

**ITALTEL SPA GROUP  
2015 DIRECTORS' REPORT &  
CONSOLIDATED FINANCIAL STATEMENTS**



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## CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

In 2015 the countries in which we operate finally experienced a recovery, with Brazil the only major exception. GDP growth in Italy and France was approx. 1%, with German growth at slightly under 2% and Spain expanding more than 3%. In Latin America, Argentina gained 1%, with growth in Peru and Columbia of over 3%. Brazil however is undergoing severe recession with a 3.6% contraction. These trends were confirmed in the current year, although caution should be exercised given oil price movements, reduced emerging economy growth, international tensions stemming from terrorism and consequent migration and finally, in the Eurozone, lending sector difficulties with non-performing loans continuing to be an issue.

2015 was a strong year for your company, with business volumes again significantly improving (+10% on 2014) amid substantially stable EBITDA. For the third consecutive year, Group growth has outpaced the market - demonstrating our dynamism, competitiveness and strong customer relations.

The 2015 pre-tax loss was one-tenth that of 2014, bringing the company closer to profitability after many years of losses. Continued prudent financial management enabled - although in a year of significant growth - an improved debt level on the previous year.

Sales were up 8% in Italy, and internationally - with the company operating both in Europe and in Latin America - revenues grew 13%. Italtel now sources 55% of revenues from Italy and 45% overseas, confirming our strong international focus. Diversification was also achieved - in addition to international development - through domestic Enterprises and Public Sector growth of 32%.

The company's main clients in 2015 were the Telecom Italia Group, the Telefonica Group, Vodafone, Fastweb, British Telecom and other major players such as Proximus in Belgium. New customers were acquired, with Hub One which manages telecommunications for the Paris Airports among the most significant. We have many Enterprise and Public Sector segment clients, including Enel, Eni, Unicredit, Intesa, Poste Italiane and Rai, in addition to many others and including EXPO 2015, where together with Telecom Italia and Cisco we ensured the technological success of the event.

2015 was a key year for our range of products and services - even just in terms of delivering upon the commitments provided to clients. Our product portfolio was in fact expanded from the previous seven to the current ten; the three most important innovations concern the development of the Internet of Things platform - with which we have already won a Telecom Group bid - the Software Defined Network platform dedicated to the automated control of Cisco technology networks and finally the innovative Web communication product "Embrace". All our products focus upon the virtualisation strategy, through which all telecommunications networks are hand in hand transforming into data center networks. Despite such portfolio development, sales were however down on 2014 and did not meet budget forecasts. Our products therefore require an increased focus among sales teams and improved capacity for delivery and perceived customer quality. We are confident we can achieve this objective in 2016, confirming the importance of the proprietary products.

Our services have been developed also in the two other segments - professional services and system integration. In terms of the former, the 2014 results were confirmed through major and complex projects such as for example the "Multivendor" project of Telecom Italia and more recently the "Decommissioning" projects, both for Telecom Italia and Proximus. The integration offer saw major developments, with the further improvement of the new Competence Centers, in particular: the "Data Center" Competence Center dedicated to IT infrastructure projects which strongly focuses on a Cloud Computing approach, the Cyber Security services and technologies Competence Center which undertakes central importance amid the rapid conversion to digital, the ultra-broadband network development Competence Center beginning with the fiber-optic fixed networks, and finally the Internet of things Competence Center which has developed significantly amid competitive digital conversion initiatives within various industries.

The workforce increased slightly on 2014, substantially in support of overseas growth, with a slight contraction in Italy in view of the major focus on streamlining costs and improving efficiencies, as indicated in our industrial plan. This objective was achieved, while maintaining close and constructive relations with the trade unions. The

company has always placed a major focus on industrial relations in the belief that transparency and correctness in terms of the key aspects of industrial relations ensure important benefits in terms of improved staff relations and the success of the company. This approach has given us the confidence to propose and execute a complex industrial reconversion plan, through which, of the approx. 130 individuals who for many years were involved in the temporary lay-off scheme, approximately 40% have been reintegrated into the workforce – and with more than half of these employees completing an ambitious IP Networking Cisco technologies certification plan.

Finally in 2015 we commenced, as requested by the 2012 Loan Agreement, the so-called M&A (Merger & Acquisition) process of the company to attract finance and industrial sector players to invest significant amounts in the company in order to ensure even greater solidity in the future. This attracted a number of manifestations of interest from businesses and investment funds and in particular from an industrial player operating in the IT sector, principally in Italy. Just in recent weeks we have been carrying out the necessary verifications and negotiations to establish the feasibility of the acquisition of a stake in Italtel. Regardless of the outcome of these negotiations, I believe that Italtel's future lies in information technology, both as telecommunications shifts to IT networks and as the digital conversion of many economic activities is enabled through a major integration between networks and information technology.

On the basis of that outlined, I view 2016 and the near future in general with great optimism considering what has been built up in recent years and our current positioning in the sector, which will be increasingly crucial in the future.

I wish to thank the men and women of Italtel who have believed and continue to believe in the company, committing themselves at an important time and endeavoring to further improve results and the satisfaction of our customers. On behalf of management, I wish to thank in addition the Shareholders and our Stakeholders for continuing their support and showing further and continual trust in our company.

Stefano Pileri

## INTRODUCTION

Italtel has always innovated through leveraging on its technological know-how. The company has demonstrated throughout its long history an ability to innovate and has played a central role in the development of communications in Italy and in many countries across the world.

Today, we focus on the new Information & Communication Technology frontiers - Digital Transformation, Cloud, Virtualization, the Internet of Things and Industry 4.0. The key words of the new communications marketplace are mobility, partnership, virtualization, integration and transformation towards the new IP protocol paradigm. Its technological foundations are Network Function Virtualization (NFV), Software Defined Networking (SDN) and Real Time Communication (WebRTC).

Italtel strives in these areas to provide high quality products, solutions and services, which meet the particular needs of clients. The company develops products for the migration and development of networks, offers IT solutions for environments such as UC&C, IoT and Business Cloud Communication, in addition to high added value consultancy and system integration thanks to its unique know-how and a top-level IT environment partner network.

Italtel accompanies service providers as they transform their businesses, achieving greater flexibility, cutting costs and particularly through establishing new revenue streams. It operates as a technological vendor and system integrator, assisting in the choice and delivery of the most effective internal and external communication solutions.

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 creates in Italy and in the major EMEA countries and Latin America products and services for networks and IP protocol based communication services. The catalogue covers an extensive range of solutions for service providers and businesses, based on proprietary products developed on the Network Function Virtualization (NFV) and Software Defined Networking (SDN) concepts. In addition, system integration operations are provided for the creation and transformation of complex networks, in addition to an extensive range of engineering and consultancy services - from the design of networks to their maintenance and from migration to interoperability with varying technologies. Numerous solutions in environments such as All IP Voice, Unified Communication & Collaboration, New Generation Data Centers and Internet of Things environments are offered, for vertical segments such as Smart Grid, Structural Monitoring and Healthcare.

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 individuals, both in private settings and in the workplace. Italtel relies on a solid partner network: in addition to the strategic partnership with Cisco, the company counts also on a range of technological and commercial partnerships with companies such as Tech Mahindra, Exprivia, SigFox, Telarix and IBM Italia.

In 2015, the company joined the Intel® Network Builders program, marking a further step in the ongoing work to accelerate the bringing to the market of innovative solutions based on Software Defined Networking (SDN) and Network Functions Virtualization (NFV).

Italtel counts among its client base four of the eight largest telecommunication groups (Communications Service Providers) in the world, the majority of European incumbents and two of the three largest operators in Latin America. In Italy, the company is a leading partner of nearly all of the largest public and private enterprises and works with many large companies and Public Administration entities in creating new generation IP networks and in setting up their client communication services.

In addition to its leadership position on the Italian market, the company has established a strong presence abroad: in France, Belgium, Germany, Spain, Greece, Poland and in Latin America, where in 2015 new offices were opened in Ecuador, and in Miami in the United States, in addition to Argentina, Brazil, Colombia and Peru.

## Key Financial Highlights

	(thousands of Euro)	
	<b>2015</b>	<b>2014</b>
	<b>IFRS</b>	<b>IFRS</b>
Revenues	441,074	400,190
Profitability to external costs <sup>(1)</sup> %	26.97	30.08
Normalized EBITDA <sup>(2)</sup>	31,278	33,758
Margin %	7.09	8.43
EBITDA <sup>(3)</sup>	30,163	23,225
Margin %	6.84	5.80
EBIT <sup>(4)</sup>	10,363	636
Margin %	2.35	0.16
Net loss	(18,764)	(15,066)
Margin %	(4.25)	(3.76)
ROI <sup>(5)</sup> %	4.54	0.26
Average workforce, excl. lay-off schemes	1,223	1,162
	<b>At December 31, 2015</b>	<b>At December 31, 2014</b>
Capex <sup>(6)</sup>	18,268	16,453
Net Debt <sup>(7)</sup>	172,585	182,834
Shareholders' Equity	34,674	56,354
NCE <sup>(8)</sup>	207,259	239,188
Adjusted NCE <sup>(9)</sup>	40,044	71,973
Cash flow from operating activities <sup>(10)</sup>	32,193	19,019
Cash flow from investing activities <sup>(10)</sup>	(22,922)	(20,311)
Cash flow from financing activities <sup>(10)</sup>	11,560	(1,970)
Client average (days) <sup>(11)</sup>	72	81
Suppliers average (days) <sup>(12)</sup>	145	150
Number of employees	1,366	1,334
of which Italy <sup>(13)</sup>	1,107	1,129
of which Overseas	259	205

(1) Profitability to external costs: Margin / Revenues

(2) Normalized EBITDA measures the operating result, plus amortization, depreciation and write-downs and less restructuring charges and other non-recurring items.

(3) EBITDA comprises the operating result before amortization, 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 asset investments

(7) Net Debt is reported in Directors' Report at page 52

(8) Net Capital Employed (NCE), as described at page 51

(9) Net Capital Employed (NCE), adjusted for Goodwill

(10) Cash Flow Statement at page 57

(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 S.p.A. shareholders

Italtel S.p.A. is wholly-owned by Italtel Group S.p.A., which in turn is held by:

### Clayton Dubilier & Rice

Clayton Dubilier & Rice Investment III Sarl (holding of 48.77% in Italtel Group S.p.A., taking account only of the ordinary Class "A" shares)<sup>(1)</sup> is part of one of the leading US private equity Groups, with a long tradition in the industrial sector and manages closed funds on behalf of institutional investors.

### Telecom Italia

Telecom Italia Finance S.A. (holding of 19.37% in Italtel Group S.p.A., taking account only of the ordinary Class "A" shares)<sup>(1)</sup>, a subsidiary of Telecom Italia S.p.A., one of the leading European industrial Groups and listed on the Italian Stock Exchange. The Telecom Group is now present abroad with a significant initiative in Latin America.

### Cisco Systems

Cisco Systems International B.V. (holding of 18.40% in Italtel Group S.p.A., taking account only of the ordinary Class "A" shares)<sup>(1)</sup>, part of the Cisco Group, whose parent company Cisco Systems, Inc. is listed on the NYSE and is the global leader in Internet networking. The Cisco Group has been present in Italy since 1994.

### Capita Trustees Limited

Capita Trustees Limited, as Trustee of the Italtel Employees Benefits Trust (holding of 10.81% in Italtel Group S.p.A., taking account only of the ordinary Class "A" shares)<sup>(1)</sup> is an English registered trust, exclusively established in order to hold and manage shares of Italtel Group S.p.A..

### Cordusio Fiduciaria

Cordusio Fiduciaria per Azioni (holding of 2.65% in Italtel Group S.p.A., taking account of the ordinary Class "A" shares)<sup>(1)</sup> 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.

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(1) The subscribed and paid-in share capital of Italtel Group S.p.A., amounting to Euro 825,695 at December 31, 2015, is comprised of 17,762,976 shares, of which 8,881,488 Class "A" shares (with the same rights as those devolving by law to ordinary shares, with the exception of that established by the By-Laws), held as reported above, and 8,881,488 Class "B" shares (preference and convertible shares as per the By-Laws). The shareholders Telecom Italia Finance S.A., Cisco Systems International BV and Cordusio Fiduciaria per Azioni hold, in addition to Class "A" shares in the above-stated percentages, also Class "B" shares, as follows: Telecom Italia Finance S.A.: 4,440,365 shares; Cisco Systems International B.V.: 4,440,365 shares and Cordusio Fiduciaria per Azioni: 758 shares.



## Corporate Boards

### Board of Directors<sup>(1)</sup>

Chairman <sup>(2)</sup>	Tiziano Onesti <sup>(*)(***)</sup>
Chief Executive Officer <sup>(3)</sup>	Stefano Pileri <sup>(***)</sup>
Directors	Gerardo Benuzzi <sup>(***)(****)</sup> Stefano Carlino <sup>(4)(***)</sup> Salvatore Spiniello <sup>(**)(***)</sup>
Secretary of the Board of Directors	Nicolò de' Castiglioni

### Board of Statutory Auditors<sup>(5)</sup>

Chairman	Mauro Romano
Statutory auditors	Giuseppe Benini Carlo Delladio
Alternate auditors	Monica Grassi Guido Paolucci

### Independent Audit Firm

PricewaterhouseCoopers S.p.A.

(1)Appointed by the Shareholders' Meeting of April 29, 2013 and in office until the Shareholders' Meeting for the approval of the 2015 Annual Accounts

(2)Appointed Director by the EFI class A holders at the Shareholders' Meeting of January 20, 2014 (and Chairman with board motion of the same date), in office until the Shareholders' Meeting for the approval of the 2015 Annual Accounts

(3)Appointed Chief Executive Officer through Board of Directors' motion of April 29, 2013; member of the Sale Committee

(4)Chairman of the Internal Control Committee and member of the Remuneration Committee, appointed by Italtel Group S.p.A.

(5)Appointed by the Shareholders' Meeting of April 29, 2015 and in office until the Shareholders' Meeting for the approval of the 2017 Annual Accounts

(\*) Chairman of the Remuneration Committee and the Sale Committee. Member of the Internal Control Committee

(\*\*) Director appointed by EFI class A holders. Member of the Internal Control Committee and the Sale Committee and a member of the Remuneration Committee, appointed by Italtel Group S.p.A.

(\*\*\*) Director considered independent (as per Article 26.6, paragraph (i) lett. a), b), c), d), e), f), g) and h) of the By-Laws) and of professional standing (as per Article 26.6, paragraph (ii) lett. a) and b) of the By-Laws)

(\*\*\*\*) Acts also as Chief Operating Officer

## DIRECTORS' REPORT

The 2015 Group results, with Italtel S.p.A. as the parent company, confirm the improvement set in train in 2013 and continued in 2014 and 2015: EBITDA (gross of restructuring charges) is substantially unchanged, with EBITDA (net of restructuring charges) up Euro 7 million and the net debt improving by approx. Euro 10 million on 2014, principally due to increased without recourse factoring operations. The actions implemented by management are therefore consistent with the goal to improve the fundamentals as outlined in the 2012-2017 Industrial Plan. Despite this, also in consideration of general market difficulties, the 2015 Group results differed from those outlined in the 2012-2017 Industrial Plan, such as to constitute non-compliance with certain financial covenants under the loan contracts. In this regard, the directors have undertaken in a timely manner appropriate measures to neutralise the related contractual effects, as described below.

The Group annual results, with Italtel S.p.A. as the main company and borrower, are monitored by a consultancy firm appointed by Italtel and the Plan variance analysis document is sent to shareholders.

### Significant events

On February 26, 2013, with filing at the Companies Registration Office on March 1, 2013, the Debt Restructuring Agreement as per Article 182-*bis* of the Bankruptcy Law was approved by the Milan Court, according to the relative industrial and financial plan for the 2012-2017 period, whose feasibility was declared by Ms. Stefania Chiaruttini and Mr. Enrico Laghi.

Subsequently, all legal acts were completed to implement the measures established by the Restructuring Agreement, including, among others, the conversion of a part of receivables into Equity Financial Instruments, the signing of new loan contracts, the settlement with Telecom Italia and the deferment of the Cisco receivables.

Following the operations executed under the restructuring agreement, the subscribed and paid-in share capital of Italtel S.p.A. amounted to Euro 2,000,000, comprising 2,000,000 shares, all held by the sole shareholder Italtel Group S.p.A. and committed in guarantee of the creditors identified in the Debt Restructuring Agreement. Italtel also issued, again against the conversion of the respective receivables, Equity Financial Instruments in favour of the lending banks, Cisco and Telecom Italia Finance (in the proportions and amounts specified herein).

Within the restructuring plan and the relative Restructuring Agreement signed, the sole shareholder of the company and the holders of Equity Financial Instruments (EFI's) have agreed that the restructuring is undertaken, in addition to ensure the rebalancing of the company's equity and financial position, for the disposal of the shares and the EFI's to other industrial and/or financial partners and have undertaken in this regard specific obligations within the Restructuring Agreement to ensure that such an operation is executed. The sole shareholder and the company, in compliance with the Restructuring Agreement, therefore began a process to ensure execution of the above operation and negotiations are currently ongoing which, if successfully concluded, may result in the sale of a portion or the entire holding of the shares of the company and of the EFI's in favour of one or more industrial and/or financial partners. In particular, at the reporting date a number of manifestations of interest and a non-binding offer have been presented, for which due diligence activities are in progress.

The loan contracts signed between Italtel S.p.A. and the lending banks in execution of the Debt Restructuring Agreement provide for, among other matters, compliance with a number of Group consolidated financial covenants. The preliminary figures available to the company, sent in recent weeks to the financial institutions together with additional information required by the loan contracts, highlighted potentially, at the relative verification dates, non-compliance with a number of contractual financial covenants. As the verification of these covenants, based on the calculation dates of December 31 of each year, should be carried out according to the financial statement results, the company has adopted in a timely manner the appropriate measures, as illustrated in detail below, to ensure that any possible misalignment with the covenants would not constitute a formal violation of the loan contracts.

In addition, the maturity dates of the above-stated loans are between June 30, 2017 and December 31, 2019. However, as established on the signing of the Restructuring Agreement, the relative debt and credit lines should be subject to extension/refinancing on maturity. In this regard, the company and the lending banks have in a timely manner initiated the contacts required to open up negotiations and to put in place a number of preliminary meetings to define the guidelines and the possible financial terms for the extension and/or possible refinancing of the credit lines granted to the company under the loan contracts, the vast majority of which will mature in the coming year, in accordance with the 2016-2022 industrial financial plan below.

Finally, also to incorporate the significant changes in the company's marketplace since 2012, in addition to updating the above plan in consideration of the intervening time, it was also considered necessary to prepare a revised version of the industrial and financial plan of the company and of the group for the 2016-2022 period (the "2016-2022 Industrial Plan"), based on the following guidelines:

- focus on Software and Services, in the knowledge that the value of the digital revolution is in the Cloud, in Applications and in Data;
- approach to six vertical markets, therefore Telecommunications, but also Finance, Energy, Healthcare, Public Safety and Manufacturing, sectors which will be majorly impacted by digitalisation;
- preparation of Integrated and Innovative Solutions, allowing us to extend our partnerships and bring ourselves closer to customer's needs;
- further growth on foreign markets, extending our significant presence in Latin America and Europe also to Central and North America and other Eastern European markets.

The 2016-2022 Industrial Plan, approved by the Board of Directors of the company on June 8, 2016 (updating the meeting of May 27, 2016), was also subject of an opinion (comfort letter) by an external consultant who confirms the reasonableness of the Plan assumptions.

In this context, the Company and the lending Banks signed on June 1, 2016 an agreement with duration until January 1, 2017 (the "Standstill Agreement"), which suspended the application of the loan clauses concerning the verification of financial covenants, in order to neutralise, for the duration of the Agreement, the effects from any possible non-compliance with the contractual restrictions during the above period. The Standstill Agreement was signed, in addition to the reason stated above, also for the company to engage on the one hand in the negotiations in progress with the lending banks concerning the extension and/or refinancing of the credit lines in view of the upcoming repayment date and in line with the 2016-2022 Industrial Plan and, on the other, to allow Italtel Group S.p.A. to undertake negotiations with a possible industrial and/or financial partner for the transfer of a portion or the entirety of the shares and of the EFI's of Italtel S.p.A.. The Standstill Agreement establishes, among other matters, a commitment upon the company to undertake all actions possible to submit to the lending banks' decision-making committees a proposal on the extension and/or refinancing of the credit lines by September 30, 2016.

The directors have assessed the significant uncertainties above which may put in doubt the company's going concern, in consideration:

- of the timely commencement of negotiations with the lending banks to establish new terms and conditions, which include new loan repayment and maturity deadlines, which the parties intend to pursue in good faith;
- that the Lending Banks are also holders of Equity Financial Instruments;
- of the signing of the Standstill Agreement;
- of the industrial and financial plan for the 2016-2022 period, approved by the Board of Directors on June 8, 2016 (updated at the meeting of May 27, 2016), subject of a comfort letter from an external consultant;
- of the negotiations in progress for the transfer of a portion of the shares of the company and of the EFI's in favour of one or more industrial and/or financial partners;
- of the continual monitoring of the company's financial situation;

and consider that the company may continue to operate on a going concern basis, with the 2015 financial statements therefore prepared on this basis.

## Basis of presentation

The financial statements of Italtel S.p.A. at December 31, 2015 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2015, issued by the International Accounting Standard Board (IASB) and adopted by European Union regulations.

The financial statements of Italtel S.p.A. 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 policies adopted and other notes in accordance with the requirements of IFRS.

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

The Net Equity reserves include the Equity Financial Instruments Reserve for an original value of Euro 153,035,272. The instruments, convertible into shares on occurrence of the pre-established events, are broken down as follows:

<b>Creditor</b>	<b>Number Equity instruments subscribed</b>	<b>Percentage</b>
Unicredit	52,642,905	34.40
BPM	14,482,770	9.46
GE Capital	27,015,412	17.65
Banco Popolare	1,464,728	0.96
Centrobanca	1,464,728	0.96
Banco di Brescia	1,464,728	0.96
Cisco	50,000,000	32.67
Telecom Italia Finance	4,500,000	2.94
<b>Total</b>	<b>153,035,272</b>	<b>100.00</b>

Subsequently, this reserve was reduced to Euro 98,728,489 for the coverage of prior year losses.

## Market Overview and position of Italtel

### Market overview

The main economic indicators<sup>1</sup> reveal moderate global economic growth of approx. 3.1% for 2015 on the basis of two divergent trends, with significant growth in the USA, Great Britain and an improving outlook for the Eurozone and conversely a worsening of conditions in China and with Brazil and Russia still in recession. Of the BRIC countries in fact only India forecasts growth for the coming years. Despite this, the IMF forecasts for 2016 more vibrant global growth on 2015 of 3.6%.

General growth in the Telecommunications sector continues to slow, although the five major European Operators (Vodafone, Deutsche Telekom, Orange, Telefonica and TIM) have exited five years of income decline to achieve moderate growth, with stabilization expected in the coming years.

At a global level, income generated from mobile telephone services is the major driver behind Telco sector growth, supported by increasing demand for mobile broadband, which in certain markets is not sufficient to offset the reduction in ARPU (Average Revenue Per User).

The Telco market in 2015 marked the end of a long period of simultaneous investment across the major market regions, with a new cycle beginning in 2016 in which major investments will be undertaken separately and a general evening off of Telco global market investment, whereby phases of expansion in some areas will be balanced by reducing investment in others.

Total investments (CAPEX) in the 2015-19 five-year period are valued at USD 1.8 trillion, with an average CAGR of 1.3%, although as stated above on the basis of differing cycles within the various market regions.

In the EMEA region, CAPEX growth is principally supported by Deutsche Telekom and Vodafone, followed by TIM, EE and Virgin Media. In the APAC region, a slowdown in CAPEX investment growth in China is offset by sustained growth on the Indian market and new investment cycles in South Korea and Japan, thanks to new 5G technology projects.

The CALA region will see moderate CAPEX growth with investment in Brazil and Mexico, followed by an easing off in 2019: despite this, the level of investment across the area continues to be weak - despite previous expectations - due to continued instability in various countries such as Argentina and Venezuela.

North America has already entered a phase of reduced investment, expected to last for approx. two years and with an uptake in 2017, generated by the conversion of networks to the NFP paradigm.

