by all operators, with considerable price tensions - particularly in the IT sector. In addition, various operators (primarily Wind) opted for technological solutions within alternative data networks to those operated by Italtel.

Revenues from Public Administration and Large Enterprises amounted to Euro 65,007 thousand, compared to Euro 60,363 thousand in 2010, growth of Euro 4,644 thousand (+7.7% compared to the previous year). In an environment which saw a contraction in investment by business and no spending growth by the Public Administration, Italtel managed however to strengthen its position, particularly thanks to the improved direct sales model and its know-how as a Global System Integrator.

Revenues from Overseas operators amounted to Euro 156,473 thousand, compared to Euro 139,859 thousand in 2010 and contribute the most significant growth (Euro 16,614 thousand, +11.9%). This increase is due to growth in LATAM region revenues from Euro 85,715 thousand in 2010 to Euro 114,023 thousand in 2011 (+ Euro 28,308 thousand), in part offset by the decrease in revenues in the EMEA region from Euro 54,144 thousand in 2010 to Euro 42,450 thousand in 2011 (- Euro 11,694 thousand). In relation to Overseas operators, revenues from companies of the Telecom Group increased from Euro 51,536 thousand in 2010 to Euro 61,085 thousand in 2011.

In the LATAM region we highlight, in addition to confirmation of the company’s presence in Argentina and Brazil, the improved market share in Perù and Colombia, with Italtel becoming one of the principle Global System Integrators of Cisco products in the region.

In the EMEA region the recent political/social events in the Middle East and North Africa resulted in a slowdown in programmed activities for 2011, only in part offset by the strong results in countries such as Germany and Spain. In particular in Germany Italtel has become for the Vodafone client a significant supplier of new generation in-house solutions (iTDS).

The overall contraction in revenues, particularly in the traditional services account, with higher margins and significant price pressure due to increased competition in the market, resulted in lower profitability after external costs of Euro 17,987 thousand compared to the previous year. This decrease is due both to a more unfavourable sales mix (higher percentage of Network Integration revenues), and lower profitability on the higher margin lines. Overall this resulted in a reduction in the average margin from 39.0% to the current 36.1%.

Ordinary personnel costs in 2011 amounted to Euro 107,783 thousand compared to Euro 126,899 thousand in 2010, decreasing by Euro 19,116 thousand (-15.1%). The decrease is principally due to the reduced average workforce in the year and the effects of the agreements signed with the Trade Unions in January 2011. Personnel costs, in addition, were lower than the previous year due to the non-fulfilment of the MBO requirements as the prefixed objectives were not met.

2011 operating expenses amounted to Euro 30,254 thousand, a significant improvement therefore (Euro 2,866 thousand, -8.7%) compared to the previous year (Euro 33,120 thousand). This enabled a recovery of part of the reduced margin.

Operating grants from public bodies against research projects were in line with the previous year.

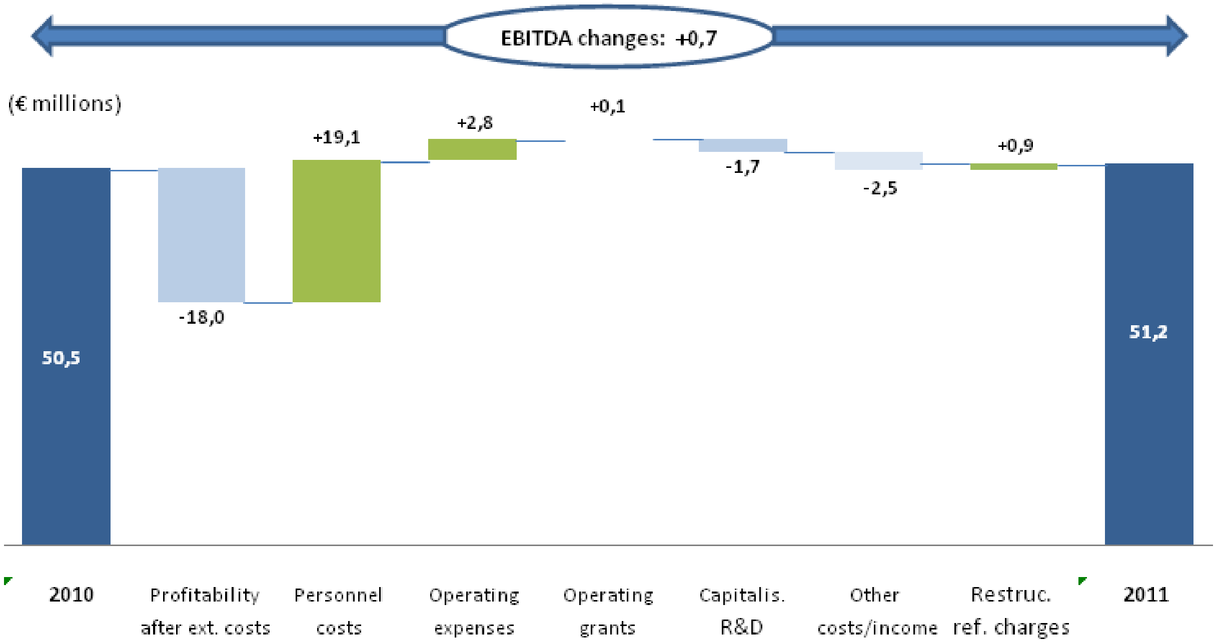
The effects reported above of the containment in 2011 of personnel costs and of operating expenses enabled the full recovery of the profitability after external costs, increasing the Gross operating margin from Euro 8,696 thousand in 2010 (2.1%) to Euro 12,829 thousand in 2011 (3.2%).

The capitalisation of R&D costs is lower than the previous year by Euro 1,667 thousand.
The account Other costs and income, which includes grants and non-recurring items such as gains, provisions and prior year income, amounted to Euro 22,803 thousand (of which non-recurring items of Euro 19,874 thousand), compared to Euro 25,468 thousand in 2010) (of which non-recurring items of Euro 23,577 thousand).

Restructuring charges in 2011, concerning costs for employee departures, amounted to Euro 8,083 thousand compared to Euro 5,418 thousand in 2010. This account in 2010 included also costs concerning the re-financing operation for Euro 3,561 thousand, increasing the total amount to Euro 8,979 thousand.

EBITDA in 2011 amounted to Euro 51,238 thousand (revenue margin of 12.6%), increasing by Euro 697 thousand (+3.0%) compared to the previous year.

The graph below highlights the above-stated changes:



EBIT in 2011 amounted to a negative amount of Euro 119,815 thousand, compared to Euro 7,082 thousand in the previous year. The current year EBIT has been burdened with a Euro 130 million impairment of goodwill. Without such impairment it would have had a growth of Euro 3,103 thousand (+43.8%), after amortisation, depreciation and write-downs of Euro 41,053 thousand (Euro 43,459 thousand in 2010).

Net financial charges total Euro 17,776 thousand, compared to Euro 19,650 thousand in the previous year, improving by Euro 1,874 thousand (-9.5%).

Net exchange losses increased from Euro 1,614 thousand in 2010 to Euro 4,902 thousand in 2011.

Net interest charges decreased from Euro 14,775 thousand in 2010 to Euro 13,913 thousand in 2011. The improvement of Euro 862 thousand of net interest charges is due for Euro 2,972 thousand to the lower charges following the settlement of an Interest Rate Swap undertaken to hedge the risk of movements in the interest rates on medium/long-term loans and converted into a fixed rate long-term loan and for Euro 268 thousand to the reduction in the spreads applied to medium/long-term loans, although in the presence of increasing interest rates. The above-stated positive effects were partially offset for Euro 2,597 thousand by higher interest charges on the new rental contract of the Castelletto/Settimo Milanese area and for Euro 466 thousand to the increased use of revolving credit lines for cash advance and for invoice advances, although with lower spreads applied following the re-financing of the debt with the lending institutions in September 2010.
Other net income and charges improved from charges of Euro 3,261 thousand in 2010 to income of Euro 1,039 thousand in 2011, an improvement of Euro 4,300 thousand, due for Euro 3,061 thousand to the prior-year income from the closure of the liabilities of a similar amount following the residual valuation of an IRPEG receivable paid by the Tax Agency in the first half of 2011.

The Group pre-tax result reports a loss of Euro 137,591 thousand compared to the loss of Euro 12,568 thousand in 2010.

Income tax charges totalled Euro 7,177 thousand, while in the previous year amounting to tax income of Euro 249 thousand.

The change on the previous year, in addition to the withholding taxes in Argentina for the years 2005/2011, considered non-recoverable and recognised to the income statement for Euro 2,554 thousand, is due to the fact that in 2010 deferred tax assets were recognised for Euro 6,480 thousand on financial charges in 2009, temporarily non-deductible, as exceeding the “financial charges/EBITDA” ratio, as established by Article 96 of the Income Tax Law, whose availability is unlimited.

The 2011 Net Result reports a loss of Euro 144,805 thousand, compared with a loss in the previous year of Euro 13,474 thousand.

Balance Sheet

The balance sheet at December 31, 2011 and 2010 is reported below.

(thousands of Euro)

	31/12/2011	31/12/2010	Changes
A) Fixed capital	358,945	481,652	(122,707)
B) Working capital	(30,458)	(55,200)	24,742
C) Employee benefit provisions	(28,359)	(29,977)	1,618
D) Other non-current liabilities and other provisions	(38,626)	(46,136)	7,510
Total net capital employed	**261,502**	**350,339**	**(88,837)**
E) Net debt	**290,454**	**230,152**	**60,302**
F) Consolidated shareholders' equity	**(28,952)**	**120,187**	**(149,139)**
Share capital	131,427	131,427	-
Other reserves including the net result	(160,379)	(11,240)	(149,139)
Total Debt and Net Equity	**261,502**	**350,339**	**(88,837)**

Investments

Investments in the year totalled Euro 28,073 thousand, of which Euro 24,565 thousand in intangible assets and Euro 3,508 thousand in property, plant and equipment, excluding the recognition of the new lease back concerning the Castelletto area. Specifically, Euro 23,689 thousand was invested in Development and Innovation activities and Euro 869 thousand in application software acquired under unlimited use licenses and software development projects. Property, plant and equipment increased by Euro 1,314 thousand, concerning investments in industrial equipment, principally relating to equipment utilised for the development of software solutions and for the test plant for products to be launched. Other assets increased by Euro 1,503 thousand and related principally to investments in computerised systems and the development of the corporate IT system.

Financial Highlights

The cash flows were as follows:

(thousands of Euro)

	2011	2010	Changes
Opening cash and cash equivalents	**67,495**	**33,473**	**34,022**
EBITDA	**51,238**	**50,541**	**697**
Investments in tangible and intangible assets	(28,073)	(27,121)	(952)
Net change in employee benefit provisions	(1,618)	(8,811)	7,193
Net financial charges	(17,776)	(19,650)	1,874
Gains on sale of assets	542	102	440
Taxes	(7,443)	(5,853)	(1,590)
Acquisition of treasury shares	(40)	-	(40)
Changes in provisions and other	(23,913)	(13,749)	(10,164)
Cash flows from activities before changes in working capital and the change in financial liabilities	**(27,083)**	**(24,541)**	**(2,542)**
Change in working capital	(25,026)	(5,692)	(19,334)
Cash flow from activities before the change in financial liabilities	**(52,109)**	**(30,233)**	**(21,876)**
Change in the net debt	**11,974**	**(5,745)**	**17,719**
Cash flow before the share capital increase payment	**(40,135)**	**(35,978)**	**(4,157)**
Share capital increase payment	**-**	**70,000**	**(70,000)**
Total cash flow for the year	**(40,135)**	**34,022**	**(74,157)**
Closing cash and cash equivalents	**27,360**	**67,495**	**(40,135)**
Opening net debt	**(230,152)**	**(269,919)**	**39,767**
Cash flow from activities before the change in financial liabilities	(52,109)	(30,233)	(21,876)
Share capital increase payment	-	70,000	(70,000)
New rental contract of the Castelletto area	(8,193)	-	(8,193)
Closing net debt	**(290,454)**	**(230,152)**	**(60,302)**

The liquidity absorbed in 2011 before the change in the net debt amounts to Euro 52,109 thousand and compares with liquidity absorbed in the previous year of Euro 30,233 thousand, a reduction of Euro 21,876 thousand. The cash flow before the change in working capital is substantially in line with the previous year (Euro - 27,083 thousand compared to Euro - 24,541 thousand in 2010), while the change in working capital deteriorated by Euro 19,334 thousand. This amount is principally due to the change in the other current liabilities/current assets (Euro -31,246 thousand), principally due to the decrease in employee, social security institutions and tax payables, while the trade payable reduction (which reduced in 2011 by Euro 29,493 thousand, due in part to the repayment of part of the overdue payables at December 31, 2010 which decreased from Euro 68,800 thousand to Euro 54,200 thousand at December 31, 2011) was partly offset by improved management of trade receivables (decreasing by Euro 27,904 thousand).

The table below reports the breakdown of working capital in 2011 and in 2010 and the changes:

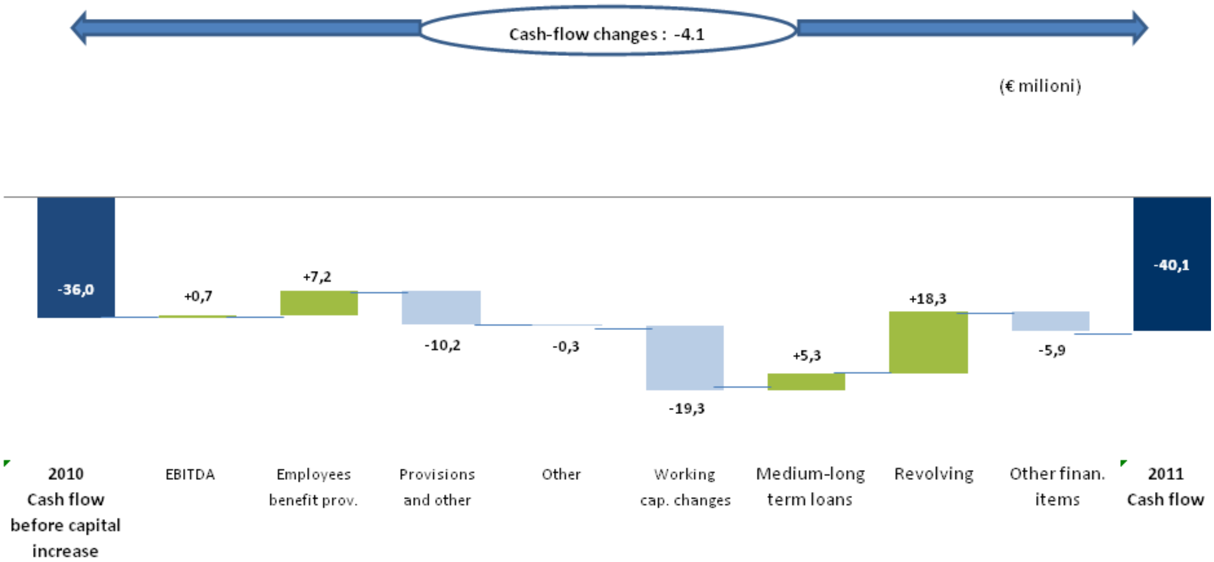
(thousands of Euro)

	2011	2010	Change
Inventories	33,148	40,957	7,809
Trade receivables	107,965	135,869	27,904
Trade payables	(147,400)	(176,893)	(29,493)
Tax receivables	2,781	1,719	(1,062)
Other receivables and assets	25,219	22,375	(2,844)
Current income tax payables	(1,697)	(1,543)	154
Other payables and liabilities	(50,649)	(78,143)	(27,494)
Changes in working capital	**(30,633)**	**(55,659)**	**(25,026)**

The employee benefit provision in 2011 decreased by Euro 1,618 thousand compared to Euro 8,811 thousand in 2010, a difference of Euro 7,193 thousand (of which Euro 5,883 thousand concerning indemnities for the advanced conclusion of work contracts), due to the lesser utilisation of the provision for Euro 7,016 thousand and higher provisions for Euro 177 thousand.

The cash flow from financing activities in 2011 saw an increase in liquidity of Euro 11,974 thousand, against an absorption of Euro 5,745 thousand in 2010, an improvement of Euro 17,719 thousand, substantially due to the increased use of the short-term credit lines for Euro 18,346 thousand.

The graph below reports the above-stated changes:



The net debt was as follows:

(thousands of Euro)

	31/12/2011	31/12/2010	Changes
Short-term bank loans	235,404	61,141	174,263
Medium/long-term loans (bank and subsidised)	83,898	232,651	(148,753)
Other financial payables	1,076	6,137	(5,061)
Accruals and deferred income	1,313	544	769
Gross debt	**321,691**	**300,473**	**21,218**
Cash and cash equivalents on hand	(717)	(3,828)	3,111
On demand bank current accounts	(26,643)	(63,667)	37,024
Short-term financial receivables	(3,718)	(2,566)	(1,152)
Prepayments and accrued income	-	(102)	102
Other working capital securities	(159)	(158)	(1)
Net debt	**290,454**	**230,152**	**60,302**

The net debt at December 31, 2011 totalled Euro 290,454 thousand, increasing by Euro 60,302 thousand compared to Euro 230,152 thousand at December 31, 2010. The gross debt increased by Euro 21,218 thousand, due principally to the increase in short-term bank loans for the financing of working capital for Euro 23,992 thousand, an increase in finance lease obligations for Euro 8,203 thousand, net of the repayment of medium/long-term loans for Euro 7,052 thousand, all of which at subsidised rates, and a decrease in other financial payables following the closure of an obligation of Euro 3,061 thousand relating to the residual valuation of an IRPEG credit paid by the Tax Agency in the first half of the year.

Cash and cash equivalents decreased by Euro 40,135 thousand, due to the cash flow absorbed from investment activities for Euro 28,755 thousand and the cash flow absorbed from operating activities for Euro 27,113 thousand, net of the cash flow generated from financing activities for Euro 15,680 thousand and the translation differences of Euro 53 thousand.

Financial risk management

Liquidity risk

Liquidity risk occurs when the Group does not hold or meets difficulties in sourcing the necessary funds to meet future financial commitments. The Group risk concerns resources generated or absorbed by operating and investing activities and the potential difficulties in attaining financing to support the operating activities in a timely manner.

The cash flows, financing requirements and the liquidity of the companies of the Group are monitored and managed centrally under the control of the Group Treasury, with the objective of guaranteeing efficient management of the financial resources.

