ITALTEL GROUP
2012 DIRECTORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS

ITALTEL

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CHAIRMAN'S LETTER

Dear Shareholders,

The stagnation which has affected the entire Information & Communication Technology sector for a number of years now persisted also in 2012. The global economic crisis continued and an uptake in growth is still not on the horizon.

For Italtel, 2012 also featured the beginning of a debt restructuring process to which the company committed itself for a number of months. The process concluded on December 11 with the signing by the shareholders Cisco and Telecom Italia and a syndicate of banks (including Unicredit, Ge Capital and BPM) of a significant Debt Restructuring Agreement which provides for the financial and industrial recovery of the company.

Under this agreement the stakeholders have renewed their trust in the company through a new Industrial Plan which focuses on the development of two separate but synergetic industrial activities: the provision of engineering and operating services for new generation IP networks, both public and private, and the research and development of original products which enable guaranteed quality inter-operable voice and video communications on the new generation networks.

The Plan provides also for an increased presence on the domestic market in the medium/large enterprise and Public Administration segments and in the international markets of Latin America - in particular Brazil. The focus remains on the telecommunication operators market and the provision of an increasingly global service. From this point of view, the confirmation of the strong partnership already in place with Cisco is a feature which provides increased solidity.

The Restructuring Agreement was made possible also due to the reorganisation plan concerning 500 surplus employees and the reduction in the cost of labour under the Industrial Plan. On January 17, 2013, the reorganisation plan was agreed between the company and the trade union organisations and thereafter positively received also by workers.

On February 26, 2013, with the issue by the Milan Court of the Approval Decree of the Restructuring Agreement as per Article 182-*bis* submitted by Italtel and with its filing at the Milan Company Registration Office for publication, the process advanced with great commitment by the company and its stakeholders to re-establish the capital and financial conditions necessary to support operations and in resolution of prolonged uncertainty formally concluded.

Today Italtel can concentrate on implementing the new Industrial Plan, particularly focusing on cost containment, with the objective to establish a solid and durable economic and financial framework in the time scale set down.

2012 was a difficult year due to the number of areas in which we were committed. We wish to thank the women and men of Italtel for their professionalism and dedication in such a highly complex situation.

On behalf of management, I wish to thank the shareholders and stakeholders for continuing their support and for showing such confidence in our company.

Umberto de Julio

INTRODUCTION

Italtel's commitment to innovation sets it apart from the competition. The company has consistently applied its acquired technical know-how to drive progress in telecommunications and to provide high quality products, solutions and services which meet the particular needs of clients - whether operators, businesses or public administration bodies. In a sector known for extremely fast technological development, Italtel designs innovative network architecture and network inter-operability solutions and offers high added-value consultancy services through unrivaled know-how, providing the basis for successful partnerships with clients.

Enabling people and devices to communicate without limits and fully integrating technologies, applications and networks. This is Italtel's mission.

Italtel Group

Italtel is the leading player in the telecommunications market, with its technology deployed in many countries across the globe. 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 open and flexible reliable infrastructure based on proprietary or third party technologies. Its portfolio includes proprietary solutions and products, network engineering and consultancy services and ICT managed services and solutions, such as Unified Communication & Collaboration, Telepresence, Cloud, Smart Cities and Integrated Security.

Italtel maintains a close focus on innovation and invests in ongoing research and development. Over 40 of the leading telecommunications operators globally are listed among the client base. In Italy, the company is a leading partner both for large companies and for the Public Administration in creating new generation IP networks and in setting up their client communication services.

In addition to its leadership position on the Italian market, Italtel has established a strong presence abroad: the company operates in France, Germany, Spain, Greece, Poland, the United Arab Emirates and in Latin America (Argentina, Brazil, Columbia and Peru).

Key Financial Highlights

(thousands of Euro)

	2012 IFRS	2011 IFRS
Revenues	331,394	405,413
Profitability to external costs [(1)] %	*33.04*	*36.14*
EBITDA [(2)]	33,362	51,238
Margin %	*10.07*	*12.63*
EBIT [(3)]	1,518	(119,815)
Margin %	*0.46*	*(29.55)*
Net loss	(12,163)	(144,805)
Margin %	*(3.67)*	*(35.72)*
Revenues / Average NWC [(4)]	(8.35)	(9.47)
Revenues / Average NCE	1.37	1.33
ROI [(5)] %	*0.63*	*(39.17)*
Average workforce, excl. lay-off schemes	1,346	1,584
Value added [(6)]	85,999	123,424
Value added per employee	64	78
Revenues per employee	301	256
Cost of labour / Value added	1.12	0.89
	December 31, 2012	**December 31, 2011**
Capex [(7)]	23,646	28,073
Net Debt [(8)]	265,956	290,454
Shareholders¨ Equity	(42,105)	(28,952)
NCE [(9)]	223,851	261,502
Adjusted NCE [(10)]	56,636	94,287
Cash flow from operating activities	22	(27,113)
Cash flow from investing activities	(21,303)	(28,755)
Cash flow from financing activities	29,135	15,680
Fixed asset coverage ratio [(11)]	(0.02)	0.16
Current ratio [(12)]	0.42	0.46
Treasury ratio [(13)]	0.35	0.38
Immediate Liquidity ratio [(14)]	0.07	0.06
Treasury margin [(15)]	(311,406)	(270,162)
Client average (days)	107	97
Suppliers average (days)	211	181
Number of employees	1,720	1,806
of which Italy	1,535	1,626
of which Overseas	185	180

(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 capial expenditure is the sum of intangible and tangible asset investments without recognition of the new lease back concerning the Castelletto area in 2011
(8) Net debt is reported in Directors' Report at page 32
(9) Net Capital Employed (NCE)
(10) Net Capital Employed (NCE), adjusted for Goodwill
(11) Fixed asset coverage ratio: Net Capital + Non-Current Financial Liabilities / Non-Current Assets
(12) Current ratio: Current Assets / Current Liabilities
(13) Treasury ratio: Current Assets - Inventories / Current Liabilities
(14) Acid-test ratio: Liquidity / Current liabilities
(15) 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 Class "A" shares) [(1)] 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 Class “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 class "A" shares) [(1)], 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%, taking account of the ordinary Class "A" shares) [(1)] 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) [(1)] 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 and reducing to Euro 825,695 on March 27, 2013, is comprised of 17,762,976 shares, of which 8,881,488 Class “A” shares, held as reported above and 8,881,488 Class “B” preference and convertible shares as per the By-laws. The shareholders Telecom Italia Finance S.A., Cisco Systems International BV and Cordusio Fiduciaria per Azioni hold, in addition to the Class “A” shares in the percentages reported above, also Class “B” shares as follows: 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) Stefano Carlino (7) Paolo Leone (8) Salvatore Spiniello (9) (*)
Secretary of the Board of Directors	Nicolò de' Castiglioni

Board of Statutory Auditors (10)

Chairman	Marco Baccani
Statutory Auditors	Carlo Delladio Marco Tani
Alternate members	Mauro Ianiro Guido Paolucci

Independent Audit Firm

PricewaterhouseCoopers S.p.A.

(1) Appointed on August 10, 2010 and until the Shareholders' Meeting called 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) Appointed on January 10, 2013 and until the Shareholders' Meeting called for the approval of the 2012 Annual Accounts.
(6) Appointed on April 21, 2011 and until the Shareholders' Meeting called for the approval of the 2012 Annual Accounts.
(7) Appointed on March 15, 2013 following the resignation on November 16, 2012 of Director Giannini. He will remain in office, with the entire Board, until the Shareholders' Meeting called for the approval of the 2012 Annual Accounts.
(8) Chairman of Remuneration Committee
(9) Appointed on April 21, 2011 and until the Shareholders' Meeting called for the approval of the 2012 Annual Accounts.
(10) Appointed on January 10, 2013 and in office until the Shareholders' Meeting for the approval of the 2014 Annual Accounts
(*) Independent Director

DIRECTORS' REPORT

In the section concerning considerations on the going concern of the company of the 2011 Directors' Report dated December 11, 2012, the Directors described in detail the significant features of the Debt Restructuring Agreement, drawn up as per Article 182 of the Bankruptcy Law, highlighting a remaining element of uncertainty concerning the approval of the Restructuring Agreement and the consequent recapitalisation of the principal Group subsidiary Italtel S.p.A.

It is with great pleasure that, following the approval of the Milan Court on February 26, 2013 and filing in the Companies Register on March 1, 2013, the agreement was fully executed. Thanks to the commitment of the credit institutions and the industrial shareholders, financial receivables of Italtel S.p.A. of a value of approx. Euro 153 million were converted into equity instruments, resulting in the capital and financial rebalancing of the above-mentioned Company.

The Shareholders' Meetings previously called to execute the agreement and approve the financing contracts, in addition to their substantial disbursement in the amounts required by the Company, confirmed that the choices made by Directors in relation to the adoption of the going concern principle – which were directly related to the restructuring process currently in progress – were reasonable. The Italtel Group's next challenge is therefore to achieve the objectives of the 2012-2016 industrial plan which forms the basis of the Restructuring Agreement.

In relation to the actions taken concerning the by-law amendments, Corporate Governance and the undertaking of investment holdings, reference should be made to subsequent sections of the present report.

The reaching of this fundamentally important agreement has itself put us in a position to report on the year just concluded, which features the extensive process mentioned above and – with a vision which can again focus on business matters - the outlook for future years within a highly complex marketplace.

The continued uncertainty throughout 2012 related to the restructuring process impacted the Group's results, with consolidated revenues of Euro 331.4 million compared to Euro 405.4 million in 2011 (reducing Euro 74 million). The decrease relates to the protracted restructuring process which, as noted, was only completed on December 11, 2012. This resulted in some delays in industrial operations and a significant part of revenues pertaining to 2012 (approx. Euro 23.7 million) could only be invoiced in the initial days of January 2013.

2012 consolidated EBITDA amounted to Euro 33.4 million compared to Euro 51.2 million in 2011 (reducing Euro 17.8 million).

Consolidated EBIT amounted to Euro 1.5 million, compared to an EBIT loss of Euro 119.8 million in the previous year, which included a goodwill write-down of Euro 130 million.

The Group loss for the year amounted to Euro 12.2 million compared to Euro 144.8 million in the previous year, which excluding the write-down of goodwill of Euro 130 million, improved by Euro 2.6 million.

The net debt at December 31, 2012 amounted to Euro 266.0 million compared to Euro 290.4 million in 2011, therefore reducing by Euro 24.4 million.

Consolidated shareholders' equity at December 31, 2012 was negative for Euro 42.1 million compared to a negative Euro 28.9 million in 2011, decreasing therefore by Euro 13.2 million.

At the date of the present report and subsequent to the previously described conversion, the shareholders' equity of the principal subsidiary Italtel S.p.A. amounts to Euro 100.7 million with the consolidated net debt amounting to Euro 200 million.

For a more extensive analysis of the income statement, balance sheet and financial position, reference should be made to the specific section of this report.

Basis of presentation

The consolidated financial statements of the Italtel Group at December 31, 2012 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2012, issued by the International Accounting Standard Board (IASB) and adopted by European Union regulations.

IFRS refers to all international reporting standards and all interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).
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.

The consolidated financial statements include the balance sheet – financial position, the income statement, the comprehensive income statement, the cash flow statement, the statement of changes in shareholders' equity and the explanatory notes, which contains a list of the significant accounting principles adopted and other notes in accordance with the requirements of IFRS.

The consolidated financial statements include the financial statements at December 31, 2012 of Italtel Group S.p.A., the Parent Company, and the financial statements of the companies in which Italtel Group S.p.A. holds control in accordance with IFRS (IAS 27).

The consolidated financial statements were prepared based on the financial statements at December 31, 2012 prepared by the Boards of Directors or, where available, the financial statements approved by the Shareholders' Meetings of the respective consolidated companies, appropriately adjusted where necessary to align them with the classification criteria and accounting standards adopted by the Group.

The consolidated financial statements fulfil the requirement for a true and correct presentation of the balance sheet, financial position, income statement and cash flows of the Group, in compliance with the general principles of going concern, the accruals concept, reliable presentation, correct classification, prohibition of offsetting and comparability of information.

The accounting period and the balance sheet date for the preparation of the consolidated financial statements correspond to those of the financial statements of the Parent Company and all of the consolidated companies.
The consolidated financial statements were prepared in Euro, which is the functional currency of the Parent Company Italtel Group S.p.A.

Market Overview and Position

Market overview

The global Telecommunications market value in 2012 was USD (US Dollars) 2,154 billion, slightly increasing (+0.7%) on 2011. The principal market segments are: Services and equipment for Enterprise networks, Public telecommunication network infrastructure, Operating systems, Fixed network services, Mobile network services and Mobile devices.

Market performances were greatly uneven across the continents, with significant contractions on 2011 seen in places - for example the European market lost 6.2% to total volumes of USD 403 billion while the Asian market saw continued growth (+7%) for total volumes of USD 496 billion in 2012. Latin America, which together with Europe represents a leading market for Italtel, reported very slight growth compared to 2011 (+0.76%), following however a number of years of significant growth.

In the network infrastructure market, which for some time has been the largest for Italtel, business deteriorated significantly as all major telecommunication operators have significantly reduced network expenditure and those which have invested focused on mobile access and to a lesser extent fixed access - areas in which neither Italtel nor Cisco have a significant presence. The value of this market in 2012 was USD 77 billion, reducing 6.6% on 2011. In Europe the contraction was 14.5% and in Latin America 4.5%.

The reduction in network expenditure by telecommunication operators has been an established trend now for a number of years. The reasons behind the reduction are complex and difficult to resolve. The fundamentals of this sector - which for many years presented high margins - are changing. Telecommunication service profit levels for many years revolved around access, essentially broadband access and fees, on voice traffic and, for the mobile services, on SMS's. Competition, extensive sector regulation and the replacement of the more profitable services with similar mainly free internet-based services by the Over The Top (OTT) providers have severely eroded the telecommunications profitability fundamentals, while significantly improving those of the OTT's.

Particular attention is focused on the Italian market, where Italtel derives approx. 60% of its revenues. The total value of this market was Euro 39 billion (approx. USD 50 billion), reducing 3.5% on 2011, with a series of significant reductions seen also in the preceding years: -3.4% 2011 vs 2010 and -3% 2010 vs 2009. In the telecommunications markets, the fixed services report volumes of Euro 13.5 billion, reducing 5.5%, with mobile network services reporting volumes of Euro 16.5 billion, decreasing 4.7%, with systems and terminals reporting Euro 5.1 billion and finally network infrastructures reporting Euro 3.7 billion. From a user's viewpoint, the key issues for fixed and mobile network services in 2012 were:

1. The continued decrease of fixed access to 21.6 million lines, reducing 2% on 2011, with incumbent operators holding a 64% market share and the substantial confirmation of the 6 operators which share the market: Telecom Italia, Wind, Vodafone, Fastweb, Tiscali and BT.
2. Broadband access numbers are worrying at 13.6 million, up only 1.1% on 2011 and with a reduction in the incumbent market share to 51%.
3. Stagnating mobile access numbers, which as noted has for some time been a saturated market in Italy, with 97.3 million SIM's, 4.5 million of which belonging to Mobile Virtual Operators. In 2012, growth evaporated from the second half of the year - in line with the general domestic economic performance. Four operators share the mobile market: TIM, Vodafone, Wind and H3G.
4. The significant increase in mobile broadband access which has reached, thanks to the runaway success of smartphones, 31 million (one-third of total mobile lines) - growing 17%. Their success continues to drive overall traffic growth which reached 251 PB (Peta Bytes, i.e. millions of Giga Bytes) – increasing 30% on 2011. This figure is significant as it demonstrates that against the decrease in the value of mobile services of -4.7%, network capacity increased by 30% and therefore requires increased investment, particularly in frequency acquisition and an increase in radio coverage which has seen increasing numbers of radio base stations in high density areas.

The Information Technology and digital media markets operate alongside the telecommunications market. These three markets have seen increased cross-pollination, leading to the creation of an integrated Digital market. The overall digital market in Italy in 2012 was worth Euro 68 billion, slightly contracting on 2011 (-1.8%). The IT market continued to slow, which together with the telecommunications market, has been on the slide for many years, reporting profits of Euro 17 billion in 2012 (-4% on 2011).

A focus on the overall digital market will be crucial for the positioning of Italtel in the coming years. This market is today driven by mobility, and in particular by smartphones and tablets, applications, content and digital advertising on the internet. In fact, the fundamentals of the emerging Digital Economy are in rapid growth throughout the world. The following numbers provide some indicators of this development in 2012: 1.4 billion social network users, increasing 19% on 2011, 6.5 billion mobile phone SIM's, with 3.2 billion users, up 9% on 2011, 0.7 billion smartphones sold in 2012, increasing 42%, 1.5 billion mobile broadband users, up 41%, 2.5 billion internet users, increasing 11% and finally 6 billion network connected devices, expected to multiply to 15 billion in 2015, with Machine To Machines and the Internet of things having become a reality.

Domestic market (Telecommunications Operators)

The telecommunications ICT and Information Technology market, as outlined above, in Italy in 2012 was again impacted by the international crisis which began in 2008. The ongoing challenging economic environment, developing market dynamics and the cross-over between the telecommunications and internet markets resulted in a further contraction in investments by operators and an increasing focus on a reduction of the TCO (Total Cost Ownership) of infrastructure, with a significant impact on unitary prices and margins.

In 2012, revenues amounted to Euro 89.6 million in the Telecom Italia Domestic Operations segment and Euro 58.8 million in the OLO (Other Licensed Operators) segment, contracting respectively therefore by 20% and by 18% on 2011. This trend is due both to the increased competition and investment focused on mobile components which impacted the traditional segments in which Italtel operates and the significantly reduced delivery capacity which affected Italtel throughout 2012 due to the restricted liquidity available to support our System Integration activities.