The five major European economies (Germany, France, Great Britain, Italy and Spain) will spend by 2017 Euro 30 billion on the development of their broadband networks, through a mix of public and private funding, for an equivalent of Euro 200 per domestic user. However, the capital invested in the five Countries varies significantly: Germany, France and Great Britain will undertake the majority of this investment. In Germany, Deutsche Telekom will invest Euro 6 billion for fiber and VSDL coverage of 65% of the domestic user base by the end of 2016, while France, with a plan of approx. Euro 20 billion of public and private funding will provide coverage to approx. 50% of the population by 2017 with high speed fixed and mobile network infrastructure. In Italy, TIM has earmarked Euro 2.7 billion for the development of its fixed and mobile network, while Telefonica in Spain will invest Euro 1.3 billion in FTTH network coverage of approx. six million domestic users by 2017.

In the coming five years, the APAC region will remain the main investor in the Telco sector, accounting for approx. 33% of global CAPEX, followed by North America with approx. 32% and EMEA with 26%. The CALA area will remain at approx. 9%, with the principal contribution coming from Brazil, followed by Mexico.

The principal developments in the Telco sector in 2015 were:

<sup>1</sup> Sources: *Infonetics Global Telecom and Datacom Market Trends and Drivers*, *IMF World Economic Outlook*

- Exponentially greater mobile sector development over the fixed network, with a total of approx. Euro 4 billion dedicated to mobile broadband, compared to fixed network investment of approx. Euro 1 billion.
- Even stronger data traffic growth, driven by video traffic, an expanded user base and increased M2M penetration, which requires network adjustments and upgrades.
- Increased SDN environment investments for the centralised control of operator and NFV networks for the migration of network functionalities from dedicated hardware to COTS servers, following the virtualization paradigm.
- The Big Data and Data Analytics phenomenon in the Telco sector, with the capitalization of network and user data for the optimization of real-time policy management and charging strategies.

In the Enterprise segment, communication, networking and security spend by businesses in 2015 amounted to approx. Euro 59.3 billion, of which approx. Euro 10.1 billion relating to communication, Euro 36.4 billion to networking and Euro 12.8 billion to security. The sector on average grew 3.4%, with a reduction in the communication component on the previous year of 2.4%, offset by the networking sector with 3.0% growth and security with 10.1% growth.

In terms of Enterprise segment spend across the Market Regions, North America was in first place with approx. 43%, with the EMEA area accounting for 30%, APAC 23% and only 4% in the CALA area: over the coming five-year period, this breakdown is expected to remain similar for the four major regions.

The main developments in this segment were:

- Expansion of the range of the main devices used in workplace environment and the confirmation of BYOD (Bring Your Own Device), with the need to adjust networks, wireless coverage and security issues.
- Migration of business applications to external cloud platforms: analysts expect growth of external cloud platform services of approx. USD 234 billion by 2019, with a CAGR of 32%.
- Increased SDN deployment in enterprise environments, with complete establishment by 2017.
- Greater demand for security solutions, which in the three enterprise segment environments have seen growth of over 10% over the last two years.

Italtel in 2015 strengthened its range of services, solutions and products in the two Service Provider and Enterprise macro-segments, with consolidation of the three main Service, Border and Management Layer business lines, completed by System Integration and Professional Services operations. Over the coming five years, the solutions available on the market will be redefined and extended to adequately cater for the new IT segments such as, in addition to the consolidated Telecommunications segment, Finance, Energy, Healthcare, Public Safety and Manufacturing.

### *Domestic market – Telecom Italia Domestic*

The telecommunications ICT and Information Technology market, as outlined above, in Italy in 2015 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 resulted in stable Italtel Group revenues on 2014 of Euro 130.2 million.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2015 the following innovative projects were implemented:

- Development of the Transit and Interconnection network through the introduction of new NFV (Network Function Virtualization) functionalities and the new Netmatch-M products for the development of the IP-TDM functionality of the network.

- Beginning of the Public Switch Telephone Network (PSTN) Decommissioning, with massive migration of customers to innovative VoIP platforms
- Development of innovative Network Management projects (Net OSS) for the simplification of the network OSS layer, with pro-active monitoring of the quality of services based on the QoE (Quality of Experience) paradigm and traffic data analysis (Network Analytics)
- Development of the “Intelligent Pipe” project for the analysis of fixed and mobile network traffic data (e.g. band utilized by each protocol, traffic by type of 3G/4G radio access, monitoring of traffic over time), in order to proactively intervene on the network, bringing to the market innovative solutions
- Development of Smart Working for the creation of the infrastructure and environment for business collaboration
- Development of the “Multivendor” Network Maintenance project dedicated to Telecom Italia for technical support and repair of all network elements of each technology
- Development of business market solutions (Nuvola Italiana) for IP inter-functionality of the Virtual PBX (*Netmatch-S*) platforms
- Launch of new projects for the Telecom Italia technology infrastructure and information technology areas
- Professional services in support of the IP networks conversion processes, also for energy saving, such as *Solution Design, Integration & Testing* and *Network Transformation*

The business undertaken with Telecom Italia is expanding, both in terms of volumes and in relation to Italtel’s involvement in major projects. In the Telecom Italia Strategic Plan, innovative Network conversion and the use of Cloud technologies for the offer of services to businesses play a central role and are the subject of significant investment. Italtel is extensively involved in these areas and is improving its know-how and offer in order to continue to play a central role as a Telecom Italia Partner and to ensure the success of the new Plan.

### *Domestic market – Other Telecommunications Operators*

In 2015 the contraction in terms of investment and price levels continued on the market. Despite this, Italtel confirmed itself as a leading player through the acquisition of large strategic projects from the major domestic operators, with revenue growth of Euro 3.9 million on 2014 for total revenues of Euro 41.1 million.

In terms of the provision of proprietary products and services, the most significant activity concerned Vodafone, who chose Italtel as system integrator for the innovative “Full MVNO” project and began the conversion of the voice network on a Network Function Virtualization basis, utilizing the iMCS and Netmatch-S platform.

Other significant successes related to the system integration project on the basis of Cisco technology solutions. Wind in fact chose Italtel to provide the Mobile Backhauling network, for the IP connection of the radio sites throughout Italy, on the basis of a long-term development plan, while Fastweb confirmed the key role of Italtel in the IP networks field, both for the extension and conversion of the existing IP Backbone infrastructure. In 2015, the client Tiscali also chose Italtel for the development of the entire IP infrastructure dedicated to public connectivity services.

In relation to the IP interconnection of fixed network Voice services, Italtel is therefore the supplier of Fastweb and BT Italia. In the coming years, this interconnection traffic will grow and be flanked and surpassed by Mobile Voice Network IP interconnection traffic, which will become native on the IP protocol through the VoLTE standard. It will therefore be important in the short-term to consolidate and improve our positioning in order to be a more central player on the domestic IP interconnection services between networks (Fixed and Mobile) market.

### *Domestic market – Enterprises and Public Sector*

In 2015, the Italian ICT market continued to be impacted by pervasive economic uncertainty. Market figures indicate a slight recovery of investment in the Banking/insurance sector (+3%) and Utility (+4.4%) sectors. Digital innovation has begun to generate growth among private businesses and the Public Administration: new opportunities have emerged thanks to the use of Web technologies, mobile and Cloud Computing and the Internet of things.

Spending Reviews and Stability Agreements have continued to slow investment and spending in Information Technology by the Regions and Local Bodies and the Central Public Administration.

Despite this, in 2015 Italtel generated increased business volumes both in the Enterprise (+21%) and the Public Administration (+52%) segments.

The slight reduction in the margin is due to highly competitive marketplaces, impacting the pricing of proposed solutions.

The customer base was expanded in 2015, with an increase in the proportion of direct revenues, the consolidation of relations with the main clients and the growth of the services market.

The Enterprise segment further consolidated the positioning of Italtel for Smart Grid solutions and services for the Enel and Terna groups.

Business volumes with Rai were significantly boosted (+37%).

In the Finance segment, Italtel consolidated particularly its position with Intesa, improving the strategic value of its Netmatch product within the VoIP network, and with Unicredit through the Smart Worker project, where the Collaboration@Work solution plays a central role.

We highlight the projects undertaken with the new clients Costa Crociere, BMW, Equens SE and Toscana Energia.

In terms of the Public Administration, the expansion of the customer base through direct contracts and the strengthening of large Public Entities relations, in particular those with Poste, IPZS and the Ministry for Defense, were key developments. Italtel was awarded many tenders by the Bank of Italy in 2015 which will be contracted in 2016: System assistance, LAN equipment Framework Agreement, Contact Center.

The EXPO project produced major results, with collaboration with Cisco for the creation and management of fixed and mobile infrastructure for basic connectivity, in addition to security and control systems for network access, in support of collaboration solutions and telepresence services, of content projected on totems and e-walls at the Expo, of smart meter applications, of turnstile access control functions and for ticket offices and of incoming and outgoing goods tracking systems.

Significant results were achieved also in the Healthcare segment, with the telecommunications infrastructure management project at Niguarda Hospital, the National Tumors Institute, the Maggiore Mangiagalli Hospital, the Maggiore Mangiagalli Orthopedic Institute and with the Humanitas Group for the development and securitization of its fixed and mobile network infrastructure.

The NATO tender awarded to Italtel for the construction of 2 field Data Centers, engineered by Italtel, for use in the various operating theaters in which the alliances' forces are engaged, was of particular importance.

The results from IoT testing were significant, through the creation of a general purpose compliant Services Platform with the M2M-ETSI model, which has enabled Italtel to present and demonstrate to the Public Administration and Enterprises the know-how acquired in the mobility, logistics, smart grid, energy efficiency and e-Health fields.



## *EMEA Market*

In 2015, on the EMEA market Italtel continued to see growth, with revenues up approx. 41% on 2014, although with the margin reducing slightly due to the significant degree of system integration activities of solutions based on third party products rather than those based on Italtel proprietary products.

For these latter however, major successes were achieved, in particular with the Telefonica Group and the Vodafone Group, both in highly competitive marketplaces which therefore impacted the price levels for the proposed solutions.

Italtel confirmed from the previous year its positioning with the Telefonica Group and the Vodafone Group.

Revenues from the Telefonica Group increased 137%, particularly due to system integration operations in which Italtel solidified its position as the go-to provider internationally for the integration of Unified Communication projects, in particular on Cisco HCS technology.

In addition, the Telefonica Group continued to rely on Italtel as its strategic supplier of its Central Routing Engine platform, on both fixed and mobile networks, with IP technology, both for the domestic German market and for the international markets in Europe and Latin America.

With regard to the Vodafone Group, the awarding of the International Voice Connect project will raise the positioning of Italtel proprietary products within the group, having been awarded the international transit solution tender comprising the iMCS and Netmatch M proprietary products.

In relation to France, the foundations were also laid for the positioning and virtualization of the Italtel installed base at the Orange Group (Orange France and OBS), although the client has not yet launched its relative conversion plan (which however Vodafone has launched), while the virtualization project of the SFR network continued with the iMCS product.

On Italtel's other major European markets, France and Germany, the foundations were laid for a diversification of the offer from proprietary solutions, through the introduction of certification and acquisition processes of system integration projects, in particular with MVNO (Mobile Virtual Network Operator) virtual mobile operators.

In 2015, in France and the Benelux a campaign was launched to extend the client base targeting MVNO's and MNO's, resulting in the acquisition of the client Hubone, a supplier of telecommunications services to large corporate users. Italtel provides a virtualized and innovative turnkey solution based on a complete ALL IP offer. This experience will be proposed and extended, as stated, to new clients on Italtel's European markets and also on the Russian and CIS markets.

In terms of the provision of high added value professional engineering services, the Mantra project, carried out by the Italtel Team in collaboration with the Belgian operator Proximus (ex Belgacom) continued, with the Client set objectives exceeded (one million users have already migrated to the new platforms), consolidating the role of Italtel in view of further project extensions in the coming 3-5 years.

The Greek market has been impacted by the major financial crises which have hit the country: investments have dropped across all sectors and also among Service Providers. The client OnNet was forced to suspend services. Despite this, Italtel was able to ensure the development of the Wind Hellas NGN platform according to a completely virtualized solution based on the iMCS product. The entire project has a 4 year duration.

Finally, in 2015 the Sales Agencies Program was launched on the indirect EMEA market, targeting both new clients (Government, Enterprises and Service Providers) and new territories. The definition of the selling model, the search for partners, the signing of the first resale agreements and the response to the first commercial opportunities form the basis of the commitment for the first year of this new Program.

## *LATAM Market*

2015 was one of the most challenging years for Italtel on the LATAM market. In addition to the significant weakening of currencies which began in 2014 and continued in 2015 of over 30% in Colombia and Brazil, Argentina awaited the elections which took place at the end of 2015 and Brazil entered a major recession. However, on the back of the reorganization from 2013, Italtel grew in the region, reporting revenues of Euro 140.4 million, up 4% on Euro 134.4 million in 2014 and with a margin of Euro 36 million (+11%).

The economic environment was a critical factor for the company and slowed the exceptional performances in Argentina, Brazil and Peru with regard to Cisco system integration operations, where - as in previous years -

Italtel confirmed its position as one of the few and major partners for LATAM. Large and significant projects were executed, such as:

- the extension of the Core IP network in Argentina for two incumbent operators;
- mobile network IP/MPLS backhauling for Tim in Brazil;
- logistical and infrastructural support for the “*Centro convenciones de Lima*” (Peru) for the duration of the IMF (International Monetary Fund) event. On the other hand, specifically in Brazil, the currency impact and the very high interest rates available locally were the subject of close scrutiny with regards to cash flow management, to offset system integration business operating risks.

In addition to the VAR (Value Added Reseller) activities, in 2015 Italtel worked towards ensuring a broader offer of its products in the region, enabling the company to create a critical mass of sales, which will strengthen the market mix of its catalogue. The major expansion of the digital economy enables Italtel to maintain product lines such as Embrace and NM-S, which manage the transition from the current economic paradigm to a digital consumer-based environment and which are therefore necessary for businesses operating across all of the vertical markets.

Geographical expansion was established once again in 2015 with the beginning of the Italtel operation in Ecuador (Auso Italtel). This is certainly a key point in the strategy, allowing the company to strengthen its presence with regional clients and suppliers and improve the management of country risk, where taken individually.

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

2015 was a turning point for the telecommunications market, with an uptake evident for the various network models, with new fixed and mobile network generations, moving from traditional Telco to Digital Telco with multiservice Cloud platforms. Simultaneously, the demand for the Cloud at the Edge of the network is increasing, with the foundation and aggregation of local operators which may become a significant development. The second factor which is profoundly changing the market is the gradual emergence of the Internet of things, which opens up new markets, from the “access” side in terms of sensors and the aggregation of information collated from various sources and on the other, at the center of the network, the emergence of big data analytics, on which dedicated platforms are blossoming. Last but not least, users have become increasingly close, with extensive knowledge of “user” organization productive processes gained, with a view to adjusting them through the introduction of new technological solutions. This indicates that developments have come full circle, where the entire network will integrate with the three above-stated aspects, new 5G architecture, fiber, the internet of things and the Cloud with disruptive service models.

The Proprietary Product offer has created the enablers necessary to maintain on the one hand the position achieved, with the current product lines, and on the other to create new multiservice platform opportunities, focused in particular on changing the concept from a “transaction offer” to a “service” offer. In particular, the strategy targets “stability” for the platform of products in use, in relation to the strengthening of positions acquired and “innovation” to widen the market segment, with a view also to changing the rule book and being central to the change of paradigm at Telco offer level. The developments for the Italtel Multimedia Communication Suite, the Italtel Routing & Policy Server and for the Netmatch products, such as Media&Signalling Gateway belonging to the first series of actions, while the development strategy of the Netmatch products such as Session Border Controller and the Embrace product with the relative network solutions represent a technological advance for the construction of multiservice universal platforms.

In particular, the product catalogue developed as outlined below.

### **iMCS (Italtel Multimedia Communication Suite) product**

The iMCS product, which carries out the IMS architecture and IP Multimedia System functions, specified within the 3GPP standardization Group of the GSMA and the similar architectural functions for the fixed networks specified within the ETSI context, belong to the “core” product family which seeks to consolidate the current market scope. In this regard, the principal developmental steps may be classified as:

- Development of the Load Balancer function as a multi-farm and multi-protocol element capable of supporting increased protocols (H248, SIP) from unique entry points.
- Adjustment of the applications based on the softswitch product platform to VMWare redundancy principles.
- Introduction of new expansion models in OVA format for use in the Cloud environment.

In short, iMCS has continued its consolidation from application in virtual environments towards VCloud environments on the VMWare commercial platform, perfectly meeting market expectations as consisting of a product line principally comprising CPU-based applications and therefore whose development will lead to use on datacenter-like platforms in the Cloud environment.

### **iRPS product (Italtel Routing & Policy Server)**

The iRPS product, as is the case for iMCS, follows the same consolidation path of the Service Providers market segment. In order to meet the needs of the top customers (Telefonica Global Solutions, Telefonica DE.) a number of features were created which can apply advanced routing rules, with the development also of O&M features in order to guarantee top class provisioning performance and complete multi-homing functionality.

In line with the strategic development of the networks, described in the introduction, focused on the convergence of the fixed-mobile networks, the CAMEL protocol was introduced to interface network nodes in mobile environments.

Naturally that which has been achieved in 2015, in terms of protocols supported and a broader range of services offered, opens the way for a future interaction between this system and the SDN servers to pave the way for a new series of services, which will not be limited to a simple tuning of capacity flows or differing routing policies on the same network, but which will go beyond and introduce changes to the topology of the network through virtual networking actions.

### **NetMatch Product**

The family of Netmatch products client base continued to consolidate in 2015, in particular for Netmatch products such as Media&Signalling Gateway, while a change in the roadmap was apparent for Netmatch products such as Session Border Controller, where the previous versions activated on the physical and virtual layer have been accompanied by a completely new line deployed in the Cloud environment (Netmatch-S Cloud Inside Product).

Netmatch products such as Media&Signalling Gateway have almost completed the Operation&Maintenance functionalities improvement phase, meeting client demands for faster management procedures against an extensive number of installed objects.

Netmatch products such as Session Border Controller, extended to usage related to WebRTC network interconnection and HD video connections to external technological domains (Cisco, Microsoft), developed during the previous year, further increased the roadmap features, for the preparation of a VerySmallEdition product version to operate in the pre-Cloud environment, with a particular focus on the Telecom Italia client. Some of the limitations on the reduced number of configurable Virtual Lans were removed, adjusting the size limits according to the market parameters. Last but not least, the first integration of the P-CSCF functionality orientated only for use case Voice over WIFI was carried out, also known as WIFI calling, within the new generation Fixed-Mobile convergent networks.

### **Embrace Product**

The Embrace product belongs to the second family of products, with development focused on creating the enablers for the shift from the “transaction offer” concept to the “service” offer. This enabled the completion of the corporate conferencing platform, enabling a focus on the webinar as a service offer in addition.

From a strictly technological viewpoint, the product was structured with among the most up-to-date packaging techniques (docker technology).

That stated previously for iRPS is even more immediate and true for Embrace, as the reference framework with video communication and real-time video HD ICT solutions offer to be used as a collaborative platform will enable the opening of new “vertical use cases”, ranging from the healthcare environment (telemonitoring,

telerehabilitation, teleconsulting) and Assisted Living Environments to energy saving and finishing with the Internet of things. The framework will have the task of correlating the information received from sensors with the WebRTC information flows, providing appropriate API's to allow the service levels to provide business logistics for the specific sector. (*Contextual communication*).

### **NetMatch Cloud Inside Product**

In the network interconnection segment, the new line of Netmatch Cloud Inside products was included in the roadmap, in NFV/SDN technology capable of utilising the elasticity and reconfigurability mechanisms of the application resources and for networking in the Cloud environment. The product will enable the safe management of voice, video and multimedia sessions on virtualized environment IP networks. Placed on board Enterprise and Service Provider networks, it will allow full interoperability of networks thanks to its specific network interworking features. The product is designed to be one of the first Session Border Controller products specifically designed for Data Center and Cloud environment use. It supports a wide range of hypervisor and Cloud management systems and allows for rapid integration with emerging Cloud-based solutions (Unified Communication & Collaboration, video-conferencing services, contact center services, customer relationship management systems etc.) in order to reduce asset costs, the complexity and timeframes for deployment of the in field system and facilitates business innovation.

In addition, as leveraging on virtualization, businesses can provide new services in much reduced timeframes in comparison to current systems based on proprietary solutions and technologies. The product in fact may be installed on any commercial hardware (HW COTS) which meets the minimum system CPU, RAM and storage requirements. In line with the most recent global technological trends (ETSI NFV, SDN), it adopts the Cloud paradigm and provides dynamic mechanisms for the allocation of on-demand resources, according to the effective application needs, offering therefore maximum flexibility, configurability, scalability and elasticity.

### **iQAC (*Italtel Quality Access Controller*) product within the Net OSS suite**

The iQAC product, comprising software agents which generate artificial traffic to allow the simulation of client behavior on complex networks and the precise measurement of end-to-end perceived quality, completed its development cycle.

### **“*Collaboration at Work*” solution**

This network architecture, based on a combination of the adaptation and audio/video transcoding functionalities of NetMatch-S, combined with the capacity of Embrace to dialogue with endpoints based on browsers, has concluded the engineering phase to finally be launched on the market. In addition, according to the specific needs of each client, it addresses the demands of a number of the leading Large Enterprises in the country such as ENI, ENEL, UniCredit, Banca Intesa, Poste Italiane and Pirelli.

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

In 2015 Italtel made some changes to its catalogue of specialist Professional Services, which cover the complete life cycle of the most advanced Telecommunications and Information Technology solutions, from the design of network architecture, to equipment engineering, including installation of networks, testing, user support and technical assistance. In extreme summary, similar to that seen for the products, a number of cutting-edge developments for the transformation of networks were also incorporated and/or consolidated in the services context. The Technical Assistance service capacity for the networks was maintained and strengthened, with continuation of the “Multivendor” Telecom Italia contract, which concerns the maintenance of all Telecom Italia

networks (fixed and mobile telephone, transmission and transport and access), through network care and the repair of the all equipment of the various technologies (Vendors).

Together with the traditional network life cycle Professional Services offer, the company continued to enrich and innovate the System Integration offer with the consolidation and extension of the Competence Centers, characterized 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 confirmed its expertise in a multitude of technologies, from Data Center network infrastructure, Unified Communications & Collaboration systems to Management and Control instruments, providing clients with all the specialized and engineering support necessary to design and implement solutions.

In perfect continuity with the previous year, Italtel further developed the Operating System Support (OSS) offer, with the proposal of the *NetOSS* suite, comprising entirely proprietary applications or integrated with third party components, principally concerning the Quality Assurance and Network Management spheres. Finally, the Decommissioning activities continued, with the launch of the Telecom Italia project after the success in Belgium of the MANTRA project.

In 2015, Italtel was actively involved in the global EXPO 2015 exhibition held in the hinterland of Milan, offering Collaboration, Customer relationship, Networking and Security solution services. In addition, in line with the Italian Digital Agenda program, Italtel launched a new Ultra Broadband Competence Center, with the precise objective of entering the business of designing optimum network paths and ensuring high profile consultancy for the mapping of fiber throughout the country.

The Solution and Services offer in 2015 was deployed throughout the areas covered by the following Competence Centers:

#### ***“Customer relationship” Competence Center***

The EXPO showcase for the participating countries presents a meeting point of ideas, experiences and stimuli and a festival of cultures and of peoples from across the world. In an environment in which innovation and new technologies are discussed, Italtel took the opportunity to demonstrate its capabilities also in the most developed environments, in terms of the engagement of clients and the establishment of relationships through proactive marketing techniques.

Specifically, Italtel promoted itself as an expert in the installation of Digital Signage solutions. This concerns a specialized cutting edge service for a particular form of communication, where video and multimedia content in general is viewed in public environments for the communication of information through advertising messages. With the frequent updating of the information shown, the advertising campaigns may be piloted by different drivers (time, place and recognition of the category of person). This is all undertaken to improve client satisfaction on the one hand and to promote the Corporate Brand on the other. In order to bring the client's experience closer to reality, Digital Signage is often combined with real-time communications and other innovative technologies (e.g. biometrics).