The Group avails of short-term credit lines which principally concern the revolving loan granted to the Italtel Group concluded in September 2010.

The revolving credit line with maturity in December 2017 was granted to finance the working capital and other financial needs of the Italtel Group and its subsidiaries and amounts at December 31, 2011 to Euro 203.5 million, of which Euro 48 million utilisable in the form of loan guarantees.

At December 31, 2011 the revolving credit lines for "cash advances" and for "hot money" for a total of Euro 70 million had been entirely received.

The financial structure of the Group is characterised by a high leveraging ratio with a net debt equal to 7.5 times EBITDA.

The largest exposure at December 31, 2011 concerns the two credit lines (Senior 1 and Senior 2) for Euro 152,467 thousand, which mature on June 1, 2012, as established by the original contract of June 6, 2002. On maturity of the above-mentioned credit lines the financing banks commit to grant a further two credit lines for a total amount to Euro 137,500 thousand, with maturity on December 6, 2017.

Trade payables at December 31, 2011 amounted to Euro 147,400 thousand (Euro 176,893 thousand at December 31, 2010). Overdue trade payables amount to Euro 54.2 million (Euro 68.8 million at December 31, 2010), of which Euro 36.3 million to related parties (Euro 37.8 million at December 31, 2010).

Management considers that the provisions and the credit lines currently available, together with funds generated by operating and financing activities, will not fully satisfy the Group’s financial requirements for investing activities, the management of working capital and the repayment of amounts owning on maturity, without the sourcing of new loans and/or a moratorium on payments (reference should be made to the paragraph "Outlook and Directors’ considerations on the going concern of the business" in the Directors’ Report).

Credit risk

The credit risk is the risk that a client or a commercial or financial partner creates a charge by not fulfilling a payment obligation.
The Group is exposed to credit risk both in relation to commercial transactions and inter-company lending activities.

The maximum theoretical exposure to credit risk at December 31, 2011 concerns the book value of Other assets, Trade receivables, Short-term financial assets and Cash and cash equivalents at banks, financial institutions and post offices for a total of Euro 182,412 thousand (Euro 248,571 thousand at December 31, 2010).

Financial assets are recorded in the financial statements net of the write-downs calculated on the basis of the risk of non-fulfilment by the counterparty, determined considering the information available on the clients solvency and considering historical data.

The Group financial management monitors on a monthly basis the risk of non-payment of receivables, overdue receivables and credit lines granted to the largest clients of each Group company.
The Group credit risk concerning commercial transactions with overseas business partners (excluding receivables from the Telecom Italia Group and a small number of other enterprises) is insured by S.A.C.E. for a minimum of 80% and maximum of 90%.

The largest exposure concerns trade receivables. At December 31, 2011 trade receivables for Euro 107,965 thousand (Euro 135,869 thousand at December 31, 2010) were recorded, net of a doubtful debt provision of Euro 8,678 thousand (Euro 8,656 thousand at December 31, 2010).

At December 31, 2011 overdue trade receivables amounted to Euro 10.5 million (Euro 22.6 million at December 31, 2010).

The Group policy establishes very strict terms for the extension of normal payment terms.

Group cash and cash equivalents are deposited at leading financial counterparties.

In relation to the Group objectives and policies concerning the management of other financial risks and the hedging policy, reference should be made to Note 5 of the Notes to the consolidated financial statements.

Transactions with related parties

In relation to activities with related parties in the year, reference should be made to the section within the Notes to the Consolidated Financial Statements.

Significant events

On June 9, 2011 a rental contract concerning the industrial area of Castelletto, the long-standing base of Italtel, approved by the Board of Directors of Italtel on October 5, 2010, was concluded with Nabucco R.E. S.r.l.. The contracts duration is from January 1, 2011 with its conclusion on December 31, 2025, for a total of 15 years and an annual rental payment of Euro 8.1 million. The contract replaces the previous contract signed on December 30, 2003 with Nabucco S.r.l..

In 2008, on transition to international accounting standards, this rental was considered a finance lease for the portion of buildings and plants rented and an operating lease for the parts relating to the land rented as established by IAS 17. In 2010, the standard was amended, introducing the concept that also land is depreciated when the rented buildings stand on such land.

Therefore in the valuation of the finance lease relating to the new contract the value of the leased assets includes also the land. The effects of the cancellation of the old contract were calculated as if from its initiation until 2010 these lands were also subject to a finance lease. The effect of this restatement resulted in a reduction in the opening net equity of Euro 4.0 million, an increase in the value of property, plant and equipment of Euro 5.2 million, an increase in the financial payable of Euro 7.8 million, an increase in the deferred income concerning the initial gain of Euro 2.6 million and a deferred tax assets of Euro 1.2 million.

The cancellation of the original operation, as previously described, resulted in a gain of Euro 32.2 million (due to the de-recognition of the residual financial liability and the deferred income relating to the suspended gain, net of the value of assets recognised in the balance sheet), in line with the leaseback contract (the value includes also the land related to the areas which was not included in the first contract), taking account of the effect concerning the portion of land not re-leased under the new contract for Euro 1 million which had a non-recurring positive impact on the income statement. The residual of Euro 31.2 million was discounted for a period of 15 years and resulted in a positive adjustment in the year of Euro 2.1 million which compared to Euro 1.7 million previously established based on the 2004 contract, resulting in a difference of Euro 0.4 million in the year.

Land and buildings leased were recognised respectively for Euro 13 million and Euro 36 million, depreciated for Euro 3.3 million (Euro 3.4 million according to the previous contract). A financial payable of a similar amount was recorded and the capital portion reduced for Euro 0.3 million and financial charges of Euro 7.8 million recognised to the income statement (Euro 4.9 million according to the previous contract). Therefore, the net positive effect on the 2011 result compared to the effect which would have been generated according to the previous contract amounted to Euro 0.1 million. A negative impact of Euro 10.8 million was seen on the financial position due to the increase in the payable concerning the new rental contract and a positive effect of Euro 2 million related to the reduction in the guarantee required by the lessor, in addition to a lower rental instalment paid of Euro 1.1 million.

Subsequent events after the end of the year

Except where commented upon in the subsequent note, at the date of the preparation of the present financial statements no further subsequent events had taken place.

Outlook and Directors’ considerations on the going concern of the company

Outlook

From 2009, Italtel S.p.A., as a result of the market downturn and increased competition, in addition to the critical debt level reached, found itself in particularly serious difficulties from an industrial and financial viewpoint, which led to the signing on September 16, 2010 with UniCredit S.p.A. (“UniCredit”), Banca Popolare di Milano S.c.a r.l. (“BPM”), GE Capital S.p.A. (“GE Capital”), ABC International Bank – Milan Branch, Banco Popolare Società Cooperativa, Banco Brescia S.p.A. and Centrobanca – Banca di Credito Finanziario e Mobiliare (jointly, hereafter the “Lending Banks”) and with Telecom Italia S.p.A. and Cisco Systems International BV (“Cisco”) of a number of agreements in order to improve the debt position of the company and to ensure financial stability, within a rescue plan as per Article 67 of Decree No. 267 of March 16, 1942 (“BL” or “Bankruptcy Law”).

Under these agreements: (A) the Lending Banks renegotiated the bank debt conditions of Italtel and undertook an obligation to refinance this debt on expiry according to new terms and conditions; while (B) Telecom Italia and Cisco subscribed in equal parts to a share capital increase of the parent company Italtel Group for a total of Euro 70 million and undertook trade commitments with Italtel comprising, for Telecom, the obligation to purchase a minimum annual quantity of products and services from Italtel for the years 2010, 2011, 2012 and 2013 and for Cisco to accept a number of amendments to the trade conditions applied to Italtel.

However, from the third quarter of 2011, due to the further significant downturn in the European economy (and in particular the Italian economy), related to the Eurozone crisis and its significant recessionary impact, Italtel was forced to deal with a new economic and financial crisis - resulting in the signing of the agreement as per Article 67 of the BL – and undertook to implement an additional rescue measure.

The review of all the economic and industrial plans required by the economic downturn resulted in, among other issues, a significant write-down of the goodwill recognised by the Company, which in turn resulted in losses which reduced the share capital under the minimum legal requirement, triggering the repercussions as per Article 2447 of the Civil Code; this development was declared by the Board of Directors of the Company, which prepared and filed the legally required documentation and called the Shareholders’ Meeting (currently suspended and postponed to December 13, 2012).

In facing the financial crisis stemming from the downturn in the industrial and economic environment outlined above, Italtel, from the beginning of 2012 initiated negotiations with the lending banks and with Telecom Italia and Cisco in order to reach a debt restructuring agreement, with approval as per Article 182-*bis* of the BL which, through a number of financial agreements with the banks and financial and trade commitments made by Telecom Italia and Cisco, could comprehensively recover the financial, capital and industrial position of the Company.

The restructuring drawn up by the Company is based on the industrial plan approved on November 28, 2012, which establishes for, in addition to the trade and financial operations contained in the proposal itself and briefly summarised below, a significant reorganisation of Company personnel, forming the basis of an important memorandum signed on November 22, 2012 by the Ministry of Economic Development and by all of the principal trade unions.

As a result of the negotiations with all relevant parties, and thanks to the solid backing of the relative authorities and the social partners, a restructuring agreement was signed – also by Italtel Group, which as noted is guarantor of all of Italtel S.p.A.’s obligations with the banks – which requires approval by the Milan court (to be presented on December 12, 2012).

The Debt Restructuring Agreement provides for the following capital, financial and industrial rescue measures for Italtel:

a. the recapitalisation of the Company for Euro 153,035,272, to be achieved through the issue of participating financial instruments as per Article 2346, sixth paragraph of the Civil Code, through: (a) conferment by the Lending Banks of their receivables deriving from the medium-long term loan contract for Euro 89,342,969, (b) conferment by UniCredit of its receivable from the interest rate swap contracts (with maturity extension previously agreed in 2010) for Euro 9,192,303; (c) conferment by Cisco of its trade receivables concerning the supply of Cisco products to Italtel, for Euro 50 million and (d) conferment by Telecom Italia Finance of the bridge loan of Euro 4.5 million which will be issued to Italtel immediately following the filing of the court petition; in addition to the measures outlined above, the Restructuring Agreement establishes for a further automatic conversion of bank receivables for a maximum Euro 29,516,100 into participating financial instruments, in the case in which, on the maturity on the RCF credit lines in June 2017, the Company has utilised, in full or in part, the Support Lines described in the subsequent letter b;

b. the new financing for a total of Euro 51,000,000: (i) by two of the Lending Banks (UniCredit and BPM) for Euro 36,500,000, through the signing of a new loan contract; (ii) by Telecom Italia Finance, for Euro 4.5 million, which, as stated will be issued as a bridge loan within five days from filing of the present petition and (iii) by Cisco for Euro 10 million, in the form of the granting of new trade receivables against new supplies for Euro 5,000,000 and the extended repayment of a part of the pre-existing trade receivables of a similar amount. The issue of approximately half of the new financial resources provided by the banks (in this latter case limited to the share made available by Unicredit) and by Cisco, in addition to all of the TI bridge loan for a total of Euro 23 million will take place before approval in the form of a bridge loan, which should recognise the functional nature and the consequent pre-deductibility as per Article 182 *quater* of the BL; in addition to the fresh resources indicated above, the Restructuring Agreement establishes for the commitment of the Banks, Cisco and Telecom Italia Finance to make available two further precautionary conditioned lines (defined as Supporting Finance in the Restructuring Agreement), for a total amount of Euro 39,783,451, of which (A) Euro 15,800,000 to guarantee the payments of outside creditors, and (B) Euro 23,983,451 to cover the non-issue of loans and contributions established by the Plan;

c. the signing of a new medium-long term loan contract for a total Euro 63,124,174 to refinance the residual exposure from the loan contract signed on May 28, 2002 (the "Original Term Loan Contract"), already expired at the date of the present petition – which establishes for inter alia: (a) the rescheduling of the capital line amounts in three solutions of December 31, 2017, 2018 and 2019, with the exception of a lower share held by ABC Bank of approx. Euro 2.5 million, which will be repaid in a single solution on December 31, 2019 and (b) the suspension of interest payments;

d. a renegotiation of the terms and conditions of the revolving loan contract signed with a number of Lending Banks on November 29, 2010 for a total of Euro 203.5 million, currently utilised for approx. Euro 91.5 million, of which Euro approx. 77.9 million for cash (divided into various usage forms) and approx. Euro 13.6 million in bank guarantees, which will involve inter alia: (a) a number of amendments to the amounts and usage forms of the existing credit lines in accordance with this contract, with a reduction in the overall maximum amount of the loan to Euro 135,183,451, of which approx. Euro 109,000,000 in cash form and Euro 26,183,451 in the form of bank guarantees; (b) the partial suspension of interest payments; (c) the granting of a part of the sums currently utilised for advance lines for an amount of Euro 3,950,000.00 with rescheduling of the relative repayment until June 30, 2013; (d) the granting of a further share of the sums currently utilised for an advance line on invoices for an amount of Euro 4,000,000.00 with rescheduling of this amount to June 30, 2017, (d) the rescheduling of the final repayment date of all the further amounts due in accordance with this contract until June 30, 2017;

e. amendments to both loan contracts, including: (a) partial suspension of interest payments (other than those on the new loan which must be repaid on schedule) until the end of 2014 and, subsequently, the payments of only the variable portion (Euribor) of the above-stated interest, on the condition that and in the required amount to ensure that sufficient available cash is available to cover the short term liquidity needs of Italtel;

f. the rescheduling of repayments to three installments in the years 2017, 2018 and 2019 and the suspension until the end of 2017 of the payment of interest on the loan which Unicredit currently holds with Italtel in accordance with the *Hedging Amounts Assignment and Rescheduling Agreement* of September 16, 2010, under which, inter alia, a number of amounts due by Italtel were extended following the resolution of the interest rates swap contracts in place at that date;

g. the granting by Cisco to Italtel, in departure from the contractual agreements in place concerning payment conditions for the supply of Cisco products, which involves the possibility to accumulate payables to

Cisco up to a maximum of Euro 55,000,000 and pay receivables against Cisco supplies within 90 days in Europe and within 60 days in Latin America and a series of other improved commercial and credit conditions than those currently in place;

h. the commitment of Telecom Italia to purchase goods and services from Italtel for an invoicing amount of at least Euro 120,000,000 per year, for the 2013-1016 period, as outlined in greater detail in the Restructuring Agreement;

i. the payment by Telecom Italia to Italtel of an amount of Euro 10,000,000, with prior signing of a settlement agreement concerning a serious of indemnity requests sent by Italtel to Telecom Italia in accordance with Article 7 of the *"Subscription and Share Price Agreement"* dated September 30, 2000;

j. the previously stated significant corporate reorganization in accordance with the previously outlined agreement with the Ministry of Economic Development and the principal trade unions.

The Restructuring Agreement, with the exception of the provisions concerning the bridge loans as illustrated above, and the cancellation by Italtel S.p.A. of a receivable from Italtel Group S.p.A. for approx. Euro 13.1 million, including interest matured at December 31, 2011, is subject to approval.

Together with the Restructuring Agreement, and as a condition of the agreement, the Company in addition negotiated an important amendment of the conditions of the rental contract which the Company currently has in place with Nabucco R.E. S.r.l., concerning its offices at Settimo Milanese, in the Castelletto area, which provides for a reduction in the contractual duration to six years, automatically renewable for a further six, with withdrawal based on 18 months prior notice, a reduction in the rental amount and the consequent derecognition of the payable, with a reduction of the net debt by over Euro 48 million.

Through the contribution of the receivables by the Banks, Cisco and TI, and the simultaneous issue of the PFI's, the Company will cover the losses matured, recapitalising itself, as following the Italtel operation the situation established by Article 2447 of the Civil Code will no longer be applicable but a positive net equity will be in place which today is estimated at approx. Euro 109.7 million, (assuming the coverage takes place in February 2013, as today forecast and losses in 2012 are in line with those forecast by the plan).

With the recovery of the capital position, the debt structure of the Company will also improve, both through the injection of new finance and as a result of the amendments made to the loan contract conditions in place.

Italtel may also count on, from an industrial viewpoint, the improved support of its strategic partners and indirect shareholders Telecom Italia and Cicso, which, as seen, have undertaken significant commitments also of a commercial nature.

The significant nature of the actions and the appropriateness of the Restructuring Agreement, in particular in ensuring the payment of outside creditors to the agreement, were declared by Ms. Stefania Chiaruttini and by Mr. Enrico Laghi, consultants acting within *"the requirements as per Article 67, third paragraph letter d)"*, of the Bankruptcy Law, in the report prepared in accordance with Article 182 *bis*.

Directors' considerations on the going concern

In consideration of that described above the directors, in considering the going concern of the Italtel Group, identified the continued presence of a number of uncertainties which, as related to future actions or events, are outside of their control:

- the signing of the final contracts with the banks;
- court approval;
- the subscription of the share capital increase by February 2013;
- the financial and capital stability and a return to profit, in addition to implementation of the above-stated agreements, is based on the reaching of the objectives contained in the industrial plan and therefore on achieving the assumptions contained therein.

The Directors in evaluating the above indicated issues considered, in particular, the following aspects:

- the signing of the restructuring agreement;
- the commitment of the credit institutions and the industrial shareholders to convert the participating financial instruments of the Company for Euro 153 million;
- the sustainability of the industrial plan examined by a reputable consultancy firm and the financial viability of the plan declared by the consultants stated above lead to the conclusion in the short-term of the approval by the Milan Court and the reaching of the 2012-2016 industrial plan objectives.

In conclusion, the Directors, after analysing all of the events and circumstances described above, recognised that at the date of the present report a degree of uncertainty persists concerning the approval of the restructuring agreement and the consequent finalisation of the recapitalisation expected by February 2013, which if unattained may impact the ability of the company to operate under the going concern principle; however after having made the necessary verifications and evaluated the above identified uncertainties, the Directors hold the reasonable certainty that the Company has adequate resources to continue operations until the approval date and has prepared the financial statements of Italtel S.p.A. at December 31, 2011 under the going concern principle.