The commercial development activities however offset this reduction in revenues through the acquisition of new Clients, the launching of new projects in innovative areas, particularly in the Cloud Computing segment, and the sale of new products for IP interconnection between operator networks.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2012 the following innovative projects were implemented:

- IP-IP interconnection for the Telecom Italia network under the AGCOM recommendations: delivery based on new proprietary products (*NetMatch*) for inter-functionality between the various VoIP domains present
- Quality of Service for the operator networks: delivery based on new proprietary products (Routing & Policy Servers) to guarantee operators the same instruments for on-going control of service quality
- Next Generation Data Center (NGDC): delivery based on the provision of high quality Cloud services (Iaas, SaaS, PaaS)
- development of IT projects both in the system integration approach and in the development of further functionality on the proprietary products (i-NEM, DevMan)
- professional services to support the IP network transformation processes:
- Tools supporting network operations
- Solution Design, Integration & Testing and Network Transformation
- Technical Support, Consultancy & Trend Analysis
- Networks and services for HD video: development and testing of network solutions with inter-operability between multi technology domains

Enterprise Market and Public Sector

As outlined in 2012, with the continuation of the European economic crisis, the Eurozone has seen a two-speed performance:

- Italy, with Spain, Portugal, Belgium, Greece and Finland slid backwards
- The other countries progressed, although at a slower pace than previously

In Italy, overall IT expenditure in 2012 therefore dropped 4%, with a mix which favoured IT services component rather than the traditional hardware and software components.

The bank sector was confirmed the largest in terms of expenditure, although contracting 1.9%. The Public Administrations were impacted further by the worsening economy and the spending reviews of the second half of 2012: Central Administration IT expenditure reduced by 10.8% with local public administration spending contracting 8.0%.

Therefore revenues amounted to Euro 45.0 million (-31.0% on 2011): this result was impacted greatest by the decrease in Industry, Finance & Retail sector spending, which dropped by Euro 11.7 million. In this case the liquidity crisis experienced throughout 2012 – for the duration of the refinancing phase - had a definite impact on the delivery capacity, tender participation and the credibility required for appropriate market positioning. In certain cases clients and partners aware of the financing difficulties within Italtel looked to alternative providers for their projects.

However, on reaching the refinancing agreement and its proper and timely announcement to the market, the situation with clients and the number of opportunities returned to pre-existing levels, providing a definite indication for a recovery in the present year.

EMEA Market

Despite the continuation of the economic crisis and the reduction in investments by the major operators, Italtel achieved on the EMEA market in 2012 revenues of Euro 45.0 million, an increase of 6% on 2011; this result was achieved through the sale of proprietary products, in addition to the network integration activities for IP solutions, Video, Data Centers and Unified Communication.

Italtel consolidated and improved its positioning within the principal telecommunication groups such as Vodafone, France Telecom Group and Telefonica:

- Vodafone: Germany – creation of the new Database, expansion of the national VoIP network through the launching of a seventh VoIP node and an increase in IP inter-connections with other operators;
- France Telecom Group:
    - France – completion of the network inclusion tests for the new i-SSW release with its operating system; launching of a seventh VoIP node; increasing the overall capacity of the VoIP network in order to offer Large Enterprise connectivity services;
    - Spain – Orange awarded Italtel the SIP business trunking solution for the connection of the IP exchanges of large enterprises and the public administration;
- Telefonica: Spain – Global Solution awarded Italtel the contract for the engineering and implementation of a Unified Communication & Collaboration system on three Data Centers, respectively in Europe, the US and APAC, which manages 70,000 clients and the backbone IP network.

Other important objectives in 2012 included:

- Spain – Generalità di Catalunya developed the Data Center solution offered by Italtel

- Belgium – Belgacom added to its VoIP network the new Italtel operating system
- Poland – TK Telecom was acquired as a new Italtel client with an offer of new i-MCS products on a virtualised platform, components of the IMS and *NetMatch-M* suite
- Middle East – DU awarded Italtel a significant order for IP interconnection solutions with other operators
- North Africa – Maroc Telecom acquired a Italtel VoIP solution to interconnect the Contact Centers with IP technology

Finally, we highlight that in 2012 Italtel Spain received the GOLD partner certification from Cisco.

LATAM Market

In 2012, the Italtel Group in the LATAM region maintained its position as a key player on the ICT market and as one of the principal Global System Integrators of Cisco products in Brazil, Argentina, Peru and Colombia. Unfortunately, the overall financial situation of Italtel created difficulties in the sourcing of Cisco materials and services, resulting in a significant drop in revenues in 2012: revenues amounted to Euro 93.0 million, reducing 18% on 2011.

In Brazil, the principal client TIM Brasil, as a result of the Italtel procurement problems suspended a large part of expenditure: this impacted both revenues and margins.

In Columbia and Peru, thanks to the access to local credit lines the impact from the difficulties in sourcing Cisco materials and services was mitigated however.

Development and positioning of the Italtel offer

Despite the market, financial and operating difficulties outlined, 2012 for Italtel was a very important year for the development and focusing of the offer in line with the evolution of the telecommunications market.

Amid growing competition with the OTT's (Over The Top), telecommunication operators have re-launched on fixed and mobile broadband and high-speed broadband enabled services and have sought all avenues possible to monetise the quality of their network service, particularly suited for video services (streaming, videoconferences) and for transactional services (payment, identity management). Service quality, when guaranteed by network interconnection, justifies the "Sending Party Network Pays" principle i.e. payment for the sending of traffic, a significant change from the net neutrality best effort concept which to date has governed the operation of the internet and replaced the all "free" concept in this environment.

An in-depth understanding of these shifts since 2011 has driven Italtel to completely refresh its product portfolio with four highly innovative new product families:

- The iMCS system (*Italtel Multimedia Communication Suite*) which includes all functions of the IMS 3GPP release 9 standard, with release 10 currently in development. In addition to these functions, iMCS updates and innovates all NGN functions (for the transit and interconnection networks), which have for some time been a feature of the *Soft Switches* in which Italtel is a European market leader.
- The *Netmatch* system, acting as a Session Border Controller for interconnection between the IP networks and managing the distribution of the SIP signal (*Netmatch S*), as Border Gateway for interconnection between IP networks with centralised control of the SIP signal (*Netmatch B*), Media Gateway for interconnection between IP networks and traditional TDM (Time Division Multiplexing networks) and finally as the Diameter Routing Server for the operation of the Diameter signal utilised by new generation 4G/LTE (*Netmatch D*) mobile networks.
- The *WeGate* system which is a new generation Access Gateway (modem) for the fixed high speed broadband networks with copper/fiber hybrid access (Fiber To The Curb) in VDSL technology and with fiber access (Fiber To The Home) in GPON technology.

- The iQAC system (Italtel Quality Access Controller) which operates on the agent software principle enables a simulation of client behaviour on complex networks and precisely measures the perceived end to end quality and is coupled with the findings from traditional records based on parameters directly readable within the network elements.

The IMS system (IP Multimedia System) is the brain of the new generation networks. The system enables analysis of the connection requests, the messages and the transactions originating from terminals (Telephones, Smartphones, Video Communication Terminals, PC's, Tablets, POS's, Sensors etc.), authorising them and directing them within the network towards the requested terminals or applications. The IMS platform, as stated, is of significant strategic importance for telecommunication operators as on the one hand it enables the transformation of the traditional networks into new generation "ALL IP" networks and on the other enhances the value of the networks, facilitating the provision of many innovative services. The transformation of the fixed access network into a NGAN (Next Generation Access Network) will take place with the development of access technologies which begins with FTTC (Fiber To The Cab) and evolves towards FTTH (Fiber To The Home). In both phases the traditional voice services, the supplementary services and the emerging services migrate, thanks to the IMS platform, to the IP protocol (that of the Internet). The transformation of the mobile network towards the LTE (Long Term Evolution) architecture will take place quickly. Also in this architecture the traditional voice and messaging (SMS) services will migrate to the IP protocol and therefore the IMS platform will have an essential role in the migration and transformation of the mobile network. The Operators which utilise both the fixed network and the mobile network will certainly shift naturally, even if not immediately, towards a convergent system, or rather one capable of managing services on two types of networks (which therefore will curtail the role of the access networks).

The IMS global market in 2012 exceeded USD 1,000 million and will grow at a rate of at least 10% over the coming years. This amount does not include the traditional telephone to VoIP and VoLTE telelphone migration services featuring, as previously stated, New Generation fixed and mobile networks and therefore the expected return is even greater.

With the Broadband Networks, and to a greater extent with the new generation networks and High Speed Broadband Networks, in addition to the natural technology replacement process, based on like-for-like services offered, many new services may be provided:

- VoIP and VoLTE (voice on the IP protocol on fixed and mobile networks)
- Messaging and Instant Messaging
- HD Videocommunication and Videoconferencing according to the emerging HDVC standard
- Downloading and Streaming of Multimedia content (Music, Video, Books, News)
- Transactions (Payments, Authorization, Identity Management, eccetera)
- In the future Monitoring and Setting (important in the "Internet of things")

As highlighted, today the totality of these services, a number of which still in the embryonic stage, are offered thanks to intelligence (Web & Aps) external to the telecommunication networks or above them (OTT). The central feature of the OTT offer is the lack of interoperability between platforms which, on the other hand, is the principal feature of the telecommunication network services.

The intelligent networks' focus, of which IMS is a central pillar, is to maintain the majority of the value internally, creating a large part of the above-stated services internally and offering to the OTT's interfaces and "service basics" which enable a simpler and more powerful development of further important applications and the delivery of multimedia content.
The position of Italtel within the IMS technology is an integral part of the new Industrial Plan and to which we will dedicate an important part of our Research and Development. It is expected that with over 300 researchers with extensive technical knowledge, particularly in software, state of the art development can be carried out of the IMS systems and the network interconnection systems. We are involved in an on-going fashion in the development of international standards of the principal international certification groups and cooperation with these bodies will increase in the coming months.

The architecture of our system is comprised of the following elements:

- i-MCS (ITALTEL *Multimedia Communication Suite*), principally comprising the Control Layer – Interrogating / Serving / Emergency Call Session Control Function (I/S/E-CSCF) which ensures the addressing of the Application Server, in line with the services subscribed and described as triggers on the user profile and creating, in addition, signal adaptation functionality for terminals; the Service Layer can provide a) Multimedia Telephony (MMTEL): services defined by the VoIP profile for any user type; -b) Conferencing: multimedia conference services to the VoIP user; -c) Lawful Interception: support services to the intercepting and tracing under applicable legal interception regulations, in line also with the new network and additional services, such as for example the interception of HD Voice; and finally from the Border Layer for the signal management functions of the border elements for the interconnection of the IP networks with the other Breakout Gateway Control Function (BGCF) networks, with the other traditional Media Gateway Control Function and Signalling Gateway Function (MGCF and SGWF) networks and with the H.248 access networks (IM-SSF and AGCF/PES).
- i-RPS (ITALTEL Routing & Policy Server), such as Media Resource Broker and DNS/ENUM servers. For this latter functionality i-RPS acts as a dataless network which utilises the DB i-TDS as a repository.
- i-TDS for the Data Layer with HSS: the DataBase stores the control and service profile. It is invoked by the CSCF for authentication and call setup and by the Application Server for downloading of the service profile. It is available in a compact solution and distributed on the Unified Data Convergence (UDC) model within the SDM architecture.
- i-NEM, as the Neutral Element Manager of the Solution, or as a FCAPS operating and mediation element towards superior systems (OSS).

The second pillar of the development strategy of Italtel products is the *Netmatch* system, in its S, B and M versions, which is the basis of the new telecommunication network interconnection strategy in the development towards "All IP" networks. This product, which in 2012 had fully matured it functions, was launched on the operator networks and can operate under a single hardware and software platform:

- to ensure the orderly and profitable transformation from traditional networks in TDM protocol to the IP networks and from the mobile 2G/3G networks to the LTE networks (and also "All IP" networks),
- to ensure interoperability between VoIP and VoLTE services and high definition video communication services between the various IP networks,
- to implement the Session Border Controller functions on the NNI interphase between operator networks ensuring QoS, trans-codification functions, IP (NAT) addressing transformation functions, *Session Data Record* generation functions for the necessary taxation functions of the sending of traffic and security and network decoupling functions,
- to guarantee quality of service to the interconnection between OTT's and telecommunication operators offering packet inspection and charging (monetisation) functions of the high quality traffic sent on the broadband and high speed broadband networks of the operators and finally to provide a programming interface to ensure that the interconnection architecture is managed in an optimised manner in the various application contexts (Software Defined Networks: SDN),
- to be used in the corporate networks to manage the IP PBX signal, to carry out Media Termination Functions to decouple the conduct and services available between corporate networks from those necessary for the SIP trunking functions of the operator networks which connect the corporate network,
- to allow, thanks to an effective implementation of the operational interface, the insertion in the system in the network in the simplest, quickest and most intuitive manner also by operators not particularly expert in the field,
- to scale between a low number of contemporaneous reactive sessions to a maximum of 50,000 sessions typical of the large operator networks with the possibility, in addition, to implement smaller size solutions in "lite" virtualised versions, hosted as a software version in Client Data Centers.

A further unique aspect of Italtel solutions concerns the "centralised control" approach of the inter-connection networks which allows a differentiation between the "best effort" interconnections which therefore will continue to transfer the majority of Internet data from the guaranteed quality interconnections. This architecture ensures the option to utilise on simple Border Gateways (*Netmatch B*) the IP interconnection and Media Gateways (*Netmatch M*) for the TDM inter-connection with centralised control functions implemented in the iMCS system (BGCF: *Border Gateway Control Functions*, MGCF: Media Gateway Control Functions and IBCF: Interconnection Border Control Function) in order to centrally coordinate and control the addressing of traffic flows according to the required QoS and the loading conditions of the network or the possibility to control networks with true Session Border Controllers commanded through the Diameter protocol of the Routing and Policy functions implemented in the iRPS system.

This centralised approach to the control of connectivity functions is increasingly successful and is laying the future basis for the Software Defined Networks.

The value of the global SBC systems market in 2012 exceeded USD 300 million and will grow at a rate of at least 20% over the coming years. Very recently the market leader, Acme Packet, with which Italtel has for many years acted as a Value Added Reseller, was acquired for USD 1.3 billion by the US Software Company Oracle, indicating the significant development potential of this segment.

Italtel, finally, significantly renewed in 2012 its catalogue also in relation to IT technologies, introducing a new style for the provision of services based on-demand (Cloud Computing) supply. In fact the proposed solution can be implemented also in a Cloud/XaaS environment on Next Generation Data Center infrastructure. The virtualisation technology for real time communication services provides Telecommunication Operators with further operating cost containment advantages and establishes a development path compatible with the emerging service provision models to our Clients. Another significant innovation feature of Italtel's Research and Development concerns the adoption of "agile" operating methodologies, in particular SCRUM, which can be applied to the full spectrum of products. The transition in fact began in June 2011 and was extended for a minimum of one year to all personnel involved in the design, development, integration and validation of our Products. Thanks to this significant alteration of the work model, which involves the entire Company, Italtel can respond extremely effectively to the changing needs of the market, based on the complexity of projects, the level of innovation which this requires and any accelerating or slowing factors, according to the business performance of Clients.

The significant development of the offer portfolio in 2012 described above concerns the range of Italtel proprietary products.

A further incisive development took place and continues to evolve within the offer of professional services, by which services are provided by specialised Competence Centers within Italtel, providing highly specialised know-how (demonstrated by a number of important Certifications), Test Plant where it is possible to test and consolidate the configurations for a speedy inclusion of the solutions in the client networks and of Software Tools which enhance and complete the standard market systems integrated by Italtel.

As described in detail in the comments concerning the telecommunications market, a significant proportion of operator investment has focused on the development of the new generation mobile networks. In this market, Italtel, in addition to the development of the IMS and the VoLTE functionalities described in detail above, will position itself as a full player in the integration and transformation of mobile networks within an "All IP" environment. The highly developed know-how involved in becoming a pioneer in the transformation of the fixed networks according to the "All IP" paradigm drives us today to establish this position also on the mobile networks.

In addition, according to that laid down in 2011, the capacity of Italtel in the OSS fields was enhanced, for telecommunication operators, of the high definition videoconference networks which improve the functions and architecture of the Unified Communication & Collaboration networks and finally in the Data Center fields where in 2012 at least two solutions of great significance were implemented, i.e. the Italy Cloud Data Center and the implementation of the Data Center for the Italian army.

Therefore, in addition to the traditional and well-established IP Networking Competence Centers, four others have been added or enhanced, specifically:

- The "Mobile Network Competence Center" where, through a multivendor approach, Italtel has integrated important modules of the core network and of the packet network of the mobile broadband networks. The principal systems we integrate are: The EPC (Evolved Packet Core) the PCRF (Policy Control and Routing Function) the IMS/VOLTE (Voice Over LTE), the HSS data repository, the charging system and the related OSS's, the Wi-Fi systems for the telecommunication operators and in the future the "Small Cells" which will form the basis of the new coverage strategy in the 4G era, the management of the Diameter protocol which will fulfil on the LTE mobile networks the same role which the SS7 signal carried out for many years on the TDM networks and finally the functions and applications for Deep Packet Inspection (DPI).
- The "OSS Competence Center" has been, together with the IP Networking Center, a long-standing Competence Center for Italtel. In 2012 it was extensively renewed and refocused, bringing to the market capacity in all areas of the eTOM model which is the reference point for telecommunication operators. Tools development and the integration of market standard components are managed by Italtel within the Assurance, Provisioning, Inventory, Mediation and Security areas and, more recently, within the Business Intelligence and Data Warehousing environments.
- The "Data Center Competence Center" where, within a multivendor approach, Italtel integrates and demonstrates its Test Plant, the capacity to implement all of the Data Center infrastructures, the Computing, Storage (EMC and NETAPP) and Networking structures and the Virtualisation environments with particular reference to VMware and Orchestration, such as for example CORDYS.
- The "Collaboration & Video Competence Center" where, also through a multivendor approach, Italtel integrates and demonstrates its Test Plant, IP PBX networks in various technologies, with a particular emphasis on CISCO technologies, both traditional and Cloud oriented, such as the new and most recently sold HCS suite, together with CISCO, to Telefonica Global Solutions. In addition to the integration function of the IP PBX networks, the GOLD certification was recently awarded by MICROSOFT for the integration of the Lync products, of the family of products for messaging (EXCHANGE), of the products for the development of the Social Enterprises (SHAREPOINT), which is added to the significant know-how already established for the CISCO suite WEBEX SOCIAL. Finally the most advanced centre of expertise for Italtel within the "Collaboration & Video Competence Center" is within the Video HD segment, where the capacity to integrate the TELEPRESENCE CISCO solutions of the various ranges, the POLYCOM solutions and the availability of integration and transcoding functions established within the Italtel iMCS and *Netmatch* products (which was officially certified with LYNC of MICROSOFT) have established Italtel as the best system integrator on the Italian market.

