# ITALTEL GROUP
# 2013 DIRECTORS' REPORT &
# CONSOLIDATED FINANCIAL STATEMENTS

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Dear Shareholders,

The global economic crisis continues and although many sources indicate that the recession has concluded, a fresh uptake is still not on the horizon. In Italy - from which 58% of our business derives - GDP contracted 1.8% and unemployment grew to 12.9%. Latin America - and in particular the most significant countries in which we operate such as Brazil and Argentina - were impacted on the one hand by an economic slowdown and on the other by extensive monetary tensions which affected the US Dollar exchange rate.

For Italtel, 2013 was a very strong year: the conclusion of the Debt Restructuring Agreement which enabled the capital and industrial recovery of the company, the reduction of industrial overhead costs under the ongoing negotiations with the Trade Unions, the significant focus placed on client relations in the largest markets and on the quality and extent of opportunities developed and initiatives undertaken, and finally the acceleration of industrial activities concerning the portfolio both in terms of Professional Services/System Integration and Proprietary Products are hallmarks of a company which is recovering quickly.

The 2013 results in fact improved significantly on the previous year. The highlights include a considerable increase in revenues and the improved EBITDA, particularly on the Latin American market.

Growing interest is evident for Italtel's products and service offer, extending the customer base and the involvement in tenders - also internationally.
In particular, in the Session Border Controller segment, the Netmatch product has been warmly welcomed globally - both in sales terms, only two years after the commencement of development, and as a strategy as we are positioned as *"Visionaries"* in the MAGIC QUADRANT GARTNER, which attracts the attention of all the principal Service Providers internationally. In relation to the development of Italtel engineering based Professional Services, we highlight the awarding of a major network development contract for BELGACOM and the stated intent of TELECOM ITALIA to award us the assignment to support the full management of the domestic network.

Thanks to the recent agreement signed with the Trade Unions, the Group is delivering upon the Restructuring Agreement, concentrating on implementing the new Industrial Plan which provides for significant cost containment, in order to establish solid and durable economic and financial rebalancing in the time scale set down. In 2013, we were ahead of Plan schedule and therefore consider that we may complete the recovery plan by the end of 2014.

2013 was again 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 amid such complexities.

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

Stefano Pileri

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 designs, develops and constructs in Italy and in a number of countries globally, IP-based products and solutions for networks and new generation telecommunication services. The offer includes proprietary products, engineering and consultancy services on the networks, managed services and solutions such as VoIP, Unified Communication & Collaboration, HD video communication, interconnection solutions, New Generation Data Centres and Mobile Broadband solutions. SDN, NVF and WebRTC are some of the areas on which R&D is focused.

The know-how matured in complex network management puts Italtel in the privileged position of being able to operate where the ICT and telecommunications fields meet, to create new solutions in response to the specific communication needs of all - whether in the workplace or social environment.

Italtel maintains a close focus on innovation and invests in ongoing research and development. Over 40 of the leading 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, Belgium, Germany, Spain, Greece, Poland, the United Arab Emirates and in Latin America (Argentina, Brazil, Columbia and Peru).

# Key Financial Highlights

(thousands of Euro)

| | 2013 IFRS | 2012 IFRS |
|---|---|---|
| Revenues | *374,187* | *331,394* |
| Profitability to external costs [1] % | *34.07* | *33.04* |
| Normalised EBITDA[2] | *32,472* | *10,794* |
| *Margin %* | *8.68* | *3.26* |
| EBITDA [3] | *11,442* | *33,362* |
| *Margin %* | *3.06* | *10.07* |
| EBIT [4] | *(14,356)* | *1,518* |
| *Margin %* | *(3.84)* | *0.46* |
| Net loss | *(32,867)* | *(12,163)* |
| *Margin %* | *(8.78)* | *(3.67)* |
| *ROI [5] %* | *(0.06)* | *0.01* |
| Average workforce, excl. lay-off schemes | *1,236* | *1,346* |
| | **December 31, 2013** | **December 31, 2012** |
| Capex [6] | *19,315* | *23,646* |
| Net Debt [7] | *181,571* | *265,956* |
| Shareholders' equity (8) | *74,373* | *(44,005)* |
| NCE [8][9] | *255,944* | *221,951* |
| Adjusted NCE [10][8] | *88,729* | *54,736* |
| Cash flow from operating activities | *2,350* | *22* |
| Cash flow from investing activities | *(18,976)* | *(21,303)* |
| Cash flow from financing activities | ***31,946*** | ***29,135*** |
| Client average (days) [11] | ***117*** | ***107*** |
| Supplier average (days) [12] | ***151*** | ***211*** |
| Number of employees | ***1,628*** | ***1,720*** |
| of which Italy [13] | ***1,445*** | ***1,535*** |
| of which Overseas | ***183*** | ***185*** |

(1) Profitability to external costs: Margin / Revenues
(2) Normalised EBITDA measures the operating result, plus amortisation, depreciation and write-downs and less restructuring charges and other non-recurring items.
(3) EBITDA measures the operating result before amortisation, depreciation and write-downs
(4) EBIT is the operating result
(5) ROI – Return on investment = EBIT / Average NCE
(6) Capex or capital expenditure is the sum of intangible and tangible assets
(7) Net debt is reported in the Directors' Report at page 34
(8) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.
(9) Net Capital Employed (NCE), as described at page 33
(10) Net Capital Employed (NCE), adjusted for Goodwill
(11) 365 days / (Sales revenues / Trade receivables)
(12) 365 days / (Purchases and other operating costs / Trade payables)
(13) 1305 including departures already formally agreed

# 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 Market, 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..

### 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.

# Corporate Boards

## Board of Directors [1]

| | |
|---|---|
| Chairman [2] | Tiziano Onesti |
| Chief Executive Officer [3] | Stefano Pileri |
| Directors | Stefano Carlino |
| Secretary of the Board of Directors | Nicolò de' Castiglioni |

## Board of Statutory Auditors [4]

| | |
|---|---|
| Chairman | Marco Baccani |
| Standing members | Carlo Delladio<br>Marco Tani |
| Alternate members | Mauro Ianiro<br>Guido Paolucci |

## Independent Audit Firm

PricewaterhouseCoopers S.p.A.

(1) Appointed on April 29, 2013 and in office until the Shareholders' AGM for the approval of the 2015 Annual Accounts
(2) Following the resignation of the Director and Chairman Umberto de Julio, the Board of Directors on June 28, 2013 co-opted the Director Tiziano Onesti, appointing him as Chairman of the Board of Directors in office until the next Shareholders' AGM
(3) Appointed Chief Executive Officer with Board of Directors' motion of April 29, 2013
(4) Appointed on January 10, 2013 and in office until the Shareholders' AGM for the approval of the 2014 Annual Accounts

The 2013 group results, although reporting a net loss, are substantially in line with the 2012-2016 Industrial Plan and the actions implemented by management are those required for the achievement of the Plan objectives.

The annual consolidated results are monitored by a consultancy firm appointed by Italtel and the Plan implementation analysis document is sent to shareholders.

In line with the Restructuring Agreement indications and the resultant contracts and agreements, the shareholders have fulfilled their commitments and Italtel S.p.A., principal Group company and Beneficiary, fulfilled its disclosure obligations and commitments under the loan contracts.

## Basis of presentation

On February 26, 2013, with filing at the Company Registration Office on March 1, 2013, the Debt Restructuring Agreement as per Article 182 of the Bankruptcy Law was approved by the Milan Court.

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 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:

- for Euro 524,376 through the use of the legal reserve and the future treasury share buy-back reserve;
- 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 the full coverage of 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:

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

(Euro)

| **Creditor** | **Number of Equity 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.

The consolidated financial statements of the Italtel Group at December 31, 2013 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2013, issued by the International Accounting Standard Board (IASB) and adopted by European Union regulations.

These financial statements include the balance sheet, 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, 2013 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 IAS 27.

From January 1, 2014, IAS 27 was replaced by IFRS 10. The principal new issues introduced by IFRS 10 concern:

- the removal of the presumption of control where the investing company holds more than half of voting rights of the investee;
- the obligation to consider potential voting rights, even where not exercisable at the reporting date;
- the obligation to evaluate the existence of control in relation to the significant activities of the investee;
- the obligation to consider only substantial rights and to exclude protective rights and the introduction of a definition of substantial rights and protective rights.

Italtel therefore tasked an independent expert to evaluate the overall governance structure of Italtel S.p.A., following the adoption of the measures under the Restructuring Agreement, in order to draw up an opinion on the control (or absence thereof) of Italtel S.p.A. by Italtel Group S.p.A., both as per IAS 27 (in force until December 31, 2013) and IFRS 10 (in force since January 1, 2014).

This opinion confirmed the existence, according to IAS 27, of the control of Italtel S.p.A. by Italtel Group S.p.A. and therefore the preparation basis of the present Consolidated Financial Statements. This opinion however also concluded that on the basis of IFRS 10, Italtel Group S.p.A. does not control Italtel S.p.A., with the consequence that from January 1, 2014:

- Italtel Group S.p.A. will no longer be required by law to prepare the Consolidated Financial Statements, but rather will prepare a Pro-Forma "constructed" Consolidated Financial Statements (also to monitor the results compared to the Restructuring Plan).
- Italtel S.p.A. must prepare the Consolidated Financial Statements (as no longer from an "accounting" viewpoint a subsidiary of Italtel Group S.p.A.).

The Consolidated Financial Statements were prepared based on the financial statements at December 31, 2013 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 thus far slow and tentative global recovery of recent years is expected to consolidate in the coming two-year period, although with continued divergence among the major economic zones.

The recovery has gathered pace particularly in the Unites States. The effects of the property and debt crisis appear to have been partly overcome, with no foreseeable obstacles in the way of the US recovery for 2014 and 2015 (GDP expected to improve by approx. 3%).

The Eurozone improved, although sluggishly, while in the core countries - particularly Germany - the economy is reawakening. The peripheral countries of the South appear to have at least reached the end of prolonged recession. Their development continues however to be held back by governmental austerity, banking problems and spiralling unemployment. In the coming two years the recovery is expected to be slow (GDP growth for 2014 of 1%, 2015 of 1.5%) and most likely will not significantly reduce the high unemployment levels seen in many countries.

Against the improvement in the industrialised countries, many emerging economies are finding it difficult to regain momentum. In addition to the fickleness of the global financial markets - which put many countries under pressure with flights of capital - structural factors have also slowed growth. In 2014 and 2015, growth is expected to be sluggish and weaker than the growth levels seen in previous cycles. China, with a strong performance in 2013 and as it is not exposed to the financial markets, represents an exception. Economic growth in China (7-8%) however was moderate compared to previous years.

The ICT (Information & Communication Technology) sector continues to be impacted by the economic crisis - and the telecommunications (TLC) segment particularly. The global TLC market in 2013 was worth USD 2.2 trillion, slightly expanding (+1%) on the previous year. 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.

The various global regions grew at differing speeds: APAC and NA continue to drive the market (+6.7% and +2.4% respectively); Latin America once again reports growth (+0.8%), although much slower than previous years, while Europe saw a contraction - although slight (-0.8%).

The network infrastructure segment, a core market for Italtel, reported an improved performance on the previous year (+3.2%), reaching USD 80 billion (in Europe +2.9% and in Latin America +4%). However, the majority of Service Providers focused CAPEX on access to mobile broadband and increasingly less on fixed broadband.

The telecommunications sector has undergone significant changes in recent years. Competition, extensive sector regulation, the replacement of the more profitable (voice and messaging) services with similar mainly free internet-based services by the Over The Top (OTT) providers have severely eroded the fixed and mobile operator profitability fundamentals, while significantly improving those of the OTT's.
At global level, mobile telephone revenues are the major growth driver, thanks to the mass usage of smartphones and the consequent insatiable demand for mobile broadband. Data traffic is growing at 21% per year[1] (with mobile traffic growing 66% per year) - however mobile service revenues are contracting by between 10% and 15% per year, due to significant competition among operators offering increasingly discounted services within a saturated market and the above-stated substitution with OTT services.
The OTT services have already significantly impacted the TLC market. Messages sent through OTT Apps in 2014 are expected to number 50 billion compared to 21 billion telephone texts messages, with a significant impact on operator revenues.

Particular attention is focused on the Italian market, where Italtel derives approx. 60% of its revenues. The total value of this market was Euro 36 billion, reducing 6.5% on 2012, with a series of significant reductions seen also

[1] Figures from the "CISCO Video Networking Index 2013" annual report.

in the preceding years. In the telecommunications markets, the fixed services report volumes of Euro 12.7 billion, reducing 6.4%, with mobile network services reporting volumes of Euro 15.1 billion, decreasing 8.8%, with systems and terminals reporting Euro 4.9 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 2013 were:

- Fixed lines numbered 21.1 million, decreasing 2.3% compared to 2012. The market share of incumbent operators totalled 63.4%. The operators on the mobile market are: Telecom Italia, Wind, Vodafone, Fastweb, Tiscali and BT.
- The slow growth of broadband access, which reached 13.9 million (+1.9% compared to 2012). Incumbent market share reduced to 49.7%.
- Mobile access reduced, with 92.3 million SIM's, of which 5.2 million belonging to Mobile Virtual Operators. There are 4 operators on the mobile market: TIM, Vodafone, Wind and H3G.
- The significant increase in mobile broadband access, which now number 37 million - thanks to the runaway success of smartphones (growth of 25%).

The Information Technology (IT) and digital media markets operate alongside the telecommunications (TLC) market. These three markets have seen increased cross-pollination, leading to the creation of an integrated Digital market. In Italy, the overall digital market in 2013 was worth Euro 65 billion (-4.2%). The inexorable decline of the IT market, together with the telecommunications market and in place for a number of years, continues - with a total value in 2013 of Euro 16 billion (-5.8%).

A focus on the global digital market will be crucial for the positioning of Italtel in the coming years. The world is changing and is changing fast. It is increasingly driven by mobility. Today mobile technology follows us, assists us and entertains us wherever we go. This creates increasing broadband and ultra-broadband network demand. The speed with which the technological infrastructure can adjust will be crucial for the development of new commercial offers, for the satisfaction of client needs and for growth of the overall Italian economy.

## *Domestic market – Telecom Italia Domestic*

The telecommunications ICT and Information Technology market, as outlined above, in Italy in 2013 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.

For the client Telecom Italia Domestic, despite heightened competition levels, commercial development together with a significant backlog at the beginning of the year (generated by the noted supply problems in 2012), resulted in revenue growth on 2012 of approx. 21% for total revenues of Euro 108.1 million.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2013 the following innovative projects were implemented:

- Introduction of new products for the development of IP-TDM functionality (*Netmatch-M*) and for IT switching for business market services (*Netmatch S*)
- The beginning of the validation process for the development of the Network Function Virtualisation (NFV) functionality relating to the interconnection and transit layer (*i-MCS*)
- Development of innovative Network Management projects for the simplification of the OSS network layer
- Implementation of the VoIP project for the Telecom Italia Group, based on the state of the art Unified Communication and Collaboration CISCO technology solutions
- Commencement of the MULTIVENDOR Network Maintenance project dedicated to Telecom Italia for technical support and repair of all network elements
- Development of new projects for the Network Service Quality measure based on the QoE (Quality of Experience) and Network Analytics
- 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

## *Domestic market – Other Telecommunications Operators*

In 2013, the ICT market saw a further drop in operator investment, highlighted by the reduction in Total Cost of Ownership of infrastructure and significant competition in the IP networks and IT System Integration areas, which also significantly impacted the OLO segment.
However, the client commercial development activities introduced during the year offset the revenue reduction, through the proposal of new solutions in innovative areas and the confirmation of the System Integration role with important projects within the IP multi-service networks based on Cisco technology.

Italtel, as a leading partner in the development and transformation towards "full IP multi-service networks" for all market segments (Consumer, Business and Top Client) achieved a significant goal, qualifying for IMS solutions for the Vodafone Group.
Fastweb also took up the *NetMatch-S* product for IP interconnection between operators, as did Vodafone - also for IP management - with Enterprises.

The following solutions for residential/business clients are highlighted: the awarding of the "Full MVNO" project for BT Italia, which enabled the operator to offer mobile services to clients at more competitive prices and the offer to Clouditalia on the MCS platform for VoIP services with software implemented at data centres in a virtualised environment.

Italtel also continued to provide high added value professional services in support of clients through the transformation process of networks and in support of the Quality of Service/Experience (QoS/E) monitoring, both through voice and video connection, completing and integrating the engineering, consultancy and network support activities.

## *Domestic market – Enterprise and Public Sector*

In 2013, the overall Italian ICT market (services and products for information and communication technologies, network infrastructure and digital content) saw an even greater contraction than 2012.
Despite this, Italtel in the Enterprise & Public Sector segment reported revenue growth of 31% (Enterprise +41% and Public Sector +20%) compared to 2012 and improved its competitive positioning, thanks to the strengthening of the direct sales model (+63%), the promotion and sale of proprietary products, in particular *NetMatch-S*, and the development of capacities and specialist capabilities as a System Integrator within fixed and wireless networks, unified communication and collaboration and consolidation and virtualisation of data centres.
In particular, in relation to the *NetMatch-S* proprietary product which addresses the functionality of Enterprise Session Border Controller to ensure interoperability between multivendor IP communication technologies (Cisco, Microsoft Lync, Avaya, Siemens etc.) and Sip Trunking connectivity with operators, we highlight the following successes: ENI (interoperability between differing technologies, Sip Trunking within a functional development of software which includes also the i-MCS proprietary products), Enel (for the unified communication and inter-functionality audio solutions), Fiat (for the inter-functionality solution between Microsoft Lync solution and the legacy environment) and Banco Popolare (inter-functionality and Sip Trunking).
*NetMatch-S* has enabled Italtel to join important banking, manufacturing and public sector tenders and to establish closer contact with clients and prospective clients such as Techint, Pirelli, RCS, Ferrovie, Terna, GSE, MPS, Marcegaglia, Sky Italia and Unicredit in the Enterprise segment and Bank of Italy, INAIL, Friuli Venezia Giulia Region, Consip and Lepida in the Public sector environment.
In 2013, further development was achieved within the digitalisation of the Public Administration and the Digital Agenda, with a significant focus on the Public Connectivity System, on the restructuring/consolidation of the Data Centres, on the Healthcare sector and on Cloud Computing initiatives.
With the client Poste, Italtel consolidated the "framework agreement" activities and was awarded the Digital Signage tender, based on Cisco technology, for the distribution of the videos in the equipped corners of post offices. In the Energy sector, the network design and testing of products for the Smart Grid architecture was significant, in addition to the acquisition of important clients such as Terna for the Telecontrollo network infrastructure and the Network Operation Centre services and GSE for the Security infrastructure based on Cisco technology. In the Defence and Military sector, in continuity with the projects introduced in recent years

concerning the creation of the Army data centres and the RIFON network, we highlight the network development for NATO and the consolidation of the data centres, the beginning of the consultancy activities for the network audit and the completion of the unified email project based on Microsoft technology.