Settimo Milanese, December 11, 2012

For the Board of Directors

The Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated balance sheet at December 31, 2011 and 2010

(thousands of Euro)

	Note	31/12/2011	31/12/2010
Assets			
Non-current assets			
Property, plant and equipment	(7)	66,905	50,781
Goodwill	(8)	167,215	297,215
Other intangible assets	(9)	36,395	44,179
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	169	580
Other assets	(12)	17,991	20,006
Deferred tax assets	(13)	70,076	68,697
Total non-current assets		**358,945**	**481,652**
Current assets			
Inventories	(14)	33,148	40,957
Trade receivables	(15)	107,965	135,869
Tax receivables	(16)	2,781	1,719
Other receivables and assets	(17)	25,219	22,375
Short-term financial assets	(18)	3,877	2,826
Cash and cash equivalents	(19)	27,360	67,495
Total current assets		**200,350**	**271,241**
Discontinued non-current assets	(42)	**179**	**463**
Total assets		**559,474**	**753,356**
Net Equity and Liabilities			
Net Equity			
Share capital	(20)	131,427	131,427
Reserves	(21)	11,507	10,943
Treasury shares	(22)	(10,983)	(10,943)
Other reserves including the net result	(23)	(160,903)	(11,240)
Group Net Equity		**(28,952)**	**120,187**
Share capital and reserves pertaining to minority interests		-	-
Total Net Equity		**(28,952)**	**120,187**
Liabilities			
Non-current liabilities			
Employee benefit provisions	(25)	28,359	29,977
Provisions for risks and charges	(26)	11,289	31,565
Medium/long term financial liabilities	(27)	83,898	235,712
Other liabilities	(28)	27,337	14,571
Total non-current liabilities		**150,883**	**311,825**
Current liabilities			
Trade payables	(29)	147,400	176,893
Current income tax payables	(30)	1,697	1,543
Other payables and liabilities	(31)	50,649	78,143
Current financial liabilities	(27)	237,793	64,761
Total current liabilities		**437,539**	**321,340**
Discontinued non-current liabilities	(42)	**4**	**4**
Total liabilities		**588,426**	**633,169**
Total net equity and liabilities		**559,474**	**753,356**

2011 and 2010 Consolidated Income Statement

(thousands of Euro)

	Note	2011	2010
Revenues from sales and services	(32)	405,413	421,972
Other income	(33)	46,457	39,853
Purchase of materials and services	(34)	(288,796)	(288,594)
Personnel costs	(35)	(117,876)	(135,170)
Amortisation, depreciation and write-downs	(36)	(171,053)	(43,459)
Other operating costs	(37)	(10,197)	(11,224)
Change in inventories	(38)	(7,682)	(1,825)
Internal cost capitalisations on fixed assets	(39)	23,919	25,529
EBIT		**(119,815)**	**7,082**
Financial income	(40)	17,375	17,105
Financial charges	(40)	(35,151)	(36,755)
Net income/(charges) from valuations of investments under the net equity method		-	-
Loss before taxes		**(137,591)**	**(12,568)**
Income taxes	(41)	(7,177)	249
Loss from normal operations		**(144,768)**	**(12,319)**
Discontinued activities profit/(loss)	(42)	(37)	(1,155)
NET LOSS FOR THE YEAR		**(144,805)**	**(13,474)**
Group share		**(144,805)**	**(13,474)**
Minority interest share		-	-

2011 and 2010 Consolidated Comprehensive Income Statement

(thousands of Euro)

	2011	2010
Net loss for the year	**(144,805)**	**(13,474)**
Profits (losses) from conversion of accounts of overseas companies	(333)	302
Total other profits/(losses) directly recorded to net equity	**(333)**	**302**
Total comprehensive loss	**(145,138)**	**(13,172)**
Group share	**(145,138)**	**(13,172)**
Minority interest share	**-**	**-**

Consolidated Cash Flow Statement at December 31, 2011 and 2010

(thousands of Euro)

	2011	2010
A - Opening cash and cash equivalents (net short-term debt)	**67,495**	**33,473**
B – Cash flow from operating activity		
Loss for the year (including minority interests share)	(144,805)	(13,474)
Amortisation, depreciation and write-downs	171,053	43,459
Losses on disposed assets (1)	(2,780)	(1,721)
Reversal of financial liabilities	(3,061)	-
Increase in deferred tax asset	(149)	(6,102)
Increase / (Decrease) of employee benefits provisions	(1,618)	(8,811)
Changes in other provisions	(10,169)	(10,517)
Cash flow from activities before changes in working capital	**8,471**	**2,834**
Change in working capital		
(Increase) / Decrease in receivables	24,282	(31,458)
(Increase) / Decrease in inventories	(2,298)	2,007
(Increase) / Decrease of other assets	2,015	(679)
Increase / (Decrease) in trade and other payables	(59,583)	23,292
Total changes in working capital	**(35,584)**	**(6,838)**
Total (B) (2)	**(27,113)**	**(4,004)**
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	120	(23)
(Increase) / Decrease in other financial assets	(1,051)	1,057
Divestment of fixed assets	249	122
Investments in property, plant and equipment	(3,508)	(1,146)
Investments in intangible assets	(24,565)	(25,975)
Total (C)	**(28,755)**	**(25,965)**
D - Cash flow from financing activities		
Granting and repayments of short-term loans	23,992	2,583
New loans	-	21,965
Repayment of loans to third parties	(7,052)	(16,293)
Share capital increase payment	-	70,000
Granting of finance leases	449	-
Repayment of finance leases	(439)	(1,852)
Purchase and sale of treasury shares	(40)	-
Increase / (Decrease) in other financial liabilities	(1,230)	(13,205)
Total (D)	**15,680**	**63,198**
E – Cash flow for the year (B+C+D)	**(40,188)**	**33,229**
Other shareholders' equity changes	53	793
F – Closing cash and cash equivalents	**27,360**	**67,495**

(1) These include Euro 3,073 thousand concerning the reversal of the long-term portion of the gain realised on the sale of the industrial building of Castelletto. Euro 2,780 thousand includes also the gain/loss for the year.

(2) This amount includes the payment of current taxes for Euro 6,568 thousand and Euro 7,508 thousand, respectively in 2011 and 2010

Statement of changes in shareholders’ equity for the years ended December 31, 2010 and 2011

(thousands of Euro)

	Group Share					Minority interest share	Total Net Equity
	Share capital	**Reserves**	**Treasury shares**	**Other reserves including the result**	**Total**		
Balance at January 1, 2010	**115,459**	**449,686**	**(10,943)**	**(490,837)**	**63,365**	**-**	**63,365**
Comprehensive Loss	-	-	-	(13,172)	(13,172)		(13,172)
Change in consolidation scope	-	-	-	(6)	(6)	-	(6)
Transactions with shareholders:							
- Coverage of carried forward losses from prior years and for the period 1/ - 30/04/2010 of Italtel Group S.p.A.	(54,032)	(438,743)	-	492,775	-	-	-
- Share capital increase, fully paid-in	70,000	-	-	-	70,000	-	70,000
Balance at December 31, 2010	**131,427**	**10,943**	**(10,943)**	**(11,240)**	**120,187**	**-**	**120,187**
Reclassification of Castelletto land from operating lease to finance lease	-	-	-	(3,961)	(3,961)	-	(3,961)
Allocation of 2010 profit of Italtel Group S.p.A. – Shareholders’ Meeting resolution of April 21, 2011	-	564	-	(564)	-	-	-
Comprehensive Loss	-	-	-	(145,138)	(145,138)	-	(145,138)
Transactions with shareholders:							
Acquisition of treasury shares	-	-	(40)	-	(40)	-	(40)
Balance at December 31, 2011	**131,427**	**11,507**	**(10,983)**	**(160,903)**	**(28,952)**	**-**	**(28,952)**

Notes to the Consolidated Financial Statements
Note 1 - Introduction

Introduction
Italtel Group S.p.A. (hereafter the Parent Company) is a corporation company with registered office in Castelletto, Settimo Milanese (MA) and is held through ordinary "A" shares, as described on page 6, for 48.77% by Clayton Dubilier & Rice, for 19.37% by Telecom Italia, for 18.40% by Cisco Systems, for 10.81% by Capita Trustees Limited, for 2.65% by Cordusio S.p.A., of which 1.91% through treasury shares and the remaining 0.74% comprising manager and employee shares.

The Parent Company, through its subsidiaries (hereafter the Italtel Group), provides solutions, products and services principally for telecommunication operators and also for Large Enterprises and the Public Administration. These solutions, products and services are principally proposed as projects for voice/data and fixed/mobile convergence.

The present annual consolidated financial statements, relating to the year ended December 31, 2011, are presented in Euro, being the currency in which the Group operates and consists of the Balance Sheet, Income Statement, Comprehensive Income Statement, Cash Flow Statement, Statement of changes in Shareholders' Equity and the Notes to the financial statements. All the amounts reported in the consolidated financial statements are expressed in thousands of Euro, unless otherwise indicated.

There were no changes in the consolidation scope in 2011.

Financial Statement Presentation
In line with Regulation (EC) 809/2004 and Recommendation 05-054b of the CESR (the Committee of European Securities Regulators), the Italtel Group prepared the consolidated financial statements at December 31, 2005 in line with IFRS approved by the European Commission.

The changes with indication of the significance for the Group are reported below:

- Changes to the accounting standards and interpretations applied from January 1, 2011 significant for the Group consolidated financial statements:

Improvements to IFRS: On March 23, 2010 Regulation (EC) 243/2010 was issued which enacted at EU level the improvements to the following standards, entering into force from January 1, 2010:

IAS 17 - *Leasing*: The amendment concerns the classification of leased land and buildings. When the leasing concerns both land and buildings, the entity must separately measure each element in accordance with their classification as a finance lease or an operating lease. At the date of application of this amendment, the classification of all leasing contracts for the portion concerning the land must be revised. The reclassification from "operating lease" to "financial lease" must be retrospectively measured.

- Changes to the accounting standards and interpretations applicable from January 1, 2011 not significant for the Group consolidated financial statements:

IAS 32 - (amendment) - *Classification of rights issues*. The amendments concerning the treatment of rights issues (rights, options or warrants) which are denominated in a currency other than the functional currency of the issuer. Previously, these rights were considered as liabilities from derivative financial instruments. The amendment requires that, under certain conditions, these rights are classified as net equity instruments independent of the currency in which the exercise price is denominated. The amendments to IAS 32 are applied from January 1, 2011; however advance application is permitted.

IAS 24 – (amendment) – *Related party disclosure*. The amendments establish a partial exemption concerning the disclosure which entities related to the Public Administration must produce. In addition, the definition of related party was revised and a number of clarifications on the content of the disclosure were introduced. The amendments to IAS 24 are applied from January 1, 2011; advanced application is permitted.

IFRIC 14 – (amendment) - *The limit of a defined benefit asset, minimum funding requirements and their interaction*. The amendments concern, in particular, the case in which an entity, subject to minimum contributions to a fund, makes an advance payment against that due. In this case, the payment may be considered as an asset. The amendments to IFRIC 14 apply from January 1, 2011; advanced application is permitted.

IFRIC 19 - *Extinguishing financial liabilities with net equity instruments*. This interpretation clarifies the situation in which an entity renegotiates the terms of a financial liability with a creditor and this latter accepts company shares or equity-based instruments to settle the financial liabilities in full or in part. IFRIC 19 is applied from January 1. 2011; advanced application is permitted.

- Improvements to IFRS - On February 18, 2011 Regulation (EC) 149/2011 was issued and enacted at EU level. The improvements, entering into force from January 1, 2011, concern the following standards:

IFRS 1 *(First-time adoption of International Financial Reporting Standards)*: the amendments concern disclosure to be provided in the following specific cases: change to the accounting standards on the first-time adoption of IFRS and utilisation of the "deemed cost" after the transition date to IFRS, also concerning transactions subject to standardised rates.

IFRS 3 *(Business combinations):* The amendments concern:

- the limitation of the possibility to value minority investments at their fair value or, alternatively, in proportion to the relative share in the net assets of the investment;
- a clarification that IFRS 2 is applied at the acquisition date both for the transactions with share-based payments of the investment and for those placed by the acquirer;
- a number of clarifications on the treatment of potential payments.

IFRS 7 (Financial Instruments: additional disclosure): the amendments provide for the qualitative disclosure in addition to the quantitative disclosure required to assist users to establish a complete picture of the nature and the type of risks connected to the financial instruments. In addition, the amendments clarify the information required concerning the credit risk, the guarantees held and simplifies the information concerning renegotiated loans.

IAS 1 (Presentation of Financial Statements): the amendment permits the presentation of the other comprehensive income statement components or the “Statements of changes in net equity” or in the notes to the financial statements.

IAS 27 (Consolidated and separate financial statements): the amendment establishes the methods for the adoption of the amendments introduced by IAS 21, IAS 28 and IAS 31 following the review of IAS 27 in 2008.

IAS 34 (Interim financial reporting): the amendments underline that significant events and transactions in the interim financial statements must update the significant information presented in the last annual financial statements. In particular, they provide details on the reporting of significant transactions concerning financial instruments and at their fair value.

IFRIC 13 (Customer loyalty programmes): the amendment establishes the method for the measurement of the fair value of loyalty points.

- Changes to accounting standards and interpretations applied after January 1, 2012:

IFRS 7 (*Additional Disclosure - Transfers of Financial Assets*): Under Regulation No.1205/2011 issued by the European Commission on November 22, 2011 the amendments to IFRS 7 "Financial Instruments” were approved: additional disclosure - Transfers of Financial Assets," which establishes the supplementation of the disclosure on financial instruments, with reference to the transfer of financial instruments, to describe the risks to which the Company remains exposed in relation to the assets transferred. The new provisions require, among others, additional disclosure in the case in which the company carries out significant transfers of financial assets close to the year-end.

These amendments must be applied from January 1, 2012. The above-stated amendments do not have a significant effect on the Group financial statements.

The accounting standards described below were applied in a uniform manner for all the periods presented.

Note 2 - Accounting Principles Adopted

Consolidation method

The consolidated financial statements include the financial statements of Italtel Group S.p.A. (the Parent Company) and the companies in which it directly or indirectly controls, from the date of acquisition and until the date the control terminates. The control is exercised either due to directly or indirectly holding a majority of the voting rights, or through the exercise of a dominant influence which is expressed by the power to determine, including indirectly based on contractual or legal agreements, the financial and operating choices of the company and thus obtaining the relative benefits, without reference to the actual holding in the company. The existence of potential exercisable voting rights at the balance sheet date is considered in order to determine control.

The financial statements used for the consolidation were prepared at December 31, 2011 and are those prepared and approved by the Board of Directors of the individual companies, appropriately adjusted, where necessary, in accordance with the accounting principles of the parent company.

The subsidiaries whose consolidation would not have significant effects both from a quantitative and qualitative viewpoint were not included in the consolidation scope and therefore not consolidated under the line-by-line method, to ensure an accurate representation of the balance sheet, income statement and financial situation of the Italtel Group. These entities were recognised at cost.

The criteria adopted for the line-by-line consolidation of the fully consolidated subsidiary companies were as follows:

- the assets and liabilities, the charges and the income are recorded line-by-line, attributing, where applicable, the relative minority share of net equity and of the net result;
- the business combinations, in which the control of an entity is acquired, are recorded applying the "purchase method". The acquisition cost is represented by the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and any other accessory charges directly allocated. The difference between the acquisition cost and the current value of the assets and liabilities acquired, if positive, is allocated to Goodwill, and if negative is recorded in the income statement;
- the gains and losses from operations between fully consolidated companies, not yet realised with third parties are eliminated if significant with the reciprocal payables and receivables also eliminated, in addition to the costs and revenues and the financial income and charges;
- the gains and losses deriving from the sale of a share of the investment in a consolidated company are recorded in the income statement for the amount corresponding to the difference between the sales price and the corresponding fraction of the assets and liabilities sold.

The holdings in companies in which the Italtel Group has a significant influence (hereafter "associated companies"), which is presumed to exist when the percentage holding is between 20% and 50%, are recognised under the net equity method, with the exception of the cases in which the application of this method to the investment does not impact the balance sheet and financial situation of the Italtel Group. In these cases, the investment is carried at cost. The application of the net equity method is described below:

- the book value of the investments is aligned to the net equity of the company adjusted, where necessary, to reflect the application of the accounting principles of the Parent Company and include, where applicable, the recording of any goodwill identified at the moment of the acquisition;
- the profits and losses pertaining to the Italtel Group are recognised in the consolidated income statement at the date when the significant influence begins and until the date of termination. Where losses in the investee result in a negative net equity, the book value of the investment is written down and any excess pertaining to the Group is recorded in a specific provision only when the Italtel Group is committed to comply with legal or implicit obligations of the associated company or in any case to cover the losses. The equity changes of the associated companies not derived from the income statement are recorded directly as adjustments to the reserves;
- the gains and losses not realised generated on operations between the Parent Company/Subsidiaries and the associated companies are eliminated for the part pertaining to the Italtel Group. The losses not realised are eliminated except when they represent a permanent impairment in value.

The financial statements of the companies in the consolidation scope are prepared in the primary currency in which they operate (the "functional currency"). The consolidated financial statements were prepared in Euro, which is the functional currency of the Parent Company. The rules for the translation of financial statements of companies which operate in a currency other than the Euro are the following:

- the assets and the liabilities were translated using the exchange rate at the balance sheet date;
- the costs and revenues are translated at the average exchange rate for the period;
- the "Translation reserve" includes both the foreign exchange differences generated from the translation of foreign currency transactions at a rate different than at the balance sheet date and those generated from the translation of the opening shareholders' equity at a different rate than that at the balance sheet date;
- the goodwill and the fair value adjustments 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 balance sheet date;
- in the preparation of the consolidated cash flow statement the average exchange rates for the year are used to convert the cash flows of foreign subsidiaries.

The exchange rates applied are reported below.

	2011 Average	**At December 31, 2011**	**2010 Average**	**At December 31, 2010**
Argentinean Peso	5.74525	5.56769	5.1856	5.30994
Russian Ruble	40.8846	41.765	40.2629	40.82
Kenyan Shilling	123.759	109.832	105.012	107.943
Brazilian Real	2.32651	2.4159	2.33143	2.2177
UK Sterling	0.867884	0.8353	0.857844	0.86075
US Dollar	1.39196	1.2339	1.32572	1.3362
Polish Zloty	4.12061	4.458	3.99467	3.975
Arab Emirates Dirham	5.11258	4.75237	4.86925	4.90781
Peruvian Nuevo Sol	3.83386	3.48747	3.74495	3.75086
Saudi Arabian Riyal	5.22032	4.85236	4.97165	5.0106
Oman Riyal	0.535643	0.497949	0.509948	0.51403

The lists of companies directly or indirectly held by the Parent Company are reported in Note 47.

Summary of the main accounting principles and policies

The Consolidated Financial Statements were prepared in accordance with the cost criteria, except in cases specifically described in the following notes where the "fair value" was applied and are presented, where not otherwise indicated, in thousands of Euro.