In summary, 2012 was a crucial year in which Italtel made a sure and determined step forward in establishing its market positioning, innovating and enriching its portfolio of proprietary products with:

- The iMCS (*Italtel Multimedia Communication Suite*) system,
- The Netmatch system.
- The WeGate system with the new generation Access Gateway (modem).
- The iQAC (Italtel Quality Access Controller) system.

and innovating, in a multivendor approach, the portfolio of professional services with the creation of Competence Centers:

- The traditional "IP Networking Competence Center"
- The "Mobile Network Competence Center"
- The "OSS Competence Center"
- The "Data Center Competence Center"
- The "Collaboration & Video Competence Center"

These important advances in quality allow us to look to the future with optimism, confident in the rewards from the correct execution of the Industrial Plan.

Development and Innovation

European projects

In 2012 Italtel carried out industrial research and development activity within collaborative European projects under the Seventh Framework Programme of the European Union in the areas of ICT (Information & Communication Technologies) and Security.

The IP (Integrating Project) activities ANIKETOS continued in the year together with 16 international partners, for the drawing up and creating on a prototype level of an ICT platform for the composition of services.
The IP (Integrating Project) MobileCloud project activities began, together with 17 international partners, for the architectural development of the mobile network through the virtualisation of core network functionalities according to Cloud Computing paradigms.
In November 2012 Italtel presented a proposal based on the SEC 2013 Programme of the Seventh Framework Programme within the Security area called SAFFO (Security Against Forest Fire over Regional areas) for the creation of an integrated system to manage large scale crisis situations, which can facilitate the exchange of communications, coordination, control and information between the various parties involved in handling the event.

Subsidised loans and grants for Development and Innovation

In 2012 Italtel S.p.A. income in this regard totaled Euro 873 thousand, of which Euro 746 thousand concerning Research projects capitalised in previous years and deferred. Grants amounted to Euro 1,965 thousand, while Euro 6,234 thousand of subsidised loans 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 Seventh Framework Programme.

In relation to national projects begun and carried out in previous years, in 2012 the second level ministerial inspection for the PNGN project was carried out with a successful outcome.
In June 2012 the SURE project activities concluded (Ultra Wideband Detection for Risk Management in e-health), a project financed by the Lombardy Region and developed in collaboration with universities and other Lombardy businesses.
The PA-IMS (Access Platform – IP Multimedia Subsystem) project, whose activities concluded in 2009, attained in the meeting of June 1, 2012 the final approval of the MISE Technical Committee for technological innovation.
In 2012 the preliminary activities continued, undertaken by INVITALIA, on the Telecom Italia & Italtel Programme Contract, previously suspended by the Ministry of Economic Development due to a lack of financing in a non-eligible area (North) and remodelled with a SOUTHERN focus.
Finally, the CAMP project (Context Aware Mobility Platform), 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, saw the conclusion of the experimental development activities in June 2012.

In 2012 Italtel S.p.A. was particularly active in the presentation of projects in response to national and regional tenders.

Within the PON 2007-2013, two projects presented by Italtel S.p.A. were awarded grants within the Micro District and Nano System environment (ENERGETIC: Technologies for energy and energy efficiency and HIPPOCRATES: Development of Micro and Nano-technologies and Advanced Systems for the Protection of Health) under the tender for the creation and/or development of "Technological Districts and Public-Private Laboratories – SOUTH".
In response to the tender, the pre-selection phase was passed and the executive project is currently being prepared subsequent to the feasibility study proposed for the new Public-Private partnerships (SI-Lab: Service Innovation Network Laboratory).

Also in the PON 2007-2013, responding to the "Smart Cities and Communities" notice, Italtel presented four project ideas: OVERGRID (in the Smart Grid environment), SmartFSE - Electronic Health Form (in the Smart Health environment, through the Micro and Nano Systems District), ITINERIS (in the Smart Mobility environment) and HERMES (in the Smart Mobility environment).
The OVERGRID and Smart-FSE project ideas passed the pre-selection phase; on the request of the Ministry for Universities and Research the ideas were combined with others presented within the same environments, resulting in the creation of two executive projects, respectively called i-NEXT (in the Smart Mobility and Smart Grid environments) and Cluster OSDH SmartFSE-Staywell (in the Smart Health environment). In October 2012 both executive projects were awarded grants.

In the PON 2007-2013 – "National Technology Clusters" environment Italtel was included in the proposition for the National Energy Cluster called ENERCLUSTER, collaborating in the creation of one of the four projects, called "Smart Secondary Substation" and coordinated by ENEL- Distribution. The project focused on the Smart Grid theme and concerns the ICT development of secondary stations.

Finally, also within the PON 2007-2013 environment, in response to the "Smart Cities" national tender, Italtel was involved in the drawing up of eight project ideas concerning various themes: within the Regional Security environment (Secure-GEOssLIFE-SmartS), in the Health environment (Prevention Citadel), in the Transport and mobility environment (SUSTAIN and Marconi), in the Smart Grids environment (Lampedusa Smile), in the Sustainable Architecture environment (SIGMA), in the Aging of society environment (Aging and Cognitive Deterioration) and in the Cloud Computing environment (Decision Theatre). Italtel was the leading party in three of the above stated initiatives.

In the regional environment, Italtel participated in the Lombardy Region and Ministry for Universities and Research tender for combined presentations with the Igeascope projects (ICT environment), Energhepolis (Energy environments renewable and sustainable resources) the ICT District in Health (ICT environment – health sector) and Milano Digitale (ICT environment). These combinations were approved in July 2012 and re-aggregated in the "ENERGY" Energhepolis Cluster and in the "SMART COMMUNITIES" Cluster (Igeascope, Milano Digitale and the Health ICT District). The above-stated clusters will receive future financial support following the issue of specific Tenders.

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).

In 2012, public funds were again insufficient to support the tax break mechanism on costs incurred for research and development.

The financial situation of the principal subsidiary Italtel S.p.A. and its consequent credit rating rendered the company ineligible for disbursement by the credit institutions supporting subsidised financing and the relative grants.
The Directors consider that with the capitalisation previously outlined and the outlook of the Group, the credit system may reassess the Group and grant the credit rating necessary to attain the loans and grants resoundingly approved by the respective Ministries.

Corporate governance and social responsibility

Board of Directors

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

The Board of Directors of the principal subsidiary Italtel S.p.A., in office until the approval of the financial statements of December 31, 2012, is also comprised of nine Directors.

In accordance with the Restructuring Agreement, the Extraordinary Shareholders' Meeting of Italtel S.p.A. of March 15, 2013 adopted a new version of the By-laws which establishes, among other issues, a number of amendments to the composition and the functioning of the Board of Directors. However, under the transitory clause of the new By-laws, the functioning of the Board of Directors will continue to be considered under the corresponding provisions of the pre-existing By-laws until the conclusion of mandate of the current Board. Parallel or similar amendments were adopted on March 27, 2013 by the Extraordinary Shareholders' Meeting of Italtel Group S.p.A. in relation to the composition and functioning of the Board of Directors.

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.

Four independent directors, both executive (currently the 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)

	2012	2011
Directors [(1)]	1,012	1,061
Statutory Auditors	128	105

(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. Remuneration of Euro 8,000 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 2012 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 2013 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 2012 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 that the 2012 group results targets were missed and therefore did not issue MBO's to the beneficiaries. Furthermore, for the Seniors Managers subject to evaluation by the Committee, for 2013 the so-called "Group financial objectives" were not set.

Management and Control organisational model

In 2012 the Model adopted by the Company for the prevention of offences under Legislative Decree 231/2001 was updated. The sixth edition of the Model amended and updated was submitted for the approval of the Supervisory Board meeting of February 14, 2013 and will be approved by the Board of Directors of Italtel S.p.A. in the initial months of 2013.
The updates concerned:

- Adjustment to the new categories of offences established by Legislative Decree No. 231/01 in 2011, regarding environmental offences;
- Introduction of a new Special Part concerning environmental offences;
- 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. In particular, the audit activity concerns the correct application of the measures drawn up for the prevention of industrial and intellectual property rights offences. The corporate departments impacted were:

- Marketing and Communications;
- Integration and development of IT systems

The Audits highlighted general compliance of the control elements established in the various enacting protocols and the corrective actions, where identified, were partly completed in 2012 and in part scheduled for 2013.
The Compliance Officer of Italtel S.p.A. provided ongoing updates to the Supervisory Board (comprising two members of the Board of Directors, the Internal Audit Manager, the Compliance Office and the Manager of the Italtel offices at Palermo-Carini) and to Senior Management concerning activities carried out for the introduction and supervision of the Model.
The Supervisory Board also:

- approved, following consultation with the Board of Directors of Italtel S.p.A., the PRO231-S025 "Prevention of environmental offences" protocol;
- verified of the results of the information received periodically in accordance with Protocol 231;
- approved the Compliance Office activities for 2013 and the relative budget.

Conflict of Interest Regulation

In 2012 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

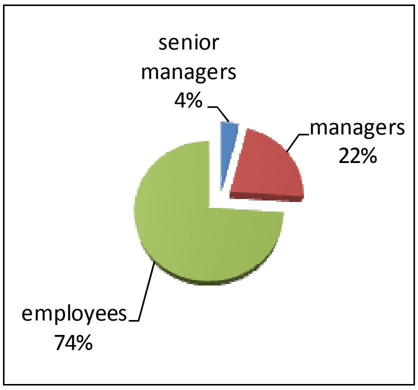
Article 45, Paragraph 1, Letter D of Legislative Decree of February 9, 2012 No. 5 (Published in Supplement No. 27 of The Official Gazette of February 9, 2012 No. 33), repealed Articles 19 to 19.8 and 26 of Attachment B of Legislative Decree No. 196 of 2003, consequently the obligation to prepare and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

Human resources, the environment and quality assurance

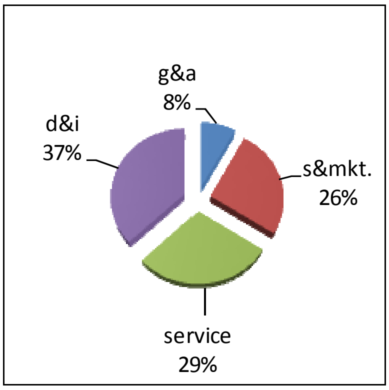
Human resources

The employees of Italtel Group at December 31, 2012 numbered 1,720, of which 185 overseas (at December 31, 2011 numbering 1,806, of which 180 overseas). The new hires in the year numbered 48, of which 38 overseas, with 134 departures, of which 99 voluntary departures and 35 under leaving incentives. Of the total indicated, no Senior Managers were hired while 4 internal promotions were made. There were 23 departures in the year; at 31/12/2012 Senior Managers in the workforce numbered 66. Personnel are broken down into the following departments: Development and Innovation (37%), Service (29%), Commercial (26%) and Administration and Staff (8%). Slightly less than half (49%) possessed Degrees, while approx. 47% held Diplomas.

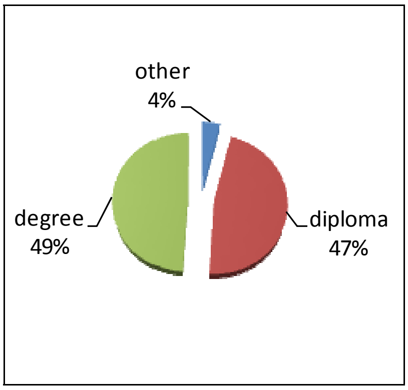
Personnel by category - 31/12/2012



Personnel by department - 31/12/2012



Personnel by qualification - 31/12/2012



Employees includes 3 blue-collar workers.

Organisation

During the year the Company organisational model was developed both in the sales and in the operations areas, also as a result of the drawing up of the new Industrial Plan which was a significant event in 2012. Greater product differentiation, improvement in the networks and systems integration market approach, the development of expanding existing markets, improved cost competitivity and overall efficiency of the organisation as a whole were at the heart of the organisational redesign choices, establishing, on the one hand, a single Market Unit dedicated to Service Providers in the EMEA market and on the other the joining into a single Product Unit (called Network & System Integration) of the previous two respectively dedicated to the integration of the CISCO networks (Cisco & ICT Solutions) and the development of the Professional and Integration Services (System Integration and Advances Professional Services). Global Account Managers assigned to the principal clients worldwide were introduced within a business development model which will increasingly mirror the management processes of the Global Key Customers.

Industrial relations

With regard to Industrial Relations, no significant events were reported in the first half of 2012. In April, in fact, the first year of the Extraordinary Temporary Lay-off Scheme for reorganisation concluded for a maximum of 170 workers, with rotations of 3 months for 45 employees. The Scheme therefore continued for its second year (April 12, 2012 – April 11, 2013) – according to the agreement signed on December 14, 2011 for the same number of employees. The Solidarity Contract was also used for 1,078 employees, with a reduction in average hours of 25%, also concluding on April 11, 2013. From June the deterioration in the economic, productive and financial position in the initial months of 2012 forced the company to report to the trade union organisations the need to declare 500 surplus employees, citing the need for recourse also to instruments to structurally reduce departures at the end of the second year of the Extraordinary Temporary Lay-off Scheme for reorganisation (April 2013), in accordance with the new Industrial Plan 2012-2016. On November 22, 2012 a memorandum was signed at the Ministry of Economic Development in which Italtel and the trade union organisations agreed upon, following an extensive review of the financial, economic and market situation of the Company, the content of the Industrial Plan which provides for a significant industrial cost restructuring in order to ensure delivery of the necessary company rescue objectives, particularly in relation to personnel costs, committing themselves however to identify socially sustainable solutions. To fully implement that agreed, on 17.1.2013 in Assolombarda an operative agreement was signed, in addition to a Solidarity Contract for 961 individuals, with an average reduction in hours of 26%, also through the extension for a further year (until April 11, 2014) of the Extraordinary Temporary Lay-off Scheme for reorganisation, which will involve a maximum of 270 workers, with rotations of 4 months for 60 individuals. In addition to these two instruments, the opening of a mobility procedure to structurally reduce redundancies was also provided for. The ratification of the agreements took place in March 2013 at the Ministry of Labour and Social Policy.

Staff Training

In 2012 more than 15,000 hours of training were provided with approximately 1,000 participations and 150 training events of various types. The training activity focused on technological aspects concerning both the maintenance and further addition of Cisco certifications and the development of skills required for new partnerships (Microsoft, Juniper, AMDOCS). Virtualisation (VMware) skills were also the subject of training, in addition to updating on the new SAP functionalities. In relation to innovative processes, the training course concerning the introduction of the AGILI-SCRUM methodologies was particularly significant, with the objective to assist the new department in the production of Software.

In relation to management, the training initiatives on the PGMP (Program Management Professional) standard, the experimentation of an individual coaching service and the participation of a number of qualified Managers at training events of the ELIS Consortium (IT strategies and support of Business) and of the Studio Ambrosetti (specialised workshops and the introduction of the Permanent Updating Service) are highlighted. A number of meetings were also held between the CEO and young Managers to promote the increased engagement of such managers.

Also in 2012 Training Financing was widely availed of which covered the entirety of Manager training through the Fondirigenti and contributed approximately 60% to the training of white-collar staff and Managers through the Fondimpresa.

Stock options plans

No significant events are highlighted.

Environment and Health

In line with Italtel Policy, the environmental aspects of company offices were verified and compliance with existing regulations and the application of best environmental practices were confirmed.
In particular the Carini Office passed in March the CSQ inspection concerning the ISO 14001 Certification attained in 2001.

From 2011 Italtel stepped up its focus on the problem issues concerning Energy Management, in part under the activity introduced on the Energy Management solutions market in the "Smart City" environment and at the same time introduced significant energy saving actions: investment, monitoring of consumption and the relative corrective actions, automation of operating systems, education of personnel and restructuring of the areas utilised enabled the consolidation of the excellent results of 2011 and the achievement, at company level, of further energy reductions of 14%, of methane gas of 2% and of LPG of 24%.

The evaluation of health and security risks, carried out in collaboration with the workers' representatives, confirmed that no new risk factors were introduced following the alteration of the organisational structure and confirmed also the efficiency of the control system. The improvement opportunities identified were properly introduced and monitored. Particular attention was focused on the activities carried out at client offices with the implementation of all of the coordination initiatives, including a close vetting of suppliers, necessary to guarantee security "in the field". In relation to health issues, the company health service provided to employees approximately 4,500 medical visits under the legal obligations, for general and first aid activity, for preventative measures, including the flu vaccination campaign offered to all employees.

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 2012 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 company 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 Manufactures 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 their life cycle.

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 company performance. In fact Customer Satisfaction is a consolidated practice for some time within Italtel and is one of the principal sources used to select projects and initiatives to improve performance. These practices involve the periodic contacting of clients through interviews, carried out through web-based techniques which cover the entire ambit of the client-supplier relationship.

Other events in the year

Potential significant liabilities

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

In October 2012, the judgement was filed concerning the case taken by one of the ex-TCS Directors, a former CEO of Italtel. The case made against Italtel proposing civil liability was entirely rejected.

Tax inspection in Brazil

On December 19, 2007, the Tax Agency of the State of San 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. Under this notice the Tax Agency alleged a violation concerning the payment of ICMS taxes and a violation for the use of tax credits on the tax to reduce the payment of the amount owing, in addition to applying penalties and interest on the disputed amounts. The overall amount for the alleged violations 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 Agency 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. In October 2012 the final document was issued, therefore closing the case without the incursion of any liability. At the same time, a similar document was issued concerning also the second infraction deed relating to the subsequent period (year 2006).