## *EMEA Market*

In 2013 Italtel offset the reduced investment of operators through introducing higher margin solutions and focusing on large groups (Vodafone, Orange, Telefonica). Also the IP solutions network integration, video, data centre and Unified Communication activities received a significant boost in selected markets.
With regard to the Vodafone Group, in Germany the awarding of an important transformation and migration project of the entire Italtel VoIP network to a solution based on two data centres and virtualised on the MCS platform and preparing the way for, in accordance with the strategies and needs of the Vodafone Group, the development of the "*Telco over Cloud*".
Two other projects are also highlighted, also based on the virtualised MCS platform, concerning those of the network of the French operator SFR and the Polish operator Exatel for the replacement of traditional voice centres.
These significant results allow Italtel to be considered as an absolute value player for the development of operator networks towards networks based on data centres and virtualised - which now represents a significant growth market.
The Orange Group continued to increase overall Italtel VoIP network capacity and added new important services.
In Spain, for Telefonica significant expansion was implemented both on the Unified Communication & Collaboration platforms and on the IP backbones and for video solutions. Also here, as in Vodafone, an accreditation process of the IMS solutions included in the Session Border Controller for the IP interconnection between operators and the management of Enterprises/Public Sector traffic began. The first tender for the *NetMatch-S* products with the ONO operator was received in Spain.
The success of the MANTRA project of Belgacom was also significant, in which Italtel operates as a System Integrator for the transformation of the traditional PSTN (Plain Old Telephone Services) network to the Broadband and Ultra Broadband network. The project has a 5 year duration and will result in the standing down of 1,000 telephone exchanges currently present on the Belgacom network.

## *LATAM Market*

In 2013, the Italtel Group in the LATAM region confirmed and grew 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.
During the year, the following significant changes took place in the region: the operation and control of the financials was significantly improved, also through transferring to the individual companies the management of commercial orders and with the management team refreshed, appointing new figures principally focused on the achievement of the Plan objectives. 2013 revenues reached Euro 119.5 million, growth of 28.2% compared to 2012.

In Brazil, for the client Tim Brasil, Italtel completed an upgrade of the IP backbone with the introduction of high capacity new generation equipment and agreed the development lines of NGN infrastructure, enabling the deployment of new software releases and the inclusion of new solutions in the Italtel catalogue. In addition, the Group, thanks to its recognised capacity as a Global System Integrator began the creation of a Unified Communications solution for internal use. In relation to the professional services area, Italtel significantly increased the level of activities and the presence in various market segments - from operations to network planning and to IT - due to the recognised know-how of TIM Brasil.

## Development and positioning of the Italtel offer: the Proprietary Products

In a market in which the offer of the OTT's and the telecommunication operators is still not well defined, during 2013 Italtel continued on the path, began in 2011, to completely innovate its **product** portfolio. The result can be summarised in the proposition and development of the following systems:

- **iMSC** (Italtel Multimedia Communication Suite) to carry out all the IMS 3GPP standard functions

- **iRPS** (Italtel Routing & Policy Server) to carry out the intelligent routing of traffic functions based on various communication protocols (new generation such as SIP and DIAMETER) and traditional
- **NetMatch**, to carry out the Session Border Controller, Border Gateway and Media Gateway functions
- **Embrace**, a new product created in 2013, based on the emerging WebRTC (Web Real Time Collaboration) standards, which provides high quality and low cost video and voice communication functions based on Web Browsers (Chrome, Mozilla and Opera currently) for consumer and business clients and integrates with IMS systems for interoperability with VoIP and VOLTE terminals.
- **iQAC** (Italtel Quality Access Controller) to allow the simulation of client behaviour on complex networks and the precise measurement of end to end perceived quality.
- **WeGate** system with the new generation Access Gateway (modem)

This configuration assists the construction of the Italtel offer pillars. In particular, confirming the attention and commitment to *NetMatch* and IMS, Italtel stepped up innovation, on new product proposals and new development paths, establishing a connection with the Over the top (OTT) operators with the above-stated launch of the new product line Embrace, which positions itself as a link between the TLC and the OTT worlds.
Embrace in fact marries the reliability and security features typical of the TLC world with the agility, speed and lightness of the OTT world.

The principal features of the telecommunications world are certainly the centrality of the extended Mobile concept - connectible anywhere, with any device, including the Bring Your Own Device concept as a personal tool within the workplace - the growing traffic data numbers, the explosion of video and the growth of the Cloud services offered. Market development, now unstoppably moving towards a global All IP environment, focused further on the IP interconnection aspect both between Service Providers and between SP and OTT. This has significantly driven network flexibility, governability in terms of centralised control (Software Defined Network) and the adoption of an open network model ready to accept or remove functions according to need (Network Function Virtualization).
A further development concerns the Network Servicing Chaining (NSC) issue, which on the back of the new SDN and NFV architecture, represents the logical development of service supply means. In summary, NSC represents the possibility to provide "continuous mode" services, based on virtualised network functions, without discontinuity of service (carrier grade).

The principal developments on the previous year concern:

**1. Focus of the offer layers on individual propositions (Service Layer and Border Layer)**

**Service Layer** → Italtel added to the "IMS Core Control classic" a centralised routing element between various networks, with multifunctional modality, from proxy intelligent network node to third party nodes to enable value added services or, alternatively, permit operation within the OTT world. The offer concerns the following products:

- iMCS – IMS Core and Transit to be fully fixed and mobile compliant
- iTDS - Companion product in the IMS Core and Transit environment
- iRPS - Intelligent routing in line with the network softwarisation trend
- iMCS/iSSW - Softswitch suppliers in the NGN environment
- iNEM - Companion product in the IMS Core and Transit environment

**iMCS** is the principal link in the fixed and the mobile network environment, where fixed and mobile networks are converging towards complete IP-IP interconnection. In the IMS environment, the product establishes strict interaction with i-TDS, as a possibility to offer coupled IMS-HSS for fixed use and Voice over LTE (VoLTE). The LTE issue was handled with the distribution of i-MCS on Top of the LTE access, capable of offering Voice over LTE services such as MMTel, VCC, eSRVCC and IMS service continuity. The system allows gradual migration from VoIP to IMS and the offer of new video capabilities in the HDVC environment and VideoHub solutions. It offers high scalability and at the same time integrated solutions, moving from the Service Providers T3 to Service Providers T1, with an "in-a-box" Network Element offer or with separate Network Elements (e.g. C5 and C4). The type of users supported vary from pure IMS users, comprising fixed users or nomadic/VOLTE users, to nomadic/mobile users up to SIP Business Trunking for PABX, existing IP-PBX. All this allowed for the possibility to offer a range of solutions from IMS Core and Voice over LTE (I/S-CSCF, HSS; TAS) to the centralised HSS node through i-TDS, to IMS IP-IP Interconnection (IBCF/BGCF, Border GW), all based on

COTS HW and Vmware Hypervisor. The ATCA platforms or the hybrid virtualised ATCA configuration are also available.  In the NGN environment, iMCS through a single product covers various configurations to respond to the full range of client demands. The TDM–IP interoperability guarantees the availability of a wide range of solutions.  Firstly, it allows for a gradual shift from TDM to full VoIP and prepares the ground the introduction of IMS and supports differing networks with different user types and a high level of customisation.

**iRPS** is a distinctive feature of the Italtel offer, comprising a system which can determine the optimal routing for any interconnection route between various networks. It certainly completes the NNI solutions offer. It can also exercise controller functionality of DPI enabled products and can play a significant role in the softwarisation process of networks in line with SDN usage strategies. The principal features available are the Centralised Routing & Policy control logics, the centralised management of services (Number Portability, Call  Screening and Translations), can underpin Service Brokering activities, allowing the possibility to develop towards the interpretation of differing roles ranging from Media Resource Broker to SIP session broker, to ENUM server and Policy manager.

**Border Layer** → based on the NetMatch system and in a number of versions (S, B, M, D), which underpins the new telecommunication networks integration strategy in the development towards "all IP" networks and which in 2013 received an important recognition with inclusion in the Magic Quadrant for Session Border Controllers of Gartner of the NetMatch-S product.

- *NetMatch-S* → Session Border Controller to become the IP-IP interconnection leader
- *NetMatch-B* →Border Gateway to become the IP-IP interconnection leader
- *NetMatch-M* → Media&Signalling GW to tap into market opportunities (replacement,..)
- *NetMatch-D* → Diameter routing server for the development of the mobile networks towards LTE
- iNEM →Companion products within the IP interconnection context
- WEGate → Access Gateway

**NetMatch-S** is central to the Italtel product offer and constitutes a multi-functional application offering QoS guaranteed network interconnection for a gradual migration to full IP, capable of supporting voice and HD video. It can also support HDVC, Video HUB and WEBRTC.  Product availability is guaranteed on various hardware platforms, beginning with the carrier grade ATCA/COTS platforms towards virtual platform elements. Flexible, with linear scalability, a complete high reliability system and with load balancing embedded algorithms. Within the network adaptor activities, capable of carrying out SIP/SIP-I manipulation, NAT/NAT-PT, Audio/Video Transcoding, Transrating and Transizing, IPv4/IPv6 interworking and Media Termination Function actions. The Operation & Maintenance functionality is presented with WEB (GUI) interfaces, with complete FCAPS coverage, the availability of a flexible tracing function and the management of Rf events for CDR production. The Load Balancing activities, the Traffic policy management, the offer of an embedded Internal RPF, the Bandwidth management and Call Admission Control ensure the excellence of this product. The security and standard compliance aspects complete the picture.

**NetMatch-B/M** comprises a product line based on the H.248 control and may be presented as a media Gateway or a Border Gateway or alternatively as a Transcoding Unit for interoperability on the user plan. This product type allows for the gradual migration from a TDF scenario to full IP interconnection, not requiring a significant investment in replacement of the installed capability. The flexible transition from TDM <-> IP to IP <-> IP for interconnection networks allows for important replacements of investments within the network interconnection. The product is also capable of Centralised Audio Transcoding Unit functionality, in order to optimise the use of network and Video-adaptation environment resources for the Enterprise market. The product has "all in one" capabilities, offering Media Gateway/Signalling Gateway and Border Gateway functionality, with differing deployment models, from 2 slots for MGW and BGW to 14 slots as is the case for Media gateway.

2. **Introduction of the "companion product" concept, limited to a number of product lines (for →iNEM management and for →iTDS profile management), where business development has resulted in Italtel disengaging from a standalone proposition line, utilising instead the manner of supply as an element associated to the principal product of the sales line.**

3. **Definition of the development lines based essentially on VOLTE, VIDEO and WEBRTC (Embrace).**

The solution focused on satisfying VoLTE demands provides for an architecture in which the TAS application service (part of the i-MCS Framework product) adopts the typical Infrastructure to Service (IaaS) concept, with a model which is distributed in a virtualised manner through VMware Hypervisor. The TAS application server is aligned with the 3GPP and ETSI/TISPAN MMTEL standards and supplies the simulation of the PSTN services. TAS provides in addition for the integration of a media Server capable of carrying out services related to media management (conferences,..) TAS is compliant with IR.92 (IMS profile for voice and SMS) GSMA, and supplies voice services to IMS over LTE users.

The video conference issue was clearly addressed to overcome the classic difficulties such as a lack of interoperability, high solution complexity and high exercise cost. In relation to video, attention was focused on the interoperability of the various HD video communication sources, sponsored by an open group comprising a number of operators. Italtel, through the Video Hub proposes a flexible solution which enables interoperability between differing video domains based on differing technologies.

Real Time Communication is becoming a pervasive issue on the Internet. Italtel is responding to this trend, through the offer of a WEBRTC AS, through the ***Embrace*** product line which best responds to the discontinuity between TLC and OTT. In fact, the Real Time Communication world marries perfectly with the web, where the web speed industry allows for the implementation of audio/video communication with an integrated stack in the browser, without the need for prior installation. This allows for the transformation of the PC into a voice and video communication platform. Essentially, WEBRTC allows for the operation of audio, video, chat and other calls through a Personal Computer which becomes an enabling platform without the need for the prior installation of any plug-in.

## Development and positioning of the Italtel offer: Professional Services and System Integration

During 2013 Italtel continued to innovate and extend its catalogue of Telecommunications and Information Technology solutions, combining its own products with third party products and a range of high quality Professional Services.
As in 2012, the offer has been structured according to guidelines, which correspond to the **Competence Centres**, characterised by the most advanced specialist skills (confirmed by a wealth of Certifications), a number of **test plant**, in which solutions can be tested and consolidated to guarantee quick and effective deployment on the client architecture and, finally, a number of **software tools** which enrich and complete the standard market systems integrated by Italtel.
Italtel operates through a multitude of technologies, from Data Center network infrastructure, Unified Communications & Collaboration systems to Management and Control instruments, providing clients with all the specialised and engineering support necessary to design and implement solutions.

In particular, the Solution and Services offer in 2013 was deployed throughout the areas covered by the following Competence Centers:

**"IP NGN, Mobile and Optical" Competence Center**

Italtel implemented IP networks of all scales and dimensions, beginning principally with the Cisco catalogue, which includes multi-service equipment with Layer2/Layer3 (routing and switching) functionality for all network hierarchy levels (access, aggregation, core). The development of Operator networks is increasingly guided by IP network integration with the optic level. In 2013 Italtel began to develop promising innovations relating to the programability of networks, whose new paradigms introduce intelligence and flexibility to the traditional infrastructure, permitting the creation of a multitude of new services. The characteristic elements of the SDN (Software Defined Network) architecture are integrated in the Italtel vision, with quality control instruments to allow networks to dynamically adapt to the requirements of the applications and to traffic conditions.

In 2013, drawing on extensive experience in the management of multivendor IP networks, Italtel developed iNES (Italtel Network Empowerment System), an instrument which improves network manageability, simplifying and automating operative activities, supporting troubleshooting and enabling proactive network care processes. The Wi-Fi networks are becoming the principal networks of all enterprises and the key to implement effective strategies to improve competitivity. The convergent wired/wireless architecture is the heart of the Italtel network offer for businesses. Through a multivendor approach, Italtel can support, in addition, mobile operators amid the complex challenges of the competitive environment, such as the noted phenomenon of "traffic which grows quicker than revenues" and network congestion. Technically, the response to market demands centres on the efficiency of the IP backhaul, the radio coverage planning (externally rather than internally) with small cells (low consumption radio base stations and Wi-Fi access points), on the LTE (Long Term Evolution) technology for EPC (Evolved Packet Core), as an enabling factor for the management of the service according to appropriate policies and on the offer of services in real time.

**"Multimedia Communication & Collaboration" Competence Center**

Thanks to its proprietary products and an extensive multivendor catalogue, Italtel supports business in improving competitivity with the most advanced Communication and Collaboration tools available. The architecture founded on IP-PBX allows for the provision, together with voice, of other advanced Collaboration services, such as video communication. The voice/video end-points proposed by Italtel range from Immersive (TelePresence) to personal devices; mobile use of the service is enabled. The HD Video infrastructure enables also consultancy and distance support services. Video recording can become a company document which can be edited and shared. The Digital Signage solutions allow finally for the creation and dynamic publication of digital content on monitors, displays, interactive windows and multimedia kiosks.
In 2013 Italtel developed a multi-technology Collaboration solution which combines, according to market needs, the best components of each vendor, with particular regard to the IP-PBX of Cisco (Communications Manager) and the Microsoft Lync client, thanks to the mediation and trans-codifications functions implemented by the Italtel *NetMatch-S* product, which also plays the role of Session Border Controller, or an interface between the company network and that of the Operator in the SIP trunk connection.
The implementation for Telefonica Global Solutions in Spain and Brazil of two Cisco HCS (Hosted Collaboration Solution) solutions was a significant result in 2013, allowing for the provision of advanced Collaboration services in a Cloud environment. Since 2013 Italtel has been Microsoft's Certified Partner with Gold accreditation for Unified Communications and PSLP (Premier Support for Lync Partners) and Silver for Web Development.

**"Data Center" Competence Center**

During the year, Italtel stepped up its Data Center activities. A fundamental factor for the implementation of the new and more efficient IT services, eventually on the Cloud, concerns the correct implementation of a Next Generation Data Centre (NGDC), which guarantees services and high flexibility and which is highly integrated with the underlying IP infrastructure. The principal components of a new generation Data Centre, computing, storage and networking, define an intrinsically multivendor architecture, which must be optimised for virtualisation. A unified management of all components completes the architecture and allows for the control of resource allocation, of operating activities and of provisioning.

In July 2013, Italtel, the leading Italian Cisco partner and among the European leaders, achieved "Master Cloud Builder" certification, which confirms the high level reached in the design and implementation of NGDC infrastructure with Cisco ecosystem technologies, allowing for the proposal to clients as an ideal partner for the implementation of Cloud-ready architecture.
Italtel in addition has been actively involved in the expansion of the Data Center of the Italian Army. Finally, a close partnership was established with SAS to implement network analytics solutions which respond to the well established "Big Data" market trend.

**"Security" Competence Centre**

Beginning with a multivendor approach, Italtel operates both in the physical security and network security environments. The physical security solutions include: systems for access control, video surveillance and IP telecamera systems. In addition, it is possible to integrate the radio communication systems utilised at military level (P25/TETRA) with VoIP systems and with the PSTN network. The network security solutions (LAN/WAN) and applications include: next generation firewall and IPS (Intrusion Prevention Systems), advanced malware protection, email and web security, Network Admission Control (NAC) and Identity Services, VPN, Unified Threat Management (UTM) and Cyber Threat Defense.

**"OSS: Network, Traffic, Quality Management" Competence Center**

In 2013 the Italtel offer in this environment was renewed and refocused, bringing to the market capacity in all areas of the eTOM model, which is the reference point for Telecommunications Operators. Tools development and the integration of market standard components are managed by Italtel within the Assurance, Provisioning, Inventory, Mediation, Business Intelligence and Data Warehousing environments.

Italtel developed iQAC (Italtel Quality Assurance Centre), an instrument which evaluates the experience of the service final users. Stimulating the network through active agents, iQAC acquires information on the state and the level of the perceived service quality. The simulation of traffic favours a proactive approach in the recognition of any reduction in service quality, minimising therefore interruption. iQAC was acquired and utilised for differing purposes by all the principal Italian Service Providers.
Finally, IMA (Intelligent Monitoring Application) allows for the measurement and correlation of quality data (QoS data collated by the networks and QoE data of the applications), in order to enable the dynamic reconfiguration of the intelligent networks (founded on SDN paradigms) based on the traffic conditions.

**"Network Decommissioning" Competence Centers**

The acquisition of the MANTRA contract at Belgacom and the continued and extensive analysis in 2013 within the decommissioning project of Telecom Italia enabled for the focusing of a group of specialised skills on the traditional telephone network transformation into All IP network projects. This specialisation assists Operators in the process, which no longer may be postponed, of client migration for fixed telephone from switching centres and in the medium-term also of 2G and 3G mobile telephone to the new "All IP" Ultra Broadband networks. The automatic tools for the migration of the data of the client profiles, the coordination of the field plant activities, the engineering necessary to disengage plant and recover and release entire buildings, often centrally located in the principal cities, ensure that Decommissioning is a complex and highly specialised activity. For the Telecommunications Operators, this activity is central to establish in the medium-long-term a more streamlined cost position and therefore more competitive than currently is the case.