The principal measurement criteria utilised are described below.

A - Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any loss in value. The cost includes all charges directly incurred for bringing the asset to their condition for use, as well as dismantling and removal charges which will be incurred consequent of contractual obligations, which require the asset to be returned to its original condition. Any interest charges concerning the construction of property, plant and equipment are not capitalised.

The expenses incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the income statement in the year in which they are incurred. The capitalisation of the costs relating to the expansion, modernisation or improvement of owned tangible assets or of those held in leasing, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset in accordance with the component approach. Similarly, the replacement costs of components relating to complex assets are allocated as assets and depreciated over their residual useful life while the residual value of the component subject to replacement is recorded in the income statement.

The initial value of property, plant and equipment is adjusted for depreciation on a systematic basis, calculated on a straight-line basis when the asset is available and ready for use, based on the estimated useful life, net of the recoverable value.

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

- Leased land: 15 years
- Industrial buildings: 33 years
- Plant and machinery: 5-10 years
- Commercial and industrial equipment: 4 years
- Other assets: 4-10 years

The useful life of property, plant and equipment and their residual value are reviewed annually and updated, where necessary, at the end of each year.

Land, excluding leased land, is not depreciated.

When the asset to be depreciated is composed of separately identifiable elements whose useful life differs significantly from the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the "component approach" principle.

B - Leased assets

The assets held through finance lease contracts, where the majority of the risks and rewards related to the ownership of an asset have been transferred to the Italtel Group, are recognised as assets of the Italtel Group at their fair value or, if lower, at the current value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables. The assets are depreciated applying the same criteria and rates previously indicated for the other tangible assets, except where the duration of the lease contract is lower than the useful life and there is not a reasonable certainty of the transfer of ownership of the asset at the normal expiry date of the contract; in this case, the depreciation is over the duration of the lease contract. Any gains realised on the sale of leased assets are recorded under deferred income and recorded in the income statement over the duration of the lease contract.
The leased assets where the lessor bears the majority of the risks and rewards related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

C – Intangible Assets

An intangible asset is a non-monetary asset, identifiable and without physical substance, controllable and capable of generating future economic benefits. These assets are recorded at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation, and any loss in value. Interest charges matured during and for the development of intangible assets are charged directly to the income statement. Amortisation begins when the asset is available for use and is recognised on a systematic basis in relation to the residual possibility of use and thus over the estimated useful life of the asset, net of the residual recoverable value.

(i) Goodwill

The goodwill is represented by the excess of the purchase cost incurred compared to the net fair value, at the acquisition date, of assets and liabilities. This is not subject to systematic amortisation but a periodic impairment test is made on the carrying value in the accounts. The impairment test on goodwill is carried out at least annually. This test is made with reference to the "cash generating unit" to which the goodwill is attributed. A reduction in the value of the goodwill is recorded when the recoverable value of the goodwill is lower than the carrying value. The recoverable value is the higher between the fair value of the cash generating unit, net of selling costs, and the relative value in use (see the subsequent point D for further details concerning the determination of the value in use). Goodwill may not be restated in subsequent years.

When the reduction in value deriving from the test is higher than the value of the goodwill allocated to the cash generating unit the residual amount is allocated to the assets included in the cash generating unit in proportion to their carrying value. This allocation has as its minimum limit, the highest value between:

- the fair value of the asset less costs to sell;
- the value in use, as defined above.

(ii) Research and development costs

Research and development costs are recorded in the income statement in the year incurred, with the exception of development costs recorded under intangible assets when they satisfy the following conditions:

- the project is clearly identified and the related costs are reliably identifiable and measurable;
- the technical feasibility of the project is demonstrated;
- the intention to complete the project and sell the intangible assets generated from the project is demonstrated;
- a potential market exists or, in the case of internal use, the use of the intangible asset is demonstrated for the production of the intangible assets generated by the project;
- the technical and financial resources necessary for the completion of the project are available.

The amount of development costs are recorded under intangible assets from the date in which the result generated from the project is commercialised. Amortisation is on a straight line basis over a period of 3 years, which represents the duration of the estimate of the useful life of the expenses capitalised.

(iii) Industrial patents and intellectual property rights, licenses and similar rights

The charges relating to the acquisition of industrial patents and intellectual property rights, licences and similar rights are capitalised based on the costs incurred for their acquisition.

Amortisation is calculated on a straight line basis in order to allocate the costs incurred for the acquisition of the right over the shorter between the expected utilisation and the duration of the relative contracts, from the moment in which the rights acquired are exercisable.

D- Impairments

At each balance sheet date, the tangible and intangible fixed assets with definite life are analysed to identify the existence of any indicators, either internally or externally to the Italtel Group, of impairment. Where these indications exist, an estimate of the recoverable value of the above-mentioned assets is made, recording any write-down in the income statement. The recoverable value of an asset is the higher between the fair value less costs to sell and its value in use, where this latter is the fair value of the estimated future cash flows from the use of the asset and those from its disposal at the end of the useful life. In defining the value in use, the expected future cash flows are discounted utilizing a pre-tax discount rate that reflects the current market assessment of the time value of money, and the specific risks of the asset. For an asset that does not generate sufficient independent cash flows, the realisable value is determined in relation to the cash generating unit to which the asset belongs.

A reduction in value is recognised in the income statement when the carrying value of the asset, or of the cash-generating unit to which it is allocated, is higher than the recoverable amount. Where the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and amortisation had been recorded.

In the case in which the value in use is lower than the book value of the cash generating unit, the negative difference is firstly recognised to goodwill, if present, until the full write-down of the CGU. Further reductions in value are recognised proportionally to the other assets of the cash generating unit. The book value of the assets is not reduced below the higher value between the recoverable value and zero.

E - Financial Instruments

Financial assets

The financial assets are classified, on initial recognition, in one of the following categories and measured as follows:

- *Loans and receivables*: they are financial instruments, principally relating to trade receivables, non-derivative, not listed on an active market, from which fixed or determinable payments are expected. They are stated as current assets except for amounts due beyond 12 months from the balance sheet date, which are classified as non-current. On initial recognition these assets are measured at fair value and subsequently at amortised cost, on the basis of the effective interest rate. When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. The losses in value are recognised in the income statement. When, in subsequent periods, the reasons for the write-down no longer exist, the value of the assets is restated up to the value deriving from the application of the amortised cost where no write-down had been applied.
- *Available-for-sale investments*: they are non-derivative financial instruments that are explicitly designated in this category or are not classified in any of the previous categories. These financial assets are valued on initial recognition at fair value and the valuation gains or losses are allocated to an equity reserve. They are recognised in the income statement only when the financial asset is sold, or, in the case of negative cumulative changes, when it is considered that the reduction in value already recorded under equity cannot be recovered. For debt securities alone, if in a subsequent period the fair value increases and the increase may objectively be related to an event which occurs after the impairment was recognised to the income statements, the impairment is eliminated, with the amount reversed recognised to the income statement. In addition for debt securities the recognition of the relative returns based on the amortised cost method are recognised to the income statement, together with the effects relating to the changes in exchange rates, while the changes in exchange rates concerning AFS capital instruments are recognised to the specific net equity reserve. The classification as a current or non-current asset depends on the strategic choices concerning the length of time the asset is held for and from the trading properties of the asset; they are recognised to current assets when realisation is expected within 12 months from the balance sheet date.

Financial assets are derecognised from the balance sheet when the right to receive the cash flows from the instrument ceases and the Italtel Group has transferred all the risks and rewards relating to the instrument and the relative control.

Financial liabilities

Financial liabilities relate to loans, trade payables and other commitments to be paid, and are initially valued at fair value and subsequently at amortised cost, using the effective interest rate. When there is a change in the expected cash flows and it is possible to estimate them reliably, the value of the loans are recalculated to reflect this change based on the new current value of the expected cash flows and of the internal yield initially determined. The financial liabilities are classified under current liabilities, except when the Italtel Group has an unconditional right to defer their payment for at least 12 months after the balance sheet date.

Financial liabilities are derecognised on settlement, i.e. when the contractual obligation is satisfied, cancelled or matures.

Derivative instruments

Derivative instruments are assets and liabilities recognised at fair value. The derivatives are classified as hedging instruments when the relation between the derivative and the hedged item is formally documented and the effectiveness of the hedge, periodically verified, is high. When the hedged derivatives cover the risk of change of the fair value of the instruments hedged (fair value hedge; e.g. hedge in the variability of the fair value of asset/liabilities at fixed rate), these are recorded at fair value through the income statement; therefore, the hedging instruments are adjusted to reflect the changes in fair value associated to the risk covered.

When the derivatives hedge the risk of changes in the cash flows of the hedge instrument (cash flow hedge; e.g. coverage of changes in cash flow of asset/liabilities due to changes in the interest rates), the changes in the fair value of the derivatives are initially recognised under equity and subsequently through the income statement in line with the economic effects produced from the operation hedged.

The satisfaction of the requirements established by IAS 39 for the purposes of hedge accounting is periodically verified.
The changes in the fair value of the derivatives, which do not satisfy the conditions for hedge accounting, are recorded through the income statement.

Measurement of the fair value of financial instruments
For the determination of the fair value of financial instruments listed on active markets (bid price), the relative market quotation is used at the balance sheet date. In the absence of an active market, the fair value is determined utilizing valuation models which are principally based on financial variables, as well as taking into account, where possible, the prices recognised in recent transactions and the quotations of similar financial instruments.

F – Inventories

Inventories are recorded at the lower of purchase or production cost and realisable value represented by the amount that the Company expects to obtain from their sale in the normal course of operations. The cost of raw material, consumables, finished products and goods is calculated applying the FIFO method.

G - Cash and cash equivalents

Cash and cash equivalents principally include cash, bank deposits on demand and other highly liquid short-term investments (transformed into liquidity within ninety days). The elements included in net liquidity, if in Euro, are recognised at the nominal value corresponding to the fair value and if in another currency at the current exchange rate at the balance sheet date. In order to calculate the net liquidity, the current accounts included in the account "Short-term financial liabilities" are deducted from the cash and cash equivalents.

H - Shareholders' equity

(i) Share capital
The share capital is the amount of the subscribed and paid-in capital of the Parent Company. The costs strictly related to the issue of new shares are classified as a reduction of the share capital, net of any deferred tax effect.

(ii) Reserves
These concern specific capital reserves relating to the Parent Company. In particular, they include the legal reserve through provisions recognised in accordance with Article 2430 of the Civil Code, which are increased by 1/20th of the net profits of the Parent Company until the reserve reaches 1/5th of the share capital of the Parent Company. Once 1/5th of the share capital is reached the reserve - if subsequently reduced for any reason - is integrated with annual provisions as indicated above.

(iii) Treasury shares
In the case in which the Parent Company or an entity of the Italtel Group acquires shares of the Parent Company the value of the shares acquired is deducted from consolidated net equity until the shares are cancelled or sold. The value of treasury shares comprises the acquisition costs under the FIFO method. The economic effects deriving from any subsequent sale are recorded to net equity.

(iv) Other reserves including the net result
These include the results in the present period and of previous periods for the part not distributed or provisioned to reserves (in the case of profits) or recapitalised (in the case of losses), the fair value of the hedging derivatives on future transactions, net of the relative tax effect (see point 5 - Derivative Instruments above) and the effects deriving from the conversion into Euro of the financial statements of foreign companies whose functional currency is a currency other than the Euro.

I - Employee Benefits

(i) Employee benefit provisions

The Italtel Group recognises different forms of defined benefit plans and defined contribution plans, in line with the local conditions and practices in the countries in which it carries out its activities. The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year.

The defined benefit plans, which include employee leaving indemnities in accordance with article 2120 of the Civil Code, are based on the period of employment service and on the remuneration received by each employee over a pre-determined period of employment. In particular, the liability relating to employment leaving indemnity is recognised in the financial statements based on the current actuarial value, as qualifying as a benefit due to employees based on a defined benefit plan. The recognition in the financial statements of a defined benefit plan requires an estimate of the value of the services matured by employees for their employment service in current and previous years through actuarial techniques and the discounting of these services in order to determine the current value of Italtel Group commitments. The determination of the current value of the Italtel Group commitments is made using the Projected Unit Credit Method. This method, which relates to the so-called "matured benefits" techniques, considers each period of service by employees at the company as a source of an additional unit of right: the actuarial liability must be quantified only on the basis of the service matured at the valuation date; therefore, the total liability is normally proportioned based on the ratio between the service years matured at the valuation date and the total number of years at the expected settlement of the benefit. In addition, this method considers future increases in remuneration, of whatever nature (inflation, merit, contractual renewals etc.), up to the termination of employment.

The cost matured in the year relating to defined benefit plans and recorded in the income statement under personnel costs is equal to the sum of the average current value of the rights matured of the employees present for the employment in the year and of the annual interest matured on the current value of the Italtel Group commitments at the beginning of the year, calculated using the discount rate of the future payments adopted to estimate the liability at the end of the previous year. The annual discount rate adopted for the calculations is the Iboxx Eur Italy 10+ with maturity related to the average residual duration of those collectively valued.
The actuarial profits and losses, related to amendments to the actuarial parameters utilised previously, are recognised based on the "corridor" approach - that is only when exceeding 10% of the current value of the commitments of the Italtel Group at the end of the previous period. In this case, the amount exceeding 10% is recognised to the income statement.

With the introduction of Legislative Decree No. 124/93 the possibility is established to allocate a portion of employee leaving indemnity for the financing of the complementary pension. The 2007 Finance Law, which postponed to January 1, 2007 the introduction of the new complementary pension regulation established by Law No. 296/2006, establishes for the conferment to the complimentary pension of the employee leaving indemnity maturing, explicitly or implicitly, by June 30, 2007.

Following the publication of the enacting decree of the 2007 Finance Act in relation to the Complementary Pension Reform concerning the Employee Leaving Indemnity, the accounts prepared after the publication of these decrees must apply the valuation criteria in accordance with the new regulations.

Account was taken of the effects deriving from the new provisions, measuring for IAS purposes only the liability relating to the Employee Leaving Indemnity matured that remained in the company, as the portion maturing is paid to a separate entity (complementary pension or INPS fund) without these payments resulting in further obligations on the company related to the employment service in the future and are therefore considered defined contribution pension plans and recognised as such.
Also for the employees that, explicitly, decided to maintain the Employee Leaving Indemnity in the company, and therefore in accordance with the previous regulations, the Employee Leaving Indemnity matured from January 1, 2007 was paid to the Treasury Fund managed by INPS and was therefore considered a defined contribution plan.

(ii) Share-based payments

The Italtel Group recognises additional benefits to all employees in Italy and abroad, with the issue of Parent Company shares free of charge accompanied by a put option exercisable at the end of a pre-established period. In addition, a number of directors, employees, managers and key contributors are beneficiaries of a stock option plan.

In accordance with IFRS 2 - *Share-based payments*, the current value of the rights allocated is established for the stock options at the allocation date, applying the "Black & Scholes" method and for the allocated shares, recognizing the current value of the share at the allocation date, reduced by the current value of the dividends expected in the period of maturation. The amount is recognised to the income statement under personnel costs throughout the period between the allocation date of the right and the maturation date, with direct recognition to a net equity reserve for stock options and under liabilities for the allocation of shares. In addition, in the case of the allocation of shares, the fair value revised at the balance sheet date and the changes in the value of the liabilities recognised are recorded to the income statement under personnel costs.

These plans provide that, in the case of the quotation of the Company, the option exercise periods are brought forward. The Company has taken into consideration these contractual conditions in the fair value of the options.
In the case of instruments subject to vesting conditions not at market value, the cumulative cost reflects the expectations on the number of instruments which will vest.

At the moment of the exercise of the stock options:

- In the case in which new shares are issued, the value of the allocation of the exercised stock options, net of the direct costs attributable to the transaction, for the part equal to the nominal value of the shares issued, is allocated to the share capital, with the remaining part recognised as a change in the "Reserves" account;
- In the case in which shares held in portfolio are utilised, the book value of the shares utilised represents a decrease of the "Treasury Shares" account and the difference between this value and the value of allocation of the exercised stock options represents a change in the "Reserves" account.

On the exercise of the put option on the shares subject to the free issue, the fair value of the shares acquired by the Italtel Group is recorded in the "Treasury shares" net equity account.

J - Provisions for risks and charges

Provisions for risks and charges relate to costs and expenses of a defined nature and of certain or probable existence whose amount or date of occurrence is uncertain as of the balance sheet date. Provisions are recorded when: (i) the existence of a current obligation is probable, legal or implied, deriving from a past event; (ii) it is probable that compliance with the obligation will result in a charge; (iii) the amount of the obligation can be reasonably estimated. Provisions are recorded at the value representing the best estimate of the amount that the Company would rationally pay to discharge the obligation or to transfer it to a third party at the balance sheet date. When the financial effect of the time is significant and the payment dates of the obligations can be reliably estimated, the provision shall be discounted at the average cost of debt to the company; the increase of the provision due to the passing of time is recorded in the income statement in the account "Net financial income/(charges)".

The costs which the company must incur to implement restructuring programmes are recorded in the year in which the programme is formalised and it is expected that the restructuring will take place.

The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discounting rate; the revision of estimates are recorded in the same income statement accounts in which the provision was recorded.
The notes illustrate the potential liabilities represented by: (i) possible obligations (but not probable) deriving from past events, whose existence will be confirmed only on the occurrence or otherwise of one or more uncertain future events not fully under the control of the entity; (ii) current obligations deriving from past events whose amount cannot be reliably estimated or whose fulfilment will likely not incur a charge.

K – Recognition of revenues from sales and services

Revenues from sale are recognised on the effective transfer of risks and rewards typically connected with ownership.

The revenues concerning the provision of services are recognised based on the effective state of completion of the service.

Revenues are recorded net of returns, discounts and premiums, as well as related direct taxes.

L – Public grants

Public grants are recognised when there is a reasonable certainty that the conditions established by the Government Bodies for their concession will be realised and are recognised in direct correlation to the costs incurred.

The public grants relating to property, plant and equipment are recorded as deferred revenue in the account “Other liabilities” under non-current liabilities and “Other payables and liabilities” of current liabilities, respectively for the long and short term portions. The deferred revenue is recorded in the income statement as income on a straight-line basis in accordance with the useful life of the asset to which the grant was received.

Operating grants are recorded in the income statement in the account “Other income”.

M - Cost recognition

Costs are recorded when relating to goods and services sold or consumed in the year or when there is no future utility.