Tax dispute in Italy

Currently Italtel has a number of pending tax disputes at the Milan Provincial and Regional 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, Euro 17.5 million for 2006 and Euro 16 million for 2007; 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, Euro 3.5 million for 2006 and Euro 1.2 million for 2007.
In relation to the years 2004-2006, the higher income imposed for IRES purposes did not result in any penalties or interest, in that fully offset through the use of tax losses carried forward.

On November 6, 2012 the hearing before the Milan Provincial Tax Commission Section 22 took place, concerning the assessment notices for 2004. On February 20, 2013 the Commission filed the relative judgments, both entirely in favour of Italtel, with expenses judged against the Agency.

On February 11, 2013 the hearing before the Milan Provincial Tax Commission Section 16 took place, concerning the assessment notices for 2006. On February 25, 2013 the judgements were filed, partially in favour of Italtel. In particular, the Commission judged as unfounded the tax recovery for IRES purposes of the non-recharging to CRDR Investment III S.a.r.l. of interest expenses, while confirming the other issues both concerning IRES and IRAP.

The Company will appeal for the partial reform of the judgement before the Milan Regional Tax Commission in accordance with law.

For the tax period 2007 the Tax Agency – Lombardy Region - Office of Large Contributions in relation to the above-stated issues requested payment of higher IRES taxes of Euro 5.7 million, penalties of Euro 5.7 million and interest of Euro 0.9 million (calculated as at November 30, 2012).
The IRES tax requests, increased by the relative penalties and interest, are due to the fact that the Tax Agency passively accepted the position of the Supreme Court of Civil Cassation with judgment No. 16333 of September 26, 2012 according to which, on assessment, prior losses may not be automatically deducted from higher declared profits. In particular, according to the Supreme Court, the Tax Agency may not automatically deduct available tax losses in that this deduction may only take place following the express declaration of the contributor. 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 (VAT and IRAP) and the penalties imposed based on the above-mentioned tax inspections, amount overall to approx Euro 5.3 million (plus interest).
In relation to the tax declarations concerning 2007, the Company proposed an agreed settlement in accordance with Article 6, paragraph 2 of Legislative Decree No. 218 of June 19, 1997.
It must be considered that the charges made in relation to IRES, VAT and IRAP in the tax declarations concerning the tax periods from 2004 to 2007 may be drawn up also in relation to the subsequent years, i.e. years which may be similarly affected by charges concerning the loans sourced in relation to the above-mentioned Leveraged Buy Out operation, in addition to costs for the provision of inter-company services. In January 2013 the Tax Agency – Lombardy Region – Office of Large Contributions undertook a tax inspection for the years 2008, 2009 and 2010 concerning IRES, VAT and IRAP and withholding tax obligations.

Currently Italtel, supported by one of its tax consultants opinions, 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 reviews the income statement, balance sheet and financial position of the Group for 2012 and 2011.

Income Statement

The reclassified income statement for 2012 and 2011 is reported below.

(thousands of Euro)

	2012	2011	Changes
Revenues from sales and services	**331,394**	**405,413**	**(74,019)**
Profitability after external costs	**109,503**	**146,534**	**(37,031)**
% of revenues	33.0%	36.1%	
Personnel costs	(96,274)	(108,035)	11,761
Operating expenses	(24,377)	(27,442)	3,065
Operating grants	873	4,332	(3,459)
Gross operating margin	**(10,275)**	**15,389**	**(25,664)**
% of revenues	(3.1)%	3.8%	
Capitalisation of Research & Development costs	19,702	23,689	(3,987)
Other costs and income	34,895	20,243	14,652
Restructuring and refinancing charges	(10,960)	(8,083)	(2,877)
EBITDA	**33,362**	**51,238**	**(17,876)**
% of revenues	10.1%	12.6%	
Depreciation, amortisation and write-downs	(31,844)	(171,053)	139,209
EBIT	**1,518**	**(119,815)**	**121,333**
Net financial charges	(18,783)	(17,776)	(1,007)
Loss before taxes	**(17,265)**	**(137,591)**	**120,326**
Income taxes	5,102	(7,177)	12,279
Discontinued activities profit/(loss)	-	(37)	37
Net loss for year	**(12,163)**	**(144,805)**	**(132,642)**

Revenues from sales and services in 2012 amounted to Euro 331,394 thousand, decreasing overall by Euro 74,019 thousand (-18.3%) on 2011 (revenues of Euro 405,413 thousand).

In greater detail, revenues from Italian Operators (Telecom Italia and Other Italian operators) contracted overall by Euro 35,566 thousand. Revenues from Telecom Italia amounted to Euro 89,571 thousand, compared to Euro 112,580 thousand in 2011 - a reduction of Euro 23,009 thousand. Revenues from the Other Local Operators (OLO) amounted to Euro 58,796 thousand, compared to Euro 71,353 thousand in 2011 - decreasing Euro 12,557 thousand.

Revenues from Public Administration and Large Enterprises totaled Euro 45,019 thousand - from Euro 65,007 thousand in 2011, reducing Euro 19,988 thousand (-30.7%). Revenues in this sector were also impacted by the poor economy, in particular in the Industry, Finance & Retail sector.

Revenues from Overseas Operators amounted to Euro 138,008 thousand compared to Euro 156,473 thousand in 2011, increasing as a percentage of total revenues from 38.6% in 2011 to 41.6%.
EMEA revenues increased from Euro 42,450 thousand in 2011 to Euro 44,984 thousand in 2012 (+6.0%, + Euro 2,534 thousand), while in the Latam area revenues decreased from Euro 114,023 thousand in 2011 to Euro 93,024 thousand in 2012, a reduction of Euro 20,999 thousand (-18.4%).

In the EMEA area, Italtel - despite the investment cutbacks by operators - consolidated its position, both in relation to proprietary products and also System Integration activities, strengthening its position therefore within the Vodafone, France Telecom and Telefonica Groups.
The reduction in revenues in the Latam area was significantly impacted by the Group financial crisis which created problems in the sourcing of Cisco materials (the principal business area), with a consequent further impact on revenues.

In relation to Overseas Operators, revenues from companies of the Telecom Group decreased from Euro 61,085 thousand in 2011 to Euro 43,217 thousand in 2012 (- Euro 17,868 thousand, -29.3%).

Profitability after external costs decreased from 36.1% in 2011 to 33.0% in 2012, particularly due to the contraction in proprietary products and service revenues from Telecom Italia and TIM Brasil.

Personnel costs in 2012 totaled Euro 96,274 thousand compared to Euro 108,035 thousand in 2011, decreasing therefore by Euro 11,761 thousand (-10.9%). The reduction is principally due to the reduced average workforce in the year and the effects of the agreements signed with the Trade Unions in January 2012.

2012 net operating expenses amounted to Euro 24,377 thousand, a significant improvement therefore (Euro 3,065 thousand, -11.2%) on the previous year (Euro 27,442 thousand).

Operating grants from public bodies against research projects reduced on the previous year (- Euro 3,459 thousand) following the block on projects financed due to the particular situation at Italtel (restructuring process as per Article 182-*bis* of the Bankruptcy Law).

The Gross Operating Margin reduced from a profit of Euro 15,389 thousand in 2011 to a loss of Euro 10,275 thousand in 2012 (- Euro 25,664 thousand). In particular, the above-indicated containment both of personnel costs and of net operating expenses enabled a partial recovery of the lower profitability after external costs (- Euro 37,031 thousand), further impacted by the lower amount of operating grants received (- Euro 3,459 thousand).

The capitalisation of R&D costs is lower than the previous year by Euro 3,987 thousand.

The account Other costs and income increased from income of Euro 20,243 thousand in 2011 to Euro 34,895 thousand in 2012, an improvement of Euro 14,652 thousand. The composition of this account was quite varied and in 2012 included, among others, non-recurring items concerning the derecognition of the rental contract of the Castelletto – Settimo Milanese area for Euro 22,817 thousand and income from Telecom Italia of Euro 10,000 thousand. The 2011 account featured non-recurring items such as provisions and prior year income for Euro 19,074 thousand.

The restructuring and refinancing charges, finally, included costs incurred for employee departures which amounted in 2012 to Euro 6,983 thousand (Euro 8,083 thousand in 2011) and expenses concerning the refinancing operation of Euro 3,977 thousand (zero in the previous year).

EBITDA in 2012 amounted to Euro 33,362 thousand (revenue margin of 10.1%), decreasing by Euro 17,876 thousand (-34.9%) compared to Euro 51,238 thousand in the previous year.

EBIT in 2012 totaled Euro 1,518 thousand, compared to an EBIT loss of Euro 119,815 thousand in 2011, which was impacted by the write-down of goodwill of Euro 130,000 thousand. Excluding this write-down, EBIT decreased by Euro 8,667 thousand after depreciation, amortization and write-downs of Euro 31,844 thousand (Euro 41,053 thousand in 2011).

Net financial charges totaled Euro 18,783 thousand, compared to Euro 17,776 thousand in the previous year, increasing by Euro 1,007 thousand (+5.7%).

Net currency differences increased from losses of Euro 4,902 thousand in 2011 to gains of Euro 906 thousand in 2012.

Net interest charges rose from Euro 13,913 thousand in 2011 to Euro 16,337 thousand in 2012. The increase of Euro 2,424 thousand is principally due to the recognition of default interest on the short and medium/long-term bank payable unpaid on maturity and until the effective date of the approval of the restructuring agreement, net of the contribution from improved reference interest rates in 2012 compared to 2011.

Other net income and charges decreased from income of Euro 1,039 thousand in 2011 to charges of Euro 3,352 thousand in 2012, reducing by Euro 4,391 thousand, relating for Euro 3,061 thousand to the absence in 2012 of prior year income recognised in the first half of 2011 from the settlement of the liability of a similar amount based on the residual valuation of an IRPEG receivable, paid by the Tax Agency, for Euro 3,638 thousand to the mark-to-market value of forward operations in US Dollars, a gain in 2011 of Euro 1,795 thousand and a loss in 2012 of Euro 2,062 thousand, net of the positive effect of Euro 1,348 thousand following the cancellation in 2012 of bank commissions no longer due following the Debt Restructuring Agreements signed on December 11, 2012.

The Group pre-tax result reports a loss of Euro 17,265 thousand compared to the loss of Euro 137,591 thousand in 2011.

The income tax account reports income of Euro 5,102 thousand, while in the previous year reporting charges of Euro 7,177 thousand.

The increase of Euro 12,279 thousand compared to the previous year is principally due to the increase of Euro 10,189 thousand of deferred tax income, in addition to the fact that in 2011 withholding taxes charged in Argentina in the years 2005-2011 judged as non-recoverable for Euro 2,554 thousand were recognised to the income statement.

The 2012 Net Result reports a loss of Euro 12,163 thousand, compared with a loss in the previous year of Euro 144,805 thousand.

Balance Sheet

The balance sheet at December 31, 2012 and 2011 is reported below.

(thousands of Euro)

	31/12/2012	31/12/2011	Changes
A) Fixed capital	307,783	358,945	(51,162)
B) Working capital	(48,964)	(30,458)	(18,506)
C) Employee benefit provisions	(25,581)	(28,359)	2,778
D) Other non-current liabilities and other provisions	(9,387)	(38,626)	29,239
Total net capital employed	**223,851**	**261,502**	**(37,651)**
E) Net debt	**265,956**	**290,454**	**(24,498)**
F) Consolidated shareholders' equity	**(42,105)**	**(28,952)**	**(13,153)**
Share capital	131,427	131,427	-
Other reserves including the net result	(173,532)	(160,379)	(13,153)
Total Debt and Net Equity	**223,851**	**261,502**	**(37,651)**

Investments

Investments in the year totaled Euro 23,646 thousand, of which Euro 21,888 thousand in intangible assets and Euro 1,758 thousand in property, plant and equipment.
Specifically, Euro 19,703 thousand was invested in Development and Innovation activities and Euro 2,185 thousand in software applications acquired under unlimited use licenses and software development projects.
Property, plant and equipment increased by Euro 832 thousand, concerning industrial equipment, principally relating to equipment utilised for the development of software solutions and for the test plant for products to be launched.

The reduction of fixed capital at December 31, 2012 compared to the previous year is principally due to the conclusion of the rental contract of the Castelletto complex with the consequent derecognition of the building, originally recognised under fixed assets as per IAS 17 for a gross value of Euro 49,000 thousand, depreciated at December 31, 2012 for Euro 6,533 thousand and the loss of the deposit concerning this contract for Euro 10 million.

Financial Highlights

The table below reports the breakdown of working capital in 2012 and in 2011 and the changes:

(thousands of Euro)

	2012	2011	Change
Inventories	32,941	33,148	(207)
Trade receivables	96,867	107,965	(11,098)
Trade payables	(156,197)	(147,400)	(8,797)
Tax receivables	2,724	2,781	(57)
Other receivables and assets	34,918	25,219	9,699
Current income tax payables	(399)	(1,697)	1,298
Other payables and liabilities	(59,818)	(50,649)	(9,169)
Changes in working capital	**(48,964)**	**(30,633)**	**(18,331)**

The net debt was as follows:

(thousands of Euro)

	31/12/2012	31/12/2011	Changes
Short-term bank loans	257,716	235,404	22,312
Medium/long-term loans (bank and subsidised)	36,455	83,898	(47,443)
Other financial payables	834	1,076	(242)
Accrued expenses and deferred expenses	7,212	1,313	5,899
Gross debt	**302,217**	**321,691**	**(19,474)**
Cash and cash equivalents on hand	(1,467)	(717)	(750)
On demand bank current accounts	(33,191)	(26,643)	(6,548)
Short-term financial receivables	(1,594)	(3,718)	2,124
Prepayments and accrued income	(9)	-	(9)
Other working capital securities	-	(159)	159
Net debt	**265,956**	**290,454**	**(24,498)**

The net debt at December 31, 2012 totaled Euro 265,956 thousand and reduced by Euro 24,498 thousand compared to Euro 290,454 thousand at December 31, 2011, due to the reduction in the gross debt for Euro 19,474 thousand, the increase in liquidity and cash and cash equivalents for Euro 7,298 thousand, offset by the reduction in short-term financial receivables for Euro 2,124 thousand.

The gross debt reduced by Euro 19,474 thousand, principally due to the derecognition of the finance lease operation for Euro 48,239 thousand, offset by the increase in short-term financial payables pertaining to Group foreign subsidiaries of Euro 3,251 thousand, the increase of subsidised loans, net of repayments, for Euro 2,126 thousand and the increase in accrued financial expenses for Euro 5,899 thousand due to the non-payment of bank interest in expectation of the approval of the Debt Restructuring Agreement. Short-term financial payables increased by Euro 18,000 thousand, relating to two bridge loans issued for Euro 13,500 thousand by Unicredit S.p.A. and for Euro 4,500 thousand by Telecom Italia Finance.

Short-term financial receivables reduced by Euro 2,124 thousand, principally due to the reduction of the mark-to-market value of currency hedging operations, which reduced from a gain of Euro 1,617 thousand at December 31, 2011 to a loss of Euro 446 thousand at December 31, 2012.

Cash and cash equivalents increased by Euro 7,298 thousand, due to the cash flow generated from financing activities for Euro 29,135 thousand, net of the cash flow absorbed from operating activities for Euro 22 thousand and from investment activities for Euro 21,303 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 within the Debt Restructuring Agreement signed on December 11, 2012.

The subsidiary Italtel S.p.A. undertook in 2012 a long debt restructuring process due to a lack of capital and changes in the economic outlook upon which the previous Industrial Plan was based, declaring in accordance with Article 67, paragraph 3 letter d) of the Bankruptcy Law on September 16, 2010 a serious liquidity crisis.

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.

Following negotiations with all interested parties, the Debt Restructuring Agreement provided for the following capital, financial and industrial rescue measures for Italtel S.p.A.:

a. the recapitalisation of the Company for Euro 153,035,272, achieved through the issue of equity 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 equity 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 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; 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.

Through credit contributions from the Banks, Cisco and TI and the simultaneous issue of EFI's, Italtel S.p.A. covered the losses, re-establishing its equity at approx. Euro 100.7 million. With the recovery of the capital position, the debt structure of the Company also improves, 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, provided the basis for its approval by the Milan Court.

The Directors believe therefore that the funds and credit lines described above, in addition to those generated from operating and financial activities, will permit the Group to fully repay outside creditors and meet the requirements deriving from investment activities, working capital management and repayment of debt in accordance with their maturities over the duration of the Industrial Plan. In addition, the liquidity in the first months of the year is in line with that indicated in the declared liquidity plan.

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 maximum theoretical exposure to credit risk at December 31, 2012 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 175,569 thousand (Euro 182,412 thousand at December 31, 2011).

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, 2012 trade receivables for Euro 96,867 thousand (Euro 107,965 thousand at December 31, 2011) were recorded, net of write-downs of Euro 9,172 thousand (Euro 8,678 thousand at December 31, 2011).

At December 31, 2012 overdue trade receivables amounted to Euro 13.2 million (Euro 10.5 million at December 31, 2011).

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.

Significant events

Under the Debt Restructuring Agreement signed on December 11, 2012 between Italtel, Italtel Group and other Group companies, the lending banks, Telecom Italia and Cisco Systems reached an important agreement for the amendment of the rental contract conditions in place with the company Nabucco R.E. S.r.l. concerning the offices at Settimo Milanese in the Castelletto locality.

The contract signed on June 9, 2011, with conclusion agreed for December 31, 2025, for a total of 15 years and an annual rental payment of Euro 8.1 million, was dissolved.

On January 10, 2013 a new property rental contract was signed with effect from December 31, 2012, which establishes:

- a reduction in the contractual duration from 15 years to 6 years, automatically renewable for a further 6 years, with cancellation permitted through 18 months notice;
- the payment of a rental charge for the first two years of Euro 8.1 million and, for the subsequent years, following the reduction in the spaces occupied, an annual rental of Euro 4.0 million;
- the non-application of ISTAT revaluations on rental charges until December 31, 2018;
- the maintenance of the bank guarantee previously granted to the Lessor in accordance with the Contract signed on June 9, 2011 for a maximum guaranteed amount of Euro 12 million until December 30, 2017 and subsequently the issue of a new surety in a form and for an amount which the parties shall agree;
- the loss of the deposit of Euro 10 million provided by Italtel S.p.A. as guarantee of the obligations under the rental contract signed on June 9, 2011;
- the allocation of ordinary maintenance expenses, fully borne by the Lessee in relation to the rented spaces and the extraordinary maintenance divided between the Lessor and the Lessee.