**Multivendor Network Maintenance Competence Center**

Through the provision of a complete set of professional services, from consultancy to design, from engineering to implementation, from management to optimisation, Italtel can design, implement and maintain telecommunication and IT solutions. The managed service area activities were particularly significant, in which in 2013 the network care and operation offer was consolidated, with strong results based on approx. 40 Domestic and international clients and a benchmark for future development, with the introduction of a network care Multivendor operation with Telecom Italia (agreement signed at the end of 2013).
Italtel supports operators and enterprises in finding the correct response to their needs, thanks to consultancy, assessment, engineering and testing services; clients are assisted in finding the best possible technological choices (demonstrating the ROI of the initiatives), designing scalable architecture, tracking minimal impact migration plans and providing knowledge and technological training. In addition, the company can successfully support certification processes for interconnection between operators and between operators and businesses.
In relation to the implementation of projects, Italtel can provide high quality implementation services, drawing on its ability to introduce multi-technology solutions and create the relative facilities.
Finally, Italtel can handle the operating activities for network and IT solutions, providing the necessary technical support at every level, optimising solutions and testing and improving the Quality of Experience (QoE). The Network Operation Centres (NOC) and Security Operation Centres (SOC) are important assets in support of the outsourced Managed Services.

# Development and Innovation

## European projects

In 2013 Italtel conducted industrial research and development through collaborative projects within the Seventh Framework Programme – Cooperation – of the European Union, in the iCT (Information & Communication Technologies) area.

In this environment, in 2013 the ANIKETOS IP (Integrating Project) was carried out, coordinated by the SINTEF research centre in collaboration with 16 international partners, in order to define and implement on a prototype level an ICT platform for the secure composition of services, of the Mobile Cloud Network IP project coordinated by SAP AG in collaboration with 18 partners, for the architectural development of the mobile network through the virtualisation of core TLC network functionalities according to Cloud Computing paradigms.

In 2013, Italtel presented, in collaboration with other industrial partners and European research institutes, the T-NOVA project, coordinated by the Demokritos research centre, achieving approval and a contract with the European Union. The objective of the project is to promote and implement at prototypal level the concept of virtualisation of functionality in a TLC network (NFV – Network Function Virtualization), therefore the migration of a number of functions, traditionally carried out by hardware elements, on virtualised infrastructure, according to the NFaaS paradigm (Network Functions as a Service). T-NOVA will begin at the start of 2014.

## Subsidised loans and grants for Development and Innovation

In 2013 income of Euro 6,517 thousand was recognised to the Income Statement in this regard. Grants amounted to Euro 2,916 thousand, while Euro 572 thousand of subsidised loans were received.

The 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 Min. Decree 593/2000;
- Rotating Fund - Ministry for Economic Development Technological Innovation Fund, established by Law 46/82;
- EFRD: European Fund for Regional Development;
- Fund for Competitivity and for the Development of Industrial Innovation technology areas; Energy Efficiency, Sustainable Mobility and Made in Italy;
- Enacting Regulation of the European Commission on the Seventh Framework Programme.

In 2013 the assessment and provision activities of the SURE project concluded (Ultra Wideband centres for Risk Management in the e-health field), financed by the Lombardy Region and developed in collaboration with the University of Milan and other Lombardy enterprises and the assessment of the CAMP (Context Aware Mobility Platform) project continued, of which Italtel is the coordinator and which comes within the scope of the "Sustainable Mobility" initiatives in the Industry 2015 programme.

During 2013, the activities concerning the various national projects already introduced or carried out in previous years continued. In particular, with regard to MIUR PON_04 for the 2007-2013 period, we highlight those concerning the i-NEXT (Smart Mobility and Smart Grid areas) and Cluster OSDH-SmartFSE-Staywell projects (Smart Health area). Also in relation to MIUR PON_02 the activities of the ENERGETIC (Technologies for Energy and Energy Efficiency) and HIPPOCRATES projects (Development of Micro and Nano-technologies and Advanced Systems for health) continued, through collaboration with the Sicilian Micro and Nano Systems Technology Cluster.

In the fourth quarter of 2013, the SIS (OSS/BSS/DSS Integrated Solutions Oriented to Services) projects, whose activities concluded in 2005 and PA-IMS (Access Platform – IP Multimedia Subsystem), whose activities concluded in 2009, received the Concession Decree from the Ministry for Economic Development.

During the year Invitalia, on the mandate of the Ministry for Economic Development, concluded the investigative phase and definitively approved the Telecom Italia & Italtel Development Contract and in November 2013 signed the relative financing contract.

In addition, the Decision Theatre project (in the Cloud Computing area), presented in 2012 in response to the MIUR SCN (National Smart Cities) tender was awarded grant funding. Decision Theatre will begin at the start of 2014.

In response to the MIUR Tender for the creation of "Public-Private Laboratories and Technological Clusters", within the new public-private partnership called Si-Lab (Service Innovation Laboratory) the executive SERVIFY (SERVIce FirstlY) project was presented for the development of models, of instruments and of open innovation initiatives and of ICT services, specifically in relation to "ubiquituum" services.

In line with the MIUR "Start-Up" notice of the Action and Cohesion Plan, the Bigger Data project was presented, coordinated by Italtel. The project was granted funding and activities will begin in 2014.

In response to the national and regional tenders, in 2013 Italtel also presented new project proposals:

- On the basis of the "Development Contracts" instrument of the Ministry for Economic Development, at the end of 2013 an access request was presented for a new joint Telecom Italia & Italtel project called "Ultra Broad Band" with the objective to provide ultra-broadband in the convergence regions (Campania, Puglia, Calabria and Sicily).
- Regionally, Italtel, in collaboration with 5 partners, participated in the POR FESR Lombardy Region tender for the implementation of projects in the Smart Cities and Communication sector, with the presentation of the SSENSO project, for the development of a context aware platform prototype for regional security services.
- For the Sicily Region Tender of August 2013, Italtel presented the proposal for a sector Regulatory Agreement called "Future Internet 2.0 Innovation Lab".

In 2013, public funds were again insufficient to support the tax break mechanism on costs incurred for research and development.

# Corporate governance and social responsibility

## Board of Directors

In line with the Restructuring Agreement and the adoption, following the Extraordinary Shareholders' Meetings of Italtel S.p.A. and Italtel Group S.p.A. in March 2013, of a new version of the by-laws, a number of modifications were introduced, including – inter alia - the composition and functioning of the Board of Directors, which entered into force with the appointment of the Board currently in office.

The Board of Directors of Italtel Group S.p.A., in office until the approval of the 2015 Annual Accounts, comprises three Directors, including the Chairman, also non-shareholders.

The Board of Directors of the principal subsidiary Italtel S.p.A., in office until the approval of the 2015 Annual Accounts, is comprised of five Directors.
In accordance with the by-laws of Italtel S.p.A. (Article 26.6), the Directors appointed by the SFP shareholders and another member of the Board of Directors of Italtel S.p.A. must possess the independence and professional standing requirements. The declaration concerning the holding of the necessary requirements was provided by, in addition to the two Directors designated by the SFP shareholders, by two other members (CEO and COO, with executive duties) of the Board of Directors.

The company is exclusively managed by the Directors, who carry out the necessary operations to achieve the corporate objects.
The Chairman, with the - non-executive - powers established by law and the by-laws, in addition to the Chief Executive Officer, separately may execute signature and legal representation with third parties and within legal fora.

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.

## 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:

(Euro thousands)

| | **2013** | **2012** |
|---|---|---|
| Directors [1] | 770 | 1,012 |
| Statutory Auditors | 118 | 128 |

[1] For Directors sitting on internal consultative committees, set up by Italtel S.p.A., the Board of Directors, meeting on January 20, 2014, approved a fee of Euro 10,000 for each financial year for the office of Chairman of the Committee for Internal Control and appointed the Chairman of the Board of Directors as a member of the Committee for Internal Control and the Remuneration Committee, in addition to the role of Chairman of the Board, whose fee, for such offices, is included in the remuneration approved in the same meeting for the role of Chairman of the Board of Directors.

## Committees

Within the debt restructuring operation which involved, in addition to the adoption of a new by-law, also governance amendments, the technical and/or consultative Committees previously set up within the Board of Italtel Group S.p.A. lapsed as no longer provided for within the Company, following the conclusion of mandate in 2013 of the pre-existing Board of Directors.

The principal activities carried out by the Special Committees are outlined below, as set-up following the re-financing and the entry into force of the new governance at the principal subsidiary Italtel S.p.A..

### *Special Committees*

The technical and/or consultative committees currently in office are the Internal Control Committee and the Remuneration Committee (both are already set up at Italtel Group S.p.A.). These committees, together with the Sales Committee, currently not yet set up, are established by Article 31.2 of the By-Laws of the subsidiary Italtel S.p.A. (also by the Class "A" Equity Instruments Regulation).

## *The Internal Control Committee*

In the absence of the Regulation (of the class A EFI) on the composition of the Internal Control Committee, the Board of Directors of Italtel S.p.A. on the (new) establishment of the Committees by the company fixed the number of members as three.

During the year, the Internal Control Committee (previously the Audit Committee) met periodically, approving the Audit plan for 2014 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 Committee comprises three members (two Directors designated by Italtel Group S.p.A. and one Director designated by the EFI A shareholders) and has the duty to communicate to the Board of the subsidiary Italtel S.p.A. its non-binding opinion on the remuneration of Directors of the Company with particular roles and of top managers. The Remuneration Committee was established at the subsidiary, subsequent to the appointment of the current Board of Directors during the year and has not yet held a meeting.

## Management and Control organisational model

During 2013 the Model adopted by the Company for the prevention of the offenses established by Legislative Decree 231/2001 was updated. The amended and updated Model, in its seventh version, was approved through Italtel S.p.A. Board of Directors motion of November 15, 2013.
The updates concerned:

- amendment in line with the regulations introduced in 2012 which introduced to Legislative Decree 231/2001 the following offenses:
- employment of illegal aliens,
- undue influence or accessory offenses,
- corruption among individuals,
- and the amendments to a number of offenses with the Public Administration;
- introduction of a new Special Part "Employment of non-EU personnel with improper permission to reside";
- company organisational adjustments.

The training activity relating to Legislative Decree 231/2001 and the Organisation, Management and Control Model, was carried out through e-learning with two training models addressed to Italtel S.p.A. personnel operating in areas of potential risk for the Public Administration and information technology offenses.
The personnel disclosure activities concerning Legislative Decree No. 231/2001, the Ethics Code and the Management and Control Organisational model continued through 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 intellectual property rights offences. The corporate departments impacted were:

- Transfer to the client of third party software products
- Management of corporate use third party software and corporate sites accessible by third parties

In 2013 the project concerning the extension of the Organisation, Management and Control Model principles of Italtel S.p.A. to the subsidiaries and foreign branches was undertaken. The project is broken down into two guidelines, according to whether in the countries in which the subsidiaries reside have a similar regulation as Legislative Decree 231/01 on legal person responsibility:

(i) definition of specific Models for Companies residing in foreign countries whose local legislation is similar to Legislative Decree 231/2001

(ii) definition of conduct guidelines for Companies residing in foreign countries whose local legislation is not similar to Legislative Decree 231/2001.

The Subsidiary Italtel SA (Spain), in collaboration with the Compliance Office of Italtel S.p.A. drew up its Corporate Compliance Programme under Ley Organica 5/2010, the Spanish regulation which governs the criminal responsibility of legal persons.

The prevention Principles and conduct Guidelines which personnel of the Italtel Group companies must follow to avoid committal, within the activities carried out, of the offenses established by Legislative Decree 231/2001 were drawn up, for which, at certain conditions, Italtel S.p.A. itself may be deemed responsible. These Principles and Guidelines, approved by the Board of Directors of Italtel S.p.A. on November 15, 2013, were sent to the Boards of Directors of each of the Italtel Group companies for circulation to all employees.

The Compliance Officer of Italtel S.p.A. provided regular updates to the Supervisory Board (comprising one external member with expertise in financial reporting and economic – financial matters, the Chairman of the Board of Statutory Auditors and the Internal Audit and Compliance Office Manager) and senior management concerning activities carried out for the introduction and supervision of the Model.
The Supervisory Board also:

- verified of the results of the information received periodically in accordance with Protocol 231;
- approved the Compliance Office activities for 2014 and the relative budget.

## Conflict of Interest Regulation

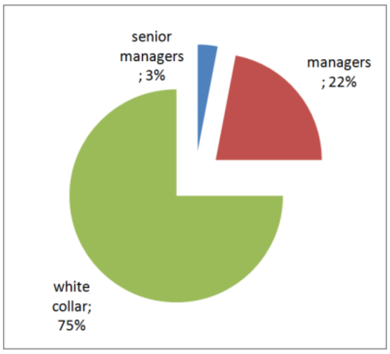
In 2013 the monitoring of cases of conflict of interest of Italtel Group personnel with legal representative powers and specific roles continued.

# Human resources, the environment and quality assurance

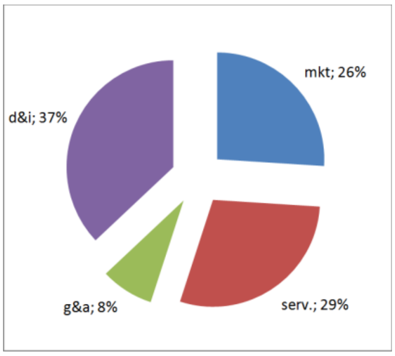
## Human resources

Italtel Group employees at December 31, 2013 numbered 1,628, of which 183 overseas (at December 31, 2012 numbering 1,720, of which 185 overseas). The new hires in the year numbered 40, of which 37 overseas, with 132 departures, of which 50 voluntary departures (in Italy 15 white-collar and 1 senior manager) and 80 under leaving incentives. The total indicated includes the hiring of a senior manager. There were 16 departing senior managers in the year; at 31/12/2013 senior managers in the workforce numbered 51. 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 (53%) possessed Degrees, while approx. 42% held Diplomas.

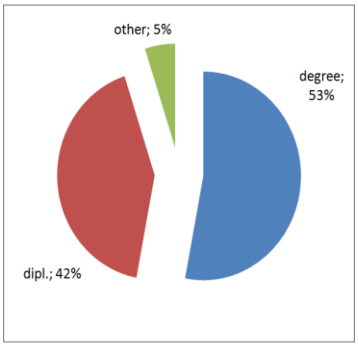
**Organisation BY CATEGORY 31/12/2013**




**Organisation BY DEPARTMENT 31/12/2013**




**Organisation BY QUALIFICATION 31/12/2013**




*The white collar workers include 3 persons employed as manual workers*

## Organisation

In 2013 the Italtel organisation consolidated around three clear areas: technological and operational assigned to two Product Units, the first of which – Smart Networks & Products – for the development and integration of proprietary "architecture" and the second – "Network & System Integration – for the offer of multi-vendor solutions and integration and delivery services; market assigned to two Market Regions dedicated respectively to the LATAM and EMEA areas; business support – Finance, Controlling, Procurement & Logistics, Human Resources, Organization & Communication, assigned to the Chief Operation Officer who joined the company in May of this year. In addition, within the commercial section a particular focus was dedicated to the strengthening and organisational development of the overseas subsidiaries.

### *Industrial relations*

In April, the second 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.

Through the Trade Union agreement signed with Assolombarda on January 17, 2013, the Extraordinary Temporary Lay-Off Scheme was further extended for the April 12, 2013 – April 11, 2014 period and concerned a maximum 270 employees with four monthly rotations of 60 employees. The Solidarity Contract was also used for 961 employees, with a reduction in average hours of 25%, also concluding on April 11, 2014.

The round tables with the Trade Unions to agree upon the management of excess personnel also in 2014 were held again in September with meetings with the Ministry for Economic Development and Assolombarda.

Following this, on January 22, 2014 an update to the memorandum was signed on November 22, 2012 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.

At the same Ministry, on January 25, 2014 an operating agreement was signed for the April-December 2014 period between Italtel and FIM-FIOM-UILM which establishes, until December 31, 2014, a Solidarity Contract for 800 employees, with an average reduction in hours of 17% and the extension of the Extraordinary Temporary Lay-Off Scheme for reorganisation, which will involve a maximum of 230 workers, with rotations of approx. 3 months for 80 individuals. In addition to these two instruments, the opening of a mobility procedure to structurally reduce redundancies was also provided for. A number of regulatory bodies were also reviewed and the related supplementary contract conditions, which were more favourable than the National Collective Labour Contract. The ratification of the agreements was fixed for March 28, 2014 at the Ministry of Labour and Social Policy.

### *Training*

In 2013 19,600 hours of training were provided with 2,117 participations and 135 training events of various types. The training activity focused on technological aspects concerning both the maintenance and further addition of Cisco certifications and the extension and consolidation of skills required for new partnerships (Microsoft, Juniper, EMC, Netapp). Virtualisation (VMware) skills were also the subject of training. For Management, the Ambrosetti Permanent updating course for first level managers continued and the partnership initiatives with the ELIS Consortium carried out under the Italtel presidency of the Consortium were extended. In particular, various managers took part in leadership, technological innovation and international expansion training courses. In this area, the inter-company project “ITALIA LAB” for the re-launch of innovative IT projects was drawn up and implemented. In relation to health and security training, an e-learning course on the basis of Legislative Decree 81/2008 which involved all Italtel employees was provided. In addition, a corporate plan with additional contribution for the professional retraining of employees in the Temporary Lay-Off Scheme was presented to Fondimpresa and approved. The Plan, which involves 90 workers, will be implemented in the first quarter of 2014. Also in 2013 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 and the Ongoing Training funds in the Lombardy Region and the Province of Milan.

## Environment and Health

Italtel’s commitment to Energy Management in order to ensure savings and the optimal use of energy continued, also through the commercial initiatives related to the introduction to the market of “Smart City” solutions. In particular: monitoring of consumption and relative corrective actions, automation of operating systems, education of personnel and the restructuring of the areas utilised are some examples of actions which permitted a significant reduction in electricity, methane gas and LPG procurement. The evaluation of health and security risks, conducted in partnership with the workers representatives, guarantees the control and minimisation of the risk factors. 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”. More particularly, in relation to health issues, the company health service provides general health and first aid services, in addition to the availability of a number of preventative interventions. Finally, the continued commitment to the environment and security issues was confirmed with the maintenance of ISO 14001 certification, attained first in 2001, within the Palermo-Carini district, a source of best practices utilised at corporate level.

## 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. This commitment continues through the ongoing renewal of the Quality Management System Certification to the ISO 9001 standard, which the Company has 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 Manufacturers of Electrical and Electronic equipment Register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment) in relation to the disposal of products at the end of their life cycle.

Great attention in fact has been focused on Customer needs, also through the carrying out of Customer Satisfaction campaigns, which periodically involve clients through interviews and which cover the entire ambit of the client – supplier relationship.