N – Income taxes

Current income taxes are calculated based on the estimate of the assessable income for the year, applying the current tax rates at the balance sheet date.

Deferred tax assets/liabilities are calculated on the temporary differences between the assessable base of the assets and the liabilities and the relative book values in the financial statements. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts.

They are compensated when there is a legal right of compensation. Deferred tax assets and liabilities are determined with the tax rates that are expected to be applied in the years when the temporary differences will be settled.

Current and deferred income taxes are recorded in the income statement, except those relating to accounts directly credited or debited to equity, in which case the fiscal effect is recognised directly to equity. Taxes are compensated when the income tax is applied by the same fiscal authority, there is a legal right of compensation and the payment of the net balance is expected.

Other taxes not related to income, such as taxes on property, are included under “Operating expenses”.

O - Translation of accounts in currencies other than the Euro

Foreign currency transactions are converted into Euro using the exchange rate at the transaction date.

The foreign exchange gains and losses resulting from the settlement of transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

P – Dividends

They are recorded when the right of the shareholders to receive the payment arises, which normally occurs at the shareholders' meeting for the distribution of dividends.

Note 3 - Use of estimates

The preparation of the financial statements require the directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on the historical experience and assumptions which are from time to time considered reasonable and realistic based on the relative circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the accounts in the financial statements which use the above-mentioned estimates and assumptions may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

Note 4 - Significant accounting principles

The accounting principles which require greater subjectivity by the Directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the rested consolidated financial statements are briefly described below:

- Impairments: in accordance with the accounting standards applied by the Group, the tangible and intangible assets with definite life are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above-mentioned indicators requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available. The same valuation techniques are applied for the determination of the recoverability of goodwill; these verifications are carried out at least annually. The correct identification of the indicators of the existence of a potential reduction in value as well as the estimates for their determination depends on factors which may vary over time impacting upon the valuations and estimates made by the Directors.
- Depreciation of tangible fixed assets: Depreciation represents a significant cost for the Group. The cost of property, plant and equipment is depreciated on a straight-line basis on the estimated useful life of the asset. The useful life of the fixed assets of the Group is determined by the Directors when the fixed assets are purchased. This is based on the historical experiences for similar fixed assets, market conditions and considerations relating to future events which could have an impact on the useful life, such as changes in technology. Therefore, the effective useful life may be different from the estimated useful life. The Group periodically evaluates technological and sector changes to update the residual useful life. This periodic update could result in a change in the depreciation period and therefore in the depreciation charge in future years.
- Deferred tax assets: the accounting of the deferred tax assets is made on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.
- Provisions for legal and tax risks: provisions are recorded against the legal and fiscal risks representative of the risks. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at that date made by Management. This estimate results in the adoption of assumptions concerning factors which may change over time and which may, therefore, have significant effects compared to the present estimates made by the Directives for the preparation of the Group consolidated financial statements.
- Guarantee Provisions: alongside the plant supplied, the Group guarantees technical assistance for a determined period subsequent to sale. The costs concerning the value of the assistance which must be provided, in fulfilment of the guarantee given, is estimated by management. The value of the provisions recorded in the financial statements relating to these costs represents the best estimate at that date made by Management. This estimate involves the adoption of assumptions concerning factors which may change over time and which may therefore have significant effects compared to the present estimates made by the Directors for the preparation of the Group consolidated financial statements.

Note 5 - Disclosure on financial risks

Credit risk

In relation to the group objectives and policies concerning the credit risk, reference should be made to the paragraph in the Directors' Report.

Liquidity risk

In relation to the group objectives and policies concerning the liquidity risk, reference should be made to the paragraph in the Directors' Report.

Interest rate risk

The Group utilises external debt sources and invests short term liquidity in deposit accounts. In addition, the Group companies factor receivables deriving from their commercial activities on an ongoing basis. Changes in the market interest rates impact on the cost and return of the various forms of loans, commitments and factoring of receivables with an effect on the net financial charges of the Group.

Currency risk

The Group is subject to market risk deriving from fluctuations in the exchange rates in currencies as it operates on any international basis.

The Italtel Group carries out purchase operations and to a lesser extent sales operations in U.S. Dollars. As the Euro is the functional currency of the consolidated financial statements of the group, any changes in the Euro/ U.S. Dollar exchange rate have the following effects:

- An increase in the value of the Euro has positive effects on operating profits and negative effects on revenues from sales and services;
- A decrease in the value of the Euro has negative effects on operating income and positive effects on revenues from sales and services.

Operations expressed in currencies other than the Euro are insignificant within the overall activities of the Italtel Group; therefore, the effects of changes in the exchange rates between the Euro and foreign currencies other than the U.S. Dollar impact the Group result to a marginal degree.

The Group, in order to reduce the effects of changes in the Euro/U.S. Dollar exchange rate, has undertaken derivative contracts to hedge the exchange rate risk on purchases in U.S. Dollars. In the financial statements prepared in accordance with IFRS approved by the European Commission the derivative contracts must be valued at their relative fair value at the balance sheet date. The notional of these derivatives contracts is detailed as follows:

	Forward(*)	**Other forms(*)**	**Total**
December 31, 2011	26,965	-	26,965
December 31, 2010	35,167	-	35,167

(*) At exchange rate of December 31

At December 31, 2011 and 2010 the fair value of the derivative contracts was as follows:

	31/12/2011	**31/12/2010**
Exchange risk hedges	1,617	(178)

A number of Group subsidiaries are located in countries not within the Eurozone. As the Group reference currency is the Euro, the income statements of these companies are converted into Euro at the average exchange rate and, at like-for-like revenues and margins of the local currency, changes in the exchange rate may result in effects on the value in Euro of revenues, costs and results.

The assets and liabilities of companies consolidated in currencies other than the Euro may be translated into Euro at varying exchange rates. In accordance with the accounting principles adopted, the effects of these changes are recorded directly in equity, in the account Translation reserve.

The Group monitors the principal exposure to exchange risk; however at the balance sheet date there are no hedges considered necessary against such exposures.

Note 6 - Criteria utilised for the transition from Italian GAAP to IFRS approved by the European Commission

Format for the presentation of the financial statements

For the Balance Sheet the "non-current/current" criteria was adopted, while for the Income Statement the classification of costs according to their nature was adopted. For the cash flow statement the indirect method was adopted.

Description of the significant effects of the transition either with regard to the classification of the accounts in the financial statements or in relation to their measurement and, therefore, to the consequent effects on the balance sheet and income statement

The effects of the transition to IFRS approved by the European Commission, both in terms of reclassifications and of adjustments to the consolidated balance sheet at January 1, 2004 (transition date) and at December 31, 2004, in addition to the consolidated net equity at January 1, 2004 and at December 31, 2004 and the 2004 income statement, are highlighted in the notes to the consolidated financial statements at December 31, 2005.
In the notes to the consolidated Financial Statements of December 31, 2005, the nature and the amounts of the adjustments which were implemented on the transition to IFRS are also described.

Note 7 - Property, plant and equipment

The accounts property, plant and machinery and the relative movements were as follows:

2010	Land	Industrial buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Total
Historical cost							
Balance at January 1, 2010	327	71,315	32,201	49,923	89,033	577	243,376
Increases	-	29	127	739	157	94	1,146
Write-downs/write-backs	-	-	-	-	-	(18)	(18)
Disposals	-	-	(133)	(1,068)	(196)	-	(1,397)
Translation reserve	-	-	4	51	184	-	239
Reclassifications	-	-	23	453	15	(499)	(8)
Balance at December 31, 2010	**327**	**71,344**	**32,222**	**50,098**	**89,193**	**154**	**243,338**
Accumulated depreciation							
Balance at January 1, 2010	-	(31,133)	(24,611)	(41,243)	(85,604)	-	(182,591)
Depreciation	-	(3,865)	(1,157)	(4,090)	(1,477)	-	(10,589)
Disposals	-	-	119	502	186	-	807
Reclassifications	-	-	(33)	-	33	-	-
Translation reserve	-	-	(2)	(22)	(160)	-	(184)
Balance at December 31, 2010	**-**	**(34,998)**	**(25,684)**	**(44,853)**	**(87,022)**	**-**	**(192,557)**
Net book value							
Balance at January 1, 2010	**327**	**40,182**	**7,590**	**8,680**	**3,429**	**577**	**60,785**
Balance at December 31, 2010	**327**	**36,346**	**6,538**	**5,245**	**2,171**	**154**	**50,781**

2011	Land	Industrial buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Total
Historic cost							
Balance at January 1, 2011	327	71,344	32,222	50,098	89,193	154	243,338
Increases	13,053	35,986	237	1,314	1,503	415	52,508
Write-downs/write-backs	9,681	-	-	-		-	9,681
Disposals	(9,681)	(47,299)	(4,246)	-	(1,663)	-	(62,889)
Translation reserve	-	-	(6)	2	(89)	-	(93)
Reclassifications	-	-	-	56	34	(100)	(10)
Balance at December 31, 2011	**13,380**	**60,031**	**28,207**	**51,470**	**88,978**	**469**	**242,535**
Accumulated depreciation							
Balance at January 1, 2011	-	(34,998)	(25,684)	(44,853)	(87,022)	-	(192,557)
Depreciation	(870)	(3,107)	(671)	(2,996)	(1,090)	-	(8,734)
Write-downs/write-backs	(4,518)	-		-	-	-	(4,518)
Disposals	4,518	22,072	2,054	-	1,447	-	30,091
Reclassifications	-	-	-	-	-	-	-
Translation reserve	-	-	6	1	81	-	88
Balance at December 31, 2011	**(870)**	**(16,033)**	**(24,295)**	**(47,848)**	**(86,584)**	**-**	**(175,630)**
Net book value							
Balance at January 1, 2011	327	36,346	6,538	5,245	2,171	154	50,781
Balance at December 31, 2011	**12,510**	**43,998**	**3,912**	**3,622**	**2,394**	**469**	**66,905**

Property, plant and equipment increased by Euro 52,508 thousand and include the recognition at fair value of land and buildings amounting respectively to Euro 13,053 thousand and Euro 35,947 thousand, recognised following the signing of a new finance lease contract with the same lessor of the industrial area of Castelletto. For further details on the operation, reference should be made to page 35 of the Directors' Report.

The account write-backs refers exclusively to the historical cost and the relative depreciation provision of land subject to the previous rental contract, signed on December 30, 2003, with effect from January 1, 2004, which is recognised according to IAS 17 and was revised in 2010. Due to the new accounting provisions, the rental of land originally recognised as an operating lease was redefined as a finance lease, as originally established only for the buildings.

Disposals, amounting to Euro 62,889 thousand, include Euro 61,075 thousand following the settlement of the rental contract concerning the industrial area of Castelletto, whose relative accumulated depreciation amounted to Euro 28,501 thousand.

During the year, investments were made in industrial equipment, principally regarding that used for the development of software solutions and for the test plant of products launched on the market, for a total of Euro 1,314 thousand.

Other assets increased by Euro 1,503 thousand and related principally to investments in computerised systems and the development of the corporate IT system.

At December 31, 2011 the land, industrial buildings, plants and machinery, industrial equipment and other assets, included assets subject to first level mortgages, commitments and special privileges, whose gross value amounted to Euro 193,528 thousand, given as guarantees in favour of UniCredit S.p.A. in relation to the loans received by the Italtel Group and described in Note 27.

Note 8 - Goodwill

The accounts goodwill and the relative movements were as follows:

	31/12/2011	31/12/2010
Value at January 1	**297,215**	**297,215**
Increases	-	-
Write-downs	(130,000)	-
Value at December 31	**167,215**	**297,215**

The Goodwill originated following the assumption of full control of the ex-Italtel S.p.A by the existing parent company Italtel Acquisition S.p.A, called Italtel S.p.A., after the merger be incorporation and represents the difference between the acquisition cost and the consolidated net equity at December 31, 2000, net of the accumulated amortisation at December 31, 2003 and the write-down of December 31, 2009.

In relation to the intangible assets with indefinite useful life, including Goodwill, IAS 36 requires the measurement of the recoverable value at least annually and when indications exist of a possible loss in value. The Recoverable Value of an asset is the higher between the Fair Value Net of Sales Costs and its Value in Use. In the case in which the Recoverable Value of the asset is lower than the book value, the book value must be reduced to the Recoverable Value and this reduction constitutes a loss to be recorded to the income statement.

IAS 36 defines the criteria and the rules to be followed to carry out impairment tests, indicating that these criteria are applied both to individual assets and to group of assets called Cash-Generating Units or CGU’s.

The Value in Use is defined by IAS 36 as the present value of the future cash flows expected to be derived from an asset. The calculation of the Value in Use of an asset involves an estimate of the future cash inflows and outflows which will derive from the continuous use of the asset and its final disposal and the application of an appropriate discount rate. The estimate of future cash flows is based on the most recent budget and forecasts approved by management. The cash flows refer to an asset in the conditions of its current use, without including expected affects from restructuring not committed to or from improvements in the conditions of use expected in the future. The discount rate reflects the current market valuations and the risks specifically connected to the businesses assets.

According to IAS 36 the best indication of the Fair Value of an asset is the price defined within a binding sales agreement between independent counterparties, adjusted by costs directly associated to the operation. The standard indicates that, in the case in which the sales agreement does not exist, the fair value is estimated based on the best available information in order to reflect the value attainable from the sale of the asset.

For the estimation of the Fair Value reference should be made to the value indicators from transactions for similar assets carried out within the same industrial sector, on regulated markets or in a private context. The value indicators are generally expressed as multipliers relating to the income indicators.

However, the sale price of an asset is often determined in market practice based on the future expected cash flows from the asset. The Fair Value therefore may also be estimated utilizing models based on the future expected cash flows. In this case, and differing from the Value in Use, the estimates of the cash flows may include the effects related to the actions and the restructuring necessary to bring the asset to conditions of most efficient use as long as these actions and restructurings are reasonably implementable by the potential purchaser and within the future market outlook.

In the case of Italtel the process used for the measuring of the Recoverable Value of goodwill may be summarised as follows.

In relation to the consolidation scope, given the interdependence between the cash flows generated by the parent company and those of the foreign subsidiaries, the group of assets of the CGU for the control of Goodwill were identified as corresponding to the totality of the operational assets of the consolidated financial statements, with the only exclusion of the assets in relation to the account ‘Deferred tax asset’.

In relation to the methodologies, the estimates of the Recoverable Value were carried out in relation to the Fair Value approach, as described in detail above, based on the Discounted Cash Flows (the DCF method) and a number of market multipliers. The estimates refer to December 31, 2011. The forecast financial data for application of the methodologies are prepared on a consolidated basis and denominated in Euro and derive from the 2012-2016 Plan of the Italtel Group approved by the Board of Directors on July 26, 2012.

In relation to the financial structure of the Italtel Group and the financial sustainability of the plan (for which reference should be made to the relevant paragraphs of the Director’s Report), the Recoverable Value of the assets for the control of the Goodwill was estimated in relation to the commitments and based on financial data gross of leverage. The estimates refer to operating assets considered within the going concern of the business, from a market participant’s view point and based on a theoretically financially efficient structure.

In relation to the methods applied, for the DCF method a model was adopted with an explicit period of future cash flows of five years and a residual value calculated with an algorithm of the perpetual income. The discount rate of the cash flows and the residual value is the weighted average cost of capital (WACC), calculated according to market practices and based on the prevailing financial structure for the companies in the sector. The discount rate is the weighted average of the rates relating to the principal countries of activity of the group, calculated with similar methods and consistency.
The parameters relating to the average financial rates utilised for the DCF method of the Recoverable Value of the assets of the CGU on a consolidated basis are as follows:

- income from assets without risk based on an the exact yield, at a recent date, of government benchmark securities at 10 years of 5.9% (4.3% at December 31, 2010);
- cost of risk capital (KE) estimated with a CAPM model and equal to 10.8% (9.9% at December 31, 2010);
- weighted average cost of capital corresponding to the KE rate based on the financial structure entirely comprising own capital and therefore equal to 10.5% (9.5% at December 31, 2010);
- nominal growth rate of perpetual cash flows (G-Rate) in line with the inflation rate of the Euro and equal to 2.0% (2.1% at December 31, 2010).

For the multipliers reference was made to the indicators of the value of capital employed by a number of companies listed in the sector. The multipliers relate to the forecast results for 2014, which is the longest timeline available for the market data. In greater detail, the EV/EBITDA multiplier was utilised, equal to 4.7 and a EV/EBIT multiplier of 5.9. The multipliers were applied to EBITDA and EBIT forecasts of the Italtel Group for 2014, net of the amortisation of research and development charges and forecast restructuring costs.

Based on the methods and the parameters described above a measure of the Recoverable Value of the assets of the CGU of the consolidated financial statements was determined of Euro 290 million, corresponding to a reduction in value of the Goodwill of Euro 130 million.

In relation to the sensitivity of the results stemming from the DCF method it is stated that, on a like-for-like basis, an increase (decrease) of 50 basis points of the WACC rate would result in a decrease (increase) of the recoverable value of the assets of Euro 20 million. Again on a like-for-like basis (including the WACC rate), an increase (decrease) of 50 basis points of the G-Rate would result in a decrease (increase) of the recoverable value of assets for Euro 12 million.

Note 9 - Other intangible assets

The account Other intangible assets and the relative movements were as follows:

	Industrial patents, intellectual property rights, licenses and similar rights	Development Costs	Fixed assets in progress	Others	Total
Historic cost					
Balance at January 1, 2010	**8,195**	**42,497**	**416**	**4**	**51,112**
Increases	600	25,356	18	1	25,975
Write-downs	-	-	-	-	-
Disposals	-	-	-	-	-
Amortisation	7	-	-	-	7
Translation differences	(4,723)	(28,145)	-	(2)	(32,870)
Reclassifications	371	-	(416)	-	(45)
Balance at December 31, 2010	**4,450**	**39,708**	**18**	**3**	**44,179**
Increases	389	23,689	480	7	24,565
Write-downs	-	-	-	-	-
Disposals	(27)	-	-	-	(27)
Translation differences	(5)	-	-	-	(5)
Amortisation	(3,710)	(28,600)	-	(9)	(32,319)
Reclassifications	7	-	(5)	-	2
Balance at December 31, 2011	**1,104**	**34,797**	**493**	**1**	**36,395**

The investments in intangible assets amounted to Euro 24,565 thousand. In particular Euro 23,689 thousand was invested in research and innovation activities and Euro 869 thousand in industrial patents and intellectual property rights, which principally concerned software applications acquired under license for unlimited time periods and software development projects.