Under IAS 17, based on the contractual conditions, the new rental contract may be classified as an operating lease and consequently the rental charges must be recognised as a cost to the income statement in equal amounts for the duration of the lease.

Following the signing of the new contract, on December 31, 2012 the original sale and lease-back operation was derecognised which resulted in an overall gain, excluding the tax effect, of Euro 22.8 million, due to the cancellation of the residual financial liability of Euro 48.2 million and the deferred income concerning the suspended gain of Euro 27.0 million, net of the net value of assets recognised to the balance sheet for Euro 42.4 million and the value of the deposit of Euro 10 million.
Deferred tax assets of Euro 8.5 million, calculated in previous years on the value of the suspended gain of Euro 27 million, were recognised as costs to the 2012 income statement.

Subsequent events after year-end

Following the 2012 year-end, all legal acts were completed to implement the measures established by the Restructuring Agreement, including the signing of new loan contracts, the settlement with Telecom Italia and the deferment of the Cisco receivables (in this regard reference should be made to that outlined in detail at page 33 of the consolidated financial statements).

In relation to capital operations, the Extraordinary Shareholders' Meeting of March 27, 2013 of Italtel Group S.p.A. approved the full coverage of the loss of Euro 131,125,333, according to the balance sheet at December 31, 2012 prepared by the Company in accordance with Article 2446, paragraph 1 as follows:

i. for Euro 524,376 through the use of the legal reserve and the future treasury share buy-back reserve;

ii. for Euro 130,600,957 through the reduction of the share capital from Euro 131,426,652 to Euro 825,695;

Following the above-stated motion the share capital subscribed and paid-in at March 27, 2013 amounted to Euro 825,695 and continues to be comprised of 17,762,966 shares, without par value, of which 8,881,488 Class "A" shares and 8,881,488 Class "B" shares.

On March 27, 2013 with the confirmation and extension deed of the lien established on November 29, 2010, the shareholders of Italtel Group S.p.A., overall representing 98.673% of total shares issued, confirmed the existing lien on company shares and extended it in guarantee of the new loan contracts signed by Italtel S.p.A, in favour of all secured creditors as identified under the Debt Restructuring Agreement.

Particularly in relation to the recapitalisation of the subsidiary Italtel S.p.A., on March 27, 2013 Italtel Group S.p.A., as the sole shareholder of Italtel S.p.A., approved in extraordinary session, to fully cover the loss of Euro 169,165,031, according to the balance sheet at December 31, 2012 prepared by the Company in accordance with Articles 2446, paragraph 1 and 2447 of the Civil Code as follows:

i. for Euro 114,858,248 through the reduction of the share capital from Euro 116,858,248 to Euro 2,000,000;

ii. for Euro 54,306,783 through the use of the shareholders' equity reserve of a similar amount, created following the subscription of the Equity Financial Instruments in accordance with Article 2346, sixth paragraph of the Civil Code, for a total of Euro 153,035,272, of a par value of Euro 1, convertible into shares of the Company on the occurrence of events established under the relative clause, subscribed through the conferment of receivables of the company for a similar amount, in the proportions illustrated below.

The subscribed and paid-in share capital of Italtel S.p.A. at March 27, 2013 amounted therefore to Euro 2,000,000, comprising 2,000,000 shares of a par value of Euro 1, following the implementation of the reverse stock split approved by the Extraordinary Shareholders' Meeting of March 15, 2013 (under which each share was allocated a par value of Euro 1), all held by the sole shareholder Italtel Group S.p.A..

On March 27, 2013 with the confirmation and extension deed of the lien established on November 29, 2010, Italtel Group S.p.A. confirmed the existing lien on Italtel S.p.A. shares and extended it in guarantee of the new loan contracts in favour of all secured creditors as identified under the Debt Restructuring Agreement.

In addition to the above-stated equity financial instruments subscribed through conversion of payables for Euro 153,035,272, the Extraordinary Shareholders' Meeting of March 15, 2013, also in accordance with the provisions of the Restructuring Agreement, approved the issue of additional equity financial instruments for Euro 29,516,100. These additional instruments will be subscribed through a further conversion of payables exclusively on the verification of a number of conditions established by Article 3.2.8 of the Restructuring Agreement, concerning the non-repayment of the "support lines" by maturity. Therefore this conversion is only a possibility. The Extraordinary Shareholders' Meeting therefore approved the share capital increase of the company up to a maximum Euro 182,551,372 (equal to the sum of the instruments already subscribed and those that may be subscribed), exclusively to service any future conversion of equity financial instruments into company shares.

The Equity Financial Instruments are convertible into ordinary shares in the ratio of 1 new share for each Equity Financial Instrument.

The instruments were subscribed in compliance with the following table and will be convertible into shares on occurrence of the pre-established events.

Creditor	**Number of Equity Financial Instruments subscribed**
Unicredit	52,642,905
BPM	14,482,770
GE Capital	27,015,412
Banco Popolare	1,464,728
Centrobanca	1,464,728
Banco di Brescia	1,464,728
Cisco	50,000,000
Telecom Italia Finance	4,500,000
Total	**153,035,272**

In addition, under the lien signed on March 27, 2013 the equity financial instruments subscribed by Telecom Italia Finance SA and CISCO Systems (Italy) S.r.l. were undertaken as a lien in favour of secured creditors as established by the Debt Restructuring Agreement.

On March 27, 2013 the shareholders' equity of Italtel S.p.A., due to the operations described above, increased from a negative Euro 52,306,783 to a positive Euro 100,728,489.

Outlook

The development of the process initiated in the first half of 2012, concluding with the capitalisation of the principal subsidiary Italtel S.p.A. and the financial rescue and the establishment of the credit lines necessary for the delivery of the industrial plan currently requires the full commitment of management to its execution, according to the timeframe and manner previously indicated. Therefore, the initial months of the year were dedicated to the preparation of the internal reporting system to group companies and also externally in order to ensure effective monitoring reports and in line with the reaching of the monthly goals.

Based on the initial indications, having reviewed the results for the first two months of 2013 and subsequent months, it is considered that, despite the difficulties presented by an unfavourable economic and political climate, the Italtel Group is proceeding according to the Industrial Plan.

Settimo Milanese, March 27, 2013

For the Board of Directors

The Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated balance sheet at December 31, 2012 and 2011

(thousands of Euro)

	Note	31/12/2012	31/12/2011
Assets			
Non-current assets			
Property, plant and equipment	(7)	18,165	66,905
Goodwill	(8)	167,215	167,215
Other intangible assets	(9)	34,295	36,395
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	177	169
Other assets	(12)	7,523	17,991
Deferred tax assets	(13)	80,214	70,076
Total non-current assets		**307,783**	**358,945**
Current assets			
Inventories	(14)	32,941	33,148
Trade receivables	(15)	96,867	107,965
Tax receivables	(16)	2,724	2,781
Other receivables and assets	(17)	34,918	25,219
Short-term financial assets	(18)	1,603	3,877
Cash and cash equivalents	(19)	34,658	27,360
Total current assets		**203,711**	**200,350**
Discontinued non-current assets	(42)	**-**	**179**
Total assets		**511,494**	**559,474**
Net equity and Liabilities			
Net Equity			
Share capital	(20)	131,427	131,427
Reserves	(21)	11,507	11,507
Treasury shares	(22)	(10,983)	(10,983)
Other reserves including the net result	(23)	(174,056)	(160,903)
Group Net Equity		**(42,105)**	**(28,952)**
Share capital and reserves pertaining to minority interest		-	-
Total Net Equity		**(42,105)**	**(28,952)**
Liabilities			
Non-current liabilities			
Employee benefit provisions	(25)	25,581	28,359
Provisions for risks and charges	(26)	9,275	11,289
Medium/long term financial liabilities	(27)	36,455	83,898
Other liabilities	(28)	112	27,337
Total non-current liabilities		**71,423**	**150,883**
Current liabilities			
Trade payables	(29)	156,197	147,400
Current income tax payables	(30)	399	1,697
Other payables and liabilities	(31)	59,818	50,649
Current financial liabilities	(27)	265,762	237,793
Total current liabilities		**482,176**	**437,539**
Discontinued non-current liabilities	(42)	**-**	**4**
Total liabilities		**553,599**	**588,426**
Total net equity and liabilities		**511,494**	**559,474**

2012 and 2011 Consolidated Income Statement

(thousands of Euro)

	Note	2012	2011
Revenues from sales and services	(32)	331,394	405,413
Other income	(33)	56,437	46,457
Purchase of materials and services	(34)	(252,559)	(288,796)
Personnel costs	(35)	(104,655)	(117,876)
Depreciation, amortisation and write-downs	(36)	(31,844)	(171,053)
Other operating costs	(37)	(18,200)	(10,197)
Change in inventories	(38)	912	(7,682)
Internal cost capitalisations on fixed assets	(39)	20,033	23,919
EBIT		**1,518**	**(119,815)**
Financial income	(40)	14,154	17,375
Financial charges	(40)	(32,937)	(35,151)
Net income/(charges) from valuations of investments under the net equity method		-	-
Loss before taxes		**(17,265)**	**(137,591)**
Income taxes	(41)	5,102	(7,177)
Loss from normal operations		**(12,163)**	**(144,768)**
Discontinued activities profit/(loss)	(42)	-	(37)
NET LOSS FOR THE YEAR		**(12,163)**	**(144,805)**
Group share		**(12,163)**	**(144,805)**
Minority interest share		-	-

2012 and 2011 Consolidated Comprehensive Income Statement

(thousands of Euro)

	2012	2011
Net loss for the year	**(12,163)**	**(144,805)**
Profits (losses) from conversion of accounts of overseas companies	(989)	(333)
Total other profits/(losses) directly recorded to net equity	**(989)**	**(333)**
Total comprehensive loss	**(13,152)**	**(145,138)**
Group share	**(13,152)**	**(145,138)**
Minority interest share	**-**	**-**

Consolidated Cash Flow Statement at December 31, 2012 and 2011

(thousands of Euro)

	2012	2011
A - Opening cash and cash equivalents (net short-term debt)	**27,360**	**67,495**
B – Cash flow from operating activity		
Loss for the year (including minority interests share)	(12,163)	(144,805)
Depreciation, amortisation and write-downs	31,844	171,053
Losses on disposed assets [(1)]	(24,863)	(2,780)
Reversal of financial liabilities	(739)	(3,061)
Increase in deferred tax asset	(10,138)	(149)
Increase / (Decrease) of employee benefits provisions	(2,778)	(1,618)
Changes in other provisions	(2,014)	(10,169)
Cash flow from activities before changes in working capital	**(20,851)**	**8,471**
Change in working capital		
(Increase) / Decrease in receivables	1,635	24,282
(Increase) / Decrease in inventories	207	(2,298)
(Increase) / Decrease of other assets	468	2,015
Increase / (Decrease) in trade and other payables	18,563	(59,583)
Total changes in working capital	**20,873**	**(35,584)**
Total (B) [(2)]	**22**	**(27,113)**
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	(8)	120
(Increase) / Decrease in other financial assets	2,274	(1,051)
Divestment of fixed assets	77	249
Investments in property, plant and equipment	(1,758)	(3,508)
Investments in intangible assets	(21,888)	(24,565)
Total (C)	**(21,303)**	**(28,755)**
D – Cash flow from financing activities [(3)]		
Granting and repayments of short-term loans	16,701	23,992
Granting and repayments of non-bank short-term loans	4,500	-
New loans at subsidised rate	6,234	-
Repayment of loans to third parties	(4,108)	(7,052)
Share capital increase payment	-	-
Granting of finance leases	-	449
Repayment of finance leases	(586)	(439)
Purchase and sale of treasury shares	-	(40)
Increase / (Decrease) in other financial liabilities	6,394	(1,230)
Total (D)	**29,135**	**15,680**
E – Cash flow for the year (B+C+D)	**7,854**	**(40,188)**
Other shareholders' equity changes	**(556)**	**53**
F – Closing cash and cash equivalents	**34,658**	**27,360**

(1) These include Euro 2,080 thousand concerning the reversal of the long-term portion of the gain realised on the sale of the industrial building of Castelletto and Euro 32,817 thousand following the cancellation at December 31, 2012 of the Leaseback of the Castelletto building recognised in 2011. The amount of Euro 24,863 thousand includes also other gain/losses in the year and the loss of the deposit of Euro 10,000 thousand, also relating to the renegotiation of the rental contract of the building at Castelletto.

(2) This amount includes the payment of current taxes for Euro 6,527 thousand and Euro 6,568 thousand, respectively in 2012 and 2011.

(3) The interest income received in the year amounted to Euro 71 thousand and interest expenses paid totaled Euro 9,121 thousand.

Statement of changes in shareholders' equity for the years ending December 31, 2011 and 2012

(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, 2011	**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:							
Purchase of treasury shares	-	-	(40)	-	(40)	-	(40)
Balance at December 31, 2011	**131,427**	**11,507**	**(10,983)**	**(160,903)**	**(28,952)**	**-**	**(28,952)**
Change in consolidation area	-	-	-	(1)	(1)	-	(1)
Comprehensive Loss	-	-	-	(13,152)	(13,152)	-	(13,152)
Balance at December 31, 2012	**131,427**	**11,507**	**(10,983)**	**(174,056)**	**(42,105)**	**-**	**(42,105)**

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 (MI) 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, 2012, 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.

Compared to December 31, 2011, two companies exited the consolidation scope.
The Russian company Italtel O.O.O. in liquidation, which in the previous year was recognised in the financial statements as held-for-sale, completed the liquidation process and was wound-up on May 31, 2012.
The company Italtel N.G.A. S.p.A. was placed in liquidation on April 17, 2012 and with the conclusion of the process was wound up with effect from October 29, 2012.

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 made are indicated below.

Changes to accounting standards, interpretations and amendments 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 : additional disclosure - Transfers of Financial Assets" were approved, which supplement 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.

  The standard did not have any effect on the Group consolidated financial statements.

- The amendment to IAS 12 – Income taxes requires entities to value deferred taxes deriving from an asset based on the method by which the carrying value of this asset will be recovered (through continuous use or through sale). Following these amendments SIC 21 – "Income taxes – Recovery of revalued non-depreciable assets" is cancelled.

  The standard did not have any effect on the Group consolidated financial statements.

Changes to accounting standards, interpretations and amendments applied after January 1, 2013:

- Amendments to IAS 1 - Disclosure in the financial statements of other components in the comprehensive income statement: on June 6, 2012 Regulation (EC) 475/2012 was published in the Official Gazette of the Commission of June 5, 2012 which adopted the Amendments to IAS 1 – Disclosure in the financial statements of other components in the comprehensive income statement. The objective of the amendments to IAS 1 is to clarify the presentation of the increasing number of components of other comprehensive income and to assist the users of financial statements to distinguish between the items of other comprehensive income which may or may not be reclassified subsequently to profit or loss. The amendments to IAS 1 are applied from financial statements for periods beginning July 1, 2012.

- On June 6, 2012 Regulation (EC) 475/2012 of the Commission of June 5, 2012 which adopts the amendments to IAS 19 – Employee benefits was published. The amendments to IAS 19 focused on the accounting processes of defined benefit plans, of other long-term benefits and of termination benefits. The principal amendments concern:

  - defined benefit plans: actuarial profit/losses (renamed remeasurements) must be immediately and fully recognised to the comprehensive income statement. The option which permitted the non-recognition of actuarial profit/losses if classified within a certain “corridor” and to defer them if outside this “corridor” (so called corridor approach) was eliminated:
  - other long-term benefits (for example seniority bonuses): the actuarial profit/losses renamed remeasurements must be recognised to net equity in the comprehensive income statement. Immediate recognition to the income statement will no longer be permitted;
  - elimination of the “expected return on plan servicing assets” and of the “interest cost” which will be replaced by a new total called “net interest”, calculated applying to the net liability (therefore the gross liability net of plan servicing assets) the discount rate currently utilisable only for the gross liability;
  - request of further additional information to be included in the explanatory notes to improve the highlighting of risks relating to defined benefit plans;
  - termination benefits: according to the new standard the factor on which recognition to the financial statements is based concerns whether or not the benefit is revocable. For these purposes, termination benefits may essentially be broken down into two types:
    - benefits related to a wider restructuring plan, in which the entity may not revoke the offer and the employee has no alternative to acceptance: in this case the offer is considered irrevocable on the communication of the lay-off plan to the affected parties;
    - individual benefits which the company may in theory revoke at their discretion until acceptance by the employee: in this case the offer becomes irrevocable when the employee accepts.

- On December 29, 2012 Regulations 1254, 1255 and 1256 concerning the updating of International Accounting Standards were published in the European Official Gazette (No. 360). In greater detail:

  Regulation 1254/2012 approved the following standards:

  - IFRS 10 – Consolidated Financial Statements, whose objective is to establish a single consolidated financial statement model which establishes control as a basis for the consolidation of all types of companies. In achieving this objective, the principles included in IAS 27 (Consolidated and separate statements) were therefore incorporated, which consequently was republished amended, and the interpretation concerning SIC 12 (Consolidation – specific purpose entities). The new standard provides also further indications for the determination of control in cases in which it is difficult to ascertain.

  - IFRS 11 – Joint arrangements, whose objective is to establish the accounting standards which must be utilised by companies involved in joint agreements. In reaching this objective the following were therefore cancelled: i) IAS 31 (investments in joint ventures) ii) SIC 13 interpretation (jointly controlled entities – non-monetary contributions by venturers). While the existing principles are based on the legal form of the agreement to establish the accounting methodology to be utilised, IFRS 11 focuses on the nature of the rights and obligations deriving from the agreement. In particular, the new standard removes the possibility to recognise joint ventures according to the proportional consolidation method; consequently they must be recognised exclusively according to the net equity method.