# Other events in the year

## Potential significant liabilities

### *Tax dispute in Italy*

Currently Italtel has a number of pending tax disputes which concern inspections by the Tax Agency - Lombardy Region - Office of Large contributions, in relation to the tax periods 2004, 2005, 2006 and 2007. The Agency principally contested in relation to IRES (i) the non-recharging of 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.

For the assessments relating to 2004 concerning IRES, IRAP and VAT, on November 6, 2012 the hearing took place before the Milan Provincial Tax Commission Section 22. On February 20, 2013 the Commission filed the relative judgments, both entirely in favour of Italtel, with expenses judged against the Agency. The Agency proposed an appeal before the Milan Regional Tax Commission against the above judgements. The company was requested to respond in court in accordance with law. The hearing has not yet been fixed.

In relation to the assessments for 2005 concerning IRES, IRAP and VAT, on November 6, 2013 the Milan Provincial Tax Commission filed judgment No. 242/22/2013 which fully accepted, after unifying them, the appeals presented by the Company. Currently the above-stated judgment has not yet been contested by the Agency.

For the assessments concerning 2006 relating to IRES, IRAP and VAT, on February 11, 2013 the hearing took place before the Milan Provincial Tax Commission Section 16. 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 concerning costs for services provided to Italtel S.p.A. both for IRES and for IRAP and VAT. On November 29, 2013 the Milan Regional Tax Commission filed judgment No. 195/12/2013, which fully accepted the appeal presented by the Company and consequently annulled the relative IRAP and VAT assessment. Currently the Agency has not yet presented an appeal against the above judgment. In relation to the judgment concerning the IRES assessment, the Company presented on October 9, 2013 an appeal against the first level decision. On October 14, 2013 the Agency in turn contested the sections in which judgment was against them. Currently, no date has been fixed for the relative hearing.

For the 2007 tax period, on November 6, 2013 the first level judgment, with judgment No. 240/22/2013, partially accepted, after unifying them, the appeals presented by the Company. In particular, the Milan Provincial Tax Commission judged as unfounded the tax recovery for IRES purposes of the non-recharging to Italtel Group shareholders of interest expenses and the tax recovery for IRES/IRAP/VAT purposes concerning the services provided by the foreign subsidiaries. The first level judgments rejected the appeals in relation to the minor issues (significant in terms of IRES and IRAP) for a recovery of the assessable amount of Euro 223 thousand.
Currently, neither the Company nor the Tax Agency have presented appeal against the decision.

On July 10, 2013, the Tax Agency issued an assessment against Italtel concerning the 2008-2009-2010 tax period.
The principal contestations of the assessment concern the more significant issues already contained in the assessments notified for previous years and described above.
Currently no tax assessment has been issued against the company concerning the tax periods subject to verification.
For these purposes, in accordance with Article 43 of Presidential Decree No. 600 of September 29, 1973 and Article 57 of Presidential Decree No. 633 of October 26, 1972 (as supplemented by Article 37, paragraphs 24

and 25 of Legislative Decree No. 223 of July 4, 2006), in the case of a violation which involves the obligation for a petition in accordance with Article 331 of the criminal code for offenses established under Legislative Decree No. 74 of March 10, 2000, the period for the declaration as per the previous articles is doubled.

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 Position

The present section reviews the income statement, balance sheet and financial position of the Group for 2013 and 2012.

## Income Statement

The reclassified income statement for 2013 and 2012 is reported below.

(thousands of Euro)

| | 2013 | 2012 | Changes |
|---|---|---|---|
| **Revenues from sales and services** | **374,187** | **331,394** | **42,793** |
| **Profitability after external costs** | **127,450** | **109,503** | **17,947** |
| *% of revenues* | *34.1%* | *33.0%* | |
| Personnel costs | (85,761) | (96,125) | 10,364 |
| Operating expenses | (32,722) | (24,377) | (8,345) |
| Operating grants | 6,517 | 873 | 5,644 |
| Capitalisation of Research & Development costs | 15,060 | 19,703 | (4,643) |
| Other costs and income | 1,928 | 1,217 | 711 |
| **Normalised EBITDA** | **32,472** | **10,794** | **21,678** |
| *% of revenues* | *8.7%* | *3.3%* | |
| Extraordinary personnel charges | (19,332) | (5,583) | (13,749) |
| Other charges and non-recurring income | (1,698) | 28,151 | (29,849) |
| **EBITDA** | **11,442** | **33,362** | **(21,920)** |
| *% of revenues* | *3.1%* | *10.1%* | |
| Depreciation, amortisation and write-downs | (25,798) | (31,844) | 6,046 |
| **EBIT** | **(14,356)** | **1,518** | **(15,874)** |
| Net financial charges | (11,721) | (18,783) | 7,062 |
| **Loss before taxes** | **(26,077)** | **(17,265)** | **(8,812)** |
| Income taxes | (6,629) | 5,102 | (11,731) |
| Discontinued operations profit/(loss) | (161) | - | (161) |
| **Net loss for the year** | **(32,867)** | **(12,163)** | **(20,704)** |

Revenues from sales and services in 2013 amounted to Euro 374,187 thousand, increasing overall by Euro 42,793 thousand (+12.9%) on 2012 (revenues of Euro 331,394 thousand).

In greater detail, revenues from Italian Operators (Telecom Italia and Other Italian operators) increased overall by Euro 10,950 thousand (+7.4%). Revenues from Telecom Italia amounted to Euro 108,052 thousand, compared to Euro 89,571 thousand in 2012 – an increase of Euro 18,481 thousand. Revenues from the Other Local Operators (OLO) amounted to Euro 51,265 thousand, compared to Euro 58,796 thousand in 2012 - decreasing Euro 7,531 thousand. This decrease is principally due to the fact that in 2012 revenues benefitted from a significant project with Cloud Italia (approx. Euro 7 million against Euro 1.2 million in 2013).

Revenues from Public Administration and Large Enterprises amounted to Euro 59,088 thousand, compared to Euro 45,019 thousand in 2012, growth of Euro 14,069 thousand (+31.3% compared to the previous year), following the acquisition of new clients and the increased competitivity of Italtel in this sector.

Overseas Operator revenues amounted to Euro 155,782 thousand, compared to Euro 138,008 thousand in 2012, with an increase of Euro 17,774 thousand (+12.9%). The percentage of total revenues, stable on 2012, was 41.6%.

EMEA revenues decreased from Euro 44,984 thousand in 2012 to Euro 36,381 thousand in 2013, reducing Euro 8,603 thousand (-19.1%), while in the Latam area revenues increased from Euro 93,024 thousand in 2012 to Euro 119,401 thousand in 2013, up Euro 26,377 thousand (+28.4%).
In the EMEA area, Italtel - despite the revenue reduction following 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.
In the Latam area, having overcome the financial crisis which caused problems in the sourcing of Cisco materials (the principal business area), a significant revenue increase was reported - particularly in Argentina and Brazil.

In relation to Overseas Operators, revenues from companies of the Telecom Group increased from Euro 43,217 thousand in 2012 to Euro 66,346 thousand in 2013 (+ Euro 23,129 thousand, +53.5%).

The Margin increased from 33.0% in 2012 to 34.1% in 2013, with profitability increases across all markets, but particularly in the OLO, EPS and EMEA markets and on all lines offered.

Personnel costs in 2013 totaled Euro 85,761 thousand compared to Euro 96,125 thousand in 2012, decreasing therefore by Euro 10,364 thousand (-10.8%). 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 2013.

Operating expenses in 2013 amount to Euro 32,722, compared to Euro 24,377 thousand in the previous year. The increase of Euro 8,345 thousand however was almost entirely related to the accounting effect of the derecognition of the Sale and Lease Back operation of the building at Castelletto – Settimo Milanese, with a consequent increase in costs recognised as operating expenses for the rental contract of the Castelletto Area (whose effect was equal to + Euro 8,294 thousand).

Operating grants from public bodies against research projects amounted to Euro 6,517 thousand, thanks to the positive conclusion of the Telecom Italia & Italtel development contract, compared to Euro 873 thousand in the previous year, during which the particular Italtel situation (restructuring process as per Article 182-*bis* of the bankruptcy law) resulted in a block on projects financed.

The above-stated effects of the increased margin, the containment of personnel costs and the increase in operating grants resulted in a normalised EBITDA of Euro 32,472 thousand (8.7% margin), tripling on the 2012 result which amounted to Euro 10,794 thousand (3.3% margin).

Restructuring charges (personnel costs, expenses and provisions) for Labour restructuring amounted to Euro 19,332 thousand in 2013 compared to Euro 5,583 thousand in 2012, due to the high number of subscriptions to the personnel incentive policy introduced by the company within the restructuring programme under the Industrial Plan.

The account Transaction costs & Other in 2013 totalled Euro 1,698 thousand and entirely concerns expenses for the refinancing operation, which amounted to Euro 3,977 thousand in the previous year. In 2012, in addition, this account, which was positive for Euro 28,151 thousand, included positive non-recurring items concerning the derecognition of the Castelletto – Settimo Milanese rental contract for Euro 22,817 thousand and Euro 10,000 thousand of income from Telecom Italia, in addition to charges of Euro 244 thousand.

After the above-stated items, operationally classified as non-recurring, the 2013 EBITDA amounted to Euro 11,442 thousand (margin of 3.1%), reducing Euro 21,920 thousand (-65.7%) compared to EBITDA of Euro 33,362 thousand in the previous year.

EBIT in 2013 reported a loss of Euro 14,356 thousand, compared to a profit of Euro 1,518 thousand in 2012 – decreasing therefore Euro 15,874 thousand after amortisation, depreciation and write-downs of Euro 25,798 thousand (Euro 31,844 thousand in 2012).

Net financial charges total Euro 11,721 thousand, compared to Euro 18,783 thousand in the previous year, improving by Euro 7,062 thousand (+37.6%).

Net exchange losses of Euro 4,636 thousand were reported in 2013 compared to gains of Euro 906 thousand in 2012.

Net interest charges decreased from Euro 16,337 thousand in 2012 to Euro 4,134 thousand in 2013. The improvement of Euro 12,203 thousand relates principally to the derecognition of the finance lease concerning Castelletto, with a consequent reduction in financial charges of Euro 7,820 thousand compared to 2012 and the reduction in bank interest charges for Euro 4,174 thousand following the refinancing process concluded in March 2013, with a consequent lower debt exposure, through the conversion operation of bank loans into equity financial instruments and an improvement to the reference rate.

Other net charges decreased from Euro 3,352 thousand in 2012 to Euro 2,951 thousand in 2013, improving Euro 401 thousand.

The Group pre-tax result reports a loss of Euro 26,077 thousand compared to the loss of Euro 17,265 thousand in 2012.

Income tax charges totaled Euro 6,629 thousand, while in the previous year amounting to tax income of Euro 5,102 thousand. In this regard, reference should be made to Note 13.

The net loss on discontinued operations totaled Euro 161 thousand and concerns the company Italtel Kenya Ltd in liquidation.

The 2013 Net Result reports a loss of Euro 32,867 thousand, compared with a loss in the previous year of Euro 12,163 thousand.

## Balance Sheet

The balance sheet at December 31, 2013 and 2012 is reported below.

(thousands of Euro)

| | 31/12/2013 | 31/12/2012[1] | Changes |
|---|---|---|---|
| **Non-current assets and liabilities:** | | | |
| + Goodwill | 167,215 | 167,215 | - |
| + Property, plant and machinery and other intangible assets | 45,876 | 52,460 | (6,584) |
| + Other assets | 7,138 | 7,894 | (756) |
| + Deferred tax assets | 81,145 | 80,935 | 210 |
| - Employee provisions | (26,207) | (28,202) | 1,995 |
| - Provision for contingencies and charges | (9,978) | (9,275) | (703) |
| - Other liabilities | (451) | (112) | (339) |
| **Non-current assets and liabilities** | **264,738** | **270,915** | **(6,177)** |
| **Working capital:** | | | |
| + Inventories | 28,898 | 32,941 | (4,043) |
| + Trade receivables | 119,974 | 96,867 | 23,107 |
| + Other receivables | 36,509 | 37,642 | (1,133) |
| + Assets held-for-sale | 140 | - | 140 |
| - Trade payables | (120,963) | (156,197) | 35,234 |
| - Other payables | (73,249) | (60,217) | (13,032) |
| - Liabilities related to assets held-for-sale | (103) | - | (103) |
| **Working capital** | **(8,794)** | **(48,964)** | **40,170** |
| **Total net capital employed** | **255,944** | **221,951** | **33,993** |
| | | | |
| **Net financial debt** | **181,571** | **265,956** | **(84,385)** |
| of which cash | **(48,258)** | **(34,658)** | **(13,600)** |
| **Consolidated shareholders' equity** | **74,373** | **(44,005)** | **118,378** |
| Share capital | 826 | 131,427 | (130,601) |
| Other reserves including the net result | 73,547 | (175,432) | 248,979 |
| **Total Debt and Net Equity** | **255,944** | **221,951** | **33,993** |

[1] The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

The 2013 Balance Sheet reflects the extensive restructuring concluded in March: in particular the Shareholders' Equity amounted to Euro 74,373 thousand with the Net Debt reducing to Euro 181,571 thousand compared to Euro 265,956 thousand in 2012. The levels of Group liquidity also increased.

## Investments

Investments in the year totaled Euro 19,315 thousand, of which Euro 16,336 thousand in intangible assets and Euro 2,979 thousand in property, plant and equipment.

Specifically, Euro 15,060 thousand was invested in Development and Innovation activities and Euro 1,276 thousand in software applications acquired under unlimited use licenses and software development projects.
Property, plant and equipment increased by Euro 926 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. Over Euro 1,000 thousand was invested in EDP and computers for the updating of the IT systems of the Group companies and Euro 486 thousand for extraordinary maintenance on plant concerning the buildings at the Carini offices.

## Financial Highlights

The table below reports the breakdown of working capital in 2013 and in 2012 and the changes:

(thousands of Euro)

| | 2013 | 2012 | Change |
|---|---|---|---|
| Inventories | 28,898 | 32,941 | (4,043) |
| Trade receivables | 119,974 | 96,867 | 23,107 |
| Trade payables | (120,963) | (156,197) | 35,234 |
| Tax receivables | 1,942 | 2,724 | (782) |
| Other receivables and assets | 34,567 | 34,918 | (351) |
| Current income tax payables | (1,039) | (399) | (640) |
| Other payables and liabilities | (72,210) | (59,818) | (12,392) |
| Assets held-for-sale | 140 | - | 140 |
| Liabilities related to assets held-for-sale | (103) | - | (103) |
| **Changes in working capital** | **(8,794)** | **(48,964)** | **40,170** |

Working Capital increased from Euro -48,964 thousand to Euro -8,794 thousand, principally due to the conversion into Capital of approx. Euro 50 million of Cisco payables.

The net debt was as follows:

(thousands of Euro)

| | 31/12/2013 | 31/12/2012 | Changes |
|---|---|---|---|
| Short-term bank loans | 92,567 | 257,716 | (165,149) |
| Medium/long-term loans (bank and subsidised) | 136,548 | 36,455 | 100,093 |
| Other financial payables | 1,824 | 834 | 990 |
| Accrued expenses and deferred income | 193 | 7,212 | (7,019) |
| **Gross debt** | **231,132** | **302,217** | **(71,085)** |
| Cash in hand and similar | (750) | (1,467) | 717 |
| On demand bank current accounts | (47,508) | (33,191) | (14,317) |
| Short-term financial receivables | (1,230) | (1,594) | 364 |
| Prepayments and accrued income | (73) | (9) | (64) |
| Other working capital securities | - | - | - |
| **Net debt** | **181,571** | **265,956** | **(84,385)** |

The net debt at December 31, 2013 totaled Euro 181,571 thousand and reduced by Euro 84,385 thousand compared to Euro 265,956 thousand at December 31, 2012, due principally to the reduction in the gross debt for Euro 71,085 thousand and the increase in liquidity and cash and cash equivalents for Euro 13,600 thousand.

The gross debt reduced Euro 71,085 thousand, principally due to the conversion of payables into Equity Financial Instruments for Euro 103,035 thousand, the repayment of loans for Euro 12,738 thousand (of which subsidised loans for Euro 8,666 thousand and short-term bank loans for Euro 3,950 thousand). The decrease was offset by the drawdown of new loans of Euro 43,944 thousand (of which short-term bank loans for Euro 15,890 thousand) and the decrease in other financial payables of Euro 744 thousand.

Cash and cash equivalents increased by Euro 13,600 thousand, due to the cash flow generated from financing activities for Euro 31,946 thousand and from operating activities for Euro 2,350 thousand, net of the absorption from investing activities for Euro 18,976 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 the funds and the credit lines described in the Notes to the consolidated financial statements which, together with the cash flows generated from operating and financing activities, ensured the full satisfaction of outside creditors to the restructuring agreement by December 31, 2013 and, in addition, will allow the Group to satisfy also the requirements deriving from investing activities, working capital management and the repayment of debt in accordance with their maturities over the duration of the Industrial Plan.

In this regard the back-up lines established under the Restructuring Plan were utilised concerning a number of soft loans and grants not yet issued at the reporting date which, once received, will result in the contemporaneous settlement of these lines.

## *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, 2013 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 210,915 thousand (Euro 175,569 thousand at December 31, 2012).

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 largest exposure concerns trade receivables. At December 31, 2013 trade receivables for Euro 119,974 thousand (Euro 96,867 thousand at December 31, 2012) were recorded, net of write-downs of Euro 9,235 thousand (Euro 9,172 thousand at December 31, 2012).

At December 31, 2013 overdue trade receivables, net of the doubtful debt provision, amounted to Euro 12.0 million (Euro 13.2 million at December 31, 2012), of which Euro 2.1 million may be offset against supplier payables and Euro 4.5 million concern`technically overdue receivables.

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.

## Subsequent events after year-end

Through the Trade Union agreement signed with Assolombarda on January 17, 2013, the Extraordinary Temporary Lay-Off Scheme was further extended for the April 12, 2013 – April 11, 2014 period and concerned a maximum 270 employees with four monthly rotations of 60 employees. The Solidarity Contract was also used for 961 employees, with a reduction in average hours of 25%, also concluding on April 11, 2014.
At the Ministry for Economic development, on January 25, 2014, an operating agreement was signed between Italtel and FIM-FIOM-UILM for the April-December 2014 period which establishes – until December 31, 2014 – a Solidarity Contract for 800 persons, with an average hourly reduction of 17% and the extension of the Extraordinary Temporary Lay-Off Scheme for restructuring, which will involve a maximum 230 workers, with approx. 3 month rotations for 80 employees. In addition to these two instruments, the opening of a mobility procedure to structurally reduce redundancies was also provided for. A number of regulatory bodies were also reviewed and the related supplementary contract conditions, which were more favourable than the National Collective Labour Contract. The ratification of the agreements was fixed for March 2014 at the Ministry of Labour and Social Policy.

In January 2014 the Argentinian Peso depreciated approx. 23% against the US Dollar: this loss in value of Italtel Argentina, despite resulting in an increase in payables (in USD) to the parent company and the supplier Cisco, is currently offset by the indexing of Argentinian sales prices to the US Dollar.
The economic and political situation in Argentina is monitored by the internal Group committees, which closely follow economic developments and the measures undertaken by the Country's government.