In 2011, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2011	31/12/2010
Research and Development activities carried out	45,764	50,800
of which:		
- capitalised	23,689	25,356
- recognised to the Income statement	22,075	25,444
Amortisation in the year of development costs	28,600	28,145

The net value of intangible assets generated internally amounted to Euro 34,797 thousand and Euro 39,708 thousand respectively at December 31, 2011 and 2010.

Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

	31/12/2011	31/12/2010
Value at January 1	194	194
Adjustments in the year	-	-
Reclassifications to the account “AFS non-current assets”	-	-
Value at December 31	**194**	**194**

At December 31, 2011 none of the associated companies had securities listed on regulated markets.

Note 11 - Medium/long term financial assets

The account medium/long term financial assets and the movements were as follows:

	Equity investments in other companies	Securities other than equity investments	Financial Receivables and other non-current assets	Total
Balance at January 1, 2010	**518**	**1**	**38**	**557**
Acquisitions / movements in the year	-	-	2	2
Reclassifications	-	-	-	-
Disposals / liquidations	-	-	-	-
Write-down / revaluations	21	-	-	21
Balance at December 31, 2010	**539**	**1**	**40**	**580**
Acquisitions / movements in the year	4	-	(4)	-
Reclassifications	-	-	-	-
Disposals / liquidations	(403)	-	-	(403)
Write-down / revaluations	(8)	-	-	(8)
Balance at December 31, 2011	**132**	**1**	**36**	**169**

The investments in other companies are all valued at cost with the exception of the investments in Alice Lab Netherlands N.V., which was classified as available-for-sale and valued at fair value.
On December 23, 2012 the liquidation procedure of the company Alice Lab Netherlands N.V. concluded with the receipt of the residual portion of capital amounting to Euro 133 thousand. Compared to the amount recognised at December 31, 2010 a loss of Euro 270 thousand was incurred.

The write-down of Euro 8 thousand of investments in other companies concerns the Italtel Telesis consortium in liquidation.

The book value of the other financial assets approximates their fair value.

Note 12 – Other assets

This account Other assets is comprised of:

	31/12/2011	31/12/2010
Guarantee deposits	11,020	12,551
Tax receivables	496	882
Tax reimbursements requested	6,844	6,853
Other	4	93
Other non-current receivables doubtful debt provision	(373)	(373)
Total	**17,991**	**20,006**

Guarantee deposits include Euro 10,000 thousand in relation to the rental contract of the industrial complex of Castelletto in Settimo Milanese. The reduction in guarantee deposits on the previous year is principally due to the reduction of Euro 2,000 thousand concerning the signing in the year of the new finance lease contract of the industrial area of Castelletto.

On tax reimbursements requested for repayment interest matures at an annual rate of 2% (Euro 130 thousand in 2011). During the year Euro 121 thousand was received from the tax agency for interest and Euro 18 thousand for capital on 2003 IRPEG tax reimbursements requested.

The tax receivables of various types, overdue and of doubtful recovery were fully written-down.

The book value of the other assets, net of provisions, approximates their fair value.

Note 13 - Deferred tax assets

This account Deferred tax assets is comprised of:

	31/12/2011	31/12/2010
Deferred tax assets	73,861	72,280
Deferred tax liabilities	(3,785)	(3,583)
Total	**70,076**	**68,697**

The Group compensated the deferred tax assets and liabilities as the legal right to compensation exists.

The breakdown of deferred taxes by type was as follows:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**
Temporary differences originate from:				
- Capital grants and operating grants	-	-	2,760	2,454
- Accelerated depreciation	-	-	134	134
- Doubtful debts provision	2,602	2,602	-	-
- Inventory obsolescence provision	14,764	10,632	-	-
- Amortisation and depreciation	157	98	-	-
- Other provisions for risks and charges	4,298	10,774	-	-
- Surplus interest charges carried forward	13,046	13,461	-	-
- Other	1,039	225	-	-
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	119	928	-	-
- Deferred tax asset relating to tax losses in prior years	28,365	21,694	-	-
- Deferred tax assets concerning tax losses of the foreign subsidiaries	326	1,454	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	873	942
- Gain on sale and finance leases	7,915	4,273	-	-
- Restatement of land under finance lease at Castelletto	1,230	-	-	-
- Deprec. of building rented in Castelletto	-	1,470	-	-
- Adjustment in measurement of amortisation and depreciation of fixed assets	-	-	14	18
- Discounting of the payable for personnel mobility	-	-	4	35
- Changes in the amortisation rate of development costs	-	4,669	-	-
Total	**73,861**	**72,280**	**3,785**	**3,583**

At December 31, 2011 and 2010 the Italian companies of the Italtel Group report tax losses carried forward, respectively, of Euro 142,946 thousand and Euro 170,871 thousand. Against the above-stated losses deferred tax assets were not written of Euro 17,616 thousand and of Euro 25,295 thousand respectively at December 31, 2011 and 2010 as it was not considered that the Italtel group could benefit from the utilisation of these losses.

At December 31, 2011 deferred tax assets of Euro 13,046 thousand were recognised on excess interest charges carried forward. As established by Article 96 of the Income Tax Law, modified by Law 244 of December 24, 2007 (Finance Law 2008), interest charges and net accessory charges are deductible in the corresponding tax period up to a limit of 30% of the gross ordinary operating result. The excess may be deducted from assessable income in subsequent years, without time limits. This new regulation generated the recognition of deferred taxes concerning the financial charges to be carried forward as deductions in coming years for Euro 47,439 thousand.

At December 31, 2011 deferred tax assets of Euro 4,300 thousand were not recognised on excess interest charges carried forward for Euro 15,700 thousand.

Deferred tax assets concerning tax losses of foreign subsidiaries related to Brazil.

At December 31, 2011 and 2010 deferred tax assets and deferred tax liabilities referring directly to the account of net equity “Tax losses carried forward” for the first-time adoption of IAS/IFRS are broken down as follows:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**
- Restatement of land under finance lease at Castelletto	1,230	-	-	-
Total	**1,230**	**-**	**-**	**-**

Note 14 - Inventories

The account inventories and the related movements were as follows:

2010	Raw material, ancillary and consumables	Products in work-in-progress and semi-finished	Finished products and goods for resale	Advances	Total
Opening inventories					
Balance at January 1	6,684	19,582	51,327	281	77,874
Changes in the year	(358)	293	(1,822)	-	(1,887)
Balance at December 31	**6,326**	**19,875**	**49,505**	**281**	**75,987**
Inventory obsolescence provision					
Balance at January 1	(6,599)	(8,518)	(19,793)	-	(34,910)
(Provision) / utilisation	290	(38)	(372)	-	(120)
Balance at December 31	**(6,309)**	**(8,556)**	**(20,165)**	**-**	**(35,030)**
Closing inventories					
Balance at December 31	**17**	**11,319**	**29,340**	**281**	**40,957**

2011	Raw material, ancillary and consumables	Products in work-in-progress and semi-finished	Finished products and goods for resale	Advances	Total
Opening inventories					
Balance at January 1	6,326	19,875	49,505	281	75,987
Changes in the year	(87)	(114)	7,597	26	7,422
Balance at December 31	**6,239**	**19,761**	**57,102**	**307**	**83,409**
Inventory obsolescence provision					
Balance at January 1	(6,309)	(8,556)	(20,165)	-	(35,030)
(Provision) / utilisation	83	35	(15,349)	-	(15,231)
Balance at December 31	**(6,226)**	**(8,521)**	**(35,514)**	**-**	**(50,261)**
Closing inventories					
Balance at December 31	**13**	**11,240**	**21,588**	**307**	**33,148**

At December 31, 2011 and 2010 Inventories act as guarantees for loans in place at that date.

Note 15 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2011	31/12/2010
Receivables from customers	116,557	144,438
Receivables from non-consolidated subsidiaries	-	1
Receivables from associated companies	86	86
Cumulative write-down of receivables	(8,678)	(8,656)
Total net receivables	**107,965**	**135,869**

The movements of the cumulative write-downs of receivables are broken down as follows:

	31/12/2011	31/12/2010
Balance at January 1	**8,656**	**8,550**
Changes in the year:		
- Increases	106	282
- Utilisations	(84)	(176)
Balance at December 31	**8,678**	**8,656**

The increases in the cumulative write-downs of receivables were recognised to the income statement in the account Other operating costs.

The utilisations concern the release of the prior year surplus provision for Euro 84 thousand.

The receivables from the Telecom Italia Group and the Cisco Group are broken down in Note 43 – Transactions with related parties.

The book value of the trade receivables approximates their fair value.

Below the trade receivables in currencies other than the Euro are listed, the functional currency of the Group:

(thousands)

	31/12/2011		31/12/2010
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	33,252	25,699	43,465
UK Sterling	420	503	153
Brazilian Real	18,839	7,798	30,002
Peruvian Nuevo Sol	388	111	-
Polish Zloty	5,676	1,273	6,811
Saudi Riyal	4,991	1,029	11,187
Colombian Peso	-	-	3,806,926
Guatemalan Quetzal	-	-	565
Philippine Peso	430	7	430
Oman Riyal	33	67	-

Note 16 - Income tax receivables

The account receivables for current taxes at December 31, 2011 amounted to Euro 2,781 thousand (at December 31, 2010 totalled Euro 1,719 thousand), representing the excess of the taxes paid for IRAP and by some foreign companies.

Note 17 - Other receivables and assets

This account Other receivables and assets is comprised of:

	31/12/2011	31/12/2010
Employee receivables	3,024	2,753
Social security institution receivables	962	1,109
Prepayments and accrued income	852	3,414
Short term tax receivable	9,374	8,072
Receivables from the state for subventions and grants	9,434	5,220
Other various receivables	3,149	3,244
Cumulative write-down of receivables	(1,576)	(1,437)
Total	**25,219**	**22,375**

The employee receivables referred principally to advances provided for work transport and for Euro 467 thousand to the portion of salaries paid by the company Italtel S.p.A. to employees in December for the days in which the Solidarity Contract was applied and included in the payslip of the subsequent month.

The social security institution receivables include the INPS receivable of Euro 312 thousand for advance salaries paid by Italtel SpA to personnel in the Extraordinary Temporary Lay-Off Scheme for the months of November and December 2011.

The decrease in prepayments and accrued income is principally due to the fact that at December 31, 2010 this account included the prepayment of rent of the Castelletto area for the first quarter of 2011.

The tax receivables principally comprise withholding taxes paid abroad and the VAT receivable.

The receivables from the State for subventions and grants refer to capital grants for research and development projects, for which a reasonable certainty exists of their recognition under paragraph 7 of IAS 20.

The other various receivables include positions opened in previous years prudently written-down for Euro 1,576 thousand.

The book value of the other assets approximates their fair value.

Note 18 - Short-term financial assets

The account short-term financial assets and the relative movements were as follows:

	31/12/2011	31/12/2010
Securities other than equity investments	159	158
Other financial receivables	1,544	2,022
Short-term financial prepayments and accrued income	-	102
Financial receivables from non-consolidated subsidiaries	557	544
Derivative financial instruments	1,617	-
Total	**3,877**	**2,826**

The other financial receivables principally comprise receivables for interest matured on tax receivables ceded to factoring companies in previous years.

The book value of the other financial assets approximates their fair value.

Note 19 - Cash and cash equivalents

The account cash and cash equivalents is broken down as follows:

	31/12/2011	31/12/2010
Cash at banks, financial institutions and post offices	26,643	63,667
Cheques	559	3,658
Cash	158	170
Total cash and cash equivalents	**27,360**	**67,495**

The cheques are all held by the company Italtel Argentina S.A. and may be cashed within 60 days from the balance sheet date.

The amounts shown can be readily converted into cash and do not have a significant risk of change in value.

Note 20 – Share capital

At December 31, 2011, the subscribed and paid-in share capital amounts to Euro 131,427 thousand (at December 31, 2010, Euro 131,427 thousand) broken down as follows:

- Euro 61,426,652 divided into 8,881,488 "A" shares;
- Euro 70,000,000 divided into 8,881,488 "B" shares.

Note 21 – Reserves

The account Reserves is composed as follows:

	31/12/2011	31/12/2010
Legal reserve	28	-
Available reserve for own shares in portfolio	10,983	10,943
Other reserves	496	-
Total	**11,507**	**10,943**

The Shareholders’ Meeting of Italtel Group S.p.A. held on April 21, 2011 allocated the profit of Euro 564 thousand from the Parent Company in 2010, for Euro 28 thousand to the legal reserve and for Euro 536 thousand to the acquisition of treasury shares reserve.

The reserve for treasury shares in portfolio increased by Euro 40 thousand concerning the repurchase of treasury shares for the same amount in 2011.

Note 22 – Treasury shares

The account Treasury shares reports the following movements:

Balance at January 1, 2011	**(10, 943)**
Purchases	(40)
Sales	-
Balance at December 31, 2011	**(10,983)**

The account Treasury shares at December 31, 2011 comprises 169,463 Parent Company shares, following a reverse-stock split as approved on August 10, 2010, held in portfolio and utilised as options by the beneficiaries of the stock option plan, against reserves of a similar amount. In 2011, 1,000 shares were purchased at an average price of Euro 40.31.

Note 23 – Other reserves including in profit/(loss)

The account other reserves including profit/(loss) for the year was broken down as follows:

	31/12/2011	31/12/2010
Prior year losses carried forward	(21,938)	(3,939)
Reserve for the coverage of losses 1/1 - 30/4/2011 Italtel Group S.p.A.	160	160
Translation reserve	521	854
Allocation of stock options	706	706
Share exercise reserve	4,453	4,453
Loss for the year	(144,805)	(13,474)
Total	**(160,903)**	**(11,240)**

Following the termination of the rental contract in the Castelletto area, replaced by a new contract with effect from January 1, 2011 and signed with the same lessor, although a year later than that established by IAS 17 the classification was revised of the land component based on the existing information at the beginning of the original contract. The retrospective application of this standard resulted in the recognition of assets and the relative liabilities and the reversal of the gain realised through the sale of the relative land to the lessor in 2003. The effect of the application of this principle generated from the leasing at December 31, 2010 was recognised under losses carried forward and amounts to Euro 3,961 thousand.

The reserve to cover losses of the Parent Company Italtel Group S.p.A. of Euro 160 thousand was incorporated following the resolution of the Extraordinary Shareholders’ Meeting of August 10, 2010.

The translation reserve concerns the affects from the conversion into Euro of financial statements of the subsidiaries who prepare their financial statements in a functional currency other than the Euro.

The movements in the translation reserve were as follows:

	2011	2010
Balance at January 1	**854**	**552**
Conversion of opening net equity and consolidation adjustments	(306)	247
Conversion of Profit/(loss)	(27)	55
Balance at December 31	**521**	**854**

At January 1, 2004, the date of first application of IFRS, the group recognised in accordance with IFRS 2, the decrease in net equity of part of the options matured on investments in the Parent Company, assigned free of charge to employees and not exercised at that date.
The amount of Euro 4,453 thousand of the shares exercise reserve represents the value of the Italtel Group S.p.A. shares for which the sales right was exercised by the company.

In accordance with the Revolving Facility and the Senior Facility, the Italtel Group committed to the banks to not approve the distribution of profits outside of the Group until the full repayment of the loans.

Note 24 – Stock option plans and shareholdings

The Board of Directors of the company approved on December 11, 2010 (a) a stock plan for all Italtel Group employees, (b) a stock option plan for Managers, Senior Managers employed under long-terms contracts and Directors of the companies of the Italtel Group and (c) a paid-in share purchase plan with related stock options, reserved to Senior Managers and Directors of the companies of the Italtel Group.

On February 27, 2006, the Extraordinary Shareholders' Meeting of the company approved the adjustments of the maximum limits of the share capital increase in service of the ordinary share, stock option and paid-in treasury share purchase with related stock options plans to the number of shares and options effectively placed and/or allocated at the same date.

Ordinary Share plan

The shares allocated under the ordinary share plan attribute the voting right only for matters considered by the Extraordinary Shareholders' Meeting until any public offer on the company shares. The holders of the shares may dispose of the shares in any of the following situations:

- The shares may be freely transferred on a public offer of company shares. In this case, the shares may not, however, be sold in the period between 20 days prior and 180 days subsequent to the beginning of the public offer;
- The shares may be transferred on the conclusion of employment only in the cases established by the regulation.

Stock Option Plan for Managers & Key Contributors.

The stock option plan for Managers & Key Contributors is reserved to Managers, Senior Managers under fixed-term contracts and Directors of Italtel Group, chosen at the discretion of the Board of Directors of the Italtel Group or by delegated members of the Board of Directors and establishes the free allocation of non-transferable options, excluding under wills, for the purchase of ordinary shares of the company. The assigned options mature on the basis of the following:

- 25% of the options allocated mature after two years from the allocation date;
- a further 25% of the allocated options mature after three years from the allocation date;
- the remaining 50% of the allocated options mature after four years from the allocation date.

In the case of the conclusion of employment or resignation of a Director, the options may be exercised, subject to a number of conditions. Particular provisions govern the right of exercise of options assigned in the case of a public offer or extraordinary operations which involve the Italtel Group.

In December 2008, as established under regulations, the rights options assigned in December 2000 were automatically nullified, following the passing of a period of eight years. Similarly in November 2010, as established under regulations, the rights options assigned in November 2002 were automatically cancelled, following the passing of a period of eight years.

Stock Option Plan and Purchase of Shares for the Key Managers

The stock option plan and purchase of shares reserved for Senior Managers and Directors of the group company establishes the free allocation to Senior Managers and Directors of the Italtel Group of non-transferable options (excluding under wills), on the condition of the prior subscription to a minimum number of ordinary shares of the company according to the ratio of three options (of which a service options and two performance options) for each share subscribed.

At December 31, 2010, the allocated and matured options are automatically cancelled following the passing of a period of eight years from the allocation date.

Note 25 - Employee benefit provisions

The employee benefits provision is broken down as follows:

	31/12/2011	31/12/2010
Post-employment benefits	24,832	27,053
Indemnity for the advanced settlement of contract	3,467	2,857
Deferred employee benefits provisions for foreign companies	60	67
Total	**28,359**	**29,977**

The post-employment benefits provision refers only to Italtel S.p.A..

The actuarial differences not recognised amount to a charge of Euro 304 thousand in 2011 compared to income of Euro 171 thousand in 2010.

The charges for "Interest cost" amounted to Euro 1,237 thousand in 2011 and Euro 1,488 thousand in 2010.