- IFRS 12 – Disclosure of interest in other entities, whose objective is to strengthen and in part replace the disclosure obligations for subsidiary companies, for joint arrangements and for associated companies and other non-consolidated company structures. In achieving this objective it was necessary to republish (also amending) IAS 27 (Separate Financial Statements) and IAS 28 (Investments in associates and joint ventures).

- The same regulation also states that in relation to the non-adoption of IFRS 9 (financial instruments) by the Union, all references to this standard must concern the current IAS 39 (financial instruments: recognition and measurement).

For these standards the IASB indicated January 1, 2013 as the effective date; however the European Commission in approval through Regulation 1254 of December 11, 2012 postponed by one year the application date which was therefore established as for periods beginning from January 1, 2014 (or subsequent for new entities or with different reporting dates).

Regulation 1255/2012 amends/includes the following standards:

- The inclusion of the new IFRS 13 – Fair value measurement, which defines a single framework for the fair value measurement and provides a complete guide on the fair value measurement of financial and non-financial assets and liabilities. The new standard does not introduce significant changes in relation to the use of the fair value, but rather indicates how to measure the fair value when its application is required or permitted.

- The amendments of IFRS 1 – First time adoption of IFRS, in particular for the paragraphs (D26/30) concerning the "serious hyperinflation" principle. In particular the amendment states that if an entity decides on transition to IFRS to measure assets and liabilities at fair value and to utilise this fair value as a replacement of cost in the opening balance sheet/financial position in compliance with IFRS, in the cases of serious hyperinflation the first financial statements that the entity prepares in compliance with IFRS must explain how and why the entity had a functional currency which presented both of the following characteristics and why it subsequently ceased to possess them:

    (a) for all entities with operations and accounts in this currency a general index of reliable prices is not available;
    (b) the possibility of exchange between the currency and a relatively stable foreign currency is not available.

The entry into force is established for periods beginning January 1, 2013.

Regulation 1256/2012 amends the following standards:

- Amendment to IFRS 7 – Financial Instruments: additional disclosure adjusting an error concerning the non-elimination of paragraph 13 (accounting elimination) with updating of Regulation 1205 (Official Gazette No. 305 23.11.11). The present amendment eliminates paragraph 13 and includes paragraphs 13A-13F.

- Following the amendments introduced to IFRS 7, IAS 32 was simultaneously amended (Financial instruments: presentation).

The entry into force of the regulations takes place in accordance with the elimination of paragraph 13 (applicability from January 1, 2013) and of the other amendments (from January 1, 2014).

- On March 5, 2013 Regulation (EC) 183/2013 of the Commission of March 4, 2013 was published in the Official Gazette L 61 which adopts the amendments to IFRS 1 First time adoption of International Reporting Standards – Governement loans. The amendments to IFRS 1 concern government loans at interest rate lower than market rates and the objective is to exempt new users of the IFRS from full retrospective application of the relative provisions on passage to IFRS. Therefore the amendments to IFRS 1 introduced a new exception to the retrospective application of the IFRS, requiring new users to comply with the provisions established by IAS 39 - Financial instruments: Recognition and measurement and of IAS 20 – Accounting for government grants and disclosure on government assistance prospectively to government loans in place on passage to IFRS.

  Companies must apply the amendments to IFRS 1 at the latest from the initial date of their first financial year from January 1, 2013.

The accounting principles 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, 2012 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, from the date on which control is assumed to that on which it is transferred outside the Group.
- 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.

	2012 Average	At December 31, 2012	2011 Average	At December 31, 2011
Argentinean Peso	5.84032	6.48641	5.74525	5.56769
Russian Ruble	39.9262	40.3295	40.8846	41.765
Kenyan Shilling	108.571	113.591	123.759	109.832
Brazilian Real	2.50844	2.7036	2.32651	2.4159
UK Sterling	0.810871	0.8161	0.867884	0.8353
US Dollar	1.28479	1.3194	1.39196	1.2339
Polish Zloty	4.18474	4.074	4.12061	4.458
Arab Emirates Dirham	4.71899	4.84617	5.11258	4.75237
Peruvian Nuevo Sol	3.39012	3.36777	3.83386	3.48747
Saudi Arabian Riyal	4.81826	4.94838	5.22032	4.85236
Oman Riyal	0.494494	0.50776	0.535643	0.497949

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.

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:

- Land in leasing 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. Costs related to operating leases are recognised on a straight-line basis over the duration of the lease.

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 utilising 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 only, 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 utilising 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 $1/20^{th}$ of the net profits of the Parent Company until the reserve reaches $1/5^{th}$ of the share capital of the Parent Company. Once $1/5^{th}$ 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 (First In First Out) 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 E - 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 was the value of the iBoxx Corporates A with duration between 7 and 10 years at the valuation date.
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, recognising 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 principles 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 fulfillment 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 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.

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, 2012	8,413	-	8,413
December 31, 2011	26,965	-	26,965

(*) At exchange rate of December 31

At December 31, 2012 and 2011 the fair value of the derivative contracts was as follows:

	31/12/2012	31/12/2011
Exchange risk hedges	(446)	1,617

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:

2011	Land	Industrial buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Total
Historical 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**

2012	Land	Industrial buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Total
Historical cost							
Balance at January 1, 2012	13,380	60,031	28,207	51,470	88,978	469	242,535
Increases	-	55	329	832	433	109	1,758
Write-downs/write-backs	-	-	-	-		(20)	(20)
Disposals	(13,053)	(35,947)	(21)	(236)	(8,300)	-	(57,557)
Translation reserve	-	-	(17)	-	(143)	-	(160)
Reclassifications	-	50	102	189	116	(414)	43
Balance at December 31, 2012	**327**	**24,189**	**28,600**	**52,255**	**81,084**	**144**	**186,599**
Accumulated depreciation							
Balance at January 1, 2012	(870)	(16,033)	(24,295)	(47,848)	(86,584)	-	(175,630)
Depreciation	(870)	(3,106)	(702)	(2,255)	(938)	-	(7,871)
Write-downs/write-backs	-	-		-	-	-	-
Disposals	1,740	4,793	12	217	8,267	-	15,029
Reclassifications	-	-	-	-	(104)	-	(104)
Translation reserve	-	-	22	-	120	-	142
Balance at December 31, 2012	**-**	**(14,346)**	**(24,963)**	**(49,886)**	**(79,239)**	**-**	**(168,434)**
Net book value							
Balance at January 1, 2012	12,510	43,998	3,912	3,622	2,394	469	66,905
Balance at December 31, 2012	**327**	**9,843**	**3,637**	**2,369**	**1,845**	**144**	**18,165**

Property plant and equipment increased overall by Euro 1,758 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 832 thousand.

Disposals, amounting to Euro 57,557 thousand, include Euro 49,000 thousand, depreciated for Euro 6,533 thousand, concerning the cancellation of lands and buildings under finance leases following the dissolution of the rental contact of the Castelletto offices (Settimo Milanese), in accordance with the Restructuring Agreement. The new rental contract, signed on January 10, 2013 and with effect from December 31, 2012, establishes for the reduction of the contractual duration and of the annual rent and is classifiable as an operating lease according to International Accounting Standards.
For further details on the operation, reference should be made to pages 8 and 36 of the Directors' Report.

During the year Other assets were also disposed of for Euro 8,557 thousand, of which Euro 7,089 thousand concerning the scrapping of obsolete or damaged EDP fully depreciated.

At December 31, 2012 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 Italtel S.p.A. and described in Note 27.

Note 8 - Goodwill

The account goodwill and the relative movements were as follows:

	31/12/2012	**31/12/2011**
Value at January 1	**167,215**	**297,215**
Increases	-	-
Write-downs	-	(130,000)
Value at December 31	**167,215**	**167,215**

The Goodwill originated following the assumption of full control of the ex-Italtel S.p.A by the previous 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 and December 31, 2011.

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 utilising 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 assets’.

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 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 November 28, 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 four 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 rates utilised in the preparation of the impairment test approved by the Board of Directors on December 3, 2012 for the DCF estimate of the Recoverable Value of the assets of the CGU on a consolidated basis are as follows, with indication in brakets of the corresponding rates updated at December 31, 2012:

- income from assets without risk based on an the exact yield, at a recent date, of government benchmark securities at 10 years of 5.0% (4.5% at December 31, 2012);
- cost of risk capital (KE) estimated with a CAPM model and equal to 9.5% (8.8% at December 31, 2012);
- weighted average cost of capital corresponding to the KE rate based on the financial structure entirely comprising own capital and therefore equal to 9.5% (8.8% at December 31, 2012);
- nominal growth rate of perpetual cash flows (G-Rate) in line with the inflation rate of the Euro and equal to 2.0% (2.0% at December 31, 2012).

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 concern the forecast results for 2014. In greater detail, an

FV/EBITDA multiplier equal to 4.4 and an FV/EBIT multiplier of 5.9 were utilised. 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, the impairment test of December 3, 2012 established the Recoverable Value of the assets of the CGU in the consolidated financial statements of Euro 260 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.

The Directors, within the preparation of the financial statements at December 31, 2012, highlighted the following considerations:

- The Business Plan prepared by the Board of Directors on November 28, 2012, based on the consolidated data at December 31, 2012 and the economic-financial performance of the Italtel Group in the first months of 2013, was substantially confirmed.
- The parameters concerning the average rates utilised for the DCF estimate of the Recoverable Value of the assets of the CGU on a consolidated basis, updated at December 31, 2012, do not highlight significant changes compared to those utilised for the impairment test approved by the Board of Directors on December 3, 2012, carried out by a leading consultancy company and issued on the same date.

Therefore the Directors consider the value of goodwill under the impairment test approved by the Board of Directors on December 3, 2012 as confirmed.

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
Balance at January 1, 2011	**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**
Increases	1,921	19,703	264	-	21,888
Write-downs	(5)	-	(37)	-	(42)
Disposals	(5)	-	-	-	(5)
Translation differences	(2)	-	-	-	(2)
Amortisation	(1,509)	(22,463)	-	(1)	(23,973)
Reclassifications	475	-	(441)	-	34
Balance at December 31, 2012	**1,979**	**32,037**	**279**	**-**	**34,295**

The investments in intangible assets amounted to Euro 21,888 thousand. In particular Euro 19,703 thousand was invested in research and innovation activities and Euro 2,185 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 2012 and 2011, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2012	**31/12/2011**
Research and Development activities carried out	33,627	45,764
of which:		
- capitalized	19,703	23,689
- recognised to the Income statement	13,924	22,075
Amortisation in the year of development costs	22,463	28,600

The net value of intangible assets generated internally amounted to Euro 32,037 thousand and Euro 34,797 thousand respectively at December 31, 2012 and 2011.

Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

	31/12/2012	**31/12/2011**
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, 2012 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, 2011	**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**
Acquisitions / movements in the year	-	-	15	15
Reclassifications	-	-	-	-
Disposals / liquidations	-	-	-	-
Write-down / revaluations	(7)	-	-	(7)
Balance at December 31, 2012	**125**	**1**	**51**	**177**

The investments in other companies are all valued at cost with the exception of the investment in Alice Lab Netherlands N.V. wound up in 2011, which was classified as available-for-sale and valued at fair value.

The write-down of Euro 7 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:

	31/12/2012	31/12/2011
Guarantee deposits	1,255	11,020
Tax receivables	497	496
Tax reimbursements requested	6,132	6,844
Others	12	4
Other non-current receivables doubtful debt provision	(373)	(373)
Total	**7,523**	**17,991**

The reduction in guarantee deposits on the previous year of Euro 9,765 thousand is mainly due to the loss of the deposit of Euro 10,000 thousand following the dissolution of the finance lease contract for the industrial area of Castelletto.

On tax reimbursements requested for repayment interest matures at an annual rate of 2% (Euro 113 thousand in 2012). During the year Euro 825 thousand, concerning capital, was received from the Tax Agency concerning the IRPEG 2003 tax credit requested for repayment and utilised to offset the payment of tax assessments concerning the collection of amounts due, on a provisional basis, for the pending cases at the First grade Tax Commission for VAT and IRAP declarations 2004/2005.

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:

	31/12/2012	31/12/2011
Deferred tax assets	83,970	73,861
Deferred tax liabilities	(3,756)	(3,785)
Total	**80,214**	**70,076**

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	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Temporary differences originate from:				
- Capital grants and operating grants	-	-	2,146	2,760
- Accelerated depreciation	-	-	134	134
- Doubtful debts provision	2,696	2,602	-	-
- Inventory obsolescence provision	15,269	14,764	-	-
- Amortisation and depreciation	157	157	-	-
- Other provisions for risks and charges	3,441	4,298	-	-
- Surplus interest charges carried forward	13,046	13,046	-	-
- Other	41	1,039	629	-
- Temporary differences concerning foreign subsidiaries in accordance with local tax laws	2,823	119	-	-
- Deferred tax asset relating to tax losses of Italtel S.p.A.	46,351	28,365	-	-
- Deferred tax asset relating to tax losses of the foreign subsidiaries	146	326	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	832	873
- Gain on sale and finance leases	-	7,915	-	-
- Restatement of land under finance lease at Castelletto	-	1,230	-	-
- Adjustment in measurement of amortisation and depreciation of fixed assets	-	-	14	14
- Discounting of the payable for personnel mobility	-	-	1	4
Total	**83,970**	**73,861**	**3,756**	**3,785**

At December 31, 2012 and 2011 the principal subsidiary Italtel S.p.A. reports tax losses carried forward, respectively, of Euro 168,548 thousand and Euro 103,144 thousand. Against the above-stated losses deferred tax assets for Euro 46,351 thousand and for Euro 28,365 thousand respectively at December 31, 2012 and 2011 were recorded as it was considered that Italtel S.p.A. could benefit from the use of these losses from 2015 as established by the Industrial Plan 2012-2016, in consideration of the fact that the relevant tax regulation establishes the possibility for their use to offset any taxes due, without time limit and no longer only in the five subsequent years to recognition. This consideration was established also in the Industrial Plan approved on February 26, 2013 which records for the period 2012-2017 deferred tax assets for an amount of between Euro 75 and Euro 90 million.

The principal change in the year concerns the effect of the derecognition of the finance lease contract, for which the balance of deferred tax assets relating to the gain from the Sale and Lease Back operation suspended to deferred income and the restatement of finance leasing land recorded directly to the Shareholders' Equity account for Euro 8,490 thousand was recorded to the income statement.

At December 31, 2012 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 for a value of Euro 13,046 thousand.

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

At December 31, 2012 and 2011 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**	
	31/12/2012	**31/12/2011**	**31/12/2012**	**31/12/2011**
- 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:

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**

2012	**Raw materials, 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	6,239	19,761	57,102	307	83,409
Changes in the year	(121)	9,046	(7,557)	443	1,811
Balance at December 31	**6,118**	**28,807**	**49,545**	**750**	**85,220**
Inventory obsolescence provision					
Balance at January 1	(6,226)	(8,521)	(35,514)	-	(50,261)
(Provision) / utilisation	120	(2,060)	(78)	-	(2,018)
Balance at December 31	**(6,106)**	**(10,581)**	**(35,592)**	**-**	**(52,279)**
Closing inventories					
Balance at December 31	**12**	**18,226**	**13,953**	**750**	**32,941**

Advances comprise contractual advances paid for supplies not yet received of goods to be recognised under inventories.

At December 31, 2012 and 2011 Inventories act as guarantees for loans in place at that date.

Note 15 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2012	31/12/2011
Receivables from customers	105,953	116,557
Receivables from non-consolidated subsidiaries	-	-
Receivables from associated companies	86	86
Cumulative write-down of receivables	(9,172)	(8,678)
Total net receivables	**96,867**	**107,965**

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

	31/12/2012	31/12/2011
Balance at January 1	**8,678**	**8,656**
Changes in the year:		
- Increases	543	106
- Utilisations	(39)	(84)
- Translation differences of foreign currencies	(10)	-
Balance at December 31	**9,172**	**8,678**

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

The utilisations concern the release of the prior year surplus provision for Euro 30 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)

	31/12/2012		31/12/2011
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	34,453	26,113	33,252
UK Sterling	97	119	420
Brazilian Real	18,856	6,974	18,839
Peruvian Nuevo Sol	1,047	311	388
Polish Zloty	4,840	1,188	5,676
Saudi Riyal	1,878	380	4,991
Colombian Peso	1,599,365	686	-
Guatemalan Quetzal	-	-	-
Philippine Peso	1,193	22	430
Oman Riyal	34	67	33

Note 16 - Income tax receivables

The account receivables for current taxes at December 31, 2012 amounted to Euro 2,724 thousand (at December 31, 2011 totaling Euro 2,781 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:

	31/12/2012	31/12/2011
Employee receivables	2,917	3,024
Social security institution receivables	1,861	962
Prepayments and accrued income	995	852
Short-term tax receivable	8,251	9,374
Receivables from the state for subventions and grants	7,595	9,434
Other various receivables	15,035	3,149
Cumulative write-down of receivables	(1,736)	(1,576)
Total	**34,918**	**25,219**

The employee receivables referred principally to advances provided for work transport (Euro 1,619 thousand) and the portion of salaries paid by the company Italtel S.p.A. to employees in December 2012 for the days in which the Solidarity Contract was applied and included in the payslip of the subsequent month (Euro 969 thousand).

Social security institution receivables include the amount of receivables of Italtel S.p.A. from the INPS for advance salary payments to personnel in the Extraordinary Temporary Lay-off Scheme for the April – December 2012 period.
The Ministry of Labour approved the second year of the reorganisation plan with Decree of December 24, 2012 and subsequently INPS authorised the Company to settle the amounts advanced to employees under the Extraordinary Temporary Lay-off Scheme from January 2013.

Prepayments and accrued income concern costs paid relating to the subsequent year.

The tax receivables principally comprise withholding taxes paid abroad.

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

Other receivables include an amount of Euro 10,000 thousand recognised by Telecom Italia S.p.A. under the Restructuring Agreement, approved by the Milan Court on February 26, 2013, as indemnity for requests made by third parties to Italtel S.p.A. within the acquisition agreement of Italtel signed on June 30, 2000.