## Outlook

Based on the initial indications, reflected in the 2014 budget approved by the BoD on March 10, 2014, 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 12, 2014

**For the Board of Directors**

**The Chief Executive Officer**

# Consolidated balance sheet at December 31, 2013 and 2012

(thousands of Euro)

| | Note | 31/12/2013 | 31/12/2012[1] |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | (7) | 17,452 | 18,165 |
| Goodwill | (8) | 167,215 | 167,215 |
| Other intangible assets | (9) | 28,424 | 34,295 |
| Investments valued under the equity method | (10) | 194 | 194 |
| Medium/long term financial assets | (11) | 131 | 177 |
| Other assets | (12) | 6,813 | 7,523 |
| Deferred tax assets | (13) | 81,145 | 80,935 |
| **Total non-current assets** | | **301,374** | **308,504** |
| **Current assets** | | | |
| Inventories | (14) | 28,898 | 32,941 |
| Trade receivables | (15) | 119,974 | 96,867 |
| Tax receivables | (16) | 1,942 | 2,724 |
| Other receivables and assets | (17) | 34,567 | 34,918 |
| Short-term financial assets | (18) | 1,303 | 1,603 |
| Cash and cash equivalents | (19) | 48,258 | 34,658 |
| **Total current assets** | | **234,942** | **203,711** |
| **Discontinued non-current assets** | (41) | **140** | **-** |
| **Total assets** | | **536,456** | **512,215** |
| **Net equity and Liabilities** | | | |
| **Shareholders' Equity** | | | |
| Share capital | (20) | 826 | 131,427 |
| Reserves | (21) | 10,983 | 11,507 |
| Treasury shares | (22) | (10,983) | (10,983) |
| Profit/(loss) for the year | (23) | 210 | (175,956) |
| **Group Net Equity** | | **1,036** | **(44,005)** |
| Share capital and reserves pertaining to minority interest | (23) | 98,728 | - |
| Other minority interest reserves | (23) | 7,686 | - |
| Minority interest loss | (23) | (33,077) | - |
| **Minority interest equity** | | **73,337** | **-** |
| **Total Net Equity** | | **74,373** | **(44,005)** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Employee provisions | (24) | 26,207 | 28,202 |
| Provisions for risks and charges | (25) | 9,978 | 9,275 |
| Medium/long term financial liabilities | (26) | 136,548 | 36,455 |
| Other liabilities | (27) | 451 | 112 |
| **Total non-current liabilities** | | **173,184** | **74,044** |
| **Current liabilities** | | | |
| Trade payables | (28) | 120,963 | 156,197 |
| Current tax payables | (29) | 1,039 | 399 |
| Other payables and liabilities | (30) | 72,210 | 59,818 |
| Current financial liabilities | (26) | 94,584 | 265,762 |
| **Total current liabilities** | | **288,796** | **482,176** |
| **Discontinued non-current liabilities** | (41) | **103** | **-** |
| **Total liabilities** | | **462,083** | **556,220** |
| **Total net equity and liabilities** | | **536,456** | **512,215** |

[2]The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

# 2013 and 2012 Consolidated Income Statement

(thousands of Euro)

| | Note | 2013 | 2012 |
|---|---|---|---|
| Revenues from sales and services | (31) | 374,187 | 331,394 |
| Other income | (32) | 21,319 | 56,437 |
| Purchase of materials and services | (33) | (283,805) | (252,559) |
| Personnel costs | (34) | (107,406) | (104,655) |
| Depreciation, amortisation and write-downs | (35) | (25,798) | (31,844) |
| Other operating costs | (36) | (7,661) | (18,200) |
| Change in inventories | (37) | (438) | 912 |
| Internal cost capitalisations on fixed assets | (38) | 15,246 | 20,033 |
| **EBIT** | | **(14,356)** | **1,518** |
| Financial income | (39) | 11,008 | 14,154 |
| Financial expenses | (39) | (22,729) | (32,937) |
| Net income/(charges) from valuations of investments under the net equity method | | - | - |
| **Loss before taxes** | | **(26,077)** | **(17,265)** |
| Income taxes | (40) | (6,629) | 5,102 |
| **Loss from normal operations** | | **(32,706)** | **(12,163)** |
| Discontinued operations profit/(loss) | (41) | (161) | - |
| **NET LOSS FOR THE YEAR** | | **(32,867)** | **(12,163)** |
| **Group share** | | **210** | **(12,163)** |
| **Minority interest share** | | **(33,077)** | **-** |

# 2013 and 2012 Consolidated Comprehensive Income Statement

(thousands of Euro)

| | 2013 | 2012 |
|---|---|---|
| **Net loss for the year** | **(32,867)** | **(12,163)** |
| | | |
| Profits (losses) from conversion of accounts of overseas companies | (1,938) | (989) |
| | | |
| Re-measuring of employee plans (IAS 29): | | |
| Actuarial profits/(losses) | 204 | (2,317) |
| Tax effect | (56) | 637 |
| | | |
| **Total other profits/(losses) directly recorded to net equity** | **(1,790)** | **(2,669)** |
| **Total comprehensive loss** | **(34,657)** | **(14,832)** |
| **Group share** | **210** | **(14,832)** |
| **Minority interest share** | **(34,867)** | **-** |

(1) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

# Consolidated Cash Flow Statement at December 31, 2013 and 2012

(thousands of Euro)

| | 2013 | 2012 |
|---|---|---|
| **A - Opening cash and cash equivalents (net short-term debt)** | **34,658** | **27,360** |
| **B – Cash flow from operating activities** | | |
| Loss for the year (including minority interests share) | (32,867) | (12,163) |
| Depreciation, amortisation and write-downs | 25,798 | 31,844 |
| (Gains) / losses on disposed assets (1) | 5 | (24,863) |
| Reversal of financial liabilities | - | (739) |
| (Increase)/ Decrease in deferred tax assets | (210) | (10,138) |
| Increase / (Decrease) of employee benefits provisions | (1,995) | (2,778) |
| Changes in other provisions | 703 | (2,014) |
| **Cash flow from activities before changes in working capital** | **(8,566)** | **(20,851)** |
| **Change in working capital** | | |
| (Increase) / Decrease in receivables | (22,465) | 11,334 |
| (Increase) / Decrease in inventories | 4,043 | 207 |
| (Increase) / Decrease of other assets | 1,098 | (9,231) |
| Increase / (Decrease) in trade and other payables | 28,240 | 18,563 |
| **Total changes in working capital** | **10,916** | **20,873** |
| **Total (B) (2)** | **2,350** | **22** |
| **C – Cash flow from investing activities** | | |
| (Investments) and divestments in holdings and securities | 9 | (8) |
| (Increase) / Decrease in other financial assets | 300 | 2,274 |
| Divestment of fixed assets | 30 | 77 |
| Investments in property, plant and equipment | (2,979) | (1,758) |
| Investments in intangible assets | (16,336) | (21,888) |
| **Total (C)** | **(18,976)** | **(21,303)** |
| **D - Cash flow from financing activities (3)** | | |
| Granting and repayments of short-term loans | 11,940 | 16,701 |
| Granting and repayments of non-bank short-term loans | - | 4,500 |
| New loans | 28,054 | 6,234 |
| Repayment of loans to third parties | (8,666) | (4,108) |
| Repayment of finance leases | (122) | (586) |
| Increase / (Decrease) in other financial liabilities | 740 | 6,394 |
| **Total (D)** | **31,946** | **29,135** |
| **E – Cash flow for the year (B+C+D)** | **15,320** | **7,854** |
| Other shareholders' equity changes | **(1,720)** | **(556)** |
| **F – Closing cash and cash equivalents** | **48,258** | **34,658** |

(1) In 2012, these included 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 3,983 thousand and Euro 6,527 thousand, respectively in 2013 and 2012.

# Statement of changes in shareholders' equity for the years ending December 31, 2012 and 2013

(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, 2012** | **131,427** | **11,507** | **(10,983)** | **(160,903)** | **(28,952)** | **-** | **(28,952)** |
| Change in consolidation scope | - | - | - | **(1)** | **(1)** | - | **(1)** |
| Comprehensive Profit/(Loss) | - | - | - | (13,152) | (13,152) | - | (13,152) |
| **Balance at December 31, 2012** | **131,427** | **11,507** | **(10,983)** | **(174,056)** | **(42,105)** | **-** | **(42,105)** |
| IAS 19[(1)] amendment | - | - | - | **(1,900)** | **(1,900)** | - | **(1,900)** |
| **Restated at December 31, 2012** | **131,427** | **11,507** | **(10,983)** | **(175,956)** | **(44,005)** | **-** | **(44,005)** |
| **Transactions with shareholders:** | | | | | | | |
| - Covering of losses carried forward of Italtel Group S.p.A. | (130,601) | **(524)** | - | **131,125** | - | - | - |
| - Conferment in Italtel S.p.A. for EFI (Equity Financial Instruments) | - | - | - | - | - | **153,035** | **153,035** |
| Allocation of reserves to third parties | - | - | - | **(9,476)** | **(9,476)** | **9,476** | - |
| Partial EFI utilisation for Italtel S.p.A. loss coverage: | - | - | - | **54,307** | **54,307** | **(54,307)** | - |
| Comprehensive Profit/(Loss) | - | - | - | 210 | 210 | (34,867) | (34,657) |
| **Balance at December 31, 2013** | **826** | **10,983** | **(10,983)** | **210** | **1,036** | **73,337** | **74,373** |

(1) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8. The overall adjustment of Euro 1,900 thousand relates to the 2012 comprehensive income statement for Euro 1,680 thousand.

The allocation to minority interests of the portion of shareholders' equity was made taking into account the Restructuring Agreement concerning the economic rights applicable to the Italtel S.p.A. EFI.

# Notes to the consolidated financial statements

## Note 1 - Introduction

### *Introduction*

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

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

The present annual consolidated financial statements, relating to the year ended December 31, 2013, are presented in Euro, being the currency in which the Group operates and consists of the Balance Sheet, Income Statement, Comprehensive Income Statement, Cash Flow Statement, Statement of changes in Shareholders' Equity and the Notes to the financial statements. All the amounts reported in the consolidated financial statements are expressed in thousands of Euro, unless otherwise indicated.

There were no changes in the consolidation scope in 2013.

The company Italtel Kenya Ltd was placed in liquidation and recognised as a discontinued operation.

### *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 Group for the 2013 financial statements prepared the Consolidated Financial Statements in compliance with IFRS issued by the IASB and approved by the European Commission. IFRS also include all the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The principal changes to International Accounting Standards are outlined below.

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:
    a) 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;
    b) 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 1255 and 1256 concerning the updating of International Accounting Standards were published in the European Official Gazette (L. 360). In greater detail:

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.

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 with 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 – Government loans. The amendments to IFRS 1 concern government loans at interest rates lower than market rates and the objective is to exempt new users of the IFRS from full retrospective application of the relative provisions on transfer 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.

- On March 28, 2013 Regulation 301/2013 was published in Official Gazette L.90 issued by the European Union on March 27, 2013 which adopted the Improvements to international accounting standards – 2009-2011 Cycle. The improvements dealt with the consistencies within IFRS and clarifications of a technological nature, which are not urgent but which were discussed by the IASB during the planning cycle initiated in 2009. Three improvements, in particular the amendments to Annex D of IFRS 1 and of IAS 16 and IAS 34 concern clarifications or corrections to the respective standards. The other three improvements, in particular the amendments to IFRS 1, IAS 1 and IAS 32, involve changes to the existing standards or additional guidelines concerning the implementation of such standards.

Changes to accounting standards, interpretations and amendments applied after January 1, 2014:

- On December 29, 2012, in the European Official Gazette L.360 Regulation 1254/2012 was published, which 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.
      The Group will apply this standard from January 1, 2014.
    - 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 therefore was established as periods beginning from January 1, 2014 (or subsequent for new entities or with later reporting dates).

- On April 5, 2013 Regulation (EU) 313/2013 was published in Official Gazette L95 of the Commission of April 4, 2013, through which the amendments contained in the "Guide to transitory provisions (Amendments to IFRS 10, IFRS 11 and IFRS 12)" were approved. The objective of the amendments is to facilitate the transition of IFRS 10, IFRS 11 and IFRS 12, limiting the obligation to provide adjusted comparative disclosure to only the preceding year.

- On December 20, 2013, Regulation (EU) 1374/2013 of the Commission of December 19, 2013 was published in Official Gazette L346, through which the amendments contained in the document issued by the IASB on June 27, 2013 "Additional disclosure on the recoverable value of non-financial assets (Amendments to IAS 36)" were approved. The amendments concern the disclosure to be provided on the recoverable value of assets which have incurred an impairment, in the case in which the recoverable value is based on the Fair Value net of disposal costs.

- On December 20, 2013, Regulation (EU) 1375/2013 of the Commission of December 19, 2013 was published in Official Gazette L346, through which the amendments contained in the documents "Novation of derivatives and continuation of hedge accounting (Amendments to IAS 39)" were approved. The amendment introduces an exemption to the prospective discontinuation of the measurement of a derivative as a hedging instrument in the case in which the relative counterparty contract is significantly amended on the basis of statutory provisions.

## 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, 2013 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.

| | **2013 Average** | **December 31, 2013** | **2012 Average** | **December 31, 2012** |
|---|---:|---:|---:|---:|
| Argentinean Peso | 7.27739 | 8.98914 | 5.84032 | 6.48641 |
| Russian Rouble | 42.337 | 45.3246 | 39.9262 | 40.3295 |
| Kenyan Shilling | 114.377 | 119.091 | 108.571 | 113.591 |
| Brazilian Real | 2.86866 | 3.2576 | 2.50844 | 2.7036 |
| UK Sterling | 0.849255 | 0.8337 | 0.810871 | 0.8161 |
| US Dollar | 1.32812 | 1.3791 | 1.28479 | 1.3194 |
| Polish Zloty | 4.19749 | 4.1543 | 4.18474 | 4.074 |
| Arab Emirates Dirham | 4.87817 | 5.06539 | 4.71899 | 4.84617 |
| Peruvian Nuevo Sol | 3.5918 | 3.85865 | 3.39012 | 3.36777 |
| Saudi Arabian Riyal | 4.98086 | 5.17242 | 4.81826 | 4.94838 |
| Oman Riyal | 0.511103 | 0.530728 | 0.494494 | 0.50776 |

The lists of companies directly or indirectly held by the Parent Company are reported in Note 46.

## *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 charges incurred for the maintenance and repairs of an ordinary 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:

- Industrial buildings 33 years
- Plant and machinery 5-10 years
- Industrial and commercial 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 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 other liabilities 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. 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 tangible and intangible assets included in the cash generating unit in proportion to their carrying value. The book value of each asset within the cash generation unit may not be written down below the higher between:

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

*(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 Loss in value of intangible and tangible assets

*(i) Assets (Intangible and tangible) with finite useful life*

At each balance sheet date, the tangible and intangible fixed assets with finite 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 recoverable value, 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.

*(ii) Goodwill and assets with indefinite life*

In relation to the intangible assets with indefinite useful life, including Goodwill, IAS 36 requires the measurement of the recoverable value (impairment test) at least annually and when indications exist of a possible loss in value. The verification is usually carried out at the end of each year, therefore, the valuation date coincides the balance sheet date.

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.

If the book value of an asset or a cash generating unit (or group of units) exceeds the respective Recoverable Value, an impairment is recognised to the separate income statement.

The Recoverable Value of an asset is the higher between the Fair Value Net of Sales Costs and its Value in Use. 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.

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, based on the book value up to the Recoverable Value of the assets with finite useful life. 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 only where such has a legal basis.

### 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) Equity financial instruments*
The equity financial instruments are included in the reserves, with further details provided in the section Basis of presentation of the Directors' Report.

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

### I - Employee 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.

In 2013, Italtel applied for the first time the new version of IAS 19 "Employee benefits" (hereafter "IAS 19 R"), issued by the IASB on June 16, 2011 and approved by the European Union on June 5, 2012 with Regulation No. 475/2012.
The application of IAS 19 resulted in the immediate recognition of actuarial profits and losses directly to Other comprehensive profits (losses) as the option to apply the corridor method was no longer applicable, which Italtel utilised until 2012.

In accordance with the transitional rules for IAS 19 R, Italtel applied the standard retrospectively from January 1, 2013, adjusting the opening balance sheet at January 1, 2012 and the income statement for 2012 as if the amendment to IAS 19 R had always been applied.

With the introduction of Legislative Decree No. 124/93 the possibility to allocate a portion of post-employment benefits for the financing of the supplementary pension was established. 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.

### 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.

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.

Deferred taxes are calculated taking into account the rate established for the reversal period and the applicable rate or substantially applicable at the reporting date.

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.

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

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.

### 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 finite life and goodwill 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. In the case of goodwill, this test is carried out at least annually. 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.
- Amortisation and depreciation: amortisation and depreciation constitutes 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.

## 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, 2013 | 22,855 | - | 22,855 |
| December 31, 2012 | 8,413 | - | 8,413 |

(*) At exchange rate of December 31

At December 31, 2013 and 2012 the fair value of the derivative contracts was as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Exchange risk hedges | (786) | (446) |

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.

## 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.

## Note 7 - Property, plant and equipment

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

| 2012 | Land | Industrial buildings | Plant and machinery | Industrial equipment | Other assets | 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 difference | - | - | (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** |
| **Depreciation provision** | | | | | | | |
| 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 difference | - | - | 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** |

| 2013 | Land | Industrial buildings | Plant and machinery | Industrial equipment | Other assets | Assets in progress | Total |
|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | |
| Balance at January 1, 2013 | 327 | 24,189 | 28,600 | 52,255 | 81,084 | 144 | 186,599 |
| Increases | - | 84 | 441 | 926 | 1,362 | 166 | 2,979 |
| Write-downs/write-backs | - | - | - | - | | (1) | (1) |
| Disposals | - | - | - | (10) | (125) | - | (135) |
| Translation difference | - | - | (61) | (2) | (161) | - | (224) |
| Reclassifications | - | - | 50 | 52 | 10 | (112) | - |
| **Balance at December 31, 2013** | **327** | **24,273** | **29,030** | **53,221** | **82,170** | **197** | **189,218** |
| **Depreciation provision** | | | | | | | |
| Balance at January 1, 2013 | - | (14,346) | (24,963) | (49,886) | (79,239) | - | (168,434) |
| Depreciation | - | (711) | (803) | (1,159) | (850) | - | (3,523) |
| Write-downs/write-backs | - | - | | (8) | (62) | - | (70) |
| Disposals | - | - | - | 7 | 93 | - | 100 |
| Reclassifications | - | - | - | - | - | - | - |
| Translation difference | - | - | 45 | - | 116 | - | 161 |
| **Balance at December 31, 2013** | **-** | **(15,057)** | **(25,721)** | **(51,046)** | **(79,942)** | **-** | **(171,766)** |
| **Net book value** | | | | | | | |
| Balance at January 1, 2013 | **327** | **9,843** | **3,637** | **2,369** | **1,845** | **144** | **18,165** |
| **Balance at December 31, 2013** | **327** | **9,216** | **3,309** | **2,175** | **2,228** | **197** | **17,452** |

Property plant and equipment increased overall by Euro 2,979 thousand.