#### ***“Data Center and Virtualization” Competence Centre***

During the year, Italtel stepped up its Data Center activities. The use of a Data Center to the best extent possible requires consideration of many aspects and skills, from the optimization of company processes to broad-based consultancy and the design of appropriate infrastructure, to supporting the migration of applications and existing data. Italtel occupies an advantageous position in assisting Companies and Service Providers in this process, drawing on partnerships and relationships with the major sector players, such as Cisco, Citrix, EMC, F5, Microsoft, Netapp and VMware and its proven experience, confirmed by major successful products and top tier certifications, such as the Cisco Master Cloud Builder Specialization.

Italtel can provide top level professional services in each of the technical areas involved in a Data Center project: development of the network (assessment, migration, passage to 40/100G), virtualization and consolidation of servers and archiving (definition and design of infrastructure, energy efficiency), Data Center resiliency

(Business Continuity, Disaster Recovery, Data Center interconnection), Software-Defined Data Center (with reference to Cisco ACI, Programmable Fabric) and implementation of infrastructure (OSS Integration, Security and Facility creation).

#### ***“Collaboration” Competence Center***

Globalization is causing radical changes in the workplace. In order to increase competitiveness, the nature of the enterprise should evolve towards increased organizational and logistics flexibility. Technical innovation is necessary to support this development. For an enterprise wishing to adopt Smart Collaboration, Italtel is the ideal partner to identify the needs and the project architecture, to select the most appropriate technologies, distribute them in the field and guarantee the operation of the service and optimize it over time (utilizing the services).

Italtel’s vision sees the centralized call handler as the center point of the architecture, providing voice services and advanced collaboration, from video communication. The endpoint may range from immersive rooms to personal devices, on which mobility services are enabled based on the client. Instant Messaging extends the services available for the sharing of the desktop and the transferring of files. Multimedia Web Conferencing is a key service, including the management of the entire meeting cycle. Web Real-Time communications enable effective interaction with external stakeholders. Italtel integrates the sector’s technology leaders (in addition to proprietary products, the Italtel catalogue involves Cisco as the main partner) to guarantee the user a high quality end-to-end experience. In addition, Italtel possesses the required skill-set to undertake a Software Defined Network (SDN) approach to improve the Quality of Experience (QoE).

During the year, Italtel re-confirmed its expertise in creating and managing Business Communication solutions both on premises for Enterprises and Hosted/managed for Service Providers, including all aspects for interconnection with the core networks (IMS, NGN or PSTN).

#### ***“Internet of Things” Competence Center***

The new Competence Center, launched in the previous year, for Engineering and System Integration of the Networks and of the technologies which facilitate the new and promising Internet of Things sector, continued to grow in 2015. Following recognition in 2014 (“Partner of the Year” award for the Internet of Everything within the global CISCO ecosystem), Italtel has continued to collaborate with Cisco in order to provide technologies for a large number of vertical sectors, from Manufacturing, to Transportation, to Oil and Gas. These technologies are required for a large number of applications, such as for example the control of highly efficient processes (tracking of persons and critical assets) and the safety of workers (e.g. access controls).

The Internet of Things (IoT) is one of the most important technological developments in recent years. This concerns the connection of billions of intelligent devices and the consequent options created, in terms of services for citizens, increased business for enterprises and benefits for the entire community. The estimate of the number of IoT connections by various analysts ranges significantly, although all agree upon its significant growth in the near future.

On the basis of this consideration, Italtel, in line with the System Integration sector, has begun to develop skills also in terms of services in support of the operational efficiency of businesses and public safety in cities. Specifically, Italtel, at its Palermo headquarters, has created its own IoT asset dedicated to the collation and elaboration of data for energy, infrastructural and environmental monitoring, through which services may be provided for the efficient management of energy and for the management and control of infrastructure such as buildings, bridges, railway platforms, pipelines, etc.

In completion of this picture, we mention also the partnership with Sigfox/Nettrotter and the relative expertise which Italtel in 2015 began to develop in terms of low power networks, i.e. networks created specifically for IoT and which enable the connection of devices with low energy usage, installed also in difficult locations.

#### ***“Cyber Security” Competence Centre***

In continuity with the approach taken last year, Italtel has engaged in the protection both of its physical assets and the protection of information. In this manner, Italtel allows organizations to identify, develop and

implement Cyber Security solutions based on an ecosystem of strategic partners such as Cisco Systems, Sourcefire, Infoblox, F5 and Radware.

In completion of the Data Center Competence Center and Virtualization solutions, the Secure Data Center solutions enable the continuous protection of nearly all work throughout an entire attack. Benefiting from the introduction of a programmable SDN structure, the security services may automatically be provided with the consequent simplification and strengthening of policies. For Enterprise Protection, a series of company protection services have been added, including the unified control of access with granular and consistent policies for employees and customers accessing the company network, remotely and from home. The DDOS Protection solutions tackle the increasing DDOS threat through the recording and mitigation of an attack on Service Provider and Enterprise infrastructure.

In general, Italtel provides high quality professional services from security consultancy to the engineering of application and network security, up to testing and assessment services for the optimization of infrastructure and vulnerability analysis. Security Intelligence Operations services (early warning, real-time monitoring, management of resources and threats) are offered through our Cyber Security Operation Center (24x7x365), ISO/IEC 27001 certified, with headquarters in Italy.

#### ***“Network” Competence Center***

The explosion of IP protocol based traffic, driven primarily by the use of HD video content, the widespread use of mobile applications and devices in any place and at any time for work or leisure, the access to services in the Cloud and the first Internet of Things creations are the main indicators of the major change in progress. The Service Providers, Large Enterprises and Public Administrations are developing their networks towards “all IP” infrastructure, to bring innovation and efficiency to their businesses.

With its proven Global Solution Provider experience, Italtel in 2015 confirmed its ability to construct new generation IP networks for Service Providers, Businesses and the Public Administration. The fixed network architecture for Service Providers comprises access, aggregation and core networks based on the most recent platforms: convergent IP/Optics networks, ROADM (Reconfigurable Optical Add Drop Multiplexer), DWDM (Dense Wavelength Division Multiplexing) transceivers and dynamic IP – DWDM correlated control plans. The Mobile Broadband architecture includes: VoLTE/VoWi-Fi, Mobile Backhaul, Evolved Packet Core, Policy Management and Small Cell solutions. Content distribution solutions are also available (Content Delivery Network and Transparent Caching), in addition to those for traffic analysis (Deep Packet Inspection). The Business solutions utilise convergent wired/wireless LAN architecture comprising new generation switches and controllers, whose management may also be provided by the public Cloud. In order to optimize interconnection between company offices, platforms are available for the compression of traffic, the reduction of latency and intelligent routing.

#### ***“NFV All IP Multimedia” Competence Center***

Within the current network scenario, a number of traditional services (voice and messaging) are progressively being offered almost free by Over-The-Top (OTT) providers and consequently the profit margins of Service Providers are continuously dropping. In addition, the competition between Service Providers continues to be aggressive, resulting in the continuous reduction of end-user prices. For these reasons, the Telecommunications sector is undergoing a number of complex and strategic transformations for the management of networks and services at lower costs. In order to achieve this objective, the Service Providers need to:

- Simplify the networks and obtain a solid automation of distribution processes
- Simplify and standardize the hardware and software platforms on which the applications are utilized

The technological development of the servers and the archiving systems encourage a move away from embedded systems and the adoption of NFV technology which extends Cloud Computing from the IT environment to Telco.

In this context, Italtel proposes its NFV & All IP Multimedia solutions: a complete All-IP framework which enables mobile telephone operators (VoLTE/ViLTE and WI-FI calls) and fixed telephone operators, both in terms of business (SIP Trunking and Virtual Enterprise Mobility) and residential offers. The same solution may be applied also to operators utilizing IP NNI for Interconnection and Roaming. The Italtel solution provides new functionalities such as high definition (HD) voice together with Presence, IM/Chatting, Video Communication and Web Real Time Communication, improving the user experience and bringing it more in line with the OTT

offer, although with greater reliability and higher quality. Including finally WebRTC, it is possible to open Web Communication to legacy VOIP's, entirely unbinding their services from physical devices. This latter functionality, already integrated with Cisco Unified Communication platforms, offers a highly flexible infrastructure, completely interoperable, on the one hand with Legacy VoIP's (IMS / NGN), and on the other with various other frameworks for multimedia and content sharing (Enterprises).

The Italtel products, part of the NFV&All IP Multimedia solution, are virtual network native functions, which comprise the VNF domain of the ETSI NFV reference framework. Italtel can also provide end-to-end Migration Services in a multi-vendor context, leveraging on its proven international experience.

#### ***“Ultra Broadband” Competence Center***

The future of Italian ultra-broadband, extensively discussed in terms of the Italian Digital Agenda, is developing on the basis of the roll-out strategy which seeks to achieve the download and upload performance objectives declared in the Agenda. This deployment, on the basis of the agreements reached between the various parties involved in installation, demands specialist design for the laying of the fiber optic network which requires the careful mapping of the national territory on the basis of the existing infrastructure. Only the perfect combination of knowledge of the characteristics of the country and the infrastructure map can ensure the optimal delivery and consequent sustainability of the project in terms of costs and execution times. This, together with experience in terms of Network Deployment and extensive technological know-how, has enabled Italtel to launch this Competence Center, with the goal of constructing a type of Google map to trace the fiber path, on the basis of regional maps and allocations of infrastructure provided by utilities or municipal administrations.

#### ***“Network Decommissioning” Competence Centre***

The major Telecom Italia Decommissioning project which concerns the conversion of the entire national fixed network from the current traditional TDM technology to the new All IP architecture, has enabled the focusing at Italtel of a group of specialized skills in telephone network transformation projects. This specialization assists Operators in the process, which no longer may be postponed, of client migration for fixed telephone from communication centers 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 specialized 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.

#### ***“Managed Services” Competence Centre***

In view of the current complex competitive environment, Service Providers and Enterprises need to maintain their profitability through focusing on core operations and by streamlining costs. Telecommunications Networks and IT Services are strategic assets to increase competitive value, although their increasing complexity requires even more specialized skills and capacities, which may be more effectively sourced externally. Service Providers and Enterprises may therefore assess the possibility of implementing a Managed Services Strategy, also through Outsourcing, improving therefore processes and reducing personnel costs. Through identifying a reliable and efficient partner, Operating, Control, Security and Maintenance functions may be carried out, both on network infrastructure and on IT systems, including applications and databases.

Italtel offers Managed Services on a 24/7 basis, directly from the NOC (Network Operation Center) of the client, or through our own Services Center located close to Milan. Network services are IS 27001 certified and IT services are ITIL v3 certified. In order to ensure the availability of the network and of IT systems, the suite of Assurance services includes: Monitoring and Alarm Surveillance, Malfunction Management and Troubleshooting; Complaints Management, to trace and resolve Customer Care events; On-site support operations, including spare part supply.

Italtel offers also application systems and IT administration in terms of operating system, database and middleware management. The Italtel catalogue includes also other Managed Services: the creation, planning, engineering and control of network and services quality; user provisioning; management of client data for invoicing; testing and validation of new devices and services; security management.

The principal environments in which Italtel managed services operate are WIFI infrastructure, HCS and security solutions.



### **“OSS/BSS” Competence Center**

The development of modern networks is creating a role for the intelligent and quick management of the control of the network itself, of enabled services and of significant operations and activities connected to businesses. The OSS and BSS platforms are usually responsible for these tasks, although traditional instruments are evolving towards more integrated, flexible and functionality-rich systems. In addition, the appearance of new concepts (e.g. Network Function Virtualization and Software Defined Networking, often co-existing with traditional networks), raises new challenges for global Service Management, with a need to provide an end-to-end vision in order to avoid a partially inefficient process. With extensive experience in the implementation of networks and services, Italtel has maintained and developed its ability to construct OSS/BSS systems, responding to the specific conversion requirements of clients. The principal environments in which Italtel is engaged are outlined below.

- *Assurance.* The solutions proposed by Italtel are all based on a balanced combination of best-of-breed Commercial-Off-The-Shelf (IBM, Oracle, HP, Tibco and others) or Open Source components, Italtel tailor-made instruments and System Integration capacities. Our solutions include: Multi-domain Fault and Performance Management; mediation functions based on Service-Oriented Architecture (SOA) to improve interoperability between the network and OSS/BSS; monitoring and control of the Quality-of-Experience (QoE), utilizing the test platform based on Italtel agents.
- *Analytics.* Italtel offers a personalized end-to-end approach, operating in the belief that a “one-fits-all” system is not suitable for diversified Business environments. Italtel has extensive experience in the development of instruments for the collation and elaboration of data, which can interface with a range of data sources and which are highly diversified in terms of structure, volume and speed. The principal COTS technologies, including SAS, IBM and Qlik or Open Source components may be utilized for the storage of large groups of data, with complex statistical capacities. In addition, Italtel is working with Data Scientist to provide a 360° service.
- *Other OSS and BSS solutions.* Italtel and its partners can satisfy other key OSS conversion needs (for example: Fulfillment, Workforce Management) and BSS needs (for example: CRM, Billing).

## **Development and Innovation**

### **European projects**

Italtel S.p.A.’s research and development in 2015 concerned both the new Framework Horizon 2020 and collaborative projects agreed in previous years within the Seventh Framework Program – Cooperation – of the European Union, in the iCT (Information & Communication Technologies) area.

In 2015, as part of the Seventh Framework Program, the IP (Integrating Project) MobileCloud project continued, coordinated by SAP AG in collaboration with 18 partners, for the architectural development of the mobile network through the virtualization of core TLC network functionalities according to Cloud Computing paradigms, in addition to the “T-NOVA” project, coordinated by the Demokritos research center in collaboration with 18 partners, in order to promote and create at prototype level the concept of TLC network functionalities virtualization (NFV – Network Function Virtualization).

In July, as part of the Framework Horizon 2020 the “SESAME” (Small cells coordination for multi-tenancy and edge services) project was launched, coordinated by the Greek telecommunications company OTE, with the participation of 20 European industrial partners and research institutes. The project seeks to convert the physical resources (Small Cells) of individual Operators into virtualized resources, developing an innovative architecture capable of making available a coverage of small cells to operators “as a service” through a neutral platform using Edge Cloud computing and the Network Function Virtualization (NFV) paradigm.

In 2015, Italtel presented six project proposals as part of the new Framework Horizon 2020, called: “ARCTIC” (smARt objeCTs as a servICE); “DRONES” (Disaster Resilience Optimization by New technologies and Early-warning Systems); “ENTHALPY” (A Novel Applications Development Approach And Deployment Framework Over Low Power And Dynamically Configurable Infrastructure); “OVERScaN” (Dynamic Orchestration of

Virtualized NETwork Monitoring Functions in SDN-enabled eNvironments); “DeManTech” (Producer-centric Closed-loop Manufacturing Solutions supported by De-manufacturing Technologies, Systems and Strategies) and “SMC” (Network for Sustainable Mobile Clouds), with this latter as part of the Marie Skłodowska-Curie activities.

### Subsidized loans and grants for Development and Innovation

In 2015, Italtel S.p.A. income in this regard totaled approx. Euro 5.55 million, of which Euro 0.78 million concerning Research projects capitalized in previous years. Grants amounted to Euro 8.2 million, while Euro 26.24 million of subsidized loans were received.

The incentives were based on the following domestic and international regulations:

- Ministry for Economic Development Fund for Competitiveness and for the Development of Industrial Innovation technology areas: Energy Efficiency, Sustainable Mobility and Made in Italy;
- National Operative Program Fund (PON) Research and Competitiveness 2007-2013;
- Rotating Fund - 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;
- Enacting Regulation of the European Commission on the Seventh Framework Program and Horizon2020.

In 2015, the remaining disbursements to all “CAMP” (Context Aware Mobility Platform) project partners were issued, coordinated by Italtel.

With regard to MIUR PON\_04, the activities concerning the i-NEXT (Smart Mobility and Smart Grid areas) and Cluster OSDH-SmartFSE-Staywell projects (Smart Health area) concluded. For both projects, the ministerial inspections were carried out.

In addition, 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) concluded, in collaboration with the Sicilian Micro and Nano Systems Technology Cluster. The ministerial inspections were also carried out for these projects.

Following the further declarations by Invitalia on the mandate of the Ministry for Economic Development on the “0203Telecom Italia & Italtel Development Contract”, which concluded in 2013, the remaining balance of the grants was received.

In 2015, the “Ultra Broadband 0339 Development Contract” project continued, with the objective to provide ultra-broadband in the convergence regions (Campania, Puglia, Calabria and Sicily), with Italtel’s involvement concerning an industrial research project for the development of new products for the ultra-broadband network and a production investment project addressing the industrialization of the prototypes developed at the Carini facility.

In 2015, the activities concerning the national projects introduced in previous years continued: the Decision Theater project (in relation to Cloud Computing), presented in 2012 under the MIUR (Ministry for Economic Development) SCN (National Smart Cities) tender and the Bigger Data project, co-financed by the MIUR according to the “Start-Up” notice with Action and Cohesion Plan funds.

In 2015, the activities concerning the PON\_03 “Servify” (SERvice FirstLY) project began, co-financed by the Ministry for Universities and Research within the Si-Lab consortium, of which Italtel is a founding member.

In addition, the “ADVENT” (ADvanced Virtualization for Enabling Network Technology and applications) project began, co-financed by the Lombardy region on the basis of the “LombardyEnterprise” Regional Law - Competitiveness Agreements.

In 2015, the application for access for the “ALL IP” Development Contract, a joint Telecom Italia and Italtel project, based at the Carini headquarters, was presented for the 2016-2019 period and currently is within the Ministry for Economic Development approval phase.

## Partnerships

### Cisco

During 2015 Italtel continued to innovate and extend its catalogue of Telecommunications and Information Technology solutions, mainly based on Cisco technologies, appropriately integrated by Italtel products and a range of high quality Professional Services.

As in 2014, the offer was structured according to guidelines, which correspond to the Competence Centers, characterized by the most advanced specialist skills (confirmed by a wealth of Certifications), innovative 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 specialized and engineering support necessary to design and manage the life cycle of solutions.

In particular, the Solutions and Services offer in 2015 was presented according to the Competence Centers described in the section “Development and positioning of the Italtel offer: Professional services and System Integration” of the Directors’ Report.

During the year, a number of strategic initiatives were undertaken in close collaboration with Cisco, in order to strengthen the partnership and improve the positioning of the two companies in specific market sectors:

- “Enterprise SDN” – exploiting the potentials offered by the new network programmability technologies through controllers, Italtel seeks to create applications which guarantee full harmony between networks and services. Specifically, in 2015 Italtel, working closely with the Cisco Business Units, designed an application which interacts with the APIC EM Cisco controller and can efficiently allocate network resources on the basis of collaboration services needs.
- “Hosted Collaboration Solution” - as part of the HCS Cisco solution, Italtel worked together with the Cisco Collaboration Business Unit to certify itself as the first partner worldwide capable of constructing the HCS solution in the Service Provider data center. In addition, Italtel has worked to validate the use of its SBC NetMatch as a completion of the Cisco solution, both on the line side, in the case of third party softphone interconnection, and in the aggregation layer.

On the basis of that outlined above, Italtel has the dual capacity to offer a complete Professional Services catalogue and to increase the value of solutions with proprietary developments and products.

Italtel supports operators and enterprises in finding the correct response to their needs, suggesting 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, Italtel can successfully support certification processes for interconnection between Operators and between Operators and Businesses.

In relation to the execution of projects, Italtel can provide services which range from Consultancy to Design, from Engineering to Implementation, from Management to Optimization, up to the construction of the relative facilities, drawing on its ability to introduce multi-technology solutions. Finally, Italtel can handle the operating activities for network and IT solutions, providing the necessary technical support at every level, optimizing solutions and testing and improving the Quality of Experience. The Network Operation Centers (NOC) and Security Operation Centers (SOC) are important assets in support of the outsourced Managed Services.

## Tech Mahindra

The collaboration begun in the second half of 2014 with Tech Mahindra continued, a company belonging to the Indian industrial Group Mahindra, which operates on the global Information Technology market, both on the Service Providers and Enterprise and Public Sector markets.

The agreement brings together the skills and personnel of Italtel in terms of engineering and telecommunication network construction, with those of Tech Mahindra in OSS and BSS systems, managed services and IT applications.

It was based also on the provision to Tech Mahindra of Italtel's specialised technical resources to enable their entry to the Italian market.

## NTT Communications

Italtel undertook an agreement with NTT Communications, the division dedicated to ICT solutions and International Communication of the NTT Group (NYSE: NTT) for the Unified Communication in the Cloud.

The program sees Italtel as the first channel partner in Europe to propose the Arcstar Unified Communication as a Service (UCaaS) of NTT Com solution to the large enterprise sector. Italtel will operate also as the Value Added Reseller (VAR) and installer of the Arcstar UCaaS solution for its clients in Europe.

The partnership will draw on the consolidated experience of Italtel as one of the main system integrators in the EMEA region to accelerate the supply of the Arcstar UCaaS solution, which is a global collaboration service, without limits and cloud based for anywhere and anytime communication.

As a Professional Services Partner, the support of Italtel will take the form of procurement services provision and installation and maintenance, in order to ensure the provision of the underlying requirements for Arcstar UCaaS implementation.

In addition, as the VAR, Italtel may extend its offer of communication services, with direct access to collaboration services such as Arcstar UCaaS, which integrate various communication functions, including IP calls, messaging (voice, mail and instant messaging), telephone and video and web conferencing services.

## Exprivia

In February 2015, Italtel and Exprivia, the Information Technology leader in Italy and on a number of international markets, formalized their collaboration, already in place for some time on the domestic market, through a commercial and industrial agreement.

The Agreement provides for the following:

- commercial collaboration on the domestic Service Providers market, beginning with Telecom Italia, principally on OSS solutions and related professional services and on the Enterprise and Public Sector market, with new generation Data Center, Unified Collaboration & Communication solutions, to the development of Portals and IT applications;
- international collaboration for the promotion of joint solutions on overseas market with the existing presence of at least one of the two parties (for example, Brazil, Argentina, Mexico, Peru, Turkey);
- industrial collaboration focused on the identification and joint implementation of innovative IT and network solutions.

## IBM

Italtel in addition concluded, also in February 2015, a major agreement with IBM, involving the joint commercialization of Unified Communication & Mobility solutions and services for the Enterprise market in Italy.

IBM will bring to the market its Unified Communication "IBM Mobile First Collaboration" solution, developed by the Italtel "Collaboration At Work" solution, based on the Italtel Embrace and Italtel NetMatch products.

The IBM-Italtel solution will enable enterprises integrated voice, video and data communication, also mobile, maintaining and developing the existing assets through functional integration and the normalization of the multivendor platforms in which the company has already invested.

The agreement provides in addition for further development in other fields, such as for example security and Cloud services.

## Sigfox

Italtel and Sigfox, a low consumption cellular technology network operator, principally focusing on the business market, signed a partnership agreement for the joint development of Internet of Things (IoT) and Machine-to-Machine solutions. These solutions, with Italtel acting as system integrator, use Sigfox technology for connectivity, particularly for those applications (e.g. energy control, logistics, agriculture) where low usage and maintenance costs are a key factor.

## Telarix

A further major strategic agreement signed in 2015 concerned Italtel's partnership with Telarix, global leader in software solutions for interconnection and multi-national network routing systems.

The agreement makes available to the parties a System of integrated solutions which marries the completion of links between international networks with the corresponding traffic optimisation logics, on financial and operative criteria.

As Telarix is a major global player, also in traditional areas in which Italtel is not involved (North America, Asia Pacific), the agreement provides in addition Italtel with a major opportunity to expand its market.

## Corporate Governance and Social Responsibility

### Board of Directors

In line with the Restructuring Agreement and the adoption of the new By-Laws at the Extraordinary Shareholders' Meeting of Italtel S.p.A. on March 15, 2013, a number of amendments 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 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.

The Board of Directors of Italtel S.p.A., in office until the approval of the financial statements at December 31, 2015, is comprised of five Directors. In accordance with the By-Laws of Italtel S.p.A. (Article 26.6), the Directors appointed by the EFI 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 EFI shareholders, by two other members (CEO and COO, with executive duties) of the Board of Directors.

During 2015, the Board of Directors 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 of Italtel S.p.A.