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:

	31/12/2012	31/12/2011
Securities other than equity investments	-	159
Other financial receivables	1,024	1,544
Short-term financial prepayments and accrued income	9	-
Financial receivables from non-consolidated subsidiaries	570	557
Derivative financial instruments	-	1,617
Total	**1,603**	**3,877**

Other financial receivables principally concern receivables for interest matured with factoring companies with whom tax receivable cession contracts were signed in previous years.

Assets for hedging contracts decreased from a positive value of Euro 1,617 thousand at December 31, 2011 to a negative value of Euro 446 thousand at December 31, 2012, reclassified under short-term financial payables.

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:

	31/12/2012	31/12/2011
Cash at banks, financial institutions and post offices	33,191	26,643
Cheques	1,323	559
Cash	144	158
Total cash and cash equivalents	**34,658**	**27,360**

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, 2012, the subscribed and paid-in share capital amounts to Euro 131,427 thousand (at December 31, 2011, Euro 131,427 thousand), broken down as follows:

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

Note 21 – Reserves

The account Reserves is composed as follows:

	31/12/2012	31/12/2011
Legal reserve	28	28
Reserves not available for own shares in portfolio	10,983	10,983
Other provisions	496	496
Total	**11,507**	**11,507**

There were no changes in 2012.

Note 22 – Treasury shares

The account Treasury shares reports no movements in 2012:

Balance at January 1, 2012	**(10, 983)**
Purchases	-
Sales	-
Balance at December 31, 2012	**(10,983)**

The account Treasury shares at December 31, 2012 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 2012 there were no movements.

Note 23 – Other reserves including profit/(loss)

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

	31/12/2012	31/12/2011
Prior year losses carried forward	(166,744)	(21,938)
Reserve for the coverage of losses 1/1 - 30/4/2011 Italtel Group S.p.A.	160	160
Translation reserve	(468)	521
Allocation of stock options	706	706
Share exercise reserve	4,453	4,453
Loss for the year	(12,163)	(144,805)
Total	**(174,056)**	**(160,903)**

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:

	2012	2011
Balance at January 1	**521**	**854**
Conversion of opening net equity and consolidation adjustments	(900)	(306)
Conversion of Profit/(loss)	(89)	(27)
Balance at December 31	**(468)**	**521**

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, 2000 (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 long-term contracts and Directors of Italtel Group, chosen at the discretion of the Board of Directors of the Italtel Group or by executive 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 cancelled, 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. Finally, in June 2012, as established under regulations, all residual rights options concerning the final allocation of June 2004 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 provisions are broken down as follows:

	31/12/2012	31/12/2011
Post-employment benefits	23,606	24,832
Indemnity for the advanced settlement of contract	1,909	3,467
Deferred employee benefits provisions for foreign companies	66	60
Total	**25,581**	**28,359**

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

The actuarial differences not recognised total a charge of Euro 2,621 thousand in 2012 (Euro 304 thousand in 2011).

The charges for "Interest cost" amounted to Euro 1,005 thousand in 2012 and Euro 1,237 thousand in 2011.

The reviewed version of IAS 19 – Employee benefits, approved by the European Union on June 5, 2012, whose application is obligatory from January 1, 2013, introduces significant changes and clarifications in the recognition of employee benefits. In particular, the possibility to defer recognition of a part of the actuarial profits and losses (so-called "corridor method") is removed. These "remeasurements" must immediately and fully be recognised in the comprehensive income statement. In relation to the expected impacts for the Company, the elimination of the corridor approach will involve the recognition at January 1, 2013 of a negative adjustment to the comprehensive income statement of Euro 2,621 thousand. The other impacts are currently being analysed.

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:

	31/12/2012	31/12/2011
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	2.00% annual	2.00% annual
Discount rate	2.50% annual	4.00% annual
Salary increases	-	-
Annual increase in post-employment benefit	3.00% annual	3.00% annual
DEMOGRAPHIC ASSUMPTIONS		
Probability of death	Data of the Italian population recognised by the General Accountant of the State denominated RG48	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	The annual frequencies capable of resulting in a company plan which involves the exit from the Company of 450 employees by 2014 were considered; turnover frequency parameter of 5% for 2013, 30% for 2014 and 7.5% for all subsequent years	Annual frequencies of 7.5% were considered
Probability of retirement	The reaching of the first of the pensionable requirements necessary for General Compulsory Insurance in light of the regulatory amendments from January 1, 2012 under the Monti provisions was included	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 benefits and other provisions of the foreign companies were as follows:

	31/12/2012	31/12/2011
Balance at January 1	**24,892**	**27,120**
Increase in the year	1,005	1,237
Increase in the year - foreign companies	11	25
Utilisations in the year	(2,231)	(3,458)
Utilisation in the year - foreign companies	(5)	(32)
Balance at December 31	**23,672**	**24,892**

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

	31/12/2012	31/12/2011
Balance at January 1	**3,467**	**2,857**
Provisions in the year	1,500	2,695
Utilisations in the year	(3,058)	(2,085)
Balance at December 31	**1,909**	**3,467**

The provision in the year concerns the estimate of charges to be recognised to personnel placed in mobility schemes in the period December 2008 – June 2011 and impacted by the regulatory changes in relation to the pensionable date.

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
Balance at January1, 2011	**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**
Changes in the year:			
- Increases	-	807	807
- Utilisations	(434)	(2,382)	(2,816)
- Translation differences	(8)	3	(5)
Balance at December 31, 2012	**69**	**9,206**	**9,275**

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 9,206 thousand at December 31, 2012 (Euro 10,778 thousand at December 31, 2011) concerns the risks related to disputes in progress for Euro 4,804 thousand, future losses on work in progress for Euro 113 thousand, contractual risks for Euro 2,218 thousand and tax and contribution risks, also relating to foreign companies, relating to a non-defined tax period for Euro 2,066 thousand, in addition to client supplementary indemnity 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:

	31/12/2012			31/12/2011		
	Short-term	Medium/long term	Total	Short-term	Medium/long term	Total
Secured loans	152,467	18,589	171,056	152,467	18,222	170,689
Unsecured loans	-	401	401	-	401	401
Unsecured loans at subsidised rates	8,666	17,433	26,099	7,092	16,881	23,973
Liabilities for finance leases	153	32	185	616	48,394	49,010
Medium/long term loans	**161,286**	**36,455**	**197,741**	**160,175**	**83,898**	**244,073**
Short-term bank loans	91,930	-	91,930	75,229	-	75,229
Other short-term loans	4,500	-	4,500	-	-	-
Total payables to financial institutions	**257,716**	**36,455**	**294,171**	**235,404**	**83,898**	**319,302**
Other payables	834	-	834	1,076	-	1,076
Accruals and deferred income	7,212	-	7,212	1,313	-	1,313
Total	**265,762**	**36,455**	**302,217**	**237,793**	**83,898**	**321,691**

The Debt Restructuring Agreement signed on December 11, 2012, approved by the Milan Court on February 26, 2013 in accordance with Article 182-*bis* of the Bankruptcy Law, between Italtel, Italtel Group and other Group companies, the lending Banks, Telecom Italia and Cisco Systems, can be summarised as follows:

- conversion into equity financial instruments of a portion of the secured loans to the Lending Banks for a total of Euro 98,535 thousand. Of this amount, Euro 89,343 thousand will reduce the two Senior 1 and Senior 2 credit lines equal to Euro 152,467 thousand at December 31, 2012. The medium/long-term debt, for a total of Euro 18,589 thousand, will reduce by Euro 9,192 thousand following the conversion into equity financial instruments.
- lengthening of maturity of the residual amount post-conversion of the medium/long-term bank debt to December 2017, 2018 and 2019;
- lengthening of the short-term credit lines to June 2017 for a total amount of Euro 135,183 thousand;
- issue of new financing by some of the Lending Banks, Cisco Systems and Telecom Italia for a total of Euro 41,767 thousand, of which Euro 13,500 thousand issued by Unicredit S.p.A. and Euro 4,500 thousand issued by Telecom Italia Finance on the signing of the Restructuring Agreement to support the short-term financial requirements of the Company.

The secured loans concern:

- two credit lines (Senior 1 and Senior 2) for Euro 152,467 thousand, fully utilised;
- a medium/long term cash credit line for a maximum capital amount of Euro 3,063 thousand, fully utilised;
- a long term loan for Euro 15,526 thousand including interest matured annually.

The unsecured loans at standard rates for Euro 401 thousand represent part of a loan obtained in 2010 from Mediocredito Centrale S.p.A. and still in place for Euro 2,938 thousand for research activities, of which Euro 2,537 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.

The account Liabilities for finance leases reduced from Euro 49,010 thousand in 2011 to Euro 185 thousand in 2012 following the derecognition of the Sale and Lease Back operation of the building at Castelletto (Settimo Milanese). The account at December 31, 2012 relates to a finance lease contract signed by the company in 2011 for the purchase of electronic equipment from the supplier T-Systems for a total value of Euro 449 thousand, repayable by March 31, 2014.

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

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**

2012	**Secured loans**	**Unsecured loans**	**Unsecured loans at subsidised rates**	**Liabilities for finance leases**
Opening balance	170,689	401	23,973	49,010
Granted	367	-	6,234	-
Reimbursements	-	-	(4,108)	(48,825)
Closing balance	**171,056**	**401**	**26,099**	**185**

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

	31/12/2012	**31/12/2011**
- within one year	161,286	160,175
- between one and two years	6,086	7,737
- between two and three years	3,986	4,445
- between three and four years	2,165	4,398
- between four and five years	21,251	3,776
- over five years	2,967	63,542
Total	**197,741**	**244,073**

At December 31, 2012, the medium/long term loans, including the short-term portion, were as follows:

December 31, 2012	**Variable rate**	**Fixed rate**	**Total**
To be repaid			
- within one year	152,467	8,819	161,286
- between one and two years	195	5,891	6,086
- between two and three years	206	3,780	3,986
- between three and four years	-	2,165	2,165
- between four and five years	3,063	18,188	21,251
- over five years	-	2,967	2,967
Total	**155,931**	**41,810**	**197,741**

Following the Debt Restructuring Agreement of February 26, 2013, the Company will re-establish the maturities and the conditions of the new loans which will replace those in place at December 31, 2012. The above Agreement amended the parameters and the terms and conditions which are considered in the calculation of the financial restrictions.

The account Bank loans amounting to Euro 91,930 thousand at December 31, 2012 (Euro 75,229 thousand at December 31, 2011), includes the use of Revolving credit lines and the bridge loan of Euro 13,500 thousand issued by Unicredit S.p.A. under the Restructuring Agreement.

The further tranche of Euro 4,500 thousand of the bridge loan, issued by Telecom Italia Finance, is included in the account Short-term Loans from other lenders. Based on the Restructuring Agreement, this payable will be converted into new equity financial instruments.

The account accruals and deferred income refers to interest matured on financial payables not yet settled at December 31, 2012.

Liquidity

Net liquidity at December 31, 2012 and 2011 was broken down as follows:

	31/12/2012	31/12/2011
Cash and cash equivalents	1,467	717
On demand bank current accounts	33,191	26,643
Total	**34,658**	**27,360**

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

	31/12/2012	31/12/2011
Cash generated/(absorbed) by operating activities	22	(27,113)
Cash generated/(absorbed) by investing activities	(21,303)	(28,755)
Cash generated/(absorbed) by financing activities	29,135	15,680
Other shareholders' equity changes	(556)	53
Changes in the year	**7,298**	**(40,135)**

In 2012, the Group generated liquidity for Euro 7,298 thousand, against an absorption of cash of Euro 40,135 thousand in the previous year, as follows:

Cash generated by operating activities

The cash flows generated from operating activities increased by Euro 27,135 thousand, from a net absorption of Euro 27,113 thousand in 2011 to a net generation of Euro 22 thousand in 2012.
The increase of Euro 27,135 thousand follows an increased contribution of cash for Euro 56,457 thousand generated by the change in working capital, net of the lower contribution of cash for Euro 29,322 thousand from operating cash flows before the change in working capital.

The change in working capital generated Euro 20,873 thousand from operating cash flow, while in 2011 absorbing Euro 35,584 thousand, with an increase in the two years of Euro 56,457 thousand.

The working capital changes consider the following major factors:

- a reduction in the exposure to clients for Euro 1,635 thousand in 2012 against a reduction of Euro 24,282 thousand in 2011, with a decrease of Euro 22,647 thousand in 2012 compared to 2011;
- an increase in the exposure to suppliers for Euro 18,563 thousand in 2012 following a decrease of Euro 59,583 thousand in 2011 with a net increase of Euro 78,146 thousand.
- the change in the exposure to suppliers is due to the state of illiquidity of the company Italtel S.p.A. which, based on the payment plans subsequent to approval, establishes for the total reduction of the exposure fully in compliance with law.

Cash absorbed by investing activity

In 2012, investing activity absorbed cash of Euro 21,303 thousand, against an absorption in the previous year of Euro 28,755 thousand.

Cash generated by financing activity

In 2012, financing activity generated cash of Euro 29,135 thousand against a generation of cash in the previous year of Euro 15,680 thousand. The increase of Euro 13,455 thousand is essentially due to:

- an increase of Euro 7,624 thousand of Other liabilities following the increase of Euro 5,899 thousand of accrued loan interest not paid at December 31, 2012, which will be capitalised as established by the Restructuring Agreement and the increase of Euro 739 thousand following the cancellation in 2012 of bank commissions no longer due under the Debt Restructuring Agreement signed on December 11, 2012;
- an increase of Euro 6,387 thousand of increased loans compared to the previous year.

Note 28 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2012	31/12/2011
Deferred income – gains on sale of property	-	27,044
Medium/long-term mobility charges	-	181
Medium/long term accruals and deferred income	-	-
Deposits	112	112
Total	**112**	**27,337**

The account Deferred income - gains on sale of property decreased due to the settlement of the finance lease contract of the industrial area of Castelletto signed on June 9, 2011.

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:

	31/12/2012	31/12/2011
Supplier payables	156,045	147,264
Payables to associated companies	152	136
Total	**156,197**	**147,400**

The payables to the Telecom Italia Group and the Cisco Group 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)

	31/12/2012		31/12/2011
	Foreign currency	Euro	Foreign currency
US Dollar	120,329	89,696	113,433
UK Sterling	209	256	220
Argentinean Peso	29,814	4,596	12,081
Brazilian Real	8,122	3,004	8,066
Polish Zloty	221	54	15
Colombian Peso	1,389,773	596	2,432,124
Peruvian Nuevo Sol	3,376	1,002	-
Saudi Riyal	553	112	-
Philippine Peso	474	9	474
Arab Emirates Dirham	175	36	150

Note 30 - Current tax liabilities

Current tax liabilities amount to Euro 399 thousand and Euro 1,697 thousand at December 31, 2012 and December 31, 2011 respectively, representing the Income tax payables:

	31/12/2012	31/12/2011
IRES	-	-
IRAP	-	-
Income taxes – foreign countries	399	1,697
Total	**399**	**1,697**

Note 31 - Other payables and liabilities

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

	31/12/2012	31/12/2011
Employee payables	23,066	23,251
Social security institution payables	1,424	3,799
Accruals and deferred income	13,450	8,417
Short-term portion Castelletto gain deferred income	-	2,080
VAT	3,375	3,501
Withholding taxes to be paid	3,497	3,264
Other taxes	1,201	735
Customer advances	9,788	2,257
Other liabilities	4,017	3,345
Total	**59,818**	**50,649**

Employee payables include Euro 2,237 thousand concerning indemnities to be recognised in 2013 to personnel of the company Italtel S.p.A. with whom Industrial Mediation Agreements were individually signed as per Article 2113, paragraph IV of the Civil Code and Articles 410 and 411, paragraph III of the Civil Procedural Code.

The short-term portion Castelletto gain Deferred income account decreased by Euro 2,080 thousand following the dissolution of the finance lease contract of the building at Castelletto - Settimo Milanese.

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 2012 and 2011, broken down by client and region.

i) Revenues from sales and services broken down by client

	2012	2011
Telecom Italia [a]	89,571	112,580
Other local operators	58,796	71,353
Large enterprises and Public Administration	45,019	65,007
Overseas Operators	138,008	156,473
Total	**331,394**	**405,413**

(a) Exclusively concerns Telecom Italia S.p.A. and Telecom Italia Sparkle S.p.A.

ii) Revenues from sales and services broken down by region

	2012	2011
Italy	183,520	238,007
Other European countries	48,439	47,844
Central and South America	93,222	114,428
USA	260	297
Africa	4,404	1,107
Asia	1,549	3,730
Total	**331,394**	**405,413**

Note 33 – Other income

This account Other income is comprised of:

	2012	2011
Grants	873	4,332
Gains on disposals	34,933	3,138
Absorption of provisions and others	20,631	38,987
Total	**56,437**	**46,457**

Operating grants for Euro 873 thousand concern contributions for costs incurred for research and development activities (Euro 4,332 thousand in 2011).

The disposal gains include the gain of Euro 34,897 thousand concerning the derecognition of the Sale and Lease Back operation of the building at Castelletto (Euro 3,073 thousand in 2011) and the gain from the sales of property, plant and equipment in the year.

The account absorption of provisions and others concerns prior year income for Euro 4,760 thousand (Euro 10,479 thousand in 2011), for Euro 578 thousand the Cisco grants on the VIP Program contract and the SRS Agreement (Euro 3,602 thousand in 2011) and the absorption of provisions for Euro 1,943 thousand (Euro 21,355 thousand in the previous year), in addition to income of Euro 10,000 thousand relating to the Restructuring Agreement signed on December 11, 2012 and concerning, among other issues, a compromise agreement with Telecom Italia in relation to a series of indemnities requested by Italtel to Telecom Italia in accordance with Article 7 of the "Subscription and Share Purchase Agreement" dated September 30, 2000 (zero in the previous year).

Note 34 - Purchase of materials and services

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

	2012	2011
Purchases of materials	170,870	210,492
Purchases of services	81,689	78,304
Total	**252,559**	**288,796**

Note 35 - Personnel costs

The account Personnel costs is broken down as follows:

	2012	2011
Wages and salaries	71,050	76,879
Social security	20,555	25,540
Post-employment benefit	5,319	6,632
Mobility and other non-recurring charges	6,983	8,083
Others	748	742
Total	**104,655**	**117,876**

Personnel costs include non-recurring restructuring charges for a total of Euro 6,983 thousand (Euro 8,083 thousand in 2011).