Property, plant and equipment increased by Euro 926 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. Over Euro 1,000 thousand was invested in EDP and computers for the technological updating of the Company IT systems and Euro 486 thousand in the extraordinary maintenance of plant at the Carini offices.
At December 31, 2013 the land, industrial buildings, plants and machinery, industrial equipment and other assets, included assets subject to first level mortgages, commitments and special privileges, 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:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Value at January 1 | **167,215** | **167,215** |
| Increases | - | - |
| Write-downs | - | - |
| **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.

Goodwill is not subject to systematic amortisation but a periodic impairment test is made on the carrying value in the accounts. 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 CGU, less costs to sell, and its value in use.

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.

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 updated forecasts for the 2014-2017 Plan of the Italtel Group.

In relation to the operational sustainability of the plan, the analysis considers that the actions outlined by the Directors, in part introduced in 2013 and with completion scheduled over the coming years, permit the best use of Group assets as a market competitor.

In relation to the financial sustainability of the plan, the Italtel Board confirmed that the Group projections took into account, in addition to the effects of the extraordinary operations already completed, all the financial commitments and conditions established within the Debt Restructuring Agreement of the Group approved by the Milan Court on February 24, 2013.

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.

The parameters relating to the average rates utilised in the preparation of the impairment test approved by the Board of Directors on March 10, 2014 for the DCF estimate of the Recoverable Value of the assets of the CGU on a consolidated basis are as follows:

- cost of risk capital (KE) estimated with a CAPM model and equal to 11.5%, including a size premium of 2%;
- weighted average cost of capital corresponding to the KE rate based on the financial structure entirely comprising own capital and therefore equal to 11.5%;
- nominal growth rate of perpetual cash flows (G-Rate) in line with the inflation rate of the Euro and equal to 2.4%.

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 2015. In greater detail, an FV/EBITDA multiplier equal to 5.6 and an FV/EBIT multiplier of 8 were utilised. The multipliers were applied to EBITDA and EBIT forecasts of the Italtel Group for 2015, net of the amortisation of research and development charges.

Based on the intervals under the methodology described above, the recoverable value of the group operational assets was revised within the approx. Euro 320 million to Euro 350 million interval, against a book value of approx. Euro 282 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 14.9 million (decrease)/ Euro 16.7 million (increase). 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 12.6 million (increase) / Euro 11.2 million (decrease).

The indifference threshold of the control results of the goodwill value was also calculated based on a reduction of revenues for the period subsequent to 2017 of approx. 8%. With all other parameters remaining equal on the application of the DCF method, the current value of group cash flows remains above the book value of the net operational assets where the reduction in revenues forecast for the period subsequent to 2017 does not exceed approx. 8%.

Therefore the Directors consider the value of goodwill under the impairment test approved by the Board of Directors on March 10, 2014 as confirmed.

## Note 9 - Other intangible assets

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

| | Industrial patents and intellectual property rights, licenses and similar rights | Development Costs | Assets in progress | Others | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** | **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** |
| Increases | 1,201 | 15,060 | 75 | - | 16,336 |
| Write-downs | - | - | (1) | - | (1) |
| Disposals | - | - | - | - | - |
| Translation differences | (1) | - | - | - | (1) |
| Amortisation | (1,458) | (20,747) | - | - | (22,205) |
| Reclassifications | 279 | - | (279) | - | - |
| **Balance at December 31, 2013** | **2,000** | **26,350** | **74** | **-** | **28,424** |

The investments in intangible assets amounted to Euro 16,336 thousand. In particular Euro 15,060 thousand was invested in research and innovation activities and Euro 1,276 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 2013 and 2012, the Research and Development activities carried out by the Italtel Group were as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Research and Development activities carried out | 34,628 | 33,627 |
| of which: | | |
| - capitalised | 15,060 | 19,703 |
| - recognised to the Income statement | 19,568 | 13,924 |
| **Amortisation in the year of development costs** | **20,747** | **22,463** |

The net value of intangible assets generated internally amounted to Euro 26,350 thousand and Euro 32,037 thousand respectively at December 31, 2013 and 2012.

## Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| 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, 2013 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, 2012** | **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** |
| Acquisitions / movements in the year | 6 | (1) | (8) | (3) |
| Reclassifications | - | - | (37) | (37) |
| Disposals / liquidations | - | - | - | - |
| Write-down / revaluations | (6) | - | - | (6) |
| **Balance at December 31, 2013** | **125** | **-** | **6** | **131** |

The investments in other companies are all valued at cost.

The increase of Euro 6 thousand of investments in other companies concerns SI Lab Sicilia S.c.r.l..

The write-down of Euro 6 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:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Guarantee deposits | 498 | 1,255 |
| Tax receivables | 438 | 497 |
| Tax reimbursements requested | 6,245 | 6,132 |
| Other | 5 | 12 |
| Other non-current receivables doubtful debt provision | (373) | (373) |
| **Total** | **6,813** | **7,523** |

Guarantee deposits decreased Euro 757 thousand, principally due to the re-imbursement of such in 2013.

On tax reimbursements requested for repayment interest matures at an annual rate of 2% (Euro 113 thousand in 2013).

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:

| | 31/12/2013 | 31/12/2012[1] |
|---|---|---|
| Deferred tax assets | 84,214 | 84,691 |
| Deferred tax liabilities | (3,069) | (3,756) |
| **Total** | **81,145** | **80,935** |

(1) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

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 | |
|---|---|---|---|---|
| | 31/12/2013 | 31/12/2012[1] | 31/12/2013 | 31/12/2012 |
| **Temporary differences originate from:** | | | | |
| - Capital grants and operating grants | - | - | 2,163 | 2,146 |
| - Accelerated depreciation | - | - | 134 | 134 |
| - Doubtful debts provision | 2,657 | 2,696 | - | - |
| - Inventory obsolescence provision | 15,545 | 15,269 | - | - |
| - Amortisation and depreciation | 157 | 157 | - | - |
| - Other provisions for risks and charges | 2,560 | 3,441 | - | - |
| - Surplus interest charges carried forward | 13,046 | 13,046 | - | - |
| - Other | 32 | 41 | - | 629 |
| - For temporary differences concerning foreign subsidiaries in accordance with local tax laws | 2,927 | 2,823 | - | - |
| - Deferred tax asset relating to tax losses of Italtel S.p.A. | 46,392 | 46,351 | - | - |
| - Deferred tax asset relating to tax losses of the foreign subsidiaries | 233 | 146 | - | - |
| **Changes on adoption of IFRS** | | | | |
| - Discounting employee leaving indemnity provision | - | - | 758 | 832 |
| - Discounting of revised post-employment benefit provision [1] | 665 | 721 | - | - |
| - Adjustment in measurement of amortisation and depreciation of fixed assets | - | - | 14 | 14 |
| - Discounting of the payable for personnel mobility | - | - | - | 1 |
| **Total** | **84,214** | **84,691** | **3,069** | **3,756** |

(1) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

At December 31, 2013 the principal subsidiary Italtel S.p.A. reports tax losses carried forward of Euro 168,697 thousand. Against the above-stated losses deferred tax assets for Euro 46,392 thousand 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.

Taking account on the one hand of the increased negative assessable amount recorded in the years 2012-2013 compared to that forecast in the plan and, on the other hand, that a substantial change in the future assessable amounts compared to the forecast in the industrial plan is not expected, the management also in consideration of the uncertainty concerning the long-term forecasts in the corporate restructuring plans, kept substantially unchanged in 2013 the value of deferred taxes recognised to the 2012 financial statements

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

At December 31, 2013 and 2012 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** | |
|---|---|---|---|---|
| | **31/12/2013** | **31/12/2012(1)** | **31/12/2013** | **31/12/2012(1)** |
| - Discounting of post-employment benefit provision (1) | 665 | 721 | - | - |
| **Total** | **665** | **721** | **-** | **-** |

(1) The mandatory application from January 1, 2013 of the revised version of IAS 19 (Employee benefits) necessitates the restatement of the comparative balance sheet and income statement accounts at December 31, 2012 in line with IAS 8.

## Note 14 - Inventories

The account inventories and the related movements were as follows:

| **2012** | **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 | 6,239 | 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)** |
| **Net inventories** | | | | | |
| **Balance at December 31** | **12** | **18,226** | **13,953** | **750** | **32,941** |

| **2013** | **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 | 6,118 | 28,807 | 49,545 | 750 | 85,220 |
| Changes in the year | (27) | (9,568) | 6,684 | (437) | (3,348) |
| **Balance at December 31** | **6,091** | **19,239** | **56,229** | **313** | **81,872** |
| **Inventory obsolescence provision** | | | | | |
| Balance at January 1 | (6,106) | (10,581) | (35,592) | - | (52,279) |
| (Provision) / utilisation | 15 | (114) | (596) | - | (695) |
| **Balance at December 31** | **(6,091)** | **(10,695)** | **(36,188)** | **-** | **(52,974)** |
| **Net inventories** | | | | | |
| **Balance at December 31** | **-** | **8,544** | **20,041** | **313** | **28,898** |

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

At December 31, 2013 and 2012 Inventories act as guarantees for loans in place at that date.

## Note 15 - Trade receivables

The account trade receivables is composed as follows:

| | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Receivables from customers | 129,123 | 105,953 |
| Receivables from associated companies | 86 | 86 |
| Cumulative write-down of receivables | (9,235) | (9,172) |
| **Total net receivables** | **119,974** | **96,867** |

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

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Balance at January 1** | **9,172** | **8,678** |
| Changes in the year: | | |
| - Increases | 110 | 543 |
| - Utilisations | (40) | (39) |
| - Translation differences of foreign currencies | (7) | (10) |
| **Balance at December 31** | **9,235** | **9,172** |

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

The receivables from the Telecom Italia Group and the Cisco Group are broken down in Note 42 – 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)

| | 31/12/2013 | | 31/12/2012 |
|---|---|---|---|
| | **Foreign currency** | **Euro** | **Foreign currency** |
| US Dollar | 33,039 | 23,957 | 34,453 |
| UK Sterling | 205 | 245 | 97 |
| Brazilian Real | 24,777 | 7,606 | 18,856 |
| Peruvian Nuevo Sol | 5 | 1 | 1,047 |
| Polish Zloty | 9,445 | 2,274 | 4,840 |
| Saudi Riyal | 1,297 | 251 | 1,878 |
| Colombian Peso | 4,149,416 | 1,557 | 1,599,365 |
| Philippine Peso | 1,193 | 19 | 1,193 |
| Oman Riyal | 58 | 109 | 34 |
| Argentinean Peso | 20,120 | 2,238 | - |

## Note 16 - Income tax receivables

The account receivables for current taxes at December 31, 2013 amounted to Euro 1,942 thousand (at December 31, 2012 totaling Euro 2,724 thousand), representing the excess of the taxes paid and by some foreign companies.

## Note 17 - Other receivables and assets

This account Other receivables and assets is comprised of:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Employee receivables | 2,491 | 2,917 |
| Social security institution receivables | 3,852 | 1,861 |
| Prepayments and accrued income | 1,265 | 995 |
| Short-term tax receivable | 9,876 | 8,251 |
| Receivables from the state for subventions and grants | 14,987 | 7,595 |
| Other various receivables | 3,676 | 15,035 |
| Cumulative write-down of receivables | (1,580) | (1,736) |
| **Total** | **34,567** | **34,918** |

The employee receivables referred principally to advances provided for work transport (Euro 1,585 thousand) and the portion of salaries paid by the company Italtel S.p.A. to employees in December 2013 for the days in which the Solidarity Contract was applied and included in the payslip of the subsequent month (Euro 583 thousand).

Social security institution receivables include the amount of receivables of Italtel S.p.A. from the INPS for advance salary payments to personnel under the Extraordinary Temporary Lay-Off Scheme for the April 12 - December 31, 2013 period for the Castelletto (Settimo Milanese) and Rome offices and, for the Carini offices, for the January 1 - December 31, 2013 period.

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

Tax receivables principally comprise withholding taxes paid overseas and the tax receivable for the amounts provisionally paid for pending cases at the first grade Tax Commission for VAT and IRAP declarations 2004/2005.

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

Other receivables total Euro 3,676 thousand and decreased Euro 11,359 thousand. At December 31, 2012 the account included income of Euro 10,000 thousand, received on March 27, 2013, 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:

| | 31/12/2013 | 31/12/2012 |
|---|---:|---:|
| Other financial receivables | 643 | 1,024 |
| Short-term financial prepayments and accrued income | 73 | 9 |
| Financial receivables from non-consolidated subsidiaries | 587 | 570 |
| **Total** | **1,303** | **1,603** |

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

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

## Note 19 - Cash and cash equivalents

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

| | 31/12/2013 | 31/12/2012 |
|---|---:|---:|
| Cash at banks, financial institutions and post offices | 47,508 | 33,191 |
| Cheques | 710 | 1,323 |
| Cash | 40 | 144 |
| **Total cash and cash equivalents** | **48,258** | **34,658** |

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, 2013 the subscribed and paid-in share capital totaled Euro 826 thousand, as follows:

- 8,881,488 class “A” shares;
- 8,881,488 class “B” shares;
- both without nominal value.

At December 31, 2012, the subscribed and paid-in share capital totaled Euro 131,427 thousand, 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.

The reduction in share capital of Euro 130,601 thousand follows the Extraordinary Shareholders' Meeting motion of Italtel Group S.p.A. of March 27, 2013 to fully cover the 2012 loss, as prepared in accordance with Article 2446, paragraph 1 of the Civil Code and outlined at Note 23.

## Note 21 – Reserves

The account Reserves is composed as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Legal reserve | - | 28 |
| Reserve not available for own shares in portfolio | 10,983 | 10,983 |
| Other reserves | - | 496 |
| **Total** | **10,983** | **11,507** |

The change in the Reserves compared to the previous year is due to the extraordinary capital operations carried out under the Restructuring Agreement.

The zero balance of the Legal reserve and Other reserves follows the Extraordinary Shareholders' Meeting motion of Italtel Group S.p.A. of March 27, 2013 to fully cover the 2012 loss as prepared in accordance with Article 2446, paragraph 1 of the Civil Code and outlined at Note 23.

## Note 22 – Treasury shares

The account Treasury shares reports no movements in 2013:

| | |
|---|---|
| **Balance at January 1, 2013** | **(10, 983)** |
| Purchases | - |
| Sales | - |
| **Balance at December 31, 2013** | **(10,983)** |

The account Treasury shares at December 31, 2013 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 2013 there were no movements.

## Note 23 – Other reserves including profit/(loss) and minority interest reserves

The breakdown of the account is as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Group prior year results carried forward | - | (163,485) |
| Minority interest prior year results carried forward | 10,092 | - |
| Minority interest reserve (Equity Financial Instruments in Italtel S.p.A.) | 98,728 | - |
| Reserve for the coverage of losses 1/1 - 30/4/2011 Italtel Group S.p.A. | - | 160 |
| Translation reserve | (2,406) | (468) |
| Profit/(loss) for the year | (32,867) | (12,163) |
| - Group share | 210 | (12,163) |
| - Minority interest share | (33,077) | - |
| **Total** | **73,547** | **(175,956)** |
| Broken down as follows: | | |
| Group result for the year | 210 | (12,163) |
| Other Group reserves | - | (163,793) |
| | | |
| Minority interest reserve (Equity Financial Instruments in Italtel S.p.A.) | 98,728 | - |
| Other minority interest reserves | 7,686 | - |
| Minority interest profit/(loss) | (33,077) | - |

On January 1, 2013 Euro 1,900 thousand was recognised to prior year losses carried forward for the restatement of the employee benefit provision under IAS 19, as outlined in the statement of changes in shareholders' equity, which increased cumulative losses from Euro 166,744 thousand to Euro 168,644 thousand.

The increase compared to December 31, 2012 of prior year losses carried forward, inclusive of the 2012 loss of Euro 12,163 thousand and the Loss coverage reserve 1/1-30/4/2010 of Euro 160 thousand, was Euro 185,432 thousand.
On March 27, 2013 the Extraordinary Shareholders' Meeting of Italtel Group S.p.A. approved the full coverage of losses through the use of the legal reserve and the treasury share buy-back reserve for Euro 524 thousand and the share capital reduction for Euro 130,601 thousand. On the same date, Italtel S.p.A. approved the use of the Equity Financial Instrument Contribution Reserve for Euro 54, 307 thousand to cover company losses.

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:

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

At December 31, 2013, Equity Financial Instruments of Italtel S.p.A. were valued at Euro 98,728 thousand, net of the allocation of the portion of other shareholders' equity reserves and the result for the period.

The reserve to cover losses of the Parent Company Italtel Group S.p.A. which at December 31, 2012 totaled 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:

| | 2013 | 2012 |
|---|---|---|
| **Balance at January 1** | **(468)** | **521** |
| Conversion of opening net equity and consolidation adjustments | (1,609) | (900) |
| Conversion of Profit/(loss) | (329) | (89) |
| **Balance at December 31** | **(2,406)** | **(468)** |

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 - Employee benefit provisions

The employee benefits provisions are broken down as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Post-employment benefits | 24,674 | 26,227 |
| Indemnity for the advanced settlement of contract | 1,497 | 1,909 |
| Deferred employee benefits provisions for foreign companies | 36 | 66 |
| **Total** | **26,207** | **28,202** |

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

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. The elimination of the corridor approach involved the recognition at January 1, 2013 of a negative adjustment to the comprehensive income statement of Euro 1,900 thousand, net of the tax effect of Euro 721 thousand.
The post-employment benefit provision at December 31, 2012 was restated including this adjustment in the relative table.

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:

| | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **ECONOMIC ASSUMPTIONS** | | |
| Increase in the cost of living | 2.00% annual | 2.00% annual |
| Discount rate | 2.50% annual | 2.50% 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 recorded by ISTAT in 2007, based on gender | Data of the Italian population recognised by the General Accountant of the State denominated RG48 |
| Probability of invalidity | Projections for 2010 from the INPS tables by 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 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 establishing a company plan which involves the exit from the Company of 135 employees by April 2014 and of a further 300 employees by the end of 2014; a turnover frequency assumption of 25% for 2014 for all employees in service, with the exception of 135 employees considered in the workforce until April 30, 2014 and of 7.5% for all subsequent years | 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 |
| 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 | 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 |
| Probability of advances | Annual value of 3% was considered | Annual value of 3% was considered |

Changes in the post-employment benefit were as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Balance at January 1** | **26,293** | **24,892** |
| IFRS adjustment – actuarial losses/(profits) | (204) | 2,621 |
| Increase in the year | 653 | 1,005 |
| Increase in the year - foreign companies | 5 | 11 |
| Utilisations in the year | (2,002) | (2,231) |
| Utilisation in the year - foreign companies | (35) | (5) |
| **Balance at December 31** | **24,710** | **26,293** |

The actuarial profits calculated for 2013 amounted to Euro 204 thousand.