The remuneration devolving to Directors and to Statutory Auditors of Italtel S.p.A. for the discharge of office is as follows:

	(thousands of Euro)	
	2015	2014
Directors <sup>(1)</sup>	1,138	1,137
Statutory Auditors	83	89

<sup>(1)</sup>The Board of Directors, with motion of January 20, 2014 (a) confirmed Tiziano Onesti as the Chairman of the Board of Directors, (b) confirmed Tiziano Onesti as (i) a member of the Internal Control Committee (the remuneration for this position is included in the remuneration of Tiziano Onesti for the role of Chairman of the Board of Directors) and (ii) a member of the Remuneration Committee, in addition to its Chairman (no remuneration is provided for this position), (c) assigned to the Chairman of the Internal Control Committee, Stefano Carlino, remuneration for office of Euro 10,000 for each financial year. The Board of Directors, with motion of July 25, 2014, created the Sale Committee, which did not establish any additional emolument to that already recognized to each Director for participation on the Committee or for the Chief Operating Officer, as considered part of the remuneration received as an Italtel S.p.A. senior manager.

### Committees

Technical and/or consultative committees have been set up at the subsidiary Italtel S.p.A.. The principal activities of these Committees are outlined below.

#### Special Committees

The technical and/or consultative committees currently in office are the Internal Control Committee (which carries out the functions also of the Committee for Transactions with Related Parties), the Remuneration Committee, in addition to the Sale Committee. These Committees were set up in compliance with Article 31.2 of the By-Laws of Italtel S.p.A..

#### The Internal Control Committee

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

In 2015, the Internal Control Committee met periodically, approving the Audit plan for 2015 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, ongoing meetings took place with the Board of Statutory Auditors and the Independent Audit Firm to examine issues of common interest.

In implementation of the Related Party Transactions Procedure approved by the Board of Directors of the Company with motion of December 16, 2014, the Related Parties Transactions Committee, which equates to the Internal Control Committee, met on two occasions to consider Transactions with Related Parties as part of business operations.

No remuneration was established for the members of the Related Parties Transactions Committee.

### **Remuneration Committee**

The Committee comprises three Directors (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 Company its non-binding opinion on the remuneration of Directors of the Company with particular roles and of top managers. The Remuneration Committee, established in 2014, in 2015 met once.

### **Sale Committee**

The Sale Committee, established under the Restructuring Agreement with Board of Directors motion of Italtel S.p.A. of July 25, 2014, comprises the Chairman of the Board of Directors, the Chief Executive Officer and a Director appointed by the Board of the Company. Its duty is to monitor and oversee the process and the preliminary activities concerning the sale of the Company and of the Equity Financial Instruments, reporting periodically to the Board of Directors of the Company on its activities. The Sale Committee met four times in 2015 in relation to activities carried out in execution of its mandate.

### **Organization, Management and Control Model**

During 2015 the Model adopted by the Company for the prevention of the offenses established by Legislative Decree 231/2001 was reviewed. The review resulted in the updating of the General Part of the Model and of the following Special Parts:

- Special Part B - Corporate offenses
- Special Part E - Money-laundering offenses
- Special Part K - Environmental offenses

The updating was necessary in order to incorporate into Italtel S.p.A.'s Model 231 the following regulatory changes:

- The money-laundering offense (as per Article 648-ter 1 d.c.), introduced by Law No. 186 of December 15, 2014, among the offenses at Article 25-octies of Legislative Decree No. 231/01;
- The new offenses against the environment (so-called eco-offenses), introduced by Law 68/2015 (published in Official Gazette No. 122 of May 28, 2015) "Provisions concerning offenses against the environment". The provision introduced into the Penal Code section VI-bis ("Offenses against the environment") new environmental offenses. A number of these, listed below, were in fact included in Legislative Decree 231/01:
  - environmental pollution (Article 452-bis) and its aggravated form on the basis of death or injury (Article 452-ter);
  - environmental disasters (Article 452-quater);
  - unintentional offenses against the environment (Article 452-quinquies);
  - traffic and abandonment of highly radioactive material (Article 452-sexies).

- Amendment to False corporate information Article 2621 of the Civil Code, reformed by Law No. 69/2015, entering into force on June 14, 2015, the so called “Anti-corruption Law” and among the offenses at Article 25-ter of Decree 231 (Corporate offenses)

The personnel disclosure activities concerning Legislative Decree No. 231/2001, the Ethics Code and the Management and Control Organizational model continued through updating the content on the company intranet site dedicated to the Compliance Office activities.

In 2015 the drawing up of 5 training modules was completed for the foreign subsidiaries, to be provided through e-learning. The modules concerned the *Principles for the prevention of offenses and conduct guidelines* approved by the BoD on November 15, 2013 and published in the foreign languages used within the Italtel Group (English, French, Spanish and Portuguese). Training began in 2015, with completion in 2016 and the involvement of all personnel operating in areas at risk.

The Group’s Ethics Code was reviewed, taking as reference the “Global compact” standard promoted by the United Nations (<https://www.unglobalcompact.org>). A specifically constituted work group drew up a new Ethics Code, which was shared with the managers of all company departments, with the COO and with the CEO. The document was examined by the Supervisory Board and by the Internal Control Committee and finally was approved formally by the BoD of Italtel S.p.A. at the meeting of November 15, 2015.

The Compliance Officer also conducted an audit to verify the correct application of the Organisation, Management and Control Model as per Legislative Decree No. 231/2001 for the activities related to the *Receipt of public grants for research and development*, included among the areas at risk for offenses against the Public Administration.

On February 25, 2015, the Anti-trust Authority allocated a Legality Rating to Italtel S.p.A. of two “stars” with a “+” of a maximum three “stars”, therefore identifying Italtel as among the leading companies in terms of adopting ethical conduct principles and in terms of legal compliance.

The Legality Rating was created to support companies with high transparency and legality standards within the public and private funding system.

The Compliance Officer of Italtel S.p.A. provided ongoing updates to the Supervisory Board (comprising one external member with expertise in financial reporting and economic – financial matters, the existing 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 2016 and the relative budget.

### Conflict of Interest Regulation

In 2015 the monitoring of cases of conflict of interest of Italtel Group personnel with legal representative powers and specific roles continued.



## Human resources and quality

### Human resources

Italtel Group employees at December 31, 2015 numbered 1,366, of which 259 overseas (at December 31, 2014 numbering 1,334, of which 205 overseas). The new hires in the year numbered 119 (of which 97 overseas), with 87 departures, of which 76 voluntary departures (in Italy 33 employees). 2 senior managers joined the company, while 4 departed; at December 31, 2015 senior managers numbered 44. Personnel are broken down into the following departments: Research & Development (28%), Operations (45%), Sales & Marketing (17%) and Administration and Staff (10%). 49% possessed Degrees, while approx. 47% held Diplomas.

### Organisation

In 2015, Italtel's organization was further developed with the creation of the first level company Function - Chief Marketing & Technology Officer - with complete oversight of the Marketing and Technologies areas, requiring specialized management of the Telecommunications Operators and Enterprises and Public Administration segments and an integrated approach to the development, delivery and assistance of our Products, Solutions and Services.

This was undertaken both to accompany and anticipate the significant changes evident as the telecommunications and information technology markets moved towards a decisive convergence of network and IT technologies, with the consequent need therefore for a global vision, but at the same time an emphasis on specialization, experience and cross country references.

On the basis of this development, the Company will place an organizational focus on technology centers of excellence which are considered central for the business' development - i.e. the Competence Centers - operating in support and in synergy with the Business Development & Offering units of the Market Units (Data Center & Virtualization, Internet of Things, Cyber Security, Unified Communication & Collaboration, Software, Network Transformation & Decommissioning, Managed Services, Ultra Broadband design).

### Industrial relations

In 2015 surpluses were managed in order to achieve the labor cost objectives for the years 2015-2016 of the Industrial Plan.

The round tables with the trade unions at the Ministry for Economic Development and Assolombarda concluded on February 12, 2015 with the signing of an agreement, whose key points concerned:

- a professional retraining plan based on networking courses made available by Italtel for 127 employees under the Temporary Lay-Off Scheme, with reabsorption of personnel from January 1, 2016 on passing of the relative exam;
- the use of social security schemes, in continuity with the Extraordinary Temporary Lay-Off Scheme in place until April 11, 2015, with the introduction of the Lay-Off Scheme as per Article 3, paragraph 1, Law 223/91 for a maximum 1,084 employees for 5 days in the period, which was reduced to 947 employees for a further 5 days and with rotations of 10% for the remaining 127 employees involved in the retraining plan. This program was thereafter formalized through the agreement of May 11, 2015 signed at the Ministry for Labor and Social Policy;
- a comprehensive review of the second level supplementary agreement, with abolition of certain conditions (evening meal indemnity, travel time with company car, overtime and travel time for above 6<sup>th</sup> level personnel), suspension for the 2015-2016 two-year period of other more advantageous conditions over the National Contracts (holidays, bonuses, fixed compensation) and the structural reduction of certain indemnities (availability, travel).

Before the end of the year, with the agreement reached at Assolombarda on November 20, 2015, the use of the Solidarity Contract was reviewed for 2016, after suspension for the entirety of 2015 following the reaching by the company on December 31, 2014 of a maximum limit of 48 consecutive months as established by law.

The agreement provides for the use between January 1 and December 31, 2016 of the vertical Solidarity Contract for 846 workers, with a 12% reduction of hours (16 days and 30 minutes per day, corresponding to an additional 16 equivalent days), of the vertical Solidarity Contract for 125 workers for 8 days annually and the re-entry to the workforce with a Solidarity Contract percentage of 50% monthly (in full days) for employees involved in the 2015 Extraordinary Temporary Lay-Off Scheme who have not yet taken the exam under the retraining plan above and until passing such exam.

## Training

In 2015, 16,500 hours of training were provided in Italy, with 751 participations and 108 training events of various types. During the year training once again focused on technological issues, with a significant commitment to the retraining of staff involved in Temporary Lay-Off Schemes. In particular, in relation to Cisco technologies the necessary courses for the maintenance of Gold Certification, the ATP's and operations on developing markets and the development of Selling Business and Business Value Practitioner skills was ensured. Training in relation to virtualization continued, consolidating VMWARE skills and developing Openstack/Red Hat know-how. Functional training was guaranteed by new partnerships such as Sandvine. As part of managerial training, the "Selling Skills in action" course was drawn up and provided to 40 accounts to develop a consultancy Approach to sales and to provide participants with tools and techniques to optimize the management of client relations. The ongoing updating of Managers, Supervisors and Professionals was extended through the Ruling Companies agreement, which allows for free participation at business culture meetings. In addition, Project Management skills were developed both through PMP certification preparation courses and classroom consultancy courses. In order to facilitate international development, foreign language training was re-introduced in a particularly flexible format based on Skype lessons and individual coaching. The retraining of personnel involved in the Extraordinary Temporary Lay-Off Scheme involved a significant training and tutoring investment for the acquisition of the CISCO CCNA Routing&Switching, CCNA Data Center, PMP and Internal Quality auditor certifications. All employees involved were required to draw up a list of skills before beginning classroom activities.

Lastly, in terms of health and safety training, a course was provided to all employees involved at the EXPO on Legislative Decree 81/08, specifically for high risk situations. These same employees were involved in a high risk fire protection course and a high risk first aid course. The updating was ensured through RLS and RSPP. Also in 2015 Training Financing was availed of, which covered 25% of the operating expenses required through Fondimpresa, Fondirigenti and Cisco funds for the Cloud Mdf Project.

## Quality

Italtel - as always - places particular attention on quality concerning products, solutions and services and also in relation to the performance of processes, fulfilling in addition environmental, health and security requirements. This commitment continues through the 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. The products developed 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, Italtel - enrolled in the Manufactures of Electrical and Electronic equipment Register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment) in relation to the disposal of products at the end of their life cycle.

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

## Sustainability at Italtel

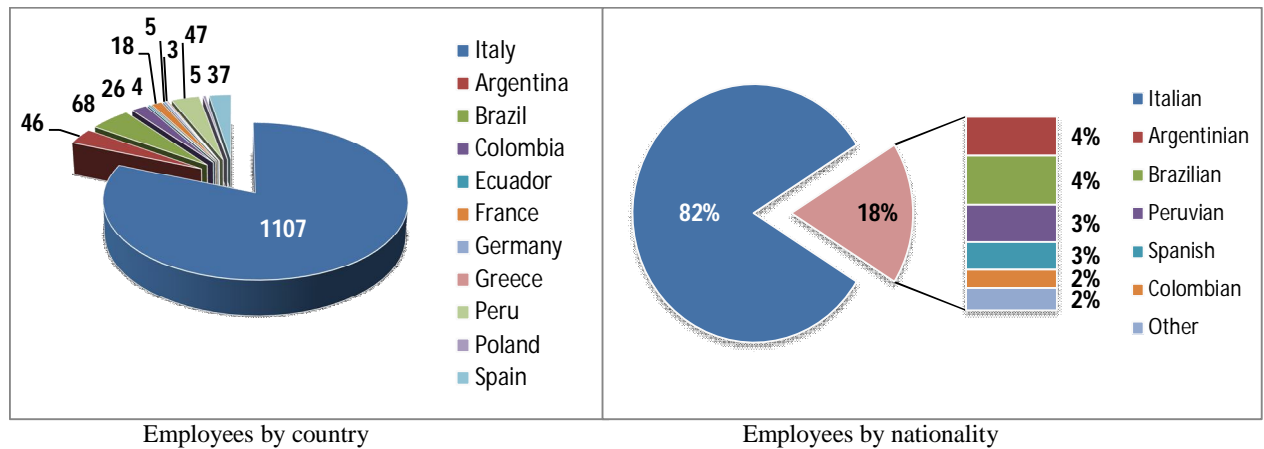
Italtel this year for the first time reports upon its commitment not just to achieve the business objectives set, but also upon the carrying out of operations while fully respecting the rights of the individual, ensuring fair competition, safeguarding the environment and protecting workplace health and safety.

This initiative is based on the United Nations Global Compact and the principles concerning respect for human rights and safe workplace conditions, the protection of the environment and business ethics - issues which already are central considerations of the Italtel Group Ethics Code.

This initiative is part of a process which will see Italtel increasingly committed to respect, support and promote such principles, which form the bedrock of sustainable development.

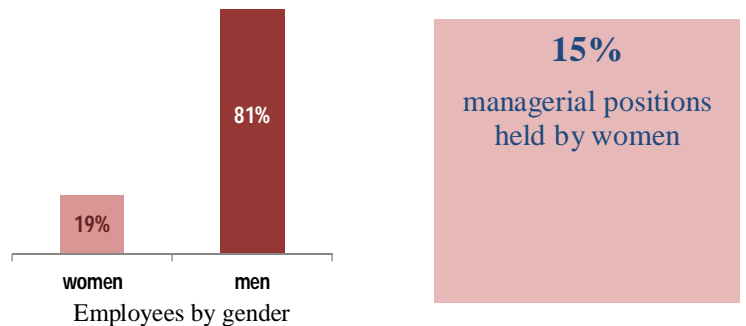
## Human Rights

Italtel is present in 11 Countries in Europe and Latin America. Group employees at December 31, 2015 numbered 1,366, of which 259 overseas (at December 31, 2014 numbering 1,334, of which 205 overseas).



The percentage of women in the workforce and in managerial positions corresponds to Italtel's business sector female participation rate.

For example, in Italy women in 2014 accounted for 26% of scientific and engineering faculty graduates, declining to 14% considering only IT engineering and telecommunications. [Source: Ministry for University and Scientific Research]



Women's salaries  
were 7.6% lower than  
men's

This figure, known as the Gender Salary Gap (salary difference between men and women), places Italtel above average among Italian businesses and also among the main European countries. The "2016 Gender Gap Report" (\*) places Italy 8<sup>th</sup> (-10.9%), France at 18<sup>th</sup> (-15.3%), Spain at 25<sup>th</sup> (-18.8%) and Germany at 28<sup>th</sup> (-21.6%). In addition, in the telecommunications sector the Gender Salary Gap in Italy was -14.5%.

(\*) [Source: "Gender Gap Report 2016" by JobPricing with Eurostat figures]

### Workplace health and safety

In terms of Workplace health and safety, the consolidated risk assessment and management practices, the health supervision programs and the improvement programs are implemented in continual consultation with worker representatives and with the support of the competent doctors, executives and managers-in-charge, and have enabled the elimination or the reduction of the residual risk factors at both the operating offices of Italtel in Italy and for the activities carried out at client offices.

The accident indices in 2015 further reduced on 2014.

#### Accident frequency index

Calculated according to the formula:

No. of accidents multiplied by 1,000,000 / No. hours worked  
(Regulation UNI 7249/2007)

2015

2.46

2014

8.10

#### Accident gravity index

Calculated according to the formula:

No. absent days multiplied by 1,000 / No. hours worked  
(Regulation UNI 7249/2007)

2015

0.05

2014

0.18

The total number of days of absence for accidents in 2015 numbered 80, against 262 in 2014 (-69%).

All obligations concerning the application of the Workplace Health and Safety Act (Legs. Decree 81/2008) were discharged. In particular, all employees in Italy were involved in the health supervision program and the training obligations were fully executed.

-69%  
days of absence  
for accidents in  
2015 compared to 2014

**Charity and support activities**

In Italy, in 2015 Italtel was involved in a range of activities in protection of the individual and with regard to health and social development.

▪ **Emergency**

In January 2015 Italtel supported the actions of Emergency in Sierra Leone for the fight against the Ebola epidemic which hit Western Africa; this support assisted the opening of two anti-ebola centers, a pediatric hospital and a surgical hospital and a disease prevention and cure project undertaken by local people.

▪ **Action Aid**

At Christmas, Italtel purchased through Action Aid greeting cards, whose revenue supports the actions and projects undertaken to fight poverty and to promote the right to food, the rights of women and sustainable development in developing countries.

▪ **Cancro Primo Aiuto (cancer charity)**

Italtel works together with Cisco on the “Together for Society” initiative, undertaken with the non-profit Cancro Primo Aiuto and provided its support to the 2015 “Christmas concert”. This initiative sought to collect funds for the purchase of a new linear accelerator for the radio-therapy unit of Niguarda Hospital in Milan, which in 2014 treated more than 1,300 patients.

▪ **Elis**

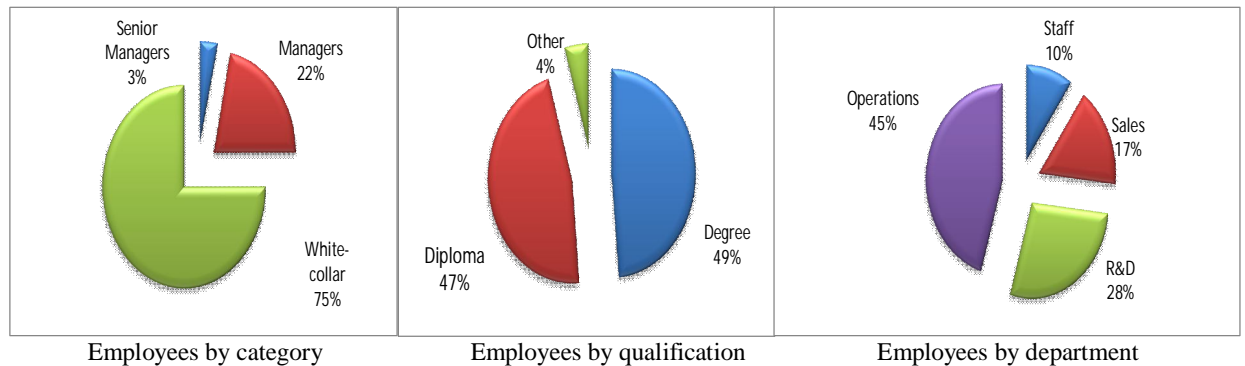
Thanks to collaboration with the Elis consortium, Italtel supported the development of the Salvabimbi (save the kids) App through the provision of two study grants. This innovative app enables the downloading of multimedia documents and access to a gallery of video files which explain in various languages the maneuvers to be undertaken upon the obstruction of a child’s airways, which can occur on ingesting small parts of toys and also apparently harmless liquids or foods.

**Workforce**

The Italtel Group workforce at December 31, 2015 comprises 75% white-collar workers, 22% managers and 3% senior managers.

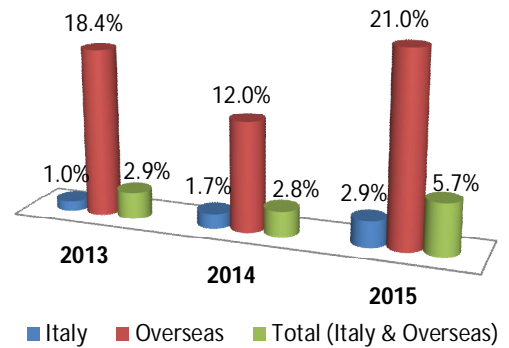
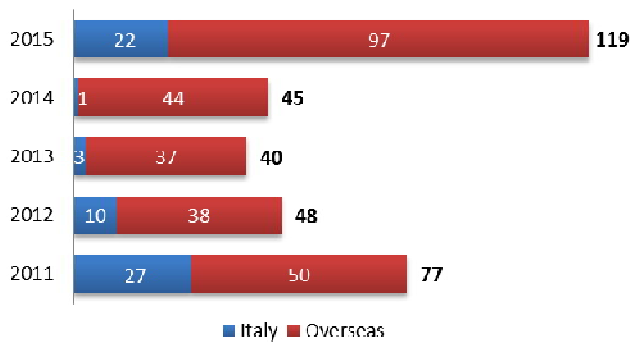
49% possessed Degrees, while approx. 47% held Diplomas.

Personnel are broken down into the following departments: Research & Development, Operations, Sales & Marketing and Administration and Staff.





(^) at the Latin American companies work hour flexibility is not available.



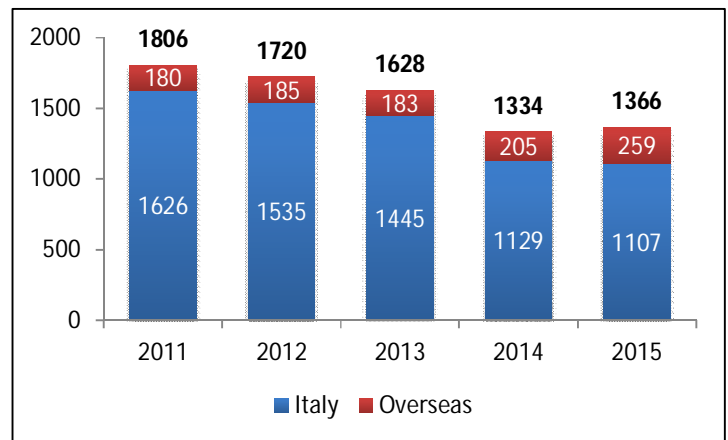
**Hiring over the last 5 years (number)**

**Voluntary turnover (% of voluntary departures out of workforce)**

Through use of a social security plan which seeks to save jobs agreed with the trade union organisations, in 2015 124 positions were protected, demonstrating Italtel's social responsibility and willingness to tackle the labor market emergency in Italy.

A retraining plan was in fact agreed, with a focus principally on the gaining of networking certifications by employees, allowing them to be redeployed to key operating activities.