With the entry into force in 2007 of the provisions established by the pension reform the balance sheet prepared after the reform must apply valuation criteria in line with a new regulation, illustrated in Note 2 - *I - Employee Benefits*, valuing for IAS purposes only the liability concerning post-employment benefits matured under the pre-existing regulation. That matured after the pension reform represents a defined contribution plan in that these payments do not involve further obligations for the company related to future employment service.

In accordance with IAS 19, for the valuation of post-employment benefits, the “Projected Unit Credit Cost” method was used as follows:

	31/12/2011	31/12/2010
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	2.00% annual	2.00% annual
Discount rate	4.00% annual	4.60% annual
Salary increases	-	-
Annual increase in post-employment benefit	3.00% annual	3.00% annual
DEMOGRAPHIC ASSUMPTIONS		
Probability of death	Italian population data recorded by ISTAT in 2002	Italian population data recorded by ISTAT in 2002
Probability of invalidity	Projections for 2010 from the INPS tables by age and gender. This probability was created from the age and gender of the pensions at January 1, 1987, commencing from 1984, 1985 and 1986 relating to the personnel of the credit division	Projections for 2010 from the INPS tables by age and gender. This probability was created from the age and gender of the pensions at January 1, 1987, commencing from 1984, 1985 and 1986 relating to the personnel of the credit division
Probability of dismissal	Annual frequencies of 7.5% were considered	Annual frequencies of 7.5% were considered
Probability of retirement	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached
Probability of advances	Annual value of 3% was considered	Annual value of 3% was considered

Changes in the post-employment benefit were as follows:

	31/12/2011	31/12/2010
Balance at January 1	**27.120**	**30.658**
Increase in the year	1,237	1,488
Increase in the year - foreign companies	25	22
Utilisations in the year	(3,458)	(5,044)
Utilisation in the year - foreign companies.	(32)	(4)
Balance at December 31	**24,892**	**27,120**

The movements for the indemnity for the advance of settlement of employment contracts were as follows:

	31/12/2011	31/12/2010
Balance at January 1	**2,857**	**8,130**
Provisions in the year	2,695	2,270
Utilisations in the year	(2,085)	(7,543)
Balance at December 31	**3,467**	**2,857**

Note 26 - Provision for risks and charges

The account provisions for risks and charges and the related movements were as follows:

	Contractual guarantees	Other risks	Total
Balances at January 1, 2010	**16,572**	**25,510**	**42,082**
Changes in the year:			
- Increases	529	3,714	4,243
- Utilisations	(2,480)	(12,280)	(14,760)
Balance at December 31, 2010	**14,621**	**16,944**	**31,565**
Changes in the year:			
- Increases	-	1,446	1,446
- Utilisations	(14,103)	(7,608)	(21,711)
- Translation differences	(7)	(4)	(11)
Balance at December 31, 2011	**511**	**10,778**	**11,289**

The contractual guarantees represent the estimated value of costs to be incurred for the technical assistance guaranteed on plant sold.

The other risks provision of Euro 10,778 thousand at December 31, 2011 (Euro 16,944 thousand at December 31, 2010) concerns the risks related to disputes in progress for Euro 4,568 thousand, risks for penalties and other contractual risks for Euro 3,127 thousands and tax and contribution risks, also relating to foreign companies or branches, closed or liquidated relating to a non-defined tax period for Euro 3,078 thousand, in addition to the client's supplementary indemnity provision for Euro 5 thousand.

Note 27 – Medium/long term and short term financial liabilities

The accounts Medium/long term and short term financial liabilities were broken down as follows:

	31/12/2011			31/12/2010		
	Short-term	Medium/long term	Total	Short-term	Medium/long term	Total
Secured loans	152,467	18,222	170,689	-	170,322	170,322
Unsecured loans	-	401	401	-	401	401
Unsecured loans at subsidised rates	7,092	16,881	23,973	7,052	23,973	31,025
Liabilities for finance leases	616	48,394	49,010	2,852	37,955	40,807
Medium/long term loans	**160,175**	**83,898**	**244,073**	**9,904**	**232,651**	**242,555**
Short-term bank loans	75,229	-	75,229	51,237	-	51,237
Total payables to financial institutions	**235,404**	**83,898**	**319,302**	**61,141**	**232,651**	**293,792**
Other payables	1,076	-	1,076	3,076	3,061	6,137
Accruals and deferred income	1,313	-	1,313	544	-	544
Total	**237,793**	**83,898**	**321,691**	**64,761**	**235,712**	**300,473**

The secured loans concern:

- Two credit lines (Senior 1 and Senior 2) for Euro 152,467 thousand, entirely utilised, granted on June 6, 2010, which mature on June 1, 2012, as originally established by the contract. On maturity of the above-stated credit lines the Lending Banks commit to issue a further two credit lines for a total amount of Euro 137,500 thousand, maturing by December 6, 2017;

- A medium/long term cash credit line for a maximum capital amount of Euro 3,063 thousand, entirely utilised in the first half-year;

- A long term loan for Euro 15,159 thousand, with repayment in a single instalment at December 6, 2017, including interest matured annually.

The unsecured loans represent part of a loan obtained in 2010 by Mediocredito Centrale S.p.A. for Euro 4,011 thousand for research activities, of which Euro 3,610 thousand at subsidised rates.

The unsecured loans at subsidised rates comprise loans at rates between 0.5% and 0.886%, and concern subsidised financing issued based on research, development and industrial innovation laws.

In accordance with IAS 20, the loans at subsidised rates are recognised based on the nominal value at the time of issue.

The account liabilities for finance leases refers for Euro 48,709 thousand at December 31, 2011 to the payable originating at January 1, 2011 following the signing of a new rental contract and the cancellation of the contract signed in 2004 following the sale and subsequent rental of the area in Settimo Milanese in application of IAS 17. The resulting payable amounted to Euro 49,000 thousand at January 1, 2011 and is repayable by 2025. The liabilities for finance leases related to the new rental contract were agreed at an implicit effective rate of 16.0%.
In 2011, the company signed a finance lease contract for the purchase of electronic equipment from the supplier T-Systems for a total value of Euro 449 thousand, repayable by March 31, 2014. At December 31, 2011, the financial payable amounted to Euro 301 thousand.

	31/12/2011	31/12/2010
Future lease instalments until contract maturity	127,345	65,328
Implied interest	(78,335)	(24,521)
Current value of lease instalments until contract maturity	**49,010**	**40,807**

The above-stated medium/long term loans presented the following movements:

2010	**Secured loans**	**Unsecured loans**	**Unsecured loans at subsidised rates**	**Liabilities for finance leases**
Opening balance	152,341	-	43,735	42,659
Granted	17,855	401	3,709	-
Reimbursements	126	-	(16,419)	(1,852)
Closing balance	**170,322**	**401**	**31,025**	**40,807**

2011	**Secured loans**	**Unsecured loans**	**Unsecured loans at subsidised rates**	**Liabilities for finance leases**
Opening balance	170,322	401	31,025	40,807
Granted	367	-	-	49,449
Reimbursements	-	-	(7,052)	(41,246)
Closing balance	**170,689**	**401**	**23,973**	**49,010**

The above-stated medium/long term loans are repayable as follows:

	31/12/2011	**31/12/2010**
- within one year	160,175	9,904
- between one and two years	7,737	160,382
- between two and three years	4,445	11,016
- between three and four years	4,398	9,852
- between four and five years	3,776	8,493
- over five years	63,542	42,908
Total	**244,073**	**242,555**

The account Short-term bank loans for Euro 75,229 thousand at December 31, 2011 compared to Euro 51,237 thousand at December 31, 2010 relates to the utilisation of the revolving credit line.

The account other payables reduced principally following the liabilities of Euro 3,061 thousand concerning the residual valuation according to IAS 39 of an IRPEG receivable, for a nominal amount of Euro 6,861 thousand, ceded in 2005 and paid by the Tax Agency in the first half of 2011.

The account accruals and deferred income refers to interest matured on financial payables and to be settled in the subsequent year.

Liquidity

Net liquidity at December 31, 2011 and 2010 was broken down as follows:

	31/12/2011	**31/12/2010**
Cash and cash equivalents	717	3,828
On demand bank current accounts	26,643	63,667
Total	**27,360**	**67,495**

Below the changes in net liquidity of the group are reported:

	31/12/2011	**31/12/2010**
Cash generated/(absorbed) by operating activities	(27,113)	(4,004)
Cash generated/(absorbed) by investing activities	(28,755)	(25,965)
Cash generated/(absorbed) by financing activities	15,680	63,198
Other shareholders' equity changes	53	793
Changes in the year	**(40,135)**	**34,022**

In 2011, the Group absorbed liquidity for Euro 40,135 thousand, against a generation of cash of Euro 34,022 thousand in the previous year, as follows:

Cash absorbed by operating activities

The cash flows absorbed from operating activities increased by Euro 23,109 thousand, from a net absorption of Euro 4,004 thousand in 2010 to a net absorption of Euro 27,113 thousand in 2011.

The higher absorption of Euro 23,109 thousand follows a higher contribution of cash for Euro 5,637 thousand, generated by operating cash flows before changes in working capital and an absorption of cash for Euro 28,746 thousand from changes in working capital.
The change in working capital absorbed Euro 35,584 thousand from operating cash flow, while in 2010 absorbing Euro 6,838 thousand, with a change in the two years of Euro 28,746 thousand.

The working capital changes consider the following:

- A decrease in the exposure to clients for Euro 24,282 thousand in 2011 against an increase in the exposure to clients for Euro 31,458 thousand in 2010, with a net change of Euro 55,740 thousand in the two years;
- A decrease in the exposure to suppliers for Euro 59,583 thousand in 2011 following an increase in the exposure to suppliers for Euro 23,292 thousand in 2010 with a net change of Euro 82,875 thousand.

Cash absorbed by investing activity

In 2011, investing activity absorbed cash of Euro 28,755 thousand, against an absorption in the previous year of Euro 25,965 thousand.

Cash generated by financing activity

In 2011, financing activity generated cash of Euro 15,680 thousand against a generation of cash in the previous year of Euro 63,198 thousand. The previous year benefited from the share capital increase of Euro 70,000 thousand.

At December 31, 2011, the medium/long term loans, including the short-term portion, were as follows:

December 31, 2011	Variable rate	Fixed rate	Total
To be repaid			
- within one year	152,467	7,708	160,175
- between one and two years	-	7,737	7,737
- between two and three years	195	4,250	4,445
- between three and four years	206	4,192	4,398
- between four and five years	-	3,776	3,776
- over five years	3,063	60,479	63,542
Total	**155,931**	**88,142**	**244,073**

Note 28 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2011	31/12/2010
Deferred income – gains on sale of property	27,044	11,908
Medium/long-term mobility charges	181	2,449
Medium/long term accruals and deferred income	-	2
Deposits	112	212
Total	**27,337**	**14,571**

The account Deferred income - gains on sale of property increased due to the settlement of the finance lease contract of the industrial area of Castelletto dated December 30, 2003 and the signing of a new contract as reported in Note 7 – Property, plant and equipment. The increase in the deferred income of the gain at January 1, 2011, the initial recognition of the new contract, amounted to Euro 18,589 thousand, of which Euro 379 thousand the current portion and Euro 18,210 thousand as the non-current portion. At the balance sheet date the increase in deferred income compared to December 31, 2010 was Euro 15,136 thousand.

The medium/long term mobility charges reduced following the reclassification of the liabilities to short-term payables.

The book value of the other liabilities approximates their fair value.

Note 29 - Trade payables

The account trade payables is composed as follows:

	31/12/2011	31/12/2010
Supplier payables	147,264	176,773
Payables to associated companies	136	120
Total	**147,400**	**176,893**

The payables to the Telecom Italia Group and Cisco are broken down in Note 43 – Transactions with related parties.

The book value of the Trade Payables approximates their fair value.

The trade payables in currencies other than the Euro, the group functional currency, are listed below:

(thousands)

	31/12/2011		31/12/2010
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	113,433	87,668	137,789
UK Sterling	220	263	213
Japanese Yen	-	-	180
Swiss Franc	-	-	3
Argentinean Peso	12,081	2,170	901
Brazilian Real	8,066	3,339	4,782
Russian Ruble	-	-	151
Polish Zloty	15	3	5
Colombian Peso	2,432,124	969	379,952
Peruvian Nuevo Sol	-	-	141
Guatemalan Quetzal	-	-	206
Philippine Peso	474	8	474
Arab Emirates Dirham	150	32	1,990

Note 30 - Current tax liabilities

Current tax liabilities amount to Euro 1,697 thousand and Euro 1,543 thousand at December 31, 2011 and December 31, 2010 respectively, representing the Income tax payables:

	31/12/2011	31/12/2010
IRES	-	-
IRAP	-	-
Income taxes – foreign countries	1,697	1,543
Total	**1,697**	**1,543**

Note 31 - Other payables and liabilities

The account and other payables and liabilities is broken down as follows:

	31/12/2011	31/12/2010
Employee payables	23,251	34,366
Social security institution payables	3,799	4,502
Accruals and deferred income	8,417	10,206
Short-term portion Castelletto gain deferred income	2,080	1,701
VAT	3,501	10,559
Withholding taxes to be paid	3,264	3,250
Other taxes	735	1,194
Customer advances	2,257	6,825
Other liabilities	3,345	5,540
Total	**50,649**	**78,143**

The decrease in employee payables is principally due to the provisioning for the variable part of the remuneration related to the reaching of corporate objectives (Management By Objective), recognised at December 31, 2010 and not provisioned in the financial statements at December 31, 2011.

The account short-term portion of gains on the sale of buildings increased by Euro 379 thousand following the settlement of the old financial lease contract and the signing of a new contract as reported at Note 7 – Property, plant and equipment and Note 28 – Other non-current liabilities.

The book value of the other liabilities approximates their fair value.

Note 32 - Revenues from sales and services

The following tables report the revenues from sales and services in 2011 and 2010, broken down by client and region.

i) Revenues from sales and services broken down by client

	2011	2010
Telecom Italia [(a)]	112,580	132,909
Other local operators	71,353	88,841
Large enterprises and Public Administration	65,007	60,363
Overseas Operators	156,473	139,859
Total	**405,413**	**421,972**

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

ii) Revenues from sales and services broken down by region

	2011	2010
Italy	238,007	277,406
Other European countries	47,844	42,931
Central and South America	114,428	86,029
USA	297	1,811
Africa	1,107	9,566
Asia	3,730	4,229
Total	**405,413**	**421,972**

Note 33 – Other operating income

This account Other income is comprised of:

	2011	2010
Grants	4,332	4,194
Gains on disposals	3,138	1,721
Absorption of provisions and others	38,987	33,938
Total	**46,457**	**39,853**

Operating grants for Euro 4,332 thousand concern contributions for costs incurred for research and development activities (Euro 4,194 thousand in 2010).

The Gains on disposals include the share in the year of the gain relating to the sale and lease back operation of the building at Castelletto of Euro 3,073 thousand.

The account absorption of provisions and others concerns prior year income for Euro 10,479 thousand (Euro 14,375 thousand in 2010), Euro 3,602 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 1,882 thousand in 2010) and absorption of provisions for Euro 21,355 thousand (Euro 14,716 thousand in the previous year).

Note 34 - Purchase of materials and services

The account purchase of materials and services was broken down as follows:

	2011	2010
Purchases of materials	210,492	207,662
Purchases of services	78,304	80,932
Total	**288,796**	**288,594**

Note 35 - Personnel costs

The account Personnel costs is broken down as follows:

	2011	2010
Wages and salaries	76,879	96,225
Social security	25,540	25,443
Post-employment benefit	6,632	7,140
Mobility and other non-recurring charges	8,083	5,418
Other	742	944
Total	**117,876**	**135,170**

Personnel costs include non-recurring restructuring charges for a total of Euro 8,083 thousand (Euro 5,418 thousand in 2010).

The average work force decreased from 2,084 in 2010 to 1,820 in 2011.

Note 36 - Amortisation, depreciation and write-downs

The account amortisation, depreciation on write-downs was broken down as follows:

	2011	2010
Development Costs	28,600	28,145
Other intangible assets	3,719	4,725
Land	870	-
Industrial buildings	3,107	3,865
Plant and machinery	671	1,157
Commercial and industrial equipment	2,996	4,090
Other assets	1,090	1,477
Goodwill write-down	130,000	-
Total	**171,053**	**43,459**

Note 37 - Other operating costs

This account Other operating costs is comprised of:

	2011	2010
Miscellaneous operating costs	8,483	6,765
Provisions for risks	1,446	4,239
Write-down of receivables	268	220
Total	**10,197**	**11,224**

The account miscellaneous operating costs includes prior year charges of Euro 1,650 thousand (Euro 1,267 thousand in 2010).

Note 38 - Change in inventories

The following table highlights the principle components of the account:

	2011	2010
Raw material, ancillary and consumables	(2)	(27)
Products in work-in-progress and semi-finished	(24)	345
Finished products and goods for resale	(7,656)	(2,143)
Total	**(7,682)**	**(1,825)**

Note 39 - Increases on internal works capitalised

The account increases on internal works capitalised amounted to Euro 23,919 thousand in 2011 (Euro 25,529 thousand in 2010) and concerns the capitalisations of tangible and intangible fixed assets of the production costs, not including financing charges.

In 2011, the account concerned for Euro 23,689 thousand (Euro 25,356 thousand in 2010) the capitalisation of development costs with the characteristics described in the relative accounting principle.

Note 40 – Financial income and charges

The following table highlights the principal components of the account.

	2011			2010		
	Charges	**Income**	**Net charges (income)**	**Charges**	**Income**	**Net charges (income)**
Exchange differences	16,611	11,709	4,902	16,915	15,301	1,614
Interest	14,091	178	13,913	15,057	282	14,775
Other	4,449	5,488	(1,039)	4,783	1,522	3,261
Total	**35,151**	**17,375**	**17,776**	**36,755**	**17,105**	**19,650**

Net financial charges decreased from Euro 19,650 thousand in the previous year to Euro 17,776 thousand in 2011, a decrease of Euro 1,874 thousand (-9.5%).

Net exchange losses increased from Euro 1,614 thousand in 2010 to Euro 4,902 thousand in 2011.

Net interest charges decreased from Euro 14,775 thousand in 2010 to Euro 13,913 thousand in 2011. The improvement of Euro 862 thousand of net interest charges is due for Euro 2,972 thousand to the lower charges following the settlement of an Interest Rate Swap undertaken to hedge the risk of movements in the interest rates on medium/long-term loans and converted into a fixed rate long-term loan and for Euro 268 thousand to the reduction in the spreads applied to medium/long-term loans, although in the presence of increasing interest rates. The above-stated positive effects were partially offset for Euro 2,597 thousand by higher interest charges on the new rental contract of the Castelletto/Settimo Milanese area and for Euro 466 thousand to the increased use of revolving credit lines for cash advance and for invoice advances, although with lower spreads applied following the re-financing of the debt with the lending institutions in September 2010.