The charges for "Interest cost" amounted to Euro 653 thousand in 2013 and Euro 1,005 thousand in 2012.

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

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Balance at January 1** | **1,909** | **3,467** |
| Provisions in the year | 112 | 1,500 |
| Utilisations in the year | (524) | (3,058) |
| **Balance at December 31** | **1,497** | **1,909** |

The provision concerns an estimate of the outplacement charges as established under the personnel restructuring plan.

## Note 25 - 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 January 1, 2012** | **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** |
| Changes in the year: | | | |
| - Increases | 23 | 4,286 | 4,309 |
| - Utilisations | - | (3,593) | (3,593) |
| - Translation differences | (12) | (1) | (13) |
| **Balance at December 31, 2013** | **80** | **9,898** | **9,978** |

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 9,898 thousand at December 31, 2013 (Euro 9,206 thousand at December 31, 2012) concerns the risks related to disputes in progress for Euro 3,252 thousand, contractual risks for Euro 1,852 thousands and tax and contribution risks, also relating to foreign companies, concerning a non-defined tax period for Euro 4,789 thousand, in addition to the client’s supplementary indemnity provision for Euro 5 thousand.

## Note 26 – Medium/long term and short term financial liabilities

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

| | 31/12/2013 | | | 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | Short-term | Medium/long term | Total | Short-term | Medium/long term | Total |
| Secured bank loans | - | 118,347 | 118,347 | 152,467 | 18,589 | 171,056 |
| Unsecured loans | 195 | 206 | 401 | - | 401 | 401 |
| Unsecured loans at subsidised rates | 5,939 | 12,066 | 18,005 | 8,666 | 17,433 | 26,099 |
| Loans from other lenders | - | 5,929 | 5,929 | - | - | - |
| Liabilities for finance leases | 63 | - | 63 | 153 | 32 | 185 |
| **Medium/long term loans** | **6,197** | **136,548** | **142,745** | **161,286** | **36,455** | **197,741** |
| Short-term bank loans | 86,370 | - | 86,370 | 91,930 | - | 91,930 |
| Other short-term loans | - | - | - | 4,500 | - | 4,500 |
| **Total payables to financial institutions** | **92,567** | **136,548** | **229,115** | **257,716** | **36,455** | **294,171** |
| Other payables | 1,824 | - | 1,824 | 834 | - | 834 |
| Accruals and deferred income | 193 | - | 193 | 7,212 | - | 7,212 |
| **Total** | **94,584** | **136,548** | **231,132** | **265,762** | **36,455** | **302,217** |

Following the debt refinancing contract signed on February 27, 2013, the Company recalculated the loan maturities and conditions, replacing those existing at December 31, 2012. The above contract amended the parameters and the terms and conditions which are considered in the calculation of the financial covenants.

For greater clarity, the movements in the short-term and medium/long-term loans at December 31 2013 are outlined below:

| | **Balance at 31.12.2012** | **Granted** | **Repayments** | **EFI conversion** | **Resched.** | **Reclass.** | **Balance at 31.12.2013** |
|---|---|---|---|---|---|---|---|
| Secured loans | | | | | | | |
| - Short-term portion | 152,467 | - | - | (89,343) | (63,124) | - | - |
| - Long term portion | 18,589 | 21,553 | - | (9,192) | 87,397 | - | 118,347 |
| *Total* | *171,056* | *21,553* | - | *(98,535)* | *24,273* | - | *118,347* |
| Unsecured loans | | | | | | | |
| - Short-term portion | - | - | - | - | - | - | - |
| - Long term portion | 401 | - | - | - | - | - | 401 |
| *Total* | *401* | - | - | - | - | - | *401* |
| Unsecured loans at subsidised rates | | | | | | | |
| - Short-term portion | 8,666 | 572 | (8,666) | - | - | 5,562 | 6,134 |
| - Long term portion | 17,433 | - | - | - | - | (5,562) | 11,871 |
| *Total* | *26,099* | *572* | *(8,666)* | - | - | - | *18,005* |
| Loans from other lenders | | | | | | | |
| - Short-term portion | - | - | - | - | - | - | - |
| - Long term portion | - | 5,929 | - | - | - | - | 5,929 |
| *Total* | - | *5,929* | - | - | - | - | *5,929* |
| Liabilities for finance leases | | | | | | | |
| - Short-term portion | 153 | - | (122) | - | - | 32 | 63 |
| - Long term portion | 32 | - | - | - | - | (32) | - |
| *Total* | *185* | - | *(122)* | - | - | - | *63* |
| **Medium/long-term loans** | **197,741** | **28,054** | **(8,788)** | **(98,535)** | **24,273** | **-** | **142,745** |
| | | | | | | | |
| Short-term bank loans | 91,930 | 15,890 | (3,950) | - | (17,500) | - | 86,370 |
| Short-term loans from other financial institutions | 4,500 | - | - | (4,500) | - | - | - |
| **Total payables to financial institutions** | **294,171** | **43,944** | **(12,738)** | **(103,035)** | **6,773** | **-** | **229,115** |
| Short-term payables to group companies | - | - | - | - | - | - | - |
| Other short-term payables | 834 | 990 | - | - | - | - | 1,824 |
| Accruals and deferred income – short-term portion | 7,212 | 193 | (439) | - | (6,773) | - | 193 |
| **Total** | **302,217** | **45,127** | **(13,177)** | **(103,035)** | **-** | **-** | **231,132** |

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

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| - within one year | 6,197 | 161,286 |
| - between one and two years | 4,068 | 6,086 |
| - between two and three years | 3,024 | 3,986 |
| - between three and four years | 73,823 | 2,165 |
| - between four and five years | 25,973 | 21,251 |
| - over five years | 29,660 | 2,967 |
| **Total** | **142,745** | **197,741** |

At December 31, 2013, the medium/long term loans, including the short-term portion, were as follows:

| | Variable rate | Fixed rate | 31/12/2013 |
|---|---|---|---|
| - within one year | - | 6,197 | 6,197 |
| - between one and two years | - | 4,068 | 4,068 |
| - between two and three years | - | 3,024 | 3,024 |
| - between three and four years | 71,121 | 2,702 | 73,823 |
| - between four and five years | 25,151 | 822 | 25,973 |
| - over five years | 28,004 | 1,656 | 29,660 |
| **Total** | **124,276** | **18,469** | **142,745** |

The loans with secured guarantees are as follows:

- Euro 72,787 thousand for two credit lines (A2 and B2), fully utilised, issued by a pool of banks led by UniCredit S.p.A. (hereafter the “Lending Banks”), following the refinancing operation agreed on March 27, 2013. The A2 credit line, totaling Euro 70,222 thousand, is repayable in three equal annual instalments from December 31, 2017, while the B2 line, amounting to Euro 2,565 thousand, will expire on December 31, 2019;
- Euro 18,000 thousand of a new credit line with expiry on June 30, 2017, of which Euro 13,500 thousand issued in 2012 and the remaining Euro 4,500 thousand issued in 2013;
- Euro 11,794 thousand of new loans in replacement of subsidised rate loans and grants not received from public bodies, with final expiry on June 30, 2017;
- Euro 5,519 thousand of a credit line repayable in 3 equal annual instalments from December 31, 2017;
- Euro 4,000 thousand of a credit line issued in 2012, originally with short-term maturity and renegotiated with maturity on June 30, 2017;
- Euro 3,173 thousand of a line drawn down in 2013 for the loan for the restructuring costs incurred in the year with final maturity on June 30, 2017;
- Euro 3,075 thousand of the medium/long-term B1 credit line for cash requirements with maturity on June 30, 2017.

The above-stated loans with secured guarantees include Euro 8,859 thousand for interest due to the Lending Banks and capitalised on the medium/long-term credit lines. The 2012 portion of Euro 6,773 thousand was included at December 31 2013 in the account Financial accruals and deferred income.

The unsecured loans at standard rates for Euro 401 thousand represent part of a loan obtained in 2010 from Banca del Mezzogiorno-Mediocredito Centrale and still in place for Euro 1,856 thousand for research activities, of which Euro 1,455 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 above-stated loans increased Euro 572 thousand following the receipt of the balance of Research Grants for the development of the PNGN project and decreased for Euro 8,666 thousand following the repayments under the relative repayment plans.

Loans from other lenders include Euro 5,929 thousand issued by Telecom Italia in replacement of the subsidised rate loans not received from Public Bodies and with final maturity on June 30, 2017.

The account Short-term bank loans, totaling Euro 86,370 thousand at December 31, 2013 (Euro 91,930 thousand at December 31, 2012), include the use of the short-term revolving credit lines. The reduction in short-term bank loans of Euro 5,560 thousand relates to the reclassification of Euro 17,500 thousand to medium/long-term payables due to the renegotiation of the debt agreed in March 2013. New loans were issued for Euro 15,890 thousand and a short-term loan settled for Euro 3,950 thousand.
Although these loans technically are short-term in nature, they refer to “committed” credit lines, therefore lines with possible settlement not before June 30, 2017.

The reduction in Accruals and deferred income substantially concerns the capitalisation of financial charges matured at December 31, 2012 on existing loans.

The Restructuring Agreement provides for compliance with three covenants, measured half-yearly on an annual basis on the Group consolidated financial statements, from June 30, 2014.
The three covenants concern:

- the Leverage Ratio: ratio between Net Financial Position and EBITDA;
- the Interest Cover Ratio: ratio between EBITDA and Net Financial Charges;
- Capital Expenditure: refers to total investments.

## *Liquidity*

Net liquidity at December 31, 2013 and 2012 was broken down as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Cash and cash equivalents | 750 | 1,467 |
| On demand bank current accounts | 47,508 | 33,191 |
| **Total** | **48,258** | **34,658** |

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

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Cash generated/(absorbed) by operating activities | 2,350 | 22 |
| Cash generated/(absorbed) by investing activities | (18,976) | (21,303) |
| Cash generated/(absorbed) by financing activities | 31,946 | 29,135 |
| Other shareholders' equity changes | (1,720) | (556) |
| **Changes in the year** | **13,600** | **7,298** |

In 2013, the Group generated liquidity for Euro 13,600 thousand, against a generation of cash of Euro 7,298 thousand in the previous year, as follows:

### Cash flow generated by operating activities

The cash flow generated from operating activities increased by Euro 2,328 thousand, from a net generation of Euro 22 thousand in 2012 to a net generation of Euro 2,350 thousand in 2013.

The increase of Euro 2,328 thousand follows an increased contribution of cash for Euro 13,085 thousand generated before changes in working capital against a lower contribution of cash for Euro 10,757 thousand from changes in working capital.

The change in working capital generated Euro 10,116 thousand from operating cash flow, while in 2012 generating Euro 20,879 thousand, with a decrease in the two years of Euro 10,757 thousand. The working capital changes consider the following major factors:

- an increase in the exposure to clients for Euro 23,265 thousand in 2013 against a reduction of Euro 11,334 thousand in 2012, with an overall difference of Euro 34,599 thousand between 2013 and 2012;
- an increase in the exposure to suppliers for Euro 28,240 thousand in 2013 following an increase of Euro 18,563 thousand in 2012 with a net difference of Euro 9,677 thousand.

### Cash absorbed by investing activities

In 2013, investing activities absorbed cash of Euro 18,976 thousand, against an absorption in the previous year of Euro 21,303 thousand.

### Cash generated by financing activities

In 2013, financing activities generated cash of Euro 31,946 thousand against a generation of cash in the previous year of Euro 29,135 thousand. The increase of Euro 2,811 thousand concerns:

- an increase of Euro 21,820 thousand of increased loans compared to the previous year;
- a decrease of Euro 5,650 thousand of other liabilities, principally following the capitalisation of bank interest charges, as provided for under the refinancing contract;
- a decrease of Euro 13,359 thousand against increased other loan repayments.

## Note 27 - Other liabilities

This account Other liabilities is comprised of:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Medium/long term accruals and deferred income | 339 | - |
| Deposits | 112 | 112 |
| **Total** | **451** | **112** |

Deferred income concerns the portion of capital public grants whose recognition to the income statement is related to the payment plan of the investments within the Telecom Italia & Italtel Development Contract signed in November 2013, whose balance will be presented to the Ministry for Economic Development by the first half of 2014.

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

## Note 28 - Trade payables

The account trade payables is composed as follows:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Trade payables | 120,811 | 156,045 |
| Payables to associated companies | 152 | 152 |
| **Total** | **120,963** | **156,197** |

The account includes Euro 12.4 million of deferred Cisco payables.

The payables to the Telecom Italia Group and the Cisco Group are broken down in Note 42 – 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)

| | 31/12/2013 | | 31/12/2012 |
|---|---|---|---|
| | Foreign currency | Euro | Foreign currency |
| US Dollar | 98,032 | 71,084 | 120,329 |
| UK Sterling | 194 | 233 | 209 |
| Argentinean Peso | 23,756 | 2,643 | 29,814 |
| Brazilian Real | 5,724 | 1,757 | 8,122 |
| Polish Zloty | 87 | 21 | 221 |
| Colombian Peso | 3,130,921 | 1,175 | 1,389,773 |
| Peruvian Nuevo Sol | 1,386 | 359 | 3,376 |
| Saudi Riyal | - | - | 553 |
| Philippine Peso | 474 | 8 | 474 |
| Arab Emirates Dirham | 146 | 29 | 175 |

## Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 1,039 thousand and Euro 399 thousand at December 31, 2013 and December 31, 2012 respectively, representing the Income tax payables:

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| IRES | - | - |
| IRAP | 416 | - |
| Income taxes – foreign countries | 623 | 399 |
| **Total** | **1,039** | **399** |

## Note 30 - Other payables and liabilities

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

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Employee payables | 31,257 | 23,066 |
| Social security institutions | 673 | 1,424 |
| Accruals and deferred income | 18,842 | 13,450 |
| VAT | 6,771 | 3,375 |
| Withholding taxes to be paid | 3,090 | 3,497 |
| Other taxes | 478 | 1,201 |
| Customer advances | 4,947 | 9,788 |
| Other liabilities | 6,152 | 4,017 |
| **Total** | **72,210** | **59,818** |

Employee payables include Euro 11,926 thousand concerning indemnities to be recognised in 2014 to company personnel 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.

Payables to social security institutions at December 31, 2013 reduced on December 31, 2012, also due to the balance of INPS receivables advanced by the Company to employees of all Company offices involved in the Solidarity Contracts (April 12, 2013 - April 11, 2014 period), approved by the Ministry for Labour with Ministerial Decree 76582 of 31/10/2013.

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

## Note 31 - Revenues from sales and services

The following tables report the revenues from sales and services in 2013 and 2012, broken down by client and region.

### *i) Revenues from sales and services broken down by client*

| | 2013 | 2012 |
|---|---|---|
| Telecom Italia [a] | 108,052 | 89,571 |
| Other local operators | 51,265 | 58,796 |
| Large enterprises and Public Administration | 59,088 | 45,019 |
| Overseas Operators | 155,782 | 138,008 |
| **Total** | **374,187** | **331,394** |

(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*

| | 2013 | 2012 |
|---|---|---|
| Italy | 218,001 | 183,520 |
| Other European countries | 34,105 | 48,439 |
| Central and South America | 119,524 | 93,222 |
| USA | - | 260 |
| Africa | 453 | 4,404 |
| Asia | 2,104 | 1,549 |
| **Total** | **374,187** | **331,394** |

## Note 32 – Other income

This account Other income is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Grants | 6,517 | 873 |
| Gains on disposals | 3 | 34,933 |
| Absorption of provisions and others | 14,799 | 20,631 |
| **Total** | **21,319** | **56,437** |

Operating grants for Euro 6,517 thousand concern contributions for costs incurred for research and development activities (Euro 873 thousand in 2012).

The gains on disposals in the previous year included the gain of Euro 34,897 thousand concerning the derecognition of the Sale and Lease Back operation of the Castelletto building.

The account absorption of provisions and others concerns prior year income for Euro 3,057 thousand (Euro 4,760 thousand in 2012), Euro 5,549 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 578 thousand in 2012) and absorption of provisions for Euro 3,015 thousand (Euro 1,943 thousand in the previous year).
Income was recorded in the previous year of Euro 10,000 thousand following the Restructuring Agreement signed on December 11, 2012 and relating to, among others, a transitory agreement with Telecom Italia concerning a series of indemnities sent 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 33 - Purchase of materials and services

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

| | 2013 | 2012 |
|---|---|---|
| Purchases of materials | 196,312 | 170,870 |
| Purchases of services | 87,493 | 81,689 |
| **Total** | **283,805** | **252,559** |

## Note 34 - Personnel costs

The account Personnel costs is broken down as follows:

| | 2013 | 2012 |
|---|---|---|
| Wages and salaries | 64,705 | 71,050 |
| Social security | 18,362 | 20,555 |
| Post-employment benefit | 4,549 | 5,319 |
| Mobility and other non-recurring charges | 19,040 | 6,983 |
| Other | 750 | 748 |
| **Total** | **107,406** | **104,655** |

Personnel costs include non-recurring restructuring charges for a total of Euro 19,040 thousand (in 2012 Euro 6,983 thousand) concerning mobility charges and indemnities for employees departing during the year and for personnel expected to leave in the subsequent year.

The average workforce decreased from 1,759 in 2012 to 1,674 in 2013.

## Note 35 - Amortisation, depreciation and write-downs

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

| | 2013 | 2012 |
|---|---|---|
| Development Costs | 20,747 | 22,463 |
| Other intangible assets | 1,458 | 1,510 |
| Land | - | 870 |
| Industrial buildings | 711 | 3,106 |
| Plant and machinery | 803 | 702 |
| Industrial and commercial equipment | 1,159 | 2,255 |
| Other assets | 850 | 938 |
| Other write-downs of tangible assets | 70 | - |
| **Total** | **25,798** | **31,844** |

## Note 36 - Other operating costs

This account Other operating costs is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Other operating charges | 6,029 | 16,506 |
| Provisions for risks | 1,521 | 807 |
| Write-down of receivables | 111 | 887 |
| **Total** | **7,661** | **18,200** |

The account other operating costs includes prior year charges of Euro 726 thousand (Euro 2,624 thousand in 2012). In addition, the previous year included also Euro 10,000 thousand concerning the revocation of the guarantee deposit paid in guarantee of the Castelletto building lease contract; this contract, signed on June 9, 2011, was dissolved and a new lease agreement signed with applicability from December 31, 2012.

## Note 37 - Change in inventories

The following table highlights the principle components of the account:

| | 2013 | 2012 |
|---|---|---|
| Raw material, ancillary and consumables | - | - |
| Products in work-in-progress and semi-finished | (8,367) | 7,773 |
| Finished products and goods for resale | 7,929 | (6,861) |
| **Total** | **(438)** | **912** |

## Note 38 - Increases on internal works capitalised

The account increases on internal works capitalised amounted to Euro 15,246 thousand in 2013 (Euro 20,033 thousand in 2012) and concerns the capitalisations of tangible and intangible fixed assets of the production costs, not including financing charges.