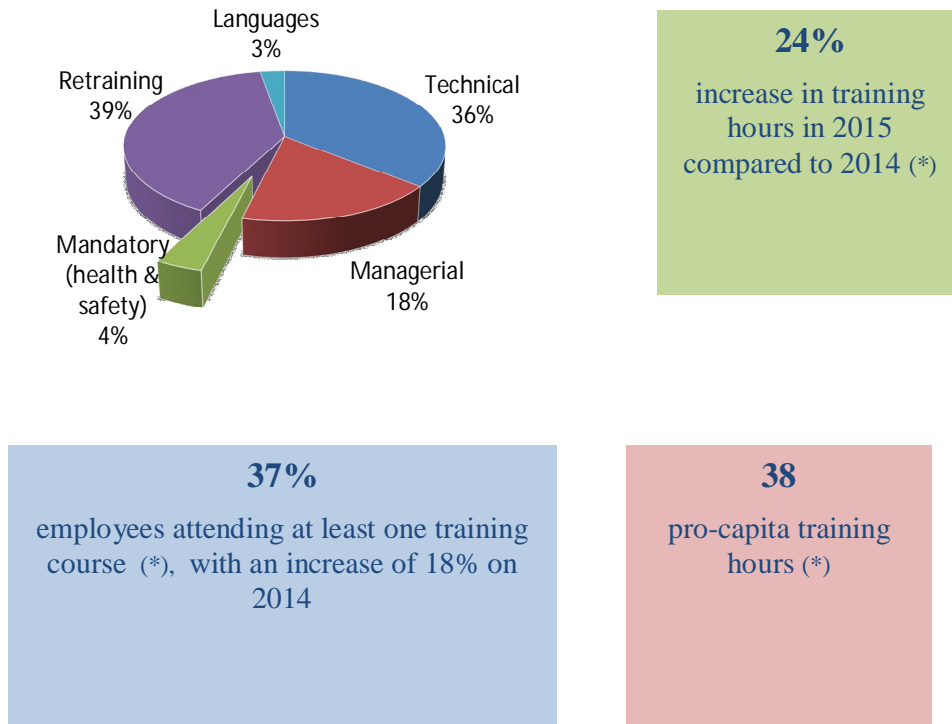
In terms of resources employed, the number of employees involved and personnel reskilling objectives, the retraining plan is the only one of its kind in Italy's recent industrial relations past.



Workforce over the last 5 years (number)

## Training

In 2015, in total 16,500 hours of training were provided in Italy, with 751 participations and 108 training events of various types. Training hours were equal to 1% of hours worked.



(\*) excluding mandatory training (on health and safety).

## The Environment

In 2015, Italtel again undertook a significant commitment to the environment, enabling a significant reduction in environmental impact, with quick and effective responses to external issues raised – demonstrating and documenting company compliance with regulations – and with a significant saving in electric and thermal energy. The Energy Management activities were further consolidated, also through the solution implemented internally for the monitoring of energy consumption (iESC), engineered for proposal and sale on the market within the “Smart City” environment.

In 2015 the first benefits of the optimization and reduction program introduced at the Settimo Milanese operating units became apparent, with consumption significantly reducing (-7.2%). As part of this initiative, a new condensing thermal station was installed which, in addition to lowering methane consumption 55.4% in the thermal year, resulted in Italtel being re-awarded Energy Efficiency Certificates.

In the Carini Industrial District, the Environmental Management System ISO 14001 certification was confirmed, held since 2001. In addition, in 2015 the new environmental policy was reviewed and published.

In 2015, in accordance with Legislative Decree 102/2014 “Energy Efficiency”, Italtel engaged a Certified Company to carry out Energy Diagnostics at the Castelletto and Carini facilities.

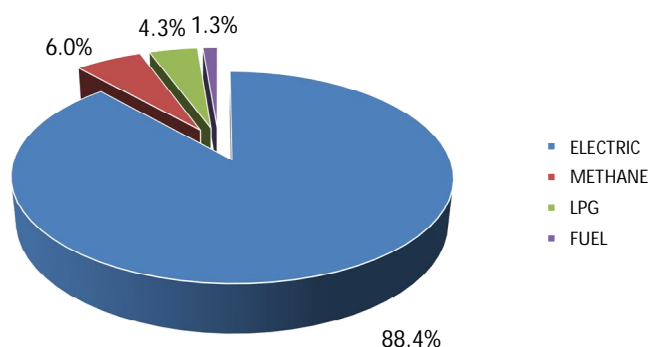
A focus on consumption containment, energy efficiency and the consequent environmental impact has translated into the continual decline of direct and indirect atmospheric emissions during the 2010-2015 five-year period.

The environmental performance improvement guidelines were:

- Containment of consumption and waste and optimal use of plant based on seasonality.
- Innovative technology through the virtualization of IT equipment in the CED/Testplant use areas, free-cooling practices and the use of UPS groups and high efficiency energy stations.
- Monitoring of consumption (i-Energy Service Center) and implementation of performance indicators.
- Adoption of consumption education policies and the switching off of unused chargers.
- Technological investment with revamping of air conditioning equipment and the installation of new more efficient heaters. Removal of inefficient equipment, resulting also in lower volumes of water utilized.
- Efficient utilization of spaces with industrial concentration or change of work sites, for the optimization of areas utilized and air conditioning used.
- Attention on water and paper consumption.

### Results and Consumption Trends

Electrical Energy is the principal source, accounting for 88.4%, corresponding to 14.2 GWh in 2015. Combustibles (methane gas and LPG) and fuels follow.

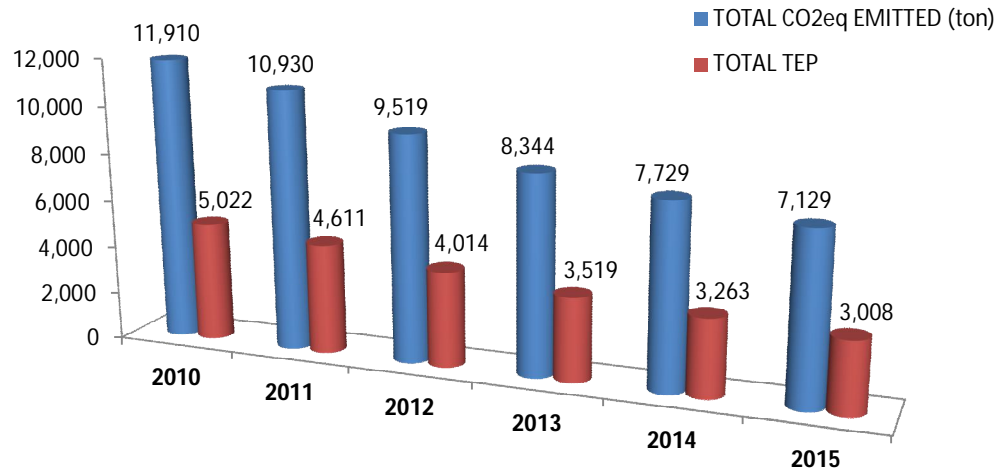


### Energy Splitting by type year 2015

The five-year trend of total Energy in Italy follows, expressed also in terms of emissions:

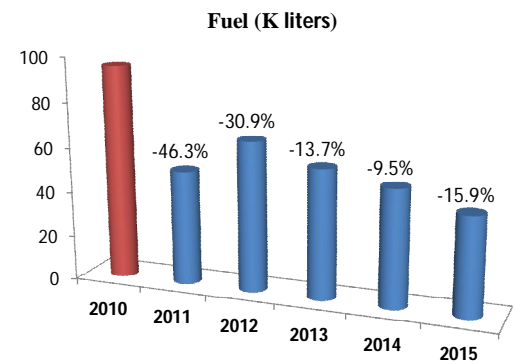
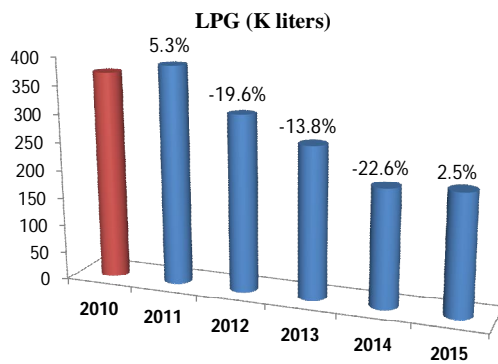
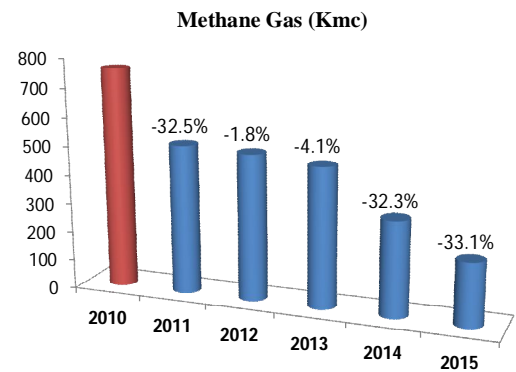
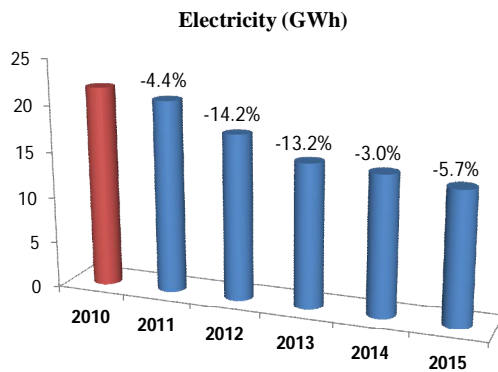
OVERALL TEP/CO <sub>2</sub> eq	2010	2011	2012	2013	2014	2015
TOTAL TEP	5,022	4,611	4,014	3,519	3,263	3,008
TOTAL CO <sub>2</sub> eq EMITTED (ton)	11,910	10,930	9,519	8,344	7,729	7,129
Change%		-8.2%	-12.9%	-12.3%	-7.3%	<b>-7.8%</b>
Cumulative Cge. %		-8.2%	-20.1%	-29.9%	-35.0%	<b>-40.1%</b>

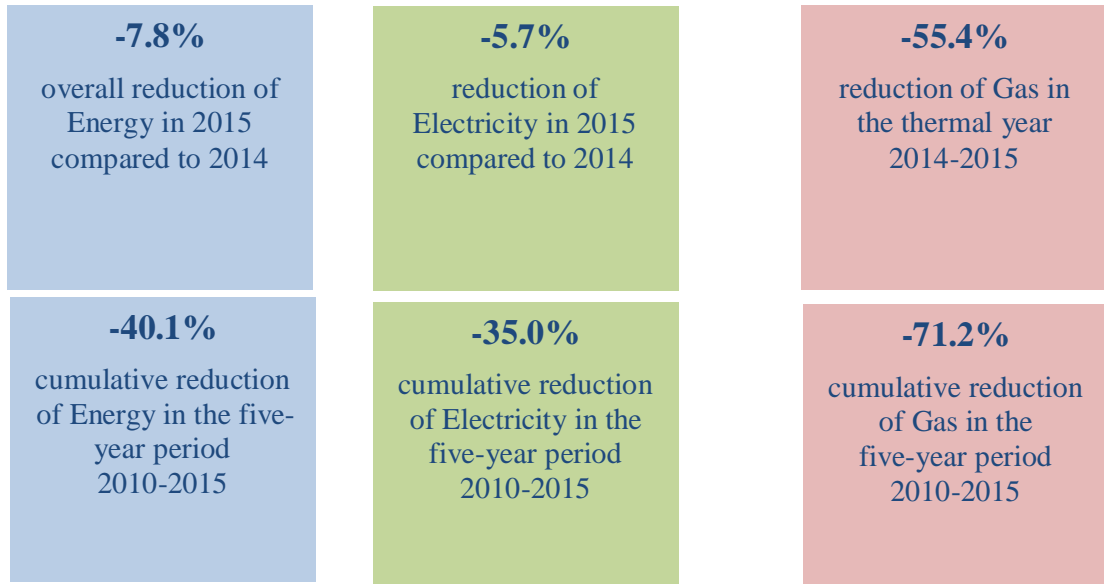




CO2 eq. trend and TEP 2010-2015

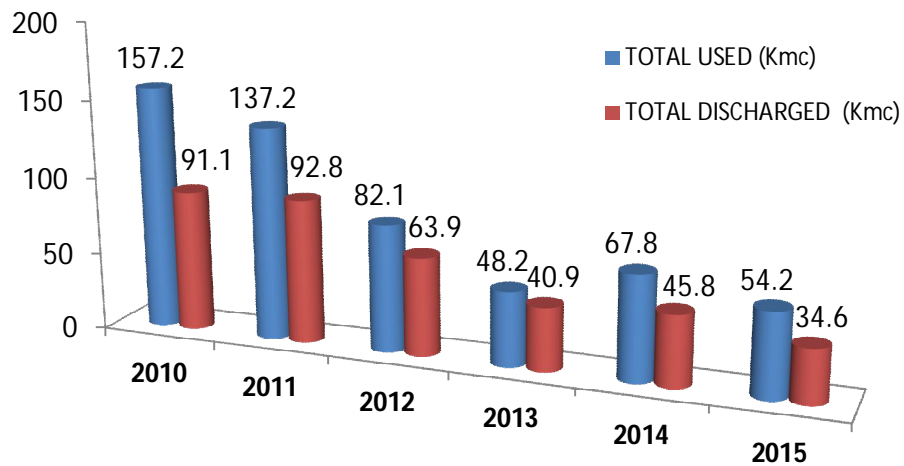
The five-year trend of the various components follows, with results year-by-year:



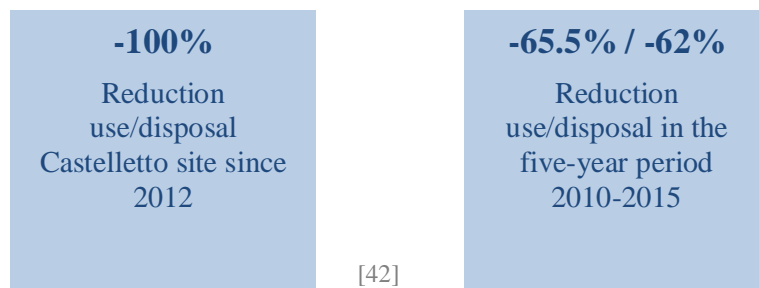


**Water**

Water consumption reduced at both industrial sites (Castelletto and Carini). In particular, at Castelletto disengagement of the old cooling towers enabled from the middle of 2012 the elimination of the use of well water and of all the industrial discharge, while at Carini the air conditioning plant revamping at the complex enabled the disposal of the old absorbers and a reduction of industrial water use of 51.5% since 2008.

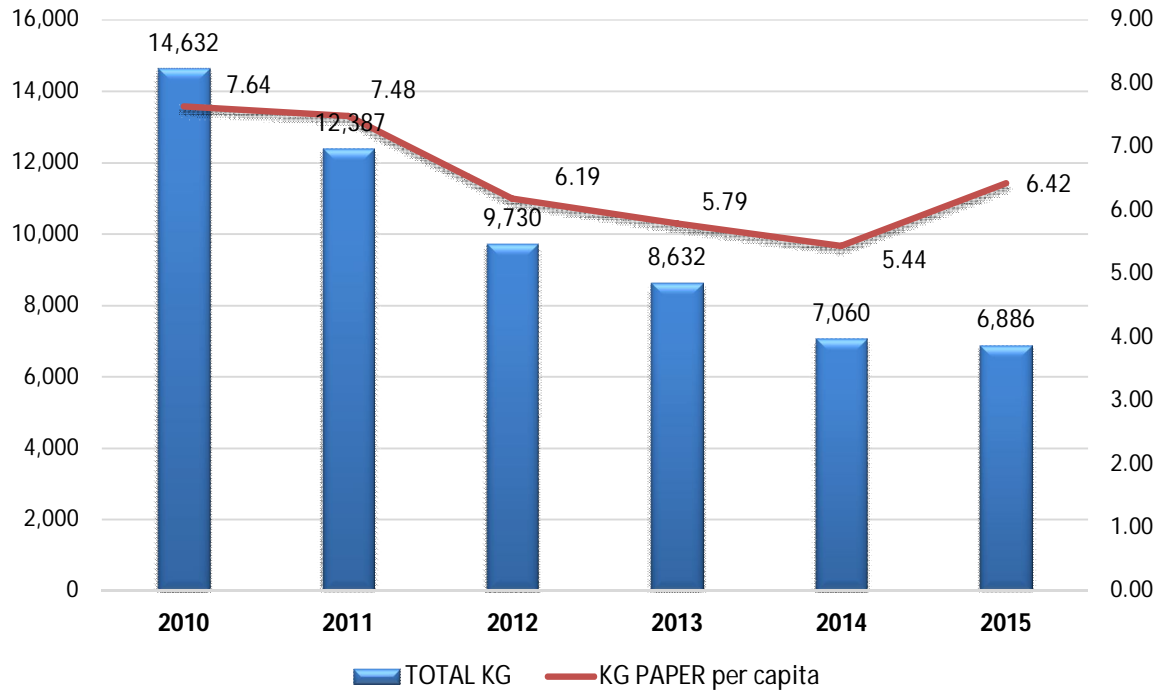


Use/Discharge Water 2010-2015



**Paper for office use**

Paper consumption has reduced both in absolute terms and in pro-capita terms. Lower consumption is related to the refinement of the multifunctional printing center projects shared with other services, in place since 2007. Although pro-capita consumption increased in 2015 alone, the cumulative decline since 2010 is approx. 15.9%.



Consumption of Paper for office use 2010-2015

<p><b>-53%</b></p> <p>Cumulative reduction of paper consumption in the five-year period 2010-2015</p>	<p><b>-15.9%</b></p> <p>Pro-capita reduction of paper consumption in the five-year period 2010-2015</p>
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**Regulatory compliance**

In relation to the products developed, the relative configurations are certified according to the electromagnetic safety compatibility standards and created in accordance with environmental impact minimisation criteria (for example: The RoHS - Restrictions of Hazardous Substances Directives); in relation to this, the Company – enrolled in the Manufactures of Electrical and Electronic equipment Register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment, enacted in Italy by Legs. Decree 49/2014) in relation to the disposal of products at the end of their life cycle. Italtel declares on a quarterly basis the quantity of wood, plastic, paper and steel used in the packaging released to the Italian market, paying to CONAI (National Packaging Consortium) Companies the Environmental Contribution as per Legislative Decree 152/06. With regards to the European “REACH” 1906/2007 (*Registration, Evaluation, Authorization and Restriction of*

*Chemicals*) Regulation, Italtel declares the compliance of its suppliers, requesting proof of percentage concentrations of highly dangerous substances and the relative usage Authorization from the European Agency for chemical substances (ECHA).

### Suppliers

The Italtel Group in 2015 continued to implement a policy highly focused on Corporate and Social Responsibility (CSR), with 18% of suppliers declaring implementation of CSR policies, with volumes acquired from these suppliers reaching 69%.



Italtel is strongly committed to the “Buy Well” policy, with a focus on quality, techniques, environmental and ethical/social aspects in terms of purchases, in order to improve its Suppliers’ Register, ensuring that:

- 60% of suppliers have ISO 9001, ISO 14001, ISO 27001 certifications;
- 24% have technical certifications such as SOA, CAR, CEI, IEC and obviously the specializations or certifications of the leading network and data center equipment vendors such as: CISCO, VMWARE, NETAPP etc.

**60%**  
ISO Certified suppliers

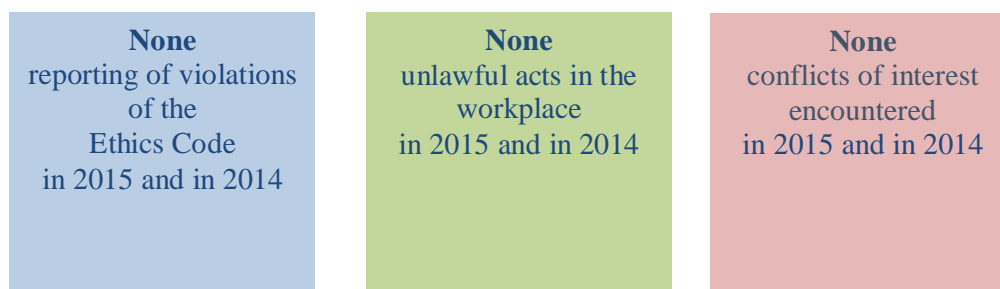
**24%**  
Suppliers with special technical certifications

### Business ethics

#### *Integrity, loyalty, conflicts of interest*

Italtel for many years has had an internal system which highlights irregularities, available to employees and all those operating on behalf or in favour of the Company. This system comprises dedicated telephone lines and an e-mail address to which any violations of the Ethics Code may be communicated or, more in general, unlawful activity. In 2015, as in 2014, no violations of the Ethics Code were reported, nor unlawful acts within the workplace.

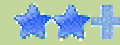
In relation to conflicts of interest, Italtel utilizes an internal procedure to identify and handle situations of potential conflict. In 2015 and in 2014 no cases of conflict of interest arose.



### *Fair competition and legal compliance*

Italtel operates with a wide range of parties (clients, suppliers, partners, ...), maintaining highly transparent and fair relations. The Company has adopted since 2002 an Organisation, Management and Control Model in accordance with Legislative Decree 231/2001 and in 2015 was allocated a Legality Rating (two “stars” and a “plus” out of a total three “stars”) by the Anti-trust Authority. This major achievement places Italtel among those companies committed to adopting ethical conduct principles and operating in compliance with law.

“Legality Rating”  
allocated by the Anti-  
trust Authority



In confirmation of this commitment, in 2015 and 2014 no disputes concerning legal violations by company personnel in the exercise of their duties were recorded, nor sanctions for violation of the regulations upon product security, privacy, industrial and intellectual property, misleading advertising or anti-competitive behavior by Italtel S.p.A. or by Group companies.

**No dispute**  
for violations of the law imposed  
on company personnel in the  
exercise of their duties  
in 2015 and in 2014

**No penalty**  
for violation of regulations, for  
misleading advertising or for anti-  
competitive conduct in 2015 and  
in 2014

### *Business ethics training*

In 2014, in Italy 100% of employees operating in areas at risk received training upon the prevention of unlawful acts in accordance with Legislative Decree 231/2001.

In 2015 a training program was initiated, currently in progress, involving all overseas Group companies in terms of these issues. By year-end, the program had involved 34% of employees operating overseas in the at risk areas and will conclude in 2016.

**100%**  
of employees  
operating in Italy in  
the at risk areas  
in 2014

**34%**  
of employees  
operating in the at  
risk areas of the  
overseas Group  
companies  
in 2015

**Internal controls**

Italtel carries out systematic internal auditing, part of which concerns business ethics. In 2015 10 internal audits in this regard were carried out, with 12 in 2014.

The implementation of the corrective and improvement actions identified during the audit are monitored continuously until definitive completion.

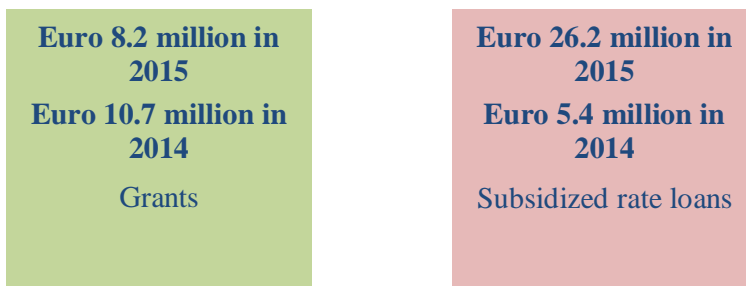
**22**

internal audits on  
business ethics  
in the years  
2014 and 2015

Italtel was subject to external audits carried out by third parties with whom it undertakes business relations; three were carried out in 2015 and in 2014 one; they concerned intellectual property rights in the use of third party software. All audits had positive outcomes.

**Relations with the Public Administration**

Italtel maintains close relations with the Public Administration. This is highlighted by the significant amount of support which the Company receives to support internal research and development, in the form of grants and subsidised rate loans.



In addition, Italtel is among 28 entities included in the Italian Public Administration suppliers list.

**28**  
Inclusion on Public  
Administration  
Suppliers list  
in 2015

Finally, Italtel holds an SOA (No. 16819/4/00) for the execution of public works in accordance with Presidential Decree No. 207/2010. The SOA is a mandatory certification for participation in public works tenders and is therefore necessary and sufficient to prove, within tenders, the capacity of the company to execute, directly and through sub-contract, public works with a tender value of over Euro 150,000; this assurance guarantees the holding by construction sector companies of all of the requirements of the currently applicable Public Works Contracts regulation. In addition to technical and financial capacities, the SOA establishes also professional standards requirements, the absence of serious violations in the execution of company activities and the proper implementation of labor law.

## Other events in the year

### *Industrial relations*

With the trade union agreement signed at the Ministry for Economic Development on February 12, 2015, the company and the trade unions agreed on an Extraordinary Lay-Off Scheme program until December 31, 2015 for 127 employees, with rotations concerning 10% of the personnel involved. In the same period, it was agreed that a maximum 820 workers will be involved in two weeks of the Employee Temporary Lay-Off Scheme, while a further 137 employees were involved for a period limited to 5 days from August 16 to December 31, 2015.