Other net income and charges improved from charges of Euro 3,261 thousand in 2010 to income of Euro 1,039 thousand in 2011, an improvement of Euro 4,300 thousand, due for Euro 3,061 thousand to the prior-year income from the closure of the liabilities of a similar amount following the residual valuation of an IRPEG receivable paid by the Tax Agency in the first half of 2011.

Note 41 - Income taxes

Income taxes in 2011 amounted to Euro 7,177 thousand compared to Euro 249 thousand in 2010 and include: IRAP for Euro 1,200 thousand, foreign income taxes for Euro 3,712 thousand, minor taxes relating to previous years of Euro 23 thousand, the net positive balance of deferred tax assets for Euro 266 thousand, in addition to withholding taxes in Argentina in the years 2005 - 2011 considered not recoverable and recognised to the income statement for Euro 2,554 thousand. The change on the previous year, in addition to the latter account listed above, is due to the fact that in 2010 deferred tax assets were recognised for Euro 6,480 thousand on 2009 financial charges, temporarily non-deductible as exceeding the Financial Charges/EBITDA ratio as established by Article 96 of the Income Tax Law, whose utilisation is unlimited.

Reconciliation of effective taxes relating to the Group is broken down as follows:

	2011	2010
Theoretical taxes [(a)]	(37,838)	(3,257)
IRAP	1,200	2,450
Argentina withholding taxes	2,554	-
Difference between the tax rate on foreign entities	1,561	(1,734)
Non-deductible (exempt) tax components	409	1,904
Write-down of Italtel S.p.A. goodwill not deductible	35,750	-
Deferred taxes not recorded on tax losses and temporary differences	3,527	315
Positive components not subject to taxation	(119)	(352)
Other changes	133	425
Effective tax	**7,177**	**(249)**

(a) Determined applying the theoretical tax rate of 27.5% to the pre-tax result

Note 42 – Discontinued assets

The non-current discontinued assets and liabilities, in addition to the net loss from discontinued assets refer to the company Italtel Russia OOO in liquidation.

The Shareholders' Meeting of the company on November 26, 2009 approved the initiation of a program for the progressive reduction of the operating activities in Russia. In 2010, all maintenance contracts in place were in fact closed with clients, the branches at Moscow and Tiumen were closed and the inventory and non-utilisable assets were disposed of. In addition, all employment contracts were resolved with the exception of one person on maternity leave.

With the conclusion of the reduction of activities the Shareholders' Meeting of October 6, 2010 approved the placing into liquidation of the company and appointed a liquidation committee in St. Petersburg.

The liquidating activities of the company continued until December 31, 2011.

The assets of Euro 179 thousand comprise cash and cash equivalents for Euro 163 thousand and Russian tax receivables for Euro 16 thousand.

The liabilities of Euro 4 thousand concern payables to the firm appointed for the company liquidation.

The net loss of Euro 37 thousand is broken down as follows:

	2011	2010
Revenues from sales and services	-	201
Operating result	(280)	(1,202)
Discontinued activities profit/(loss)	(37)	(1,155)

Note 43 - Transactions with related parties

The transactions with the related parties were as follows:

December 31, 2010	Trade receivables	Financial receivables	Trade payables	Financial payables	Other payables
Subsidiary companies not consolidated:					
Italtel Telesis consortium in liquidation	1	544	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(45)
Hermes consortium 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)**

December 31, 2011	Trade receivables	Financial receivables	Trade payables	Financial payables	Other payables
Subsidiary companies not consolidated:					
Italtel Telesis consortium in liquidation	-	557	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(52)
Hermes consortium in liquidation	27	-	-	-	(84)
Other related parties:					
Clayton Dubilier & Rice	-	-	-	-	(148)
Telecom Italia Group	35,217	-	(291)	-	-
Cisco Systems Group	14	-	(73,773)	(3)	-
Total	**35,317**	**557**	**(74,064)**	**(3)**	**(284)**

In 2010 and 2011, the Italtel Group reports transactions with related parties as follows:

2010	Sales	Purchases	Financial income	Other
Subsidiary companies not consolidated:				
Italtel Telesis consortium in liquidation	-	-	8	1
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(6)
Hermes consortium 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**

2011	Sales	Purchases	Financial income (charges)	Other
Subsidiary companies not consolidated:				
Italtel Telesis consortium in liquidation	-	-	12	-
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(7)
Hermes consortium in liquidation	-	-	-	(9)
Other related parties:				
Clayton Dubilier & Rice	-	-	-	(1)
Telecom Italia Group	205,875	(2,669)	-	-
Cisco Systems Group	5	(180,907)	(143)	3,602
Total	**205,880**	**(183,576)**	**(131)**	**3,585**

In relation to senior managers with strategic responsibilities, in 2011 and in 2010 emoluments were matured for a total amount respectively of Euro 3,843 thousand and Euro 2,865 thousand. These emoluments were as follows:

	2011	2010
Current Emoluments	3,677	2,690
Post-employment benefits	166	175
Total	**3,843**	**2,865**

A number of members of the corporate boards of the Parent Company, in addition to a number of Key Senior Managers of the Italtel Group participated in the ordinary share plan (Plan A), the stock option plan and the purchase of shares for Key Managers (Plan C), in addition to a stock option plan for Managers and Key Contributors (Plan B).

Note 44 - Commitments

The Italtel Group has undertaken rental contracts of an operating nature concerning essentially offices, vehicles and IT equipment. The following table summarises the commitments in place concerning these contracts.

	31/12/2011	31/12/2010
To be repaid		
- within one year	2,165	2,479
- between one and two years	1,879	1,595
- between two and three years	1,809	1,438
- between three and four years	418	307
- between four and five years	432	314
- over five years	449	191
Total	**7,152**	**6,324**

Note 45 - Independent Audit Firm fees

In accordance with Article 37, paragraph 16 of Legislative Decree No. 39/2010, enacting amendments to the Civil Code, which supplemented Article 2427 of the Civil Code with No. 16 *bis*, the following table reports the fees for 2011 for the auditing of accounts and other services provided to the companies of the Italtel Group by PricewaterhouseCoopers.

	Italtel Group S.p.A.	Subsidiary companies	Italtel Group
Audit Services	49	323	372
Tax consultancy and other services	13	26	39
Total 2011 costs for auditing and other services	**62**	**349**	**411**

Note 46 – Subsequent events

The events subsequent to December 31, 2011 are reported in the Directors’ Report.

Note 47 – List of investee companies

A) List of companies included in the consolidation scope under the line-by-line method

	Company name (activities)	Registered office	Currency	Share capital	% held	
1)	Italtel Group S.p.A.	Settimo Milanese	Euro	131,426,652		
Italian subsidiaries						
2)	Italtel S.p.A. (telecommunication systems and services)	Settimo Milanese	Euro	116,858,248	100	Italtel Group S.p.A.
3)	Italtel N.G.A. S.p.A. (previously CERM Palermo S.c.p.A.) (research). In liquidation from April 17, 2012. Cancelled at October 29, 2012	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)	P.A.	4,030,000	71.46 28.54	Italtel BV Italtel S.p.A.
7)	Italtel OOO in liquidation (telecommunications systems) Cancelled at May 31, 2012	St. Petersburg (Russian Federation)	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 (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel Group S.p.A. Italtel BV
11)	Italtel France Sas (commercial)	Suresnes (France)	Euro	40,000	100	Italtel S.p.A.
12)	Italtel Telecommunication Hellas EPE (commercial)	Athens (Greece)	Euro	18,000	80 20	Italtel Group S.p.A. Italtel S.p.A.
13)	Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	60 40	Italtel Group S.p.A. Italtel BV
14)	Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	500,000 (paid-in 200,000)	60 40	Italtel Group S.p.A. Italtel BV
15)	Italtel Poland Sp.Zo.O. (commercial)	Warsaw (Poland)	Zloty	400,000	100	Italtel S.p.A.
16)	Italtel Middle East Fz-LLC (commercial)	Dubai (Arab Emirates)	AED	2,500,000	100	Italtel S.p.A.
17)	Italtel Arabia Ltd (commercial)	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
18)	Italtel Perù S.a.c. (commercial)	Lima (Perù)	Nuevo Sol	641,000	90 10	Italtel BV Italtel S.p.A.

B) List of companies valued under the net equity method

	Company name (activities)	Registered office	Currency	Share capital	% held		Book value
Italian associated companies							
19)	Cored - Reti 2000 Consortium in liquidation (broadband networks)	Milan	Euro	260,000	30	Italtel S.p.A.	76
20)	Hermes consortium in liquidation (transmission systems)	Milan	Euro	510,000	24	Italtel S.p.A.	118

C) List of other investments in subsidiaries and associated companies valued at cost

Company name (activities)		Registered office	Currency	Share capital	% held		Book value
Non-consolidated Italian subsidiaries valued at cost							
21)	Italtel Telesis consortium in liquidation (integrated computer systems)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	13
List of non-consolidated foreign subsidiaries valued at cost							
22)	Italtel Inc. (commercial) Cancelled at June 27, 2012	Delaware (USA)	US Dollar	100	60 40	Italtel Group S.p.A. Italtel BV	-
23)	Italtel de Venezuela S.A. (commercial)	Caracas (Venezuela)	Bolivar Fuerte	940,000	95 5	Italtel S.p.A. Italtel BV	-

D) List of investments in other companies valued at cost

Company name (activities)		Registered office	Currency	Share capital	% held		Book value
Other Companies valued at cost							
24)	Cefriel - S.c.r.l. (training and research)	Milan	Euro	100,350	5.8	Italtel S.p.A.	36
25)	Consorzio Milano Ricerche (design & research)	Milan	Euro	186,431	8.3	Italtel S.p.A.	15
26)	Consel - Consorzio 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	Consorzio Italtel Telesis in Liquidation	-
29)	Consorzio MIP - Politecnico di Milano	Milan	Euro	150,000	5.88	Italtel S.p.A.	-
30)	Consorzio Nazionale Imballaggi CONAI (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A.	1
31)	COFRIDIP consortium	Padua	Euro	28,402	9.09	Italtel S.p.A.	3
32)	Distretto Tecnologico, Sicilia Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	4.55	Italtel S.p.A.	27

Note 48 – Key financial highlights of the companies included in the consolidation scope

(thousands of Euro)

Balance Sheet	Italtel Group S.p.A.	Italtel S.p.A.	Italtel N.G.A. S.p.A.	Italtel BV	Italtel Belgium Sprl	Italtel Deutschland GmbH
Assets						
Non-current assets						
Property, plant and equipment	-	66,292	-	-	6	5
Goodwill	-	169,565	-	-	-	-
Other intangible assets	-	36,370	-	-	-	-
Investments valued under the equity method	-	194	-	-	-	-
Medium/long term financial assets	2,488	12,097	-	10,297	-	-
Other assets	-	17,198	-	-	-	-
Deferred tax assets	-	69,631	-	-	-	-
Total non-current assets	**2,488**	**374,347**	**-**	**10,297**	**6**	**5**
Current assets						
Inventories	-	24,743	-	-	-	-
Trade receivables	-	102,807	-	-	694	3,159
Tax receivables	-	1,148	-	-	-	-
Other receivables and assets	3	18,996	2	-	1	10
Short-term financial assets	-	4,236	214	133	-	2,932
Cash and cash equivalents	6	15,875	-	339	37	1,815
Total current assets	**9**	**167,805**	**216**	**472**	**732**	**7,916**
AFS non-current assets	-	-	-	-	-	-
Total assets	**2,497**	**539,152**	**216**	**10,769**	**738**	**7,921**
Net equity and Liabilities						
Net Equity						
Share capital	131,427	116,858	213	6,000	500	40
Reserves	11,507	-	1	3,353	11	2,769
Treasury shares	(10,983)	-	-	-	-	-
Other reserves including the net result	(143,582)	(154,626)	(8)	714	223	1,483
Total Net Equity	**(11,631)**	**(37,768)**	**206**	**10,067**	**734**	**4,292**
Liabilities						
Non-current liabilities						
Employee benefit provisions	-	28,299	-	-	-	-
Provisions for risks and charges	-	11,454	-	450	-	-
Medium/long term financial liabilities	-	83,898	-	-	-	-
Other liabilities	-	27,337	-	-	-	-
Total non-current liabilities	**-**	**150,988**	**-**	**450**	**-**	**-**
Current liabilities						
Trade payables	464	135,599	10	-	1	3,249
Current income tax payables	-	-	-	-	-	159
Other payables and liabilities	344	40,547	-	3	3	221
Current financial liabilities	13,320	249,786	-	249	-	-
Total current liabilities	**14,128**	**425,932**	**10**	**252**	**4**	**3,629**
AFS non-current liabilities						
Total liabilities	**14,128**	**576,920**	**10**	**702**	**4**	**3,629**
Total net equity and liabilities	**2,497**	**539,152**	**216**	**10,769**	**738**	**7,921**
Income Statement						
Revenues from sales and services	-	322,411	-	-	-	8,383
EBITDA	(252)	35,765	(11)	(48)	8	2,296
EBIT	(252)	(134,983)	(11)	(48)	4	2,292
Net financial income/(charges)	(143,491)	(14,078)	5	5,597	1	(11)
Profit (loss) before taxes	(143,743)	(149,061)	(6)	5,549	5	2,281
Net profit (loss) for the year	(143,743)	(150,666)	(6)	5,549	5	1,737

(thousands of Euro)

Italtel France Sas	Italtel S.A.	Italtel Tel. Hellas EPE	Italtel U.K. Ltd	Italtel Poland Sp.Zo.O.	Italtel OOO	Italtel Argentina S.A.	Italtel Brasil Ltda	Italtel Perù S.a.c.	Italtel Kenya Ltd	Italtel Middle East Fz-LLC	Italtel Arabia Ltd
54	99	4	-	-	-	47	220	68	19	7	84
-	-	-	-	-	-	-	-	-	-	-	-
-	5	1	-	-	-	-	19	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	33	-	-	-	-	-	-	-	3	-	-
505	-	6	-	-	-	58	77	64	38	38	7
-	-	-	-	-	-	30	400	132	-	-	-
559	**137**	**11**	**-**	**-**	**-**	**135**	**716**	**264**	**60**	**45**	**91**
173	189	-	-	-	-	4,464	2,137	1,842	13	-	-
4,902	3,400	979	132	1,273	-	16,544	7,827	2,349	102	91	1,028
631	-	289	-	-	-	-	713	-	-	-	-
194	469	-	-	8	-	3,193	380	1,933	5	8	17
1,473	6,305	-	-	-	-	187	-	-	-	737	-
811	1,636	910	-	189	-	985	2,618	279	281	493	1,086
8,184	**11,999**	**2,178**	**132**	**1,470**	**-**	**25,373**	**13,675**	**6,403**	**401**	**1,329**	**2,131**
-	**-**	**-**	**-**	**-**	**179**	**-**	**-**	**-**	**-**	**-**	**-**
8,743	**12,136**	**2,189**	**132**	**1,470**	**179**	**25,508**	**14,391**	**6,667**	**461**	**1,374**	**2,222**
40	7,353	18	31	90	-	724	2,726	184	5	526	678
4	925	6	-	243	4,692	970	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
892	77	798	(604)	(506)	(4,517)	2,630	612	721	(226)	(387)	(1,152)
936	**8,355**	**822**	**(573)**	**(173)**	**175**	**4,324**	**3,338**	**905**	**(221)**	**139**	**(474)**
-	-	37	-	-	-	-	-	-	-	-	23
23	-	-	-	36	-	-	77	-	-	-	-
-	-	-	676	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
23	**-**	**37**	**676**	**36**	**-**	**-**	**77**	**-**	**-**	**-**	**23**
5,832	3,217	1,171	24	1,263	-	17,876	6,788	4,685	537	1,166	2,397
-	-	35	-	-	-	1,140	38	269	-	56	-
1,666	564	118	5	344	-	2,168	4,150	808	145	13	276
286	-	6	-	-	-	-	-	-	-	-	-
7,784	**3,781**	**1,330**	**29**	**1,607**	**-**	**21,184**	**10,976**	**5,762**	**682**	**1,235**	**2,673**
7,807	**3,781**	**1,367**	**705**	**1,643**	**4**	**21,184**	**11,053**	**5,762**	**682**	**1,235**	**2,696**
8,743	**12,136**	**2,189**	**132**	**1,470**	**179**	**25,508**	**14,391**	**6,667**	**461**	**1,374**	**2,222**
11,824	8,221	3,782	-	1,684	-	36,000	41,878	23,481	643	1,328	1,309
1,355	(92)	146	(12)	(208)	(242)	5,560	6,479	1,436	(44)	45	(1,279)
1,335	(185)	136	(12)	(209)	(242)	5,552	6,368	1,398	(49)	43	(1,288)
7	154	(3)	-	(76)	-	(1,168)	(1,263)	(374)	(41)	(67)	136
1,342	(31)	133	(12)	(285)	(242)	4,384	5,105	1,024	(90)	(24)	(1,152)
892	(31)	133	(12)	(285)	(279)	2,565	2,782	757	(90)	(76)	(1,152)

Settimo Milanese, December 11, 2012

For the Board of Directors

The Chief Executive Officer

AUDITORS' REPORT

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE N° 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 2011, which comprise consolidated balance sheet, consolidated income statement, consolidated comprehensive income statement, statement of changes in shareholders' equity, statement of cash flows 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.

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 06 April 2011.

3 In our opinion, the consolidated financial statements of Italtel Group Group as of 31 December 2011 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 Italtel Group Group for the period then ended.

4 Without qualifying our opinion, we wish to emphasise the following matters described in the paragraph "outlook and director's consideration on the going concern of the company" of Director Report concerning the events and circumstances that, as described in detail in the same paragraph, indicate the existence of an element of uncertainty that could affect the Group's ability to operate with the assumption of business continuity. In the same paragraph are discussed the reasons under which the Admins decided to adopt business continuity assumption while drawing the consolidated financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

www.pwc.com/it

5 The Directors of Italtel Group SpA are responsible for the preparation of the Directors' report in compliance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Directors' report with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and recommended by Consob. In our opinion, the Directors'report is consistent with the consolidated financial statements of Italtel Group Group as of 31 December 2011.

Milan, 21 December 2012

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.