In 2013, the account concerned for Euro 15,060 thousand (Euro 19,703 thousand in 2012) the capitalisation of development costs with the characteristics described in the relative accounting principle.

## Note 39 – Financial income and charges

The following table highlights the principal components of the account.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Charges** | **Income** | **Net charges (income)** | **Charges** | **Income** | **Net charges (income)** |
| Exchange losses/(gains) | 14,998 | 10,362 | 4,636 | 11,785 | 12,691 | (906) |
| Interest | 4,254 | 120 | 4,134 | 16,421 | 84 | 16,337 |
| Other | 3,477 | 526 | 2,951 | 4,731 | 1,379 | 3,352 |
| **Total** | **22,729** | **11,008** | **11,721** | **32,937** | **14,154** | **18,783** |

Net financial charges total Euro 11,721 thousand, compared to Euro 18,783 thousand in the previous year, improving by Euro 7,062 thousand (+37.6%).

Net exchange losses of Euro 4,636 thousand were reported in 2013 compared to gains of Euro 906 thousand in 2012.

Net interest charges decreased from Euro 16,337 thousand in 2012 to Euro 4,134 thousand in 2013. The improvement of Euro 12,203 thousand of net interest charges relates principally to the derecognition of the finance lease concerning Castelletto, with a consequent reduction in financial charges of Euro 7,820 thousand compared to 2012 and the reduction in bank interest charges for Euro 4,174 thousand following the refinancing process concluded in March 2013, with a consequent lower debt exposure, through the conversion operation of bank loans into equity financial instruments and an improvement of the reference rate.

Other net charges decreased from Euro 3,352 thousand in 2012 to Euro 2,951 thousand in 2013, improving Euro 401 thousand.

## Note 40 - Income taxes

The income tax account in 2013 reports a charge of Euro 6,629 thousand compared to income of Euro 5,102 thousand in the previous year. This includes: IRAP for Euro 1,200 thousand (Euro 600 thousand in 2012), foreign income taxes for Euro 3,697 thousand (Euro 4,836 thousand in 2012), lower taxes relating to previous years for Euro 91 thousand (lower taxes for Euro 83 thousand in 2012), in addition to deferred tax income of Euro 1,077 thousand (Euro 10,455 thousand in 2012). Net deferred tax income entirely concern the Group foreign companies. In addition, withholding taxes in Argentina judged as non-recoverable for Euro 2,900 thousand were provisioned to the income statement.

The decrease of Euro 11,731 thousand compared to the previous year principally relates to the non-recognition of deferred tax assets on the tax loss of Italtel S.p.A..

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

| | 2013 | 2012 |
|---|---|---|
| Theoretical taxes [(a)] | (7,171) | (4,748) |
| IRAP | 1,200 | 600 |
| Argentina withholding taxes | 2,900 | - |
| Difference between the tax rate on foreign entities | 302 | 114 |
| Non-deductible (exempt) tax components | 651 | (826) |
| Write-down of Italtel S.p.A. goodwill not deductible | - | - |
| Deferred taxes not recorded on tax losses and temporary differences | 9,387 | 462 |
| Positive components not subject to taxation | (165) | (834) |
| Other changes | (475) | 130 |
| **Effective tax** | **6,629** | **(5,102)** |

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

## Note 41 – Discontinued operations

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

The Board of Directors of Italtel S.p.A. on March 15, 2013 approved the placement into liquidation of the company. Consequently, the Managing Director was assigned the tasks required under local laws.
The liquidation of the company is still in progress.

The assets of Euro 140 thousand comprise cash and cash equivalents for Euro 93 thousand and Kenyan tax receivables for Euro 47 thousand.

Liabilities of Euro 103 thousand concern for Euro 75 thousand payables to the previous Director of the company, currently the liquidator, and for Euro 28 thousand Kenyan tax payables.

The net loss of Euro 161 thousand is broken down as follows:

| | 2013 | 2012 |
|---|---|---|
| Revenues from sales and services | 25 | - |
| EBIT | (142) | - |
| Discontinued operations profit/(loss) | (161) | - |

At the reporting date and at December 31, 2012, no discontinued or to be discontinued activities existed.

## Note 42 - Transactions with related parties

The transactions with the related parties were as follows:

| December 31, 2012 | Trade receivables | Financial receivables | Trade payables | Financial payables | Other receivables/ 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** |

| December 31, 2013 | Trade receivables | Financial receivables | Trade payables | Financial payables | Other receivables/ payables |
|---|---|---|---|---|---|
| **Subsidiary companies not consolidated:** | | | | | |
| Italtel Telesis consortium in liquidation | - | 587 | - | - | - |
| **Associated companies:** | | | | | |
| Cored - Reti Duemila consortium in liquidation | 59 | - | - | - | (59) |
| Hermes consortium in liquidation | 27 | - | - | - | (93) |
| **Other related parties:** | | | | | |
| Clayton Dubilier & Rice | - | - | - | - | (139) |
| Telecom Italia Group | 53,367 | - | (1,009) | (5,929) | - |
| Cisco Systems Group | 577 | - | (54,414) | (3) | - |
| **Total** | **54,030** | **587** | **(55,423)** | **(5,932)** | **291** |

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

| December 31, 2012 | Sales | Purchases | Financial income /(charges) | Other |
|---|---|---|---|---|
| **Subsidiary companies not consolidated:** | | | | |
| Italtel N.G.A. S.p.A. (wound-up) | - | - | (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** |

| December 31, 2013 | Sales | Purchases | Financial income /(charges) | Other |
|---|---|---|---|---|
| **Subsidiary companies not consolidated:** | | | | |
| Italtel N.G.A. S.p.A. (wound-up) | - | - | - | - |
| Italtel Telesis consortium in liquidation | - | - | 12 | - |
| **Associated companies:** | | | | |
| Cored - Reti Duemila consortium in liquidation | - | - | - | - |
| Hermes consortium in liquidation | - | - | - | - |
| **Other related parties:** | | | | |
| Clayton Dubilier & Rice | - | - | - | - |
| Telecom Italia Group | 191,818 | (2,175) | (10) | - |
| Cisco Systems Group | 1,457 | (165,117) | - | 5,549 |
| **Total** | **193,275** | **(167,292)** | **2** | **5,549** |

The company is completing the formalisation of an internal procedure concerning transactions with related parties.

In relation to senior managers with strategic responsibilities, in 2013 and in 2012 emoluments were matured for a total amount respectively of Euro 2,611 thousand and Euro 2,921 thousand. These emoluments were as follows:

| | 2013 | 2012 |
|---|---|---|
| Current Emoluments | 2,492 | 2,815 |
| Post-employment benefits | 119 | 106 |
| **Total** | **2,611** | **2,921** |

## Note 43 - 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.

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **To be repaid** | | |
| - within one year | 9,965 | 9,918 |
| - between one and two years | 5,702 | 9,610 |
| - between two and three years | 5,601 | 5,367 |
| - between three and four years | 4,318 | 4,251 |
| - between four and five years | 4,127 | 4,000 |
| - over five years | - | 4,000 |
| **Total** | **29,713** | **37,146** |

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 44 - 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 2013 for the auditing of accounts and other services provided to the companies of the Italtel Group by PricewaterhouseCoopers.

| | Italtel Group S.p.A. | Subsidiaries | Italtel Group |
|---|---|---|---|
| Audit Services | 48 | 401 | 449 |
| Tax consultancy and other services | - | 52 | 52 |
| **Total 2013 costs for auditing and other services** | **48** | **453** | **501** |

## Note 45 – Subsequent events

The events subsequent to December 31, 2013 are reported in the Directors’ Report.

# Note 46 – 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 reduced to 825,625 on 27.3.2013 | | |
| **Italian subsidiaries** | | | | | | |
| 2) | Italtel S.p.A. (telecommunication systems and services) | Settimo Milanese | Euro | 116,858,248 reduced to 2,000,000 on 27.3.2013 | 100 | Italtel Group S.p.A. |
| **Foreign subsidiaries** | | | | | | |
| 3) | Italtel BV (commercial and finance) | Amsterdam (Netherlands) | 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<br>28,54 | Italtel BV<br>Italtel S.p.A. |
| 6) (*) | Italtel Kenya Ltd (telecommunication systems) in liquidation | Nairobi (Kenya) | Kenyan Shilling | 500,000 | 99,98<br>0,02 | Italtel BV<br>Italtel S.p.A. |
| 7) | Italtel Brasil Ltda (telecommunication systems) | San Paolo (Brazil) | Brazilian Real | 6,586,636 | 85,12<br>14,88 | Italtel S.p.A.<br>Italtel BV |
| 8) | Italtel Deutschland GmbH (commercial) | Düsseldorf (Germany) | Euro | 40,000 | 60<br>40 | Italtel S.p.A.<br>Italtel BV |
| 9) | Italtel France Sas (commercial) | Suresnes (France) | Euro | 40,000 | 100 | Italtel S.p.A. |
| 10) | Italtel Telecommunication Hellas EPE (commercial) | Atene (Greece) | Euro | 18,000 | 100 | Italtel S.p.A. |
| 11) | Italtel U.K. Ltd (commercial) | London (Great Britain) | UK Sterling | 26,000 | 60<br>40 | Italtel S.p.A.<br>Italtel BV |
| 12) | Italtel Belgium Sprl (commercial) | Brussels (Belgium) | Euro | 500,000 (200,000 paid) | 60<br>40 | Italtel S.p.A.<br>Italtel BV |
| 13) | Italtel Poland Sp.Zo.O. (commercial) | Varsavia (Poland) | Zloty | 400,000 | 100 | Italtel S.p.A. |
| 14) | Italtel Middle East Fz-LLC (commercial) | Dubai (United Arab Emirates) | AED | 2,500,000 | 100 | Italtel S.p.A. |
| 15) (*) | Italtel Arabia Ltd (commercial) | Riyadh (United Arab Emirates) | SAR | 3,287,980 | 90<br>10 | Italtel S.p.A.<br>Italtel BV |
| 16) | Italtel Perù S.a.c. (commercial) | Lima (Perù) | Nuevo Sol | 3,028,000 | 90<br>10 | Italtel BV<br>Italtel S.p.A. |

(*) The placement into liquidation was approved by the Board of Directors of 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. | - |
| **Non-consolidated foreign subsidiaries valued at cost** | | | | | | | |
| 20) | Italtel de Venezuela S.A. (commercial) | Caracas (Venezuela) | Bolivar Fuerte | 940,000 | 95<br>5 | Italtel S.p.A.<br>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<br>0.72 | Italtel S.p.A.<br>Italtel BV | 29<br>7 |
| 25) | Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research) | Palermo | Euro | 13,531,173 Reduced to Euro 7,626,733 following Extra. Share. Meeting motion 29.10.2013 | 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 | Variable | 0.005 | Italtel S.p.A. | 1 |
| 28) | Consorzio COFRIDIP | Padua | 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 |
| 30) | SI-LAB Sicilia S.c.a.r.l. _ | Palermo | Euro | 30,000 | 18.50 | Italtel S.p.A. | 6 |

## Note 47 – 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 | - | 16,894 | - | - | 2 | 49 |
| Goodwill | - | 169,565 | - | - | - | - |
| Other intangible assets | - | 28,286 | - | - | - | 4 |
| Investments valued under the equity method | - | 194 | - | - | - | - |
| Medium/long term financial assets | 565 | 14,536 | 10,761 | - | - | - |
| Other assets | - | 6,343 | - | - | - | 234 |
| Deferred tax assets | - | 77,985 | - | - | - | - |
| **Total non-current assets** | **565** | **313,803** | **10,761** | **-** | **2** | **287** |
| **Current assets** | | | | | | |
| Inventories | - | 17,664 | - | - | 139 | 82 |
| Trade receivables | - | 102,621 | - | 694 | 1,943 | 4,631 |
| Tax receivables | - | - | - | - | 181 | - |
| Other receivables and assets | - | 30,041 | - | 1 | 13 | 67 |
| Short-term financial assets | 718 | 4,421 | - | - | 6,619 | 3,910 |
| Cash and cash equivalents | 4 | 42,025 | 35 | 28 | 282 | 573 |
| **Total current assets** | **722** | **196,772** | **35** | **723** | **9,177** | **9,263** |
| **AFS non-current assets** | - | - | - | - | - | - |
| **Total assets** | **1,287** | **510,575** | **10,796** | **723** | **9,179** | **9,550** |
| **Net equity and Liabilities** | | | | | | |
| **Shareholders' Equity** | | | | | | |
| Share capital | 826 | 2,000 | 6,000 | 500 | 40 | 40 |
| Reserves | 10,983 | 98,728 | 3,353 | 12 | 2,769 | 4 |
| Treasury shares | (10,983) | - | - | - | - | - |
| Other reserves including the net result | 210 | (34,951) | 454 | 207 | 2,479 | 2,115 |
| **Total Net Equity** | **1,036** | **65,777** | **9,807** | **719** | **5,288** | **2,159** |
| **Liabilities** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Employee provisions | - | 26,171 | - | - | - | - |
| Provisions for risks and charges | - | 9,741 | 689 | - | 24 | 419 |
| Medium/long term financial liabilities | - | 137,113 | - | - | - | - |
| Other liabilities | - | 451 | - | - | - | - |
| **Total non-current liabilities** | **-** | **173,476** | **689** | **-** | **24** | **419** |
| **Current liabilities** | | | | | | |
| Trade payables | 243 | 98,085 | - | 2 | 1,730 | 3,102 |
| Current tax payables | - | 567 | - | - | - | 340 |
| Other payables and liabilities | 5 | 60,979 | 13 | 2 | 147 | 1,598 |
| Current financial liabilities | 3 | 111,691 | 287 | - | 1,990 | 1,932 |
| **Total current liabilities** | **251** | **271,322** | **300** | **4** | **3,867** | **6,972** |
| **AFS non-current liabilities** | - | - | - | - | - | - |
| **Total liabilities** | **251** | **444,798** | **989** | **4** | **3,891** | **7,391** |
| **Total net equity and liabilities** | **1,287** | **510,575** | **10,796** | **723** | **9,179** | **9,550** |
| **Income Statement** | | | | | | |
| Revenues from sales and services | - | 256,688 | - | - | 4,575 | 10,205 |
| EBITDA | (145) | (1,191) | (66) | (5) | 1,570 | 3,138 |
| EBIT | (145) | (26,670) | (66) | (7) | 1,569 | 3,116 |
| Net financial income/(charges) | 355 | (2,445) | 668 | - | 108 | 57 |
| Profit/(loss) before taxes | 210 | (29,115) | 602 | (7) | 1,677 | 3,173 |
| Net profit (loss) for the year | 210 | (33,199) | 602 | (7) | 1,153 | 2,115 |

(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 Perù S.a.c. | Italtel Kenya Ltd | Italtel Middle East Fz- | Italtel Arabia Ltd |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| | | | | | | | | | |
| | | | | | | | | | |
| 49 | 1 | - | - | 102 | 303 | 49 | - | 3 | - |
| - | - | - | - | - | - | - | - | - | - |
| 12 | - | - | - | - | 92 | 30 | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| 5 | - | - | - | - | - | - | - | - | - |
| 41 | 7 | - | 21 | 18 | 57 | 83 | - | 9 | - |
| - | - | - | - | 2,712 | 144 | 353 | - | - | - |
| **107** | **8** | **-** | **21** | **2,832** | **596** | **515** | **-** | **12** | **-** |
| | | | | | | | | | |
| 1,984 | - | - | 1,245 | 6,002 | 550 | 1,645 | - | - | - |
| 5,266 | 868 | - | 2,274 | 15,567 | 7,628 | 2,929 | - | 565 | 251 |
| - | 201 | - | - | 103 | 1,457 | - | - | - | - |
| 510 | 14 | 3 | 5 | 1,281 | 1,734 | 891 | - | 5 | 2 |
| 6,186 | - | - | - | 187 | 2,072 | - | - | 355 | - |
| 1,400 | 452 | - | 298 | 820 | 860 | 395 | - | 674 | 412 |
| **15,346** | **1,535** | **3** | **3,822** | **23,960** | **14,301** | **5,860** | **-** | **1,599** | **665** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **140** | **-** | **-** |
| **15,453** | **1,543** | **3** | **3,843** | **26,792** | **14,897** | **6,375** | **140** | **1,611** | **665** |
| | | | | | | | | | |
| | | | | | | | | | |
| 7,353 | 18 | 31 | 96 | 449 | 2,022 | 785 | 4 | 494 | 636 |
| 930 | 6 | - | - | 601 | 130 | 33 | - | 83 | - |
| - | - | - | - | - | - | - | - | - | - |
| 186 | 297 | (630) | (1,146) | 2,708 | 562 | 497 | (416) | (345) | (1,572) |
| **8,469** | **321** | **(599)** | **(1,050)** | **3,758** | **2,714** | **1,315** | **(412)** | **232** | **(936)** |
| | | | | | | | | | |
| | | | | | | | | | |
| - | 36 | - | - | - | - | - | - | - | - |
| - | - | - | 38 | - | 57 | - | - | - | - |
| - | - | 573 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| **-** | **36** | **573** | **38** | **-** | **57** | **-** | **-** | **-** | **-** |
| | | | | | | | | | |
| 3,493 | 349 | 23 | 3,296 | 22,229 | 5,678 | 4,187 | 449 | 1,346 | 1,280 |
| - | - | - | - | - | - | 115 | - | 17 | - |
| 3,491 | 119 | 6 | 1,559 | 539 | 3,077 | 758 | - | 16 | 321 |
| - | 718 | - | - | 266 | 3,371 | - | - | - | - |
| **6,984** | **1,186** | **29** | **4,855** | **23,034** | **12,126** | **5,060** | **449** | **1,379** | **1,601** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **103** | **-** | **-** |
| **6,984** | **1,222** | **602** | **4,893** | **23,034** | **12,183** | **5,060** | **552** | **1,379** | **1,601** |
| **15,453** | **1,543** | **3** | **3,843** | **26,792** | **14,897** | **6,375** | **140** | **1,611** | **665** |
| | | | | | | | | | |
| 12,709 | 1,230 | - | 2,364 | 47,692 | 31,831 | 24,732 | 25 | 1,463 | 575 |
| 209 | 388 | (11) | (1,126) | 4,540 | 2,235 | 1,650 | - | 61 | 380 |
| 179 | 386 | (11) | (1,126) | 4,497 | 2,129 | 1,612 | (142) | 59 | 307 |
| (116) | (2) | - | (9) | (2,736) | (1,583) | (822) | - | 12 | (91) |
| 63 | 384 | (11) | (1,135) | 1,761 | 546 | 790 | - | 71 | 216 |
| 63 | 297 | (11) | (1,135) | 1,125 | 546 | 499 | (161) | 54 | 216 |

Settimo Milanese, March 12, 2014

**For the Board of Directors**

**The Chief Executive Officer**

pwc

**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 December 31st 2013 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 April 12th 2013.

3 In our opinion, the consolidated financial statements of Italtel Group Group as of December 31st 2013 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

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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 December 31st 2013.

Milan, March 28th 2014

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.*