On April 2, 2015 and May 11, 2015, the minutes of the agreement for the use of the Extraordinary Lay-Off Scheme for restructuring of the debt in accordance with Article 3, paragraph 1, Law No. 223/91 for the period April 12, 2015 - December 31, 2015 were signed at the Ministry of Labor and Social Policy.

Before the end of the year, with the agreement reached at Assolombarda on November 20, 2015, the use of the Solidarity Contract was reviewed for 2016, after suspension for the entirety of 2015 following the reaching by the company on December 31, 2014 of a maximum limit of 48 consecutive months as established by law.

The agreement provides for the use between January 1 and December 31, 2016 of the vertical Solidarity Contract for 846 workers, with a 12% reduction of hours (16 full days and 30 minutes less on the other days, corresponding to an additional 16 equivalent days), of the vertical Solidarity Contract for 125 workers for 8 days annually and the re-entry to the workforce with a Solidarity Contract percentage of 50% monthly (in full days) for employees involved in the 2015 Extraordinary Temporary Lay-Off Scheme who have not yet taken the exam under the retraining plan above and until passing such exam.

### *Open Hub Med S.c.r.l.*

On November 5, 2015 OPEN HUB MED S.c.a.r.l. was incorporated, with Italtel S.p.A. holding 12.5% at December 31, 2015. The scope of the new company is to set up and operate a key transmission HUB for the Mediterranean, which will allow all domestic and international operators to benefit from the commercial opportunities stemming from telecommunication services and other services granted to the information company.

## Potential significant liabilities

### *Tax dispute in Italy*

Italtel S.p.A. (Italtel or the Company) has a number of tax disputes pending following the contestation of tax assessments issued by the Tax Agency – Lombardy Region – office of Large Contributions (the “Office”) in relation to the 2004, 2005, 2006, 2007, 2008 and 2009 tax years. The Agency principally contested in relation to IRES (i) the non-recognition of revenues for the alleged provision of services to CD&R Investment III S.a.r.l. (48.77% shareholder of Italtel Group S.p.A.), quantified as equal to the interest charges and costs related to loans granted for the Leveraged Buy-Out operation under which in 2002 Italtel Group S.p.A. (previously Italtel Holding S.p.A.) acquired Italtel S.p.A. (through Italtel Acquisition S.p.A.), resulting in additional taxable income for an amount of approx. Euro 19.5 million for 2004, Euro 18.9 million for 2005, Euro 17.5 million for 2006, Euro 16 million for 2007, Euro 14.6 million for 2008 and Euro 7.2 million for 2009 (LBO Issue); in addition to (ii) the non-deductibility of costs for services in favor of Italtel 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, Euro 1.2 million for 2007, Euro 1.0 million for 2008 and Euro 0.7 million for 2009 (Service Agreement Issue).

In relation to the tax assessments notified for 2004 (with regard to IRES, IRAP and VAT) and the tax assessment notified for 2006 (for IRES), the Milan Regional Tax Commission (judgements Nos. 339 and 340 of February 4, 2015) partially accepted the agency appeals and, with regard to the LBO issue, reduced the taxable income for 2004 from approx. Euro 19.5 million to approx. Euro 9.5 million and for 2006 from Euro 17.5 million to Euro 8.5 million. With regard to the Service Agreement issue, the second level judges concerned the relative taxable income as non-applicable. On September 4, 2015, Italtel presented an appeal to the Court of Cassation, challenging the unfavourable aspects of the judgement. On October 6, 2015, the Agency (represented by the

State Prosecutor) notified its counter appeal without however challenging the unfavourable aspects of the judgement. These aspects of the judgement are therefore considered as finalised. In relation to the 2006 tax assessment concerning IRAP and VAT (regarding the Service Agreement Issue), the State Prosecution notified on April 22, 2014 the appeal to the Court of Cassation against the judgment of the Milan Regional Tax Commission which fully accepted the appeal presented by the Company and consequently annulled the relative tax assessments. The Company notified and filed a counter claim in accordance with law.

In relation to the tax assessments notified for 2005 and for 2007 with regard to IRES, IRAP and VAT, the Milan Regional Tax Commission (respectively judgement No. 1932 of May 8, 2015 and judgement No. 1880 of May 6, 2015) confirmed the cancellation of the LBO Issue and the Service Agreement Issue. On November 2, 2015, the Agency presented an appeal to the Court of Cassation against the above-stated judgements. On December 3, 2015, the company presented its counter appeals to the Court of Cassation.

In relation to the tax assessments concerning IRES, IRAP and VAT notified for 2008 and 2009, the Milan Provincial Tax Commission filed judgement No. 8651/2015 (concerning the IRES and IRAP assessments) and No. 8652/2015 (concerning the VAT assessment), with which it fully nullified the cited tax assessments. On April 4, 2016, the Agency issued appeals before the Milan Regional Tax Commission against the first level judgements. Italtel will respond in accordance with law.

On December 23, 2015, the Agency notified Italtel of tax assessments for IRES, IRAP and VAT for 2010, with which, in relation to the LBO Issue, higher assessable taxation was judged of approx. Euro 7.5 million and, in relation to the Service Agreement Issue, costs derecognised for approx. Euro 0.9 million. On February 17, 2016, the company filed at the Agency an agreed settlement application in relation to all of the assessments notified for the 2010 tax year. As the deadline for the agreed settlement had passed, Italtel proposed an appeal against the IRES, IRAP and VAT settlements, according to the regulatory timelines, on May 20, 2016.

Currently Italtel, supported by the opinion of its tax consultant, also on the basis of the favorable second level judgments concerning the 2005 and 2007 tax years, in addition to the clarifications provided by the Tax Agency with Circular of May 30 last No. 6/E in relation to the tax treatment of so-called “acquisition with debt operations”, considers these potential liabilities as only representing a possible risk and therefore has not made any provision.



## 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 2015 and 2014.

### Income Statement

The reclassified income statement for 2015 and 2014 is reported below.

	(thousands of Euro)		
	2015	2014	Changes
<b>Revenues from sales and services</b>	<b>441,074</b>	<b>400,190</b>	<b>40,884</b>
<b>Profitability after external costs/Gross margin</b>	<b>118,988</b>	<b>120,365</b>	<b>(1,377)</b>
<i>% of revenues</i>	<i>27.0%</i>	<i>30.1%</i>	
Personnel costs	(81,613)	(79,198)	(2,415)
Operating expenses	(25,153)	(29,052)	3,899
Operating grants	5,552	7,055	(1,503)
Capitalization of Research & Development costs	13,602	13,490	112
Other costs and income	(98)	1,098	(1,196)
<b>Normalized EBITDA</b>	<b>31,278</b>	<b>33,758</b>	<b>(2,480)</b>
<i>% of revenues</i>	<i>7.1%</i>	<i>8.4%</i>	
Extraordinary personnel charges	(576)	(9,784)	9,208
Other charges and non-recurring income	(539)	(749)	210
<b>EBITDA</b>	<b>30,163</b>	<b>23,225</b>	<b>6,938</b>
<i>% of revenues</i>	<i>6.8%</i>	<i>5.8%</i>	
Amortisation, depreciation & write-downs	(19,800)	(22,589)	2,789
<b>EBIT</b>	<b>10,363</b>	<b>636</b>	<b>9,727</b>
Net financial charges	(11,655)	(10,606)	(1,049)
<b>Loss before taxes</b>	<b>(1,292)</b>	<b>(9,970)</b>	<b>8,678</b>
Income taxes	(17,348)	(4,968)	(12,380)
Discontinued operations profit/(loss)	(124)	(128)	4
<b>Net loss for the year</b>	<b>(18,764)</b>	<b>(15,066)</b>	<b>(3,698)</b>

Revenues from sales and services in 2015 amounted to Euro 441,074 thousand, increasing overall by Euro 40,884 thousand (+10.2%) on 2014 (Euro 400,190 thousand).

The breakdown highlights a reduction of revenues from Telecom Italia of Euro 3,373 thousand (-2.5%), from Euro 133,526 thousand in the previous year to Euro 130,153 thousand in 2015.

Other Italian operator revenues totalled Euro 41,072 thousand, compared to Euro 37,213 thousand in 2014, up Euro 3,859 thousand (+10.4%). This increase is principally due to revenues from Tiscali, which was not a client in 2014.

Revenues from Large Enterprises and Public Administration totalling Euro 71,877 thousand, compared to Euro 54,328 thousand in 2014, increased Euro 17,549 thousand (+32.3%). This improvement is principally due to the EXPO, in addition to higher revenues from Poste, Rai and Fiat.

Foreign Operator revenues also rose on the previous year, reaching 44.9% of total revenues (43.8% in 2014). In further detail, the EMEA area increased revenues from Euro 40,681 thousand in 2014 to Euro 57,582 thousand in 2015, up Euro 16,901 thousand (+41.5%), due entirely to Spain.

In the LATAM area in addition, revenues increased from Euro 134,442 thousand in 2014 to Euro 140,390 thousand in 2015, up Euro 5,948 thousand (+4.4%) on the previous year, substantially due to higher revenues in Peru.

The 2015 revenue performance compared with 2014 is reported below.

(thousands of Euro)

	2015	%	2014	%	Change %
		(a)		(a)	(b)
Telecom Italia	130,153	29.5%	133,526	33.3%	(2.5)%
Other local operators	41,072	9.3%	37,213	9.3%	10.4%
Large enterprises and Public Administration	71,877	16.3%	54,328	13.6%	32.3%
Overseas Operators – EMEA	57,582	13.1%	40,681	10.2%	41.5%
Overseas Operators - LATAM	140,390	31.8%	134,442	33.6%	4.4%
<b>Total</b>	<b>441,074</b>	<b>100%</b>	<b>400,190</b>	<b>100%</b>	<b>10.2%</b>

(a) Percentage of total

(b) Percentage change on previous year

Profitability to external costs decreased from 30.1% in 2014 to 27.0% in 2015, due to increased System Integration costs, with a reduced margin on the previous year and lower proprietary product revenues.

Personnel costs in 2015 totaled Euro 81,613 thousand, compared to Euro 79,198 thousand in 2014, increasing therefore Euro 2,415 thousand (+3.0%).

Net operating expenses in 2015 amounted to Euro 25,153 thousand, a significant improvement therefore (Euro 3,899 thousand, -13.4%) on the previous year (Euro 29,052 thousand). This is substantially due to the “Relocation” project, an industrial concentration operation (transfer, restyling of areas, new dedicated thermal station, moving) which enabled the “unification” of personnel at Milan Castelletto within a single building, essentially halving rental costs. This operation has enabled an improved use of energy resources and a more efficient cost structure.

Operating grants from public bodies against research projects amounted to Euro 5,552 thousand, decreasing therefore Euro 1,503 thousand (-21.3%) compared to the previous year due to delays in some projects.

The capitalization of R&D costs is higher than the previous year by Euro 112 thousand.

Other operating costs and income decreased in 2015 Euro 1,196 thousand on 2014.

After the above-stated items, normalized EBITDA in 2015 totalled Euro 31,278 thousand (revenue margin of 7.1%), reducing Euro 2,480 thousand (-7.3%) on EBITDA in the previous year of Euro 33,758 thousand.

Extraordinary personnel costs amounted in 2015 to Euro 576 thousand, compared to Euro 9,784 thousand in 2014, reducing therefore Euro 9,208 thousand (-94.1%).

Other non-recurring charges and income reported a charge of Euro 539 thousand, reducing Euro 210 thousand on the previous year.

Reduced non-recurring charges and extraordinary personnel charges indicated above results in an EBITDA for 2015 of Euro 30,163 thousand (6.8% revenue margin), increasing Euro 6,938 thousand (+29.9%) on EBITDA in the previous year of Euro 23,225 thousand (5.8% revenue margin).

EBIT totalled Euro 10,363 thousand, compared to Euro 636 thousand in 2014, improving therefore Euro 9,727 thousand after amortization, depreciation and write-downs of Euro 19,800 thousand (Euro 22,589 thousand in 2014).

Net financial charges were Euro 11,649 thousand, compared to Euro 10,602 thousand in the previous year, increasing Euro 1,047 thousand (9.9%).

Compared to 2014 factoring operation charges of Euro 980 thousand were reclassified from other operating charges and income.

The Group pre-tax result reports a loss of Euro 1,292 thousand, improving on a loss of Euro 9,970 thousand in 2014.

The 2015 tax charge was Euro 17,348 thousand, of which Euro 9,735 thousand relating to the write-down of deferred tax assets due to the change in the IRES rate from 27.5% to 24% under the 2016 Stability Law (Law No. 208/15, Article 1, paragraph 61) from 2017, which in the previous year amounted to Euro 4,968 thousand.

The net result in 2015, after a net loss from discontinued operations of Euro 124 thousand (Euro 128 thousand in 2014), was a loss of Euro 18,764 thousand. This compares to a net loss of Euro 15,066 thousand in the previous year.

## Balance Sheet

The balance sheet at December 31, 2015 and 2014 is reported below.

	(thousands of Euro)		
	31/12/2015	31/12/2014	Changes
<b>Non-current assets and liabilities:</b>			
+ Goodwill	167,215	167,215	-
+ Property, plant and machinery and other intangible assets	38,051	39,702	(1,651)
+ Other assets	13,102	14,874	(1,772)
+ Deferred tax assets	74,016	83,739	(9,723)
- Employee provisions	(19,423)	(23,235)	3,812
- Provision for contingencies and charges	(6,577)	(8,325)	1,748
- Other liabilities	(1,003)	(415)	(588)
<b>Non-current assets and liabilities</b>	<b>265,381</b>	<b>273,555</b>	<b>(8,174)</b>
<b>Working capital:</b>			
+ Inventories	34,687	29,084	5,603
+ Trade receivables	87,252	88,871	(1,619)
+ Other receivables	20,901	28,579	(7,678)
+ Assets held-for-sale	248	738	(490)
- Trade payables	(143,491)	(135,013)	(8,478)
- Other payables	(57,327)	(46,425)	(10,902)
- Liabilities related to assets held-for-sale	(392)	(201)	(191)
<b>Working capital</b>	<b>(58,122)</b>	<b>(34,367)</b>	<b>(23,755)</b>
<b>Total net capital employed</b>	<b>207,259</b>	<b>239,188</b>	<b>(31,929)</b>
<b>Net financial debt</b>	<b>172,585</b>	<b>182,834</b>	<b>(10,249)</b>
of which cash	(61,666)	(44,437)	(17,229)
<b>Consolidated Shareholders' Equity</b>	<b>34,674</b>	<b>56,354</b>	<b>(21,680)</b>
Share capital	2,000	2,000	-
Other reserves including the net result	32,674	54,354	(21,680)
<b>Total Debt and Net Equity</b>	<b>207,259</b>	<b>239,188</b>	<b>(31,929)</b>

## Investments

Investments in the year totaled Euro 18,268 thousand, of which Euro 16,611 thousand in intangible assets and Euro 1,657 thousand in property, plant and equipment.

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

720 thousand. In addition, Euro 274 thousand was invested mainly in the extraordinary maintenance of plant and machinery at the Castelletto and Carini offices, and Euro 565 thousand principally in EDP and computers for the technological upgrading of the IT systems and the updating of the Company's data network.

## Financial Highlights

The net debt was as follows:

	(thousands of Euro)		
	31/12/2015	31/12/2014	Changes
Short-term bank loans	95,560	91,022	4,538
Medium/long-term loans (bank and subsidized)	153,385	138,151	15,234
Other financial payables	944	1,128	(184)
Accrued liabilities and deferred income	120	142	(22)
<b>Gross debt</b>	<b>250,009</b>	<b>230,443</b>	<b>19,566</b>
Cash and cash equivalents on hand	(3,422)	(3,573)	151
On demand bank current accounts	(58,244)	(35,802)	(22,442)
Restricted current accounts	(8,008)	(5,062)	(2,946)
Short-term financial receivables	(3,926)	(3,056)	(870)
Prepayments and accrued income	(562)	(116)	(446)
Other working capital securities	(3,262)	-	(3,262)
<b>Net debt</b>	<b>172,585</b>	<b>182,834</b>	<b>(10,249)</b>

The net debt at December 31, 2015 totaled Euro 172,585 thousand and decreased Euro 10,249 thousand compared to Euro 182,834 thousand at December 31, 2014, due to the increase in liquidity for Euro 29,815 thousand, offset by the increased gross debt of Euro 19,566 thousand.

Short-term bank loans increased Euro 4,538 thousand, due to new loans of Euro 9,989 thousand (of which Euro 4,999 thousand at subsidized rates), offset by repayments of Euro 9,682 thousand (of which Euro 5,464 thousand loans at subsidized rates) and the recognition of the current portion of medium/long-term loans of Euro 4,231 thousand.

Medium/long-term loans increased Euro 15,234 thousand, concerning for Euro 29,753 thousand the new loans issued (of which Euro 18,114 thousand at subsidized rates), Euro 10,288 thousand of repayments, and as indicated in the previous paragraph for Euro 4,231 thousand the reclassifications to short-term.

Other financial payables reduced Euro 184 thousand, with accrued liabilities and deferred income decreasing Euro 22 thousand.

The balance of restricted current accounts of Euro 8,008 thousand relates to liquidity held as a guarantee for the issue of two loans for the PAIMS and SIS research projects, while Euro 5,062 thousand restricted at December 31, 2014 was released in 2015.

Financial receivables increased Euro 870 thousand, while prepayments and accrued income increased Euro 446 thousand.

The Euro 3,262 thousand of Monetary Funds concerns investments in funds comprising Argentinian government securities liquefiable and due in the very short-term.

## Transactions with related parties

The Company continued during the year to monitor transactions with Related Parties in protection of the minority shareholders and the other Italtel S.p.A. stakeholders from any abuses, ensuring transparent disclosure, in addition to the formal and substantial correctness of transactions with Related Parties, both in the preparatory and execution phases.

Italtel S.p.A. has put in place an internal procedure concerning transactions with Related Parties, approved by the Board of Directors of the company on December 16, 2014.

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

## Subsequent events

There were no significant events after the end of the year, further to those outlined in the relative section concerning the company Italtel S.p.A. in the Directors' Report.

## Outlook

On a going concern basis, as indicated in the relative paragraph, Italtel considers that the 2016-2022 Industrial Plan guidelines lay the basis for the further growth of Italtel S.p.A. and of the Group as a whole.

Settimo Milanese, June 9, 2016

**For the Board of Directors**

**The Chief Executive Officer**

## FINANCIAL STATEMENTS

## Consolidated Balance Sheet at December 31, 2015 and 2014

		(thousands of Euro)	
	Note	31/12/2015	31/12/2014
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	(7)	14,039	15,606
Goodwill	(8)	167,215	167,215
Other intangible assets	(9)	24,012	24,096
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	10,587	2,132
Other assets	(12)	10,677	12,548
Deferred tax assets	(13)	74,016	83,739
<b>Total non-current assets</b>		<b>300,740</b>	<b>305,530</b>
<b>Current assets</b>			
Inventories	(14)	34,687	29,084
Trade receivables	(15)	87,252	88,871
Tax receivables	(16)	786	710
Other receivables and assets	(17)	20,115	27,869
Short-term financial assets	(18)	7,402	3,172
Restricted current accounts	(19)	-	5,062
Cash and cash equivalents	(19)	61,666	39,375
<b>Total current assets</b>		<b>211,908</b>	<b>194,143</b>
<b>Discontinued non-current assets</b>	(41)	<b>248</b>	<b>738</b>
<b>Total assets</b>		<b>512,896</b>	<b>500,411</b>
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Share capital	(20)	2,000	2,000
Reserves	(21)	98,728	98,728
Treasury shares	(22)	-	-
Other reserves including the loss for the year	(23)	(66,054)	(44,374)
<b>Group Shareholders' equity</b>		<b>34,674</b>	<b>56,354</b>
Share capital and reserves pertaining to minority interest		-	-
<b>Total Shareholders' Equity</b>		<b>34,674</b>	<b>56,354</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employee provisions	(24)	19,423	23,235
Provisions for risks and charges	(25)	6,577	8,325
Medium/long term financial liabilities	(26)	153,385	138,433
Other liabilities	(27)	1,003	415
<b>Total non-current liabilities</b>		<b>180,388</b>	<b>170,408</b>
<b>Current liabilities</b>			
Trade payables	(28)	143,491	135,013
Current income taxes	(29)	1,829	1,155
Other payables and liabilities	(30)	55,498	45,270
Current financial liabilities	(26)	96,624	92,010
<b>Total current liabilities</b>		<b>297,442</b>	<b>273,448</b>
<b>Discontinued non-current liabilities</b>	(41)	<b>392</b>	<b>201</b>
<b>Total liabilities</b>		<b>478,222</b>	<b>444,057</b>
<b>Total shareholders' equity and liabilities</b>		<b>512,896</b>	<b>500,411</b>

## 2015 and 2014 Consolidated Income Statement

		(thousands of Euro)	
	Note	2015	2014
Revenue from sales and services	(31)	441,074	400,190
Other income	(32)	18,432	24,792
Purchase of materials and services	(33)	(353,955)	(320,054)
Personnel costs	(34)	(84,084)	(89,018)
Amortisation, depreciation & write-downs	(35)	(19,800)	(22,589)
Other operating costs	(36)	(7,340)	(8,475)
Change in inventories	(37)	2,036	1,437
Increase in internal work capitalised	(38)	14,000	14,353
<b>EBIT</b>		<b>10,363</b>	<b>636</b>
Financial income	(39)	24,623	16,763
Financial charges	(39)	(36,278)	(27,369)
Net investment gains/(losses) under the equity method		-	-
<b>Loss before taxes</b>		<b>(1,292)</b>	<b>(9,970)</b>
Income taxes	(40)	(17,348)	(4,968)
<b>Loss from normal operations</b>		<b>(18,640)</b>	<b>(14,938)</b>
Discontinued operations loss	(41)	(124)	(128)
<b>NET LOSS FOR THE YEAR</b>		<b>(18,764)</b>	<b>(15,066)</b>
Group share		(18,764)	(15,066)
Minority interest share		-	-

## 2015 and 2014 Consolidated Comprehensive Income Statement

	(thousands of Euro)	
	2015	2014
<b>Net loss for the year</b>	<b>(18,764)</b>	<b>(15,066)</b>
<i>Profit/(losses) which will reverse to the income statement in future:</i>		
Profits/(losses) from conversion of accounts of overseas companies	(3,727)	(580)
<i>Profit/(losses) which will not reverse to the income statement in future:</i>		
Re-measuring of employee plan (IAS 19):		
Actuarial profits/(losses)	1,246	(1,844)
Tax effect	(449)	507
<b>Total other profits/(losses) directly recorded to net equity</b>	<b>(2,930)</b>	<b>(1,917)</b>
<b>Total comprehensive loss</b>	<b>(21,694)</b>	<b>(16,983)</b>
<b>Group share</b>	<b>(21,694)</b>	<b>(16,983)</b>
<b>Minority interest share</b>	<b>-</b>	<b>-</b>



## Consolidated Cash Flow Statement at December 31, 2015 and December 31, 2014

	(thousands of Euro)	
	2015	2014
<b>A - Opening cash and cash equivalents (net short-term debt)</b>	<b>44,437</b>	<b>48,254</b>
<b>B – Cash flow from operating activities</b>		
Loss for the year	(18,764)	(15,066)
Amortisation, depreciation & write-downs	19,800	22,589
(Gains)/losses on disposed assets	(17)	2
(Increase)/ Decrease in deferred tax assets	9,274	(2,087)
Increase/(Decrease) of employee benefits provisions	(2,566)	(4,816)
Changes in other provisions	(1,748)	(1,653)
<b>Cash flow from activities before changes in working capital</b>	<b>5,979</b>	<b>(1,031)</b>
<b>Change in working capital</b>		
(Increase) / Decrease in receivables	2,109	31,737
(Increase) / Decrease in inventories	(5,603)	(186)
(Increase) / Decrease of other assets	9,549	963
Increase / (Decrease) in trade and other payables	20,159	(12,464)
<b>Total changes in working capital</b>	<b>26,214</b>	<b>20,050</b>
<b>Total (B) <sup>(1)</sup></b>	<b>32,193</b>	<b>19,019</b>
<b>C – Cash flow from investing activities</b>		
(Investments) and divestments in holdings and securities	(447)	(2,001)
(Increase) / Decrease in other financial assets	(4,230)	(1,869)
Divestment of fixed assets	23	12
Investments in property, plant & equipment	(1,657)	(1,714)
Investments in intangible assets	(16,611)	(14,739)
<b>Total (C)</b>	<b>(22,922)</b>	<b>(20,311)</b>
<b>D - Cash flow from financing activities <sup>(2)</sup></b>		
Granting and repayments of short-term loans	2,981	(4,587)
New loans	34,740	14,308
Repayment of loans to third parties	(19,915)	(9,656)
Reclassification of restricted current accs. long-term financial receivables	(8,008)	-
Granting of finance leases	95	23
Repayment of finance leases	(53)	(31)
Change in financial transactions with Italtel Group S.p.A.	(231)	(317)
Increase / (Decrease) in other financial liabilities	1,951	(1,710)
<b>Total (D)</b>	<b>11,560</b>	<b>(1,970)</b>
<b>E – Cash flow for the year (B+C+D)</b>	<b>20,831</b>	<b>(3,262)</b>
Other shareholders' equity changes	(3,602)	(555)
<b>F – Closing cash and cash equivalents</b>	<b>61,666</b>	<b>44,437</b>

(1) This amount includes the payment of current taxes for Euro 5,462 thousand and Euro 6,301 thousand, respectively in 2015 and 2014.