The average workforce decreased from 1,820 in 2011 to 1,759 in 2012.

Note 36 - Amortisation, depreciation and write-downs

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

	2012	2011
Development Costs	22,463	28,600
Other intangible assets	1,510	3,719
Land	870	870
Industrial buildings	3,106	3,107
Plant and machinery	702	671
Commercial and industrial equipment	2,255	2,996
Other assets	938	1,090
Goodwill write-down	-	130,000
Total	**31,844**	**171,053**

Note 37 - Other operating costs

This account Other operating costs is comprised of:

	2012	2011
Other operating charges	16,506	8,483
Provisions for risks	807	1,446
Write-down of receivables	887	268
Total	**18,200**	**10,197**

The account other operating charges includes prior year charges of Euro 2,624 thousand (Euro 1,650 thousand in 2011), in addition to Euro 10,000 thousand concerning the loss of the deposit paid as guarantee of the rental contract for the building at Castelletto. This contract, signed on June 9, 2011, was dissolved and replaced by a new rental contract with effect from December 31, 2012.

Note 38 - Change in inventories

The following table highlights the principle components of the account:

	2012	2011
Raw material, ancillary and consumables	-	(2)
Products in work-in-progress and semi-finished	7,773	(24)
Finished products and goods for resale	(6,861)	(7,656)
Total	**912**	**(7,682)**

Note 39 - Increases on internal works capitalised

The account increases on internal works capitalised amounted to Euro 20,033 thousand in 2012 (Euro 23,919 thousand in 2011) and concerns the capitalisations of tangible and intangible fixed assets of the production costs, not including financing charges.

In 2012, the account concerned for Euro 19,703 thousand (Euro 23,689 thousand in 2011) 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.

	2012			2011		
	Charges	Income	Net charges (income)	Charges	Income	Net charges (income)
Currency differences	11,785	12,691	(906)	16,611	11,709	4,902
Interest	16,421	84	16,337	14,091	178	13,913
Other	4,731	1,379	3,352	4,449	5,488	(1,039)
Total	**32,937**	**14,154**	**18,783**	**35,151**	**17,375**	**17,776**

Net financial charges total Euro 18,783 thousand, compared to Euro 17,776 thousand in the previous year, increasing by Euro 1,007 thousand (+5.7%).

Net currency differences improved from losses of Euro 4,902 thousand in 2011 to gains of Euro 906 thousand in 2012.

Net interest charges increased from Euro 13,913 thousand in 2011 to Euro 16,337 thousand in 2012. The increase of Euro 2,424 thousand is principally due to the recognition of default interest on the short and medium/long-term bank payable unpaid on maturity and until the effective date of the approval of the restructuring agreement, net of the contribution from improved reference interest rates in 2012 compared to 2011.

Other net income and charges decreased from income of Euro 1,039 thousand in 2011 to charges of Euro 3,352 thousand in 2012, reducing by Euro 4,391 thousand, relating for Euro 3,061 thousand to the absence in 2012 of prior year income recognised in the first half of 2011 relating to the settlement of the liability of a similar amount based on the residual valuation of an IRPEG receivable paid by the Tax Agency, for Euro 3,638 thousand to the mark-to-market of forward operations in US Dollars, a gain in 2011 of Euro 1,795 thousand and a loss in 2012 of Euro 2,062 thousand, net of the positive effect of Euro 1,348 thousand following the cancellation in 2012 of bank commissions no longer due following the Debt Restructuring Agreements signed on December 11, 2012.

Note 41 - Income taxes

The income tax account reports income of Euro 5,102 thousand compared to charges of Euro 7,177 thousand in the previous year. This includes: IRAP for Euro 600 thousand (Euro 1,200 thousand in 2011), foreign income taxes for Euro 4,836 thousand (Euro 3,712 thousand in 2011), lower taxes relating to previous years for Euro 83 thousand (lower taxes for Euro 23 thousand in 2011), in addition to deferred tax income of Euro 10,455 thousand (Euro 266 thousand in 2011).

The improvement of Euro 12,279 thousand compared to the previous year is principally due to the increase of Euro 10,189 thousand of deferred tax income, in addition to the fact that in 2011 withholding taxes charged in Argentina in the years 2005-2011 judged as non-recoverable for Euro 2,554 thousand were recognised to the income statement.

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

	2012	**2011**
Theoretical taxes [(a)]	(4,748)	(37,838)
Regional taxes	600	1,200
Argentina withholding taxes	-	2,554
Difference between the tax rate on foreign entities	114	1,561
Non-deductible (exempt) tax components	(826)	409
Write-down of Italtel S.p.A. goodwill not deductable	-	35,750
Deferred taxes not recorded on tax losses and temporary differences	462	3,527
Positive items not subject to taxation	(834)	(119)
Other changes	130	133
Effective tax	**(5,102)**	**7,177**

(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 in 2011 from discontinued assets in 2011, refer to the company Italtel Russia OOO in liquidation.

The Shareholders' Meeting of the company of November 26, 2009 approved the initiation of a program for the progressive reduction of operating activities in Russia and following the conclusion of the program the Shareholders' Meeting of October 6, 2010 approved the placing in liquidation of the company and appointed a Liquidation Committee in St. Petersburg.

The liquidation has concluded and the company was wound up on May 31, 2012.

The Italian company Italtel N.G.A. S.p.A. was placed in liquidation on April 17, 2012 and having concluded the process was wound up with effect from October 29, 2012.

At the reporting date and at December 31, 2012, no discontinued or to be discontinued assets therefore exist following the exit from the consolidation scope of the two entities indicated above.

Note 43 - Transactions with related parties

The transactions with the related parties were as follows:

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)**

December 31, 2012	Trade receivables	Financial receivables	Trade payables	Financial payables	Other payables
Subsidiary companies not consolidated:					
Italtel Telesis consortium in liquidation	-	570	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(59)
Hermes consortium in liquidation	27	-	-	-	(93)
Other related parties:					
Clayton Dubilier & Rice	-	-	-	-	(145)
Telecom Italia Group	28,512	-	(714)	(4,500)	10,000
Cisco Systems Group	287	-	(83,143)	(3)	-
Total	**28,885**	**570**	**(83,857)**	**(4,503)**	**9,703**

In 2011 and 2012, the Italtel Group reports transactions with related parties as follows:

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**

2012	Sales	Purchases	Financial income /(charges)	Other
Subsidiary companies not consolidated:				
Italtel N.G.A. S.p.A. (Estinta)	-	-	(2)	-
Italtel Telesis consortium in liquidation	-	-	13	-
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(5)
Hermes consortium in liquidation	-	-	-	(8)
Other related parties:				
Clayton Dubilier & Rice	-	-	-	-
Telecom Italia Group	151,057	(1,643)	-	10,000
Cisco Systems Group	7,266	(129,200)	-	578
Total	**158,323**	**(130,843)**	**11**	**10,565**

In relation to senior managers with strategic responsibilities, in 2012 and in 2011 emoluments were matured for a total amount respectively of Euro 2,921 thousand and Euro 3,843 thousand. These emoluments were as follows:

	2012	2011
Current Emoluments	2,815	3,677
Post-employment benefits	106	166
Total	**2,921**	**3,843**

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). Plan B is currently not active as the options automatically expired eight years after vesting in three tranches respectively in 2001, 2002 and on June 1, 2004.

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.

	31/12/2012	31/12/2011
To be repaid		
- within one year	9,918	2,165
- between one and two years	9,610	1,879
- between two and three years	5,367	1,809
- between three and four years	4,251	418
- between four and five years	4,000	432
- over five years	4,000	449
Total	**37,146**	**7,152**

A surety is in place of Euro 12,000 thousand issued in favour of the lessor to guarantee rental payments on the Castelletto - Settimo Milanese complex.

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 2012 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	47	328	375
Tax consultancy and other services	-	32	32
Total 2012 costs for auditing and other services	**47**	**360**	**407**

Note 46 – Subsequent events

The events subsequent to December 31, 2012 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.
Foreign subsidiaries						
3)	Italtel BV (commercial and finance)	Amsterdam (Holland)	Euro	6,000,000	100	Italtel S.p.A.
4)	Italtel S.A. (telecommunication systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel BV
5)	Italtel Argentina S.A. (telecommunication systems)	Buenos Aires (Argentina)	P.A.	4,030,000	71.46 28.54	Italtel BV Italtel S.p.A.
6)	Italtel Kenya Ltd (telecommunication systems)	Nairobi (Kenya)	Kenyan Shilling	500,000	99.98 0.02	Italtel BV Italtel S.p.A.
7)	Italtel Brasil Ltda (telecommunication systems)	San Paolo (Brazil)	Brazilian Real	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
8)	Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel Group S.p.A. Italtel BV
9)	Italtel France Sas (commercial)	Suresnes (France)	Euro	40,000	100	Italtel S.p.A.
10)	Italtel Telecommunication Hellas EPE (commercial)	Athens (Greece)	Euro	18,000	80 20	Italtel Group S.p.A. Italtel S.p.A.
11)	Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	60 40	Italtel Group S.p.A. Italtel BV
12)	Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	500,000 (paid-in 200,000)	60 40	Italtel Group S.p.A. Italtel BV
13)	Italtel Poland Sp.Zo.O. (commerciale)	Varsavia (Poland)	Zloty	400,000	100	Italtel S.p.A.
14)	Italtel Middle East Fz-LLC (commercial)	Dubai (Arab Emirates)	AED	2,500,000	100	Italtel S.p.A.
15)	Italtel Arabia Ltd (commerciale)	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
16)	Italtel Perù S.a.c. (commerciale)	Lima (Peru)	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							
17)	Cored - Consorzio Reti 2000 in liquidation Broadband networks:	Milan	Euro	260,000	30	Italtel S.p.A.	76
18)	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						
19)	Italtel Telesis consortium in liquidation (integrated telematic systems)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	6
	Non-consolidated foreign subsidiaries valued at cost						
20)	Italtel de Venezuela S.A. (commercial)	Caracas (Venezuela)	Venezuelan Bolivar	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						
21)	Cefriel - S.c.r.l. (training and research)	Milan	Euro	100,350	5.8	Italtel S.p.A.	36
22)	Consorzio Milano Ricerche (design and research)	Milan	Euro	186,431	8.3	Italtel S.p.A.	15
23)	Consel - Consorzio Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A.	1
24)	SISTEL - Comunicaçoes, Automaçao e Sistemas S.A. (telecommunication systems)	Monte de Caparica (Portugal)	Euro	10,338,838	0.88 0.72	Italtel S.p.A. Italtel BV	29 7
25)	Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	13,531,173	0.04	Consorzio Italtel Telesis in liquidation	-
26)	Consorzio MIP - Politecnico di Milano	Milan	Euro	150,000	5.88	Italtel S.p.A.	-
27)	Consorzio Nazionale Imballaggi CONAI (management of packaging)	Rome	Euro	variabile	0.005	Italtel S.p.A.	1
28)	Consorzio COFRIDIP	Padova	Euro	28,402	9.09	Italtel S.p.A.	3
29)	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 BV	Italtel Belgium Sprl	Italtel Deutschland GmbH	Italtel France Sas
Assets						
Non-current assets						
Property, plant and equipment	-	17,535	-	3	4	40
Goodwill	-	169,565	-	-	-	-
Other intangible assets	-	34,262	-	-	-	-
Investments valued under the equity method	-	194	-	-	-	-
Medium/long term financial assets	-	12,051	10,123	-	-	-
Other assets	-	6,422	-	-	-	427
Deferred tax assets	-	77,245	-	-	-	-
Total non-current assets	**-**	**317,274**	**10,123**	**3**	**4**	**467**
Current assets						
Inventories	-	16,606	-	-	80	69
Trade receivables	-	99,092	-	694	1,413	6,016
Tax receivables	-	692	-	-	7	-
Other receivables and assets	4	30,345	-	-	23	90
Short-term financial assets	-	2,769	-	-	5,750	1,842
Cash and cash equivalents	-	23,441	17	34	753	326
Total current assets	**4**	**172,945**	**17**	**728**	**8,026**	**8,343**
AFS non-current assets	**2,308**	**-**	**-**	**-**	**-**	**-**
Total assets	**2,312**	**490,219**	**10,140**	**731**	**8,030**	**8,810**
Net equity and Liabilities						
Net Equity						
Share capital	131,427	116,858	6,000	500	40	40
Reserves	11,507	-	3,353	12	2,769	4
Treasury shares	(10,983)	-	-	-	-	-
Other reserves including the net result	(131,125)	(169,165)	(88)	214	3,316	1,411
Total Net Equity	**826**	**(52,307)**	**9,265**	**726**	**6,125**	**1,455**
Liabilities						
Non-current liabilities						
Employee benefit provisions	-	25,515	-	-	-	-
Provisions for risks and charges	-	9,287	559	-	-	181
Medium/long term financial liabilities	-	36,455	-	-	-	-
Other liabilities	-	112	-	-	-	-
Total non-current liabilities	**-**	**71,369**	**559**	**-**	**-**	**181**
Current liabilities						
Trade payables	354	139,633	-	2	1,764	4,963
Current income tax payables	-	-	-	-	-	263
Other payables and liabilities	13	47,220	5	3	141	1,705
Current financial liabilities	1,119	284,304	311	-	-	243
Total current liabilities	**1,486**	**471,157**	**316**	**5**	**1,905**	**7,174**
AFS non-current liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**1,486**	**542,526**	**875**	**5**	**1,905**	**7,355**
Total net equity and liabilities	**2,312**	**490,219**	**10,140**	**731**	**8,030**	**8,810**
Income Statement						
Revenues from sales and services	-	257,676	-	-	6,181	11,589
EBITDA	12,787	25,314	(116)	(6)	2,194	2,100
EBIT	12,787	(6,229)	(116)	(9)	2,192	2,082
Net financial income/(charges)	(330)	(15,444)	(53)	-	68	47
Profit/(loss) before taxes	12,457	(21,673)	(169)	(9)	2,260	2,129
Net profit (loss) for the year	12,457	(14,539)	(169)	(9)	1,832	1,411

(thousands of Euro)

Italtel S.A.	Italtel Tel. Hellas EPE	Italtel U.K. Ltd	Italtel Poland Sp.Zo.O.	Italtel Argentina S.A.	Italtel Brasil Ltda	Italtel Peru S.a.c.	Italtel Kenya Ltd	Italtel Middle East Fz-	Italtel Arabia Ltd
71	2	-	-	106	259	52	14	5	74
-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	28	-	-	-	-
-	-	-	-	-	-	-	-	-	-
47	-	-	-	-	-	-	3	-	-
-	7	-	410	48	69	55	47	31	7
-	-	-	-	2,649	174	263	-	-	-
123	**9**	**-**	**410**	**2,803**	**530**	**370**	**64**	**36**	**81**
1,018	8	-	504	12,488	428	2,141	12	-	-
5,020	695	-	1,188	10,444	7,001	4,421	34	155	380
-	288	-	-	1,057	652	28	-	-	-
474	-	2	5	1,931	81	1,866	2	65	36
9,612	-	-	-	202	2,039	-	-	245	-
2,583	613	-	163	1,487	2,555	1,345	212	1,019	106
18,707	**1,604**	**2**	**1,860**	**27,609**	**12,756**	**9,801**	**260**	**1,484**	**522**
-	-	-	-	-	-	-	-	-	-
18,830	**1,613**	**2**	**2,270**	**30,412**	**13,286**	**10,171**	**324**	**1,520**	**603**
7,353	18	32	98	621	2,436	190	4	516	664
925	6	-	540	2,833	121	86	-	88	-
-	-	-	-	-	-	-	-	-	-
128	890	(632)	(266)	490	1,162	697	(274)	(417)	(1,860)
8,406	**914**	**(600)**	**372**	**3,944**	**3,719**	**973**	**(270)**	**187**	**(1,196)**
-	37	-	-	-	-	-	-	-	29
-	-	-	39	-	69	-	-	-	-
-	-	574	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**37**	**574**	**39**	**-**	**69**	**-**	**-**	**-**	**29**
5,169	528	22	1,222	24,795	6,098	7,458	445	1,235	1,394
-	-	-	-	-	118	-	-	18	-
5,255	128	6	637	767	3,282	633	149	80	376
-	6	-	-	906	-	1,107	-	-	-
10,424	**662**	**28**	**1,859**	**26,468**	**9,498**	**9,198**	**594**	**1,333**	**1,770**
-	-	-	-	-	-	-	-	-	-
10,424	**699**	**602**	**1,898**	**26,468**	**9,567**	**9,198**	**594**	**1,333**	**1,799**
18,830	**1,613**	**2**	**2,270**	**30,412**	**13,286**	**10,171**	**324**	**1,520**	**603**
15,783	1,274	-	1,054	27,331	27,265	20,983	167	1,247	198
56	96	(14)	228	1,941	2,410	341	(40)	45	(822)
(3)	93	(14)	228	1,878	2,304	309	(45)	43	(830)
55	(1)	-	52	(1,394)	(480)	(176)	(13)	36	80
52	92	(14)	280	484	1,824	133	(58)	79	(750)
52	92	(14)	280	258	1,287	36	(58)	53	(750)

Settimo Milanese, March 27, 2013

For the Board of Directors

The Chief Executive Officer

INDEPENDENT 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 and its subsidiaries ("Italtel Group Group") as of 31 December 2012 which comprise consolidated balance sheet, consolidated income statement, consolidated comprehensive income statement, statement of changes in shareholders' equity, consolidated cash flows statement 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 21 December 2012.

3 In our opinion, the consolidated financial statements of Italtel Group Group as of 31 December 2012 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 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

PricewaterhouseCoopers SpA

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recommended by Consob. In our opinion, the Directors’ report is consistent with the consolidated financial statements of Italtel Group Group as of 31 December 2012.

Milan, 12 April 2013

PricewaterhouseCoopers SpA

Signed by

Marilena Cederna
(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.