(2) The Net result includes net interest charges of Euro 4,257 thousand in 2015 (Euro 1,011 thousand in 2014) not paid at year-end.

## Statement of changes in shareholders' equity at December 31, 2014 and 2015

(thousands of Euro)

	Group Share				Total	Minority interest share	Total Shareholders' Equity
	Share capital	Reserves	Treasury shares	Other reserves including the result			
<b>Balance at January 1, 2014</b>	<b>2,000</b>	<b>98,728</b>	-	<b>(27,391)</b>	<b>73,337</b>	-	<b>73,337</b>
Comprehensive Profit/(Loss)	-	-	-	(16,983)	(16,983)	-	(16,983)
<b>Balance at 31 December 2014</b>	<b>2,000</b>	<b>98,728</b>	-	<b>(44,374)</b>	<b>56,354</b>	-	<b>56,354</b>
Change in consolidation scope	-	-	-	14	14	-	14
Comprehensive Profit/(Loss)	-	-	-	(21,694)	(21,694)	-	(21,694)
<b>Balance at December 31, 2015</b>	<b>2,000</b>	<b>98,728</b>	-	<b>(66,054)</b>	<b>34,674</b>	-	<b>34,674</b>

In accordance with the first application of IFRS 10 from 2014, the 2013 comparative figures were prepared.

(1)The change in the consolidation scope of Euro 14 thousand relates to the company Italtel Kenya Ltd which concluded the liquidation process and has been wound up. At December 31, 2014, the contribution of the Kenyan company to the consolidated financial statements was a negative Euro 14 thousand.

## Notes to the consolidated financial statements

### Note 1 - Introduction

#### *Introduction*

Italtel S.p.A. (hereafter the Parent Company) is a limited liability company with registered office in Castelletto, Settimo Milanese (MI) and is wholly-owned by Italtel Group S.p.A..

Italtel Group S.p.A. is a limited liability company with registered office in Castelletto, Settimo Milanese (MI), held through ordinary Class "A" shares with voting rights as described on page 7, for 48.77% by Clayton Dubilier & Rice Investment III Sarl, for 19.37% by Telecom Italia Finance S.A., for 18.40% by Cisco Systems International B.V., for 10.81% by Capita Trustees Limited and for 2.65% by Cordusio Fiduciaria per Azioni (of which 1.91% through treasury shares and the remaining 0.74% comprising manager and employee shares).

The Net Equity reserves include the Equity Financial Instruments Reserve for Euro 98,728,489, with an original value of Euro 153,035,272. These instruments, convertible into shares on the occurrence of pre-established events, are described in the Directors' Report in the Basis of presentation section and in Note 21- Reserves.

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, 2015, are presented in Euro, being the currency in which the Group operates and consists of the Balance Sheet, Income Statement, Comprehensive Income Statement, Cash Flow Statement, Statement of changes in Shareholders' Equity and the Notes to the financial statements.

All the amounts reported in the consolidated financial statements are expressed in thousands of Euro, unless otherwise indicated.

Compared to December 31, 2014, the consolidation scope changed as follows:

On April 27, 2015, the company AUSOITALTEL S.A. was incorporated, with registered office in Ecuador. Italtel S.p.A. subscribed 99% of the share capital, corresponding to USD 495,000, with Italtel BV subscribing 1% of the share capital, corresponding to USD 5,000. The subscribed share capital was paid-in on August 4, 2015.

On December 23, 2015, the company Italtel USA LLC was incorporated (as approved by the Board of Directors of Italtel S.p.A. on November 12, 2015). The share capital amounts to USD 75,000 and was fully subscribed by Italtel S.p.A.. The share capital was paid-in on February 9, 2016.

During 2015, the liquidation of the companies Italtel Kenya Ltd and Italtel Middle East Fz-LLC concluded, which therefore exited the consolidation scope.

On March 4, 2015, Italtel S.p.A. signed the Shareholders' Resolution concerning the placement into liquidation of the subsidiary Italtel Middle East FZ-LLC and on April 8, 2015, the Board of Directors of Italtel Middle East approved the closure of the branch in Oman. On October 26, 2015, the company was definitively wound up.

On September 4, 2015, the notice of cancellation of Italtel Kenya Ltd. was published in the Official Gazette.

### *Financial Statement Presentation*

The Company for the 2015 financial statements prepared the 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, 2015:

- With regulation No. 1361/2014 issued by the European Commission on December 18, 2014, the provisions contained in the document “Annual Improvements to IFRSs - 2011–2013 Cycle” were approved. The provisions resulted in amendments: (i) to IFRS 1 clarifying that a “first time adopter” may utilize, although not obligatory, in the first financial statements prepared according to IFRS, the documents issued by the IASB but not yet in force where early application is permitted; (ii) to IFRS 3, clarifying that IFRS 3 is not applicable to recognize the accounting effects from the formation of a joint venture or joint operation (as defined by IFRS 11); (iii) to IFRS 13 clarifying that the provision contained in IFRS 13, upon which it is possible to measure the fair value of a group of financial assets and liabilities on a net basis, is applied to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9; (iv) to IAS 40, clarifying that in order to establish where the purchase of the property investment constitutes a business combination, reference should be made to IFRS 3.

Changes to accounting standards, interpretations and amendments applied after February 1, 2015:

- With regulation No. 2015/28 issued by the European Commission on December 17, 2014, the provisions contained in the document “Annual Improvements to IFRSs - 2010–2012 Cycle” were approved. These provisions introduced amendments: (i) to IFRS 2 Share-based Payments, clarifying the definition of “vesting condition” and introducing the definitions of service and result conditions; (ii) to IFRS 3 Business Combinations, clarifying that the obligations to settle a potential payment, other from those within the definition of a net equity instrument, are valued at fair value at each reporting date, with changes recognised to the income statement; (iii) to IFRS 8 Operating Segments, requiring disclosure on assessments made by management in operating segment combinations, describing the segments aggregated and the economic indicators evaluated to determine that the aggregated segments have similar economic features; (iv) to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”, clarifying the manner to determine the gross book value of the assets, in the case of revaluation consequent of the application of the model of the re-determined value; (v) to IAS 24 Related Party Disclosures, establishing the disclosure required where a third party entity provides services for the management of the senior executives of the entity which prepares the financial statements.
- With regulation No. 2015/29 issued by the European Commission on December 17, 2014, the amendments to IAS 19 on the basis of the provisions contained in the document “Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)” were approved. The amendments enable the deduction from the current service cost for the period of the contributions paid by the employees and by third parties, which are not related to the number of years of service, in place of the allocation of these contributions over the service period.

Changes to accounting standards, interpretations and amendments applied after January 1, 2016:

- Under Regulation No.1205/2011 issued by the European Commission on November 24, 2015 the amendments to IFRS 11 “Joint arrangements”. The amendment establishes that an entity should adopt IFRS 3

to recognise the accounting effects from the acquisition of an interest in a joint operation which comprises a “business”. This principle applies both for the acquisition of an initial interest and for the acquisition of further interests. However, an investment previously held is not revalued where the acquisition of a further share results in the joint control remaining unaltered (i.e. the further acquisition does not result in obtaining control of the investment).

- Under Regulation No. 2015/2231 issued by the European Commission on December 2, 2015, the amendments to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets” were approved. The amendments to both standards establishes that an asset should not be depreciated based on the revenues to be generated over a set period. The IASB clarifies that revenues generated from an activity which includes the use of an asset generally reflect factors other than the consumption of economic benefit of the asset.
- Under Regulation No. 2015/2441 of December 18, 2015 the European Commission approved the amendments to IAS 27 “Equity Method in Separate Financial Statements”. The IASB introduced the faculty to value investments in subsidiaries, associates or joint ventures in the separate financial statements utilizing the equity method. This faculty, which was previously excluded, is added therefore to the other two options which have been maintained: (i) the cost method; (ii) fair value in accordance with IAS 39 or IFRS 9.

Italtel S.p.A. will avail of the option to adopt the equity method to measure investments in subsidiaries, associates and joint ventures from January 1, 2016.

- With regulation No. 2015/2343 issued by the European Commission on December 15, 2015, the provisions contained in the document “Annual Improvements to IFRS - 2012–2014 Cycle” were approved. These mainly refer to: (i) IFRS 5, clarifying that where a non-current asset (or disposal group) is reclassified from “held for sale” to “held for distribution” or vice versa, this reclassification does not constitute an amendment to a sales or distribution plan and therefore should not be recognised as such; (ii) to IFRS 7 “Service contracts”, establishing that where an entity transfers a financial asset to third parties and the conditions of IAS 39 are complied with for the elimination of the asset, disclosure should be provided of any residual involvement which the entity may still have in relation to the transferred asset is reported. In particular, the amendment provides indications on the meaning of “residual involvement” and provides a specific guide to aid management in determining if the terms of an agreement for the provision of a service which concerns the asset transferred concerns a residual involvement; (iii) to IFRS 7 “Interim Financial Statements”, clarifying that the supplementary information concerning the “offsetting” of financial assets and liabilities is obligatory only in relation to annual financial statements. In the case of interim financial statements, this supplementary information is provided only if considered necessary to understand the changes to the financial position and the performance of an entity compared to its first annual financial statements; (iv) to IAS 19 “Employee Benefits” requiring that the discount rate used upon obligations for post-employment benefits should be established based on the market yields of leading company bonds and in the countries where a deep market for these securities does not exist, the market yields of public body bonds should be utilized; (v) to IAS 34 “Interim Financial Reporting” requiring that the supplementary information required by this standard should be included in the notes to the interim financial statements or may be included, with specific cross-references, in other sections of the document which include in turn the interim financial statements prepared in accordance with IAS 34.
- With regulation No. 2015/2406 of December 18, 2015, the European Commission approved the amendments to IAS 1 “Presentation of financial statements”. With the “Disclosure initiative (Amendments to IAS 1)” document the IASB clarified a number of aspects with regards to the presentation of the financial statements: (i) emphasis on the significance of supplementary financial statement disclosure (non-significant disclosure should not be provided even if expressly requested by a specific IFRS); (ii) the order of the Explanatory Notes to the financial statements for which a specific order is no longer established; (iii) aggregation/disaggregation of financial statement accounts for clearer disclosure. The minimum financial statement accounts established by IAS 1 may be aggregated where considered non-significant; (iv) sub-totals in the financial statements must comply with specific criteria; (v) information requested for the other items of comprehensive income section. Paragraph 82A of IAS 1 expressly requires the indication also of the OCI share of associates and joint ventures recognised at equity, indicating also for these amounts which may or may not subsequently be reclassified to the net profit (loss) for the year.

The new provisions applied from periods beginning or subsequent to January 1, 2016 and according to the preliminary analysis by Management will not generate significant impacts on the Italtel Group financial statements, with the exception of the amendments to IAS 27 in the separate financial statements of Italtel S.p.A., as specified above.

## Note 2 – Accounting policies adopted

### *Directors’ considerations on the going concern*

As indicated in the Directors’ Report, the results at December 31, 2015 of the Group, with Italtel S.p.A. as the parent company, confirm the improvement set in train in 2013 and continued in 2014 and 2015, although with the EBITDA (gross of restructuring charges) substantially unchanged. The actions implemented by management are therefore consistent with the goal to improve the fundamentals as outlined in the 2012-2017 Industrial Plan. Despite this, also in consideration of general market difficulties, the 2015 Group results differed from those outlined in the 2012-2017 Industrial Plan, such as to constitute non-compliance with certain financial covenants established by loan contracts. In this regard, the directors have undertaken in a timely manner appropriate measures to neutralise related contractual effects.

As on the basis of the preliminary figures available to the company, sent to the lending banks in recent weeks together with the additional information required by the loan contracts, on approval of these financial statements non-compliance with some of the financial covenants under the Restructuring Agreement and the loans contract would be confirmed, following the actions undertaken by the Directors, the company and the lending banks concluded on June 1, 2016 an agreement with duration until January 1, 2017 which suspended the application of the loan clauses concerning the verification of these covenants, and under which the lending banks have committed for the entire period not to take any action contractually established for violation of the financial covenants and not to revoke, reduce or cancel the credit lines granted (“Standstill Agreement”).

In addition, to incorporate the significant changes in the company’s marketplace since 2012 and to update the above-mentioned plan, it was also considered necessary to prepare a revised version of the industrial and financial plan of the company and of the group for the 2016-2022 period (the “2016-2022 Industrial Plan”), based on the following guidelines:

- focus on Software and Services, in the knowledge that the value of the digital revolution is in the Cloud, in Applications and in Data;
- approach to six vertical markets, i.e. Telecommunications, but also Finance, Energy, Healthcare, Public Safety and Manufacturing, sectors which will be majorly impacted by digitalisation;
- preparation of Integrated and Innovative Solutions, allowing us to extend our partnerships and bring ourselves closer to customer’s needs;
- further growth on foreign markets, extending our significant presence in Latin America and Europe also to Central and North America and other Eastern European markets.

The 2016-2022 Industrial Plan, approved by the Board of Directors of the company on June 8, 2016 (updating the meeting of May 27, 2016), was also subject of an opinion (comfort letter) by an external consultant who confirms the reasonableness of the Plan assumptions.

As illustrated in the Significant Events section of the Directors’ Report regarding the company, the above Standstill Agreement was signed also for the company to engage on the one hand in the negotiations in progress with the lending banks concerning the extension and/or refinancing of the credit lines in view of the upcoming repayment date and in line with the 2016-2022 Industrial Plan and, on the other, to allow Italtel Group S.p.A. to undertake negotiations with a possible industrial and/or financial partner for the transfer of a portion or the entirety of the shares and of the EFI’s of Italtel S.p.A.. The Standstill Agreement establishes, among other matters, a commitment upon the company to undertake all actions possible to submit to the lending banks’ decision-making committees a proposal on the extension and/or refinancing of the credit lines by September 30, 2016.

As per IAS 1, the directors having assessed the material uncertainties above which may cast doubts on the company's ability to continue as a going concern, in consideration:

- of the timely commencement of negotiations with the lending banks to establish new terms and conditions, which include new loan repayment and maturity deadlines, which the parties intend to pursue in good faith;
- that the Lending Banks are also holders of Equity Financial Instruments;
- of the Standstill Agreement;
- of the 2016-2022 Industrial Plan, approved by the Board of Directors on June 8, 2016 (updated at the meeting of May 27, 2016), subject of a comfort letter from an external consultant;
- of the negotiations in progress for the transfer of a portion of the shares of the company and of the EFT's in favour of one or more industrial and/or financial partners;
- of the continual monitoring of the company's financial situation;

deem the company able to continue to operate on a going concern basis and therefore the 2015 financial statements have been prepared on this basis.

### *Consolidation method*

The consolidated financial statements include the financial statements of Italtel Group S.p.A. and of the Italtel S.p.A. Group companies.

The financial statements used for the consolidation were prepared at December 31, 2015 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 recognized 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 realized 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 recognized 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 recognized 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 realized 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 realized 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 reporting 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.

	2015 average	At December 31, 2015	2014 Average	At December 31, 2014
Argentinean Peso	10.2599	14.0972	10.7718	10.2755
Kenyan Shilling	109,066	111.299	116.779	110.05
Brazilian Real	3.70044	4.3117	3.12113	3.2207
UK Sterling	0.72585	0.73395	0.80612	0.7789
US Dollar	1.10951	1.0887	1.3285	1.2141
Polish Zloty	4.18412	4.2639	4.18426	4.2732
Arab Emirates Dirham	4.07334	3.99662	4.87957	4.45942
Peruvian Nuevo Sol	3.53237	3.70833	3.76781	3.63265
Saudi Arabian Riyal	4.16201	4.08624	4.98307	4.55733
Oman Riyal	0.426715	0.418605	0.511258	0.467245

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 utilized 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 capitalization of the costs relating to the expansion, modernization 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 recognized 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 realized 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 recognized 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 amortization, and any loss in value. Amortization begins when the asset is available for use and is recognized 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 amortization 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;
- there is a clear intention to complete the project and sell the intangible assets generated from the project;
- 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 to complete 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 commercialized. Amortization 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 capitalized.

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

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

Amortization 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 utilization 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 definite life are analyzed 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 utilizing a pre-tax discount rate that reflects the current market assessment of the time value of money, and the specific risks of the asset. For an asset that does not generate sufficient independent cash flows, the realizable value is determined in relation to the cash-generating unit to which the asset belongs.

A reduction in value is recognized 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 amortization 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 recognized 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 recognized to goodwill, if present, until the full write-down of the CGU. Further reductions in value are recognized 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 amortized 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. Impairments are recognized to 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 recognized 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 recognized to the income statements, the impairment is eliminated, with the amount reversed recognized to the income statement. In addition for debt securities the recognition of the relative returns based on the amortized cost method are recognized 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 recognized 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 recognized to current assets when realization is expected within 12 months from the balance sheet date.

Financial assets are derecognized 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 amortized 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 derecognized on settlement, i.e. when the contractual obligation is satisfied, cancelled or matures.

#### *Derivative instruments*

Derivative instruments are assets and liabilities recognized 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 recognized under equity and subsequently through the income statement in line with the economic effects produced from the operation hedged.

The satisfaction of the requirements established by IAS 39 for the purposes of hedge accounting is periodically verified.

The changes in the fair value of the derivatives, which do not satisfy the conditions for hedge accounting, are recorded through the income statement.

#### *Measurement of the fair value of financial instruments*

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

#### **F – Inventories**

Inventories are recorded at the lower of purchase or production cost and realizable 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.

Contract work in progress, where not completed at the reporting date, is valued in accordance with the percentage of completion method as per IAS 11.

Where contract work in progress presents a loss upon completion, such is fully recognised to the year-end financial statements, as per the accounting standards.

#### **G - Trade and other receivables**

Receivables are initially recognized at fair value.

This value is thereafter reduced to the realizable value where impairments are identified.

Write-downs are recognized on the basis of the solvency level of the individual debtors, while also referring to the specific underlying credit risk characteristics, taking account of the insurance coverage, the available information and considering historical experience.

Receivables transferred without recourse, in which all the risks and benefits substantially are transferred to the factoring company, result in the elimination of the receivables from the balance sheet where the requirements of IAS 39 have been complied with.

## H - 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 recognized 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 if such offsetting has a legal basis.

## I - 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 recognized in accordance with Article 2430 of the Civil Code, which are increased by 1/20th of the net profits of the Parent Company until the reserve reaches 1/5th of the share capital of the Parent Company. Once 1/5th of the share capital is reached the reserve - if subsequently reduced for any reason - is integrated with annual provisions as indicated above.

### *(iii) Treasury shares*

In the case in which the Parent Company or an entity of the Italtel Group acquires shares of the Parent Company the value of the shares acquired is deducted from consolidated net equity until the shares are cancelled or sold. The value of treasury shares comprises the acquisition costs under the FIFO (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 presentation Basis 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 E - Derivative Instruments above) and the effects deriving from the conversion into Euro of the financial statements of foreign companies whose functional currency is a currency other than the Euro.

## J - Employee provisions

The Italtel Group recognizes 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 recognized 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 utilized until 2012.

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

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

Account was taken of the effects deriving from the new provisions, measuring for IAS purposes only the liability relating to the Employee Leaving Indemnity matured that remained in the company, as the portion maturing is paid to a separate entity (complementary pension or INPS fund) without these payments resulting in further obligations on the company related to the employment service in the future and are therefore considered defined contribution pension plans and recognised as such.

Also for the employees that, explicitly, decided to maintain the Employee Leaving Indemnity in the company, and therefore in accordance with the previous regulations, the Employee Leaving Indemnity matured from January 1, 2007 was paid to the Treasury Fund managed by INPS and was therefore considered a defined contribution plan.

#### **K - 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 programs are recorded in the year in which the program is formalized 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 to the financial statements and the Directors’ Report 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.

**L - Trade payables, other payables and other liabilities**

Trade payables, other payables and other liabilities are recognized initially at fair value plus any related transaction costs. Subsequently, they are recognized at nominal value, as no discounting or separate recognition to the income statement of the explicit or separated interest charges is expected, as considered immaterial in view of the expected payment times.

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, including amounts due to employees or other parties.

**M - Recognition of sales and services revenues**

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

The revenues concerning the provision of services are recognized based on the state of advancement of the works.

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

**N - Public Grants**

Public grants are recognized when there is a reasonable certainty that the conditions established by the Government Bodies for their concession will be realized and are recognized 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".

**O- Recognition of costs**

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

**P - 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 recognized 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 recognized 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.

**Q - 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 recognized in the income statement.

#### **R - 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. Dividends are recognised to net profit (loss) unless the company has opted for the equity method, in which case the dividends are recognised as a reduction in the book value of the investment.

#### **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 characterizes the assumptions and the conditions upon which the estimates are based.

#### **Note 4 - Significant accounting policies**

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 policies 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 impact 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 taxes:** 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 tax risks deriving from findings against the Group. 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

### *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 operations and financing, ensured the satisfaction of creditors and, in addition, will allow the Group to satisfy also the requirements deriving from investment activities, working capital management and repayment of debt, taking account of that reported in the paragraph concerning Directors' considerations on the going concern.

The company has in place a number of covenants, in relation to which reference should be made to the Significant events section concerning the company Italtel S.p.A. of the Directors' Report and Note 26.

Trade payables overdue at December 31, 2015 were substantially in line with the previous year, totaling Euro 15.6 million, net of those technically overdue (within 30 days) and any disputes. Of these, Euro 8.4 million within 60 days, Euro 3.8 million within 90 days and Euro 3.4 million beyond 90 days.

### *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, 2015 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 187,112 thousand (Euro 176,897 thousand at December 31, 2014).

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, 2015 trade receivables for Euro 87,252 thousand (Euro 88,871 thousand at December 31, 2014) were recorded, net of write-downs of Euro 9,198 thousand (Euro 9,267 thousand at December 31, 2014).

At December 31, 2015 overdue trade receivables, net of the doubtful debt provision, amounted to Euro 14.67 million (Euro 9 million at December 31, 2014), of which Euro 1.93 million may be offset against supplier payables and Euro 2.95 million concerning those technical overdue.

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

### Interest rate risk

The Group utilizes external financing and invests liquidity in on demand 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 potential positive effects on operating profits and negative effects on revenues from sales and services;
- A decrease in the value of the Euro has potential 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, 2015	43,775	-	43,775
<b>December 31, 2014</b>	<b>41,148</b>	<b>-</b>	<b>41,148</b>

(\*) At exchange rate of December 31

At December 31, 2015 and 2014 the fair value of the derivative contracts was as follows:

	31/12/2015	31/12/2014
Exchange risk hedges	4,697	1,517

In 2015 the company Italtel Argentina signed contracts denominated in Argentinian Pesos to hedge against changes to the exchange rate of the Peso against the US Dollar for a notional amount of Euro 13,778 thousand, resulting in a positive fair value of Euro 3,464 thousand.

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 utilized 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:

<b>2014</b>	<b>Land</b>	<b>Industrial buildings</b>	<b>Plant and machinery</b>	<b>Industrial equipment</b>	<b>Other assets</b>	<b>Assets in progress</b>	<b>Total</b>
<b>Historical cost</b>							
Balance at January 1, 2014	327	24,273	29,030	53,221	82,170	197	189,218
Increases	-	67	306	754	514	73	1,714
Write-downs/write-backs	-	-	-	-	-	(18)	(18)
Disposals	-	(55)	(2,883)	(1,238)	(2,812)	-	(6,988)
Translation difference	-	-	(22)	3	5	-	(14)
Reclassifications	-	-	-	86	(64)	(165)	(143)
<b>Balance at December 31, 2014</b>	<b>327</b>	<b>24,285</b>	<b>26,431</b>	<b>52,826</b>	<b>79,813</b>	<b>87</b>	<b>183,769</b>
<b>Accumulated depreciation</b>							
Balance at January 1, 2014	-	(15,057)	(25,721)	(51,046)	(79,942)	-	(171,766)
Depreciation	-	(755)	(839)	(1,102)	(796)	-	(3,492)
Write-downs/write-backs	-	-	-	-	-	-	-
Disposals	-	55	2,880	1,238	2,801	-	6,974
Reclassifications	-	-	-	13	105	-	118
Translation difference	-	-	15	(3)	(9)	-	3
<b>Balance at December 31, 2014</b>	<b>-</b>	<b>(15,757)</b>	<b>(23,665)</b>	<b>(50,900)</b>	<b>(77,841)</b>	<b>-</b>	<b>(168,163)</b>
<b>Net book value</b>							
Balance at January 1, 2014	327	9,216	3,309	2,175	2,228	197	17,452
<b>Balance at December 31, 2014</b>	<b>327</b>	<b>8,528</b>	<b>2,766</b>	<b>1,926</b>	<b>1,972</b>	<b>87</b>	<b>15,606</b>
<b>2015</b>							
<b>Historical cost</b>							
Balance at January 1, 2015	327	24,285	26,431	52,826	79,813	87	183,769
Increases	-	19	274	720	565	79	1,657
Write-downs/write-backs	-	-	-	-	-	(29)	(29)
Disposals	-	(27)	(94)	(1,788)	(3,095)	-	(5,004)
Translation difference	-	-	(42)	-	(225)	-	(267)
Reclassifications	-	-	(17)	20	18	(43)	(22)
<b>Balance at December 31, 2015</b>	<b>327</b>	<b>24,277</b>	<b>26,552</b>	<b>51,778</b>	<b>77,076</b>	<b>94</b>	<b>180,104</b>
<b>Accumulated depreciation</b>							
Balance at January 1, 2015	-	(15,757)	(23,665)	(50,900)	(77,841)	-	(168,163)
Depreciation	-	(705)	(698)	(989)	(726)	-	(3,118)
Write-downs/write-backs	-	-	-	-	-	-	-
Disposals	-	26	91	1,788	3,093	-	4,998
Translation difference	-	-	35	(1)	162	-	196
Reclassifications	-	-	-	-	22	-	22
<b>Balance at December 31, 2015</b>	<b>-</b>	<b>(16,436)</b>	<b>(24,237)</b>	<b>(50,102)</b>	<b>(75,290)</b>	<b>-</b>	<b>(166,065)</b>
<b>Net book value</b>							
Balance at January 1, 2015	327	8,528	2,766	1,926	1,972	87	15,606
<b>Balance at December 31, 2015</b>	<b>327</b>	<b>7,841</b>	<b>2,315</b>	<b>1,676</b>	<b>1,786</b>	<b>94</b>	<b>14,039</b>

Investments in property, plant & equipment amounted to Euro 1,657 thousand.

During the year, investments were made in industrial equipment, principally regarding that used for the development of software solutions and for the test plant of products launched on the market, for a total of Euro 720 thousand. In addition, Euro 274 thousand was invested mainly in the extraordinary maintenance of plant and machinery at the Castelletto and Carini offices, and Euro 565 thousand principally in EDP and computers for the technological upgrading of the IT systems and the updating of the Company's data network.

At December 31, 2015 the land, industrial buildings, plant 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 26.

## Note 8 - Goodwill

The account goodwill and the relative movements were as follows:

	31/12/2015	31/12/2014
Value at January 1	167,215	167,215
Increases	-	-
Write-downs	-	-
<b>Value at December 31</b>	<b>167,215</b>	<b>167,215</b>

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 by incorporation and represents the difference between the acquisition cost and the consolidated net equity at December 31, 2000, net of the accumulated amortization at December 31, 2003 and the write-down of December 31, 2009 and December 31, 2011.

As per IAS 36, this is not subject to straight line amortization 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 allocated. 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 and the relative Value in Use.

According to IFRS 13, the Fair Value is defined as the price which would be received for the sale of an asset, or which would be paid to settle a liability, in a normal transaction between participants on the market at the valuation date.

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.

In the case of Italtel the process used for the measuring of the Recoverable Value of goodwill may be summarized as follows. The test was conducted with the support of a leading consultancy company.

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 2016 - 2020 Plan of the Italtel Group. The plan was drawn up to cover a seven year period, 2016-2022, but for the impairment test only the first five years were considered, in line with the accounting policies. This Plan was approved by the Board of Directors on June 8, 2016 and updated at the meeting of May 27, 2016.

In relation to the methods applied, for the DCF method a model was adopted with an explicit period of future cash flows of five years and a residual value calculated with an algorithm of the perpetual income. The discount rate of the cash flows and the residual value is the weighted average cost of capital (WACC), calculated according to market practices and based on the prevailing financial structure for the companies in the sector. The discount rate is the weighted average of the rates relating to the principal countries of activity of the Group.

The parameters relating to the average rates utilized in the preparation of the impairment test approved by the Board of Directors on June 8, 2016, prior to the approval of the Annual Accounts, 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 the Capital Asset Pricing Model, included in a range between 9.6% and 20.8% according to the benchmark market and including an Execution Premium of 3%;
- weighted average cost of capital corresponding to the KE rate based on the financial structure entirely comprising own capital and therefore equal to 11.6% (the 2014 WACC was 11.1%);
- nominal growth rate of perpetual cash flows (G-Rate) in line with the long-term expected inflation rate within the eight principal countries in which the Italtel Group operates and equal to 2.1%.

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 2016. In greater detail, an FV/EBITDA multiplier of 8 was utilized. The multipliers were applied to EBITDA forecasts of the Italtel Group for 2016, net of the amortization 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 165.0 million to Euro 177.9 million interval, against a book value of approx. Euro 152.7 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 9.1 million (decrease)/Euro 10.2 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 7.2 million (increase) / Euro 6.4 million (decrease).

The indifference threshold of the control results of the goodwill value was also calculated based on a reduction of EBITDA in each forecast period and in the terminal value. 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 EBITDA, against forecasts, for the period subsequent to 2015 does not exceed approx. 3.9%.

It is however noted that an average EBITDA is utilised for the calculation of the Terminal Value, which is considered a prudent assumption compared to the utilisation of the EBITDA for the last year of the Plan.

In fact using the final year (2020) rather than an average (2016-2020), headroom of Euro 66 million would be created instead of the Euro 12 million indicated above.

Therefore the Directors consider the value of goodwill under the impairment test approved by the Board of Directors on June 8, 2016 as confirmed.

**Note 9 - Other intangible assets**

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

	<b>Industrial patents and intellectual property rights, licences and similar rights</b>	<b>Development costs</b>	<b>Assets in progress</b>	<b>Other</b>	<b>Total</b>
<b>Balance at January 1, 2014</b>	<b>2,000</b>	<b>26,350</b>	<b>74</b>	-	<b>28,424</b>
Increases	492	14,114	133	-	14,739
Write-downs	-	-	-	-	-
Disposals	-	-	-	-	-
Translation differences	4	-	-	-	4
Amortization	(1,209)	(17,888)	-	-	(19,097)
Reclassifications	100	-	(74)	-	26
<b>Balance at December 31, 2014</b>	<b>1,387</b>	<b>22,576</b>	<b>133</b>	-	<b>24,096</b>
Increases	909	15,450	252	-	16,611
Write-downs	-	-	-	-	-
Disposals	(29)	-	-	-	(29)
Translation differences	(13)	-	-	-	(13)
Amortization	(1,069)	(15,584)	-	-	(16,653)
Reclassifications	24	-	(24)	-	-
<b>Balance at December 31, 2015</b>	<b>1,209</b>	<b>22,442</b>	<b>361</b>	-	<b>24,012</b>

The investments in intangible assets amounted to Euro 16,611 thousand. In particular, Euro 15,450 thousand was invested in research and innovation activities and Euro 1,161 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 2015 and 2014, the Research and Development activities carried out by the Italtel Group were as follows:

	<b>31/12/2015</b>	<b>31/12/2014</b>
Research and Development activities carried out	31,791	33,011
of which:		
- capitalized	15,450	14,114
- recognized to the Income statement	16,341	18,897
Amortization in the year of development costs	15,584	17,888

The net value of intangible assets concerning Development Costs was Euro 22,442 thousand and Euro 22,576 thousand, respectively at December 31, 2015 and 2014.

Development Costs were capitalised as the company considers these investments recoverable through revenues from the sale of the related products, forecast for 2016 and subsequent years. This assessment was also supported by the analysis carried out by an external consultant who took into consideration the proprietary product market, the features of the individual products compared to the main competitors and the current visibility.



**Note 10 - Investments valued at equity**

The account investments valued at equity reported the following movements:

	31/12/2015	31/12/2014
Value at January 1	194	194
Adjustments in the year	-	-
Reclassifications to the account "AFS non-current assets"	-	-
<b>Value at December 31</b>	<b>194</b>	<b>194</b>

At December 31, 2015 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	Financial prepayments and accrued income	Total
<b>Balance at January 1, 2014</b>	<b>125</b>	-	<b>6</b>	-	<b>131</b>
Acquisitions / movements in the year	-	-	2,001	-	2,001
Reclassifications	-	-	-	-	-
Disposals / liquidations	-	-	-	-	-
Write-down / revaluations	-	-	-	-	-
<b>Balance at December 31, 2014</b>	<b>125</b>	-	<b>2,007</b>	-	<b>2,132</b>
Acquisitions / movements in the year	100	-	2,945	348	3,393
Reclassifications	-	-	5,062	-	5,062
Disposals / liquidations	-	-	-	-	-
Write-down / revaluations	-	-	-	-	-
<b>Balance at December 31, 2015</b>	<b>225</b>	-	<b>10,014</b>	<b>348</b>	<b>10,587</b>

The investments in other companies are all valued at cost.

The increase of Euro 100 thousand concerns the 12.5% of Italtel S.p.A.'s investment in Open Hub Med S.c.r.l., incorporated on November 5, 2015.

No other changes in investments in other companies are reported. The list is reported at Note 46.

Financial Receivables and other non current assets, in addition to the restricted current account of Euro 2,000 thousand, against the commitment of the Company Italtel S.p.A. to issue, on expiry on June 30, 2017, a new bank surety to cover the rental charges for the Castelletto-Settimo Milanese building, in replacement of that already held by the lessor, increased by an additional Euro 8,008 thousand concerning two restricted current accounts in guarantee of the loans issued by Banca Intesa San Paolo S.p.A. and Cassa Depositi and Prestiti S.p.A. for the research and development on the PAIMS and SIS projects, with maturity of 31/12/2020.

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

**Note 12 – Other assets**

This account Other assets is comprised of:

	31/12/2015	31/12/2014
Guarantee deposits	544	870
Tax receivables	6,339	5,315
Tax reimbursements requested	6,398	6,732
Other	290	4
Other non-current receivables doubtful debt provision	(2,894)	(373)
<b>Total</b>	<b>10,677</b>	<b>12,548</b>

Tax Receivables totalled Euro 6,339 thousand, of which Euro 5,137 thousand concerning Italtel S.p.A., which includes Euro 4,755 thousand relating to the Tax receivables for withholding taxes incurred abroad, classified under other current receivables, due in a period of between 2 and 8 years, while Euro 1,202 thousand concerns receivables for ICMS taxes of the company Italtel Brasil.

Tax receivables of doubtful recovery were written-down for Euro 2,894 thousand. The change in the year of Euro 2,521 thousand concerns the reduction of withholding taxes in Brazil maturing in the 2017-2020 period following the change in the IRES rate from 27.5% to 24%.

On tax reimbursements requested for repayment interest matures at an annual rate of 2% (Euro 111 thousand in 2015).

The Others account includes long-term prepayments for the suspension of costs accrued beyond 12 months.

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:

	31/12/2015	31/12/2014
Deferred tax assets	77,717	86,193
Deferred tax liabilities	(3,701)	(2,454)
<b>Total</b>	<b>74,016</b>	<b>83,739</b>

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	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
<b>Temporary differences originate from:</b>				
- Capital grants and operating grants	-	-	2,501	1,494
- Accelerated depreciation	-	-	119	134
- Doubtful debts provision	2,287	2,620	-	-
- Inventory obsolescence provision	12,083	15,441	-	-
- Amortisation and depreciation	140	157	-	-
- Other provisions for risks and charges	967	1,643	-	-
- Surplus interest charges carried forward	11,385	13,046	-	-
- Other	28	401	381	-
- For temporary differences concerning the Colombian branch in accordance with local tax laws	402	619		
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	5,038	4,635	-	-
- Deferred tax asset relating to tax losses of Italtel S.p.A.	44,379	46,392	-	-
- Deferred tax asset relating to tax losses of the foreign subsidiaries	284	-	-	-
<b>Changes on adoption of IFRS</b>				
- Discounting employee leaving indemnity provision	-	-	688	812
- Discounting of revised post-employment benefit provision <sup>(1)</sup>	724	1,172	-	-
- Adjustment in measurement of amortisation and depreciation of fixed assets	-	-	12	14
- Consolidation adjustments	-	67	-	-
<b>Total</b>	<b>77,717</b>	<b>86,193</b>	<b>3,701</b>	<b>2,454</b>

<sup>(1)</sup> 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.

Deferred tax assets and liabilities were provisioned taking account of the expected reduction to 24% of the IRES rate from 2017, as defined by the 2016 Stability Law (Law No. 208/15), Article 1, paragraph 61; the effect in terms of deferred taxes on the income statement concerned increased income taxes of Euro 9,735 thousand, while Euro 106 thousand were directly recognised to net equity.

At December 31, 2015, the financial statements of Italtel S.p.A. present temporary differences of Euro 281,232, in line with 2014, with total deferred taxes of Euro 68,694 (Euro 79,037 thousand in 2014), of which Euro 44,379 thousand concerning tax losses and Euro 23,315 thousand concerning other items.

The recoverability estimates of tax losses are in line with the 2016-2022 Industrial Plan, approved by the Board of Directors on June 8, 2016, updating the meeting of May 27, 2016, and subject of a comfort letter from an external consultant.

At December 31, 2015, Italtel S.p.A. presents deferred tax assets not recognised to the financial statements, relating to temporary differences, of Euro 21,947 thousand.

Deferred taxes concerning the Colombian branch office were generated by temporary differences concerning the branch and in accordance with local tax laws.

Deferred tax assets concerning tax losses of foreign subsidiaries related to Brazil. At December 31, 2014 they were not present.

At December 31, 2015 and 2014 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	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
- Discounting provision <sup>(1)</sup>	724	1,172	-	-
<b>Total</b>	<b>724</b>	<b>1,172</b>	<b>-</b>	<b>-</b>

(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:

2014	Raw materials, ancillary and consumables	Products in work-in- progress and semi- finished	Finished products and goods for resale	Advances	Total
<b>Opening inventories</b>					
Balance at January 1	6,091	19,239	56,229	313	81,872
Changes in the year	(1,553)	(831)	2,447	(288)	(225)
<b>Balance at December 31</b>	<b>4,538</b>	<b>18,408</b>	<b>58,676</b>	<b>25</b>	<b>81,647</b>
<b>Inventory obsolescence provision</b>					
Balance at January 1	(6,091)	(10,695)	(36,188)	-	(52,974)
(Provision) / Utilization	1,553	266	(1,408)	-	411
<b>Balance at December 31</b>	<b>(4,538)</b>	<b>(10,429)</b>	<b>(37,596)</b>	<b>-</b>	<b>(52,563)</b>
<b>Net inventories</b>					
<b>Balance at December 31</b>	<b>-</b>	<b>7,979</b>	<b>21,080</b>	<b>25</b>	<b>29,084</b>
<b>2015</b>					
2015	Raw materials, ancillary and consumables	Products in work-in- progress and semi- finished	Finished products and goods for resale	Advances	Total
<b>Opening inventories</b>					
Balance at January 1	4,538	18,408	58,676	25	81,647
Changes in the year	(464)	8,611	(8,007)	16	156
<b>Balance at December 31</b>	<b>4,074</b>	<b>27,019</b>	<b>50,669</b>	<b>41</b>	<b>81,803</b>
<b>Inventory obsolescence provision</b>					
Balance at January 1	(4,538)	(10,429)	(37,596)	-	(52,563)
(Provision) / Utilization	464	87	4,896	-	5,447
<b>Balance at December 31</b>	<b>(4,074)</b>	<b>(10,342)</b>	<b>(32,700)</b>	<b>-</b>	<b>(47,116)</b>
<b>Net inventories</b>					
<b>Balance at December 31</b>	<b>-</b>	<b>16,677</b>	<b>17,969</b>	<b>41</b>	<b>34,687</b>

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

At December 31, 2015 and 2014 Inventories act as guarantees for loans in place at that date.

## Note 15 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2015	31/12/2014
Receivables from customers	96,364	98,052
Receivables from associated companies	86	86
Cumulative write-down of receivables	(9,198)	(9,267)
<b>Total net receivables</b>	<b>87,252</b>	<b>88,871</b>

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

	31/12/2015	31/12/2014
<b>Balance at January 1</b>	<b>9,267</b>	<b>9,235</b>
Changes in the year:		
- Increases	68	668
- Utilizations	(137)	(637)
- Translation differences of foreign currencies	-	1
<b>Balance at December 31</b>	<b>9,198</b>	<b>9,267</b>

The increases in the cumulative write-downs of receivables were recognized 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 without recourse factoring operations in place at December 31, 2015 totaled Euro 118.1 million (at December 31, 2014 Euro 69.2 million).

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:

	31/12/2015		31/12/2014
	Foreign currency	Euro	Foreign currency
US Dollar	35,637	32,733	28,237
UK Sterling	137	186	137
Brazilian Real	24,706	5,730	23,894
Peruvian Nuevo Sol	39,333	10,607	33,186
Polish Zloty	2,552	599	648
Saudi Riyal	763	187	1,297
Colombian Peso	1,899,620	550	1,909,174
Philippine Peso	1,193	23	1,193
Oman Riyal	-	-	58
Arab Emirates Dirham	-	-	404
Argentinean Peso	15,682	1,112	14,517

## Note 16 - Income tax receivables

Income tax receivables at December 31, 2015 amounted to Euro 786 thousand (at December 31, 2014 totaling Euro 710 thousand), representing the excess of payments on account by some foreign companies (at December 31 2014 representing the excess of the taxes paid by some foreign companies for Euro 448 thousand and for IRAP for Euro 262 thousand).

**Note 17 - Other receivables and assets**

This account Other receivables and assets is comprised of:

	31/12/2015	31/12/2014
Employee receivables	1,345	1,996
Social security institution receivables	2,413	3,457
Prepayments and accrued income	1,802	1,127
Short-term tax receivable	2,545	8,883
Receivables from the state for subventions and grants	10,367	11,246
Other various receivables	3,053	2,570
Cumulative write-down of receivables	(1,410)	(1,410)
<b>Total</b>	<b>20,115</b>	<b>27,869</b>

The employee receivables referred principally to advances provided for work transport.

Social security institution receivables include Euro 2,261 thousand concerning Italtel S.p.A. from the INPS for advance salary payments to personnel in the Extraordinary Temporary Lay-Off Scheme for the period April 12, 2014 - December 31, 2015 for the Rome and Carini offices and for the April 12, 2015 - December 31, 2015 period for the Castelletto offices (Settimo Milanese). The Company in 2015 obtained authorization from the INPS for the offsetting of these receivables with social security payments in relation only to the Castelletto office.

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

Tax receivables of Euro 2,545 thousand principally comprise of the Tax receivables of the foreign companies, for VAT and similar taxes.

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 totaled Euro 3,053 thousand.

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

**Note 18 - Short-term financial assets**

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

	31/12/2015	31/12/2014
Other financial receivables	11	938
Short-term financial prepayments and accrued income	214	116
Financial receivables from non-consolidated subsidiaries	618	601
Monetary funds	3,262	-
Assets for hedging contracts	3,297	1,517
<b>Total</b>	<b>7,402</b>	<b>3,172</b>

Other financial receivables decreased principally due to the reclassification to Other receivables of receivables for interest matured with factoring companies with whom tax receivable cession contracts were signed in previous years.

The Euro 3,262 thousand of Monetary Funds concerns investments in funds comprising Argentinian government securities liquefiable and due in the very short-term.

The derivative hedging assets totaled Euro 3,297 thousand and are based on the valuation at December 31, 2015 of exchange rate hedging contracts. At December 31, 2014, an asset of Euro 1,517 thousand was reported.

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

### Note 19 - Cash and cash equivalents and restricted current accounts

The restricted current accounts, as indicated in Note 11, were classified to receivables and other non-current receivables.

Restricted current accounts at December 31, 2014 amounted to Euro 5,062 thousand and related to the receipt in 2014 of the "Asic" subsidized rate loan, previously disbursed in 2013 by the financial institutions and other lenders and deposited in a restricted current account for the discharge of restructuring costs incurred in 2014.

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

	31/12/2015	31/12/2014
Cash at banks, financial institutions and post offices	58,244	35,802
Checks	3,334	3,509
Cash	88	64
<b>Total cash and cash equivalents</b>	<b>61,666</b>	<b>39,375</b>

The checks are principally held by the company Italtel Argentina S.A., for Euro 3,334 thousand, 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, 2015 and December 31, 2014, the share capital of Italtel S.p.A. amounted to Euro 2,000 thousand (2,000,000 ordinary shares of a value of Euro 1.00 each).

At January 1, 2013, the subscribed and paid-in share capital totaled Euro 116,858 thousand.

On March 27, 2013, the Extraordinary Shareholders' Meeting of Italtel S.p.A. approved the full coverage of the 2012 loss, resulting from the financial statements drawn up in accordance with Article 2446, paragraph 1 of the Civil Code and detailed also in Note 23, of Euro 169,165 thousand, through the use of the EFI contribution reserve, described in Note 21, for Euro 54,307 thousand and the reduction in the share capital for Euro 114,858 thousand.

At December 31, 2015, all shares issued had been subscribed and paid-in; preference shares had not been issued.

### Note 21 – Reserves

The account Reserves is composed as follows:

	31/12/2015	31/12/2014
Equity financial instruments Contribution Reserve	98,728	98,728
<b>Total</b>	<b>98,728</b>	<b>98,728</b>

The Equity Financial Instruments Contribution Reserve is generated by extraordinary share capital operations in line with the Restructuring Agreement.

This reserve was established on March 27, 2013 following the subscription of Equity Financial Instruments for a total of Euro 153,035,272, of a par value of Euro 1.00 each, convertible into Italtel S.p.A. shares on the occurrence of the events set out in the relative regulation.

These Equity Financial Instruments were subscribed through the conferment of company receivables for a similar amount and concern:

Creditor	Number	
	Equity instruments subscribed	Percentage
Unicredit	52,642,905	34.40
BPM	14,482,770	9.46
GE Capital	27,015,412	17.65
Banco Popolare	1,464,728	0.96
Centrobanca	1,464,728	0.96
Banco di Brescia	1,464,728	0.96
Cisco	50,000,000	32.67
Telecom Italia Finance	4,500,000	2.94
<b>Total</b>	<b>153,035,272</b>	<b>100</b>

On March 27, 2013, the Extraordinary Shareholders' Meeting of Italtel S.p.A. approved the full coverage of the 2012 loss, prepared in accordance with Articles 2446, paragraph 1 and Article 2447 of the Civil Code, through the use of the Equity Financial Instrument Contribution Reserve for Euro 54,306,783.

## Note 22 – Treasury shares

At December 31, 2015 and December 31, 2014 no treasury Shares were held in portfolio.

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

The breakdown of the account is as follows:

	31/12/2015	31/12/2014
Prior year losses carried forward	(40,577)	(26,322)
Translation reserve	(6,713)	(2,986)
Loss for the year	(18,764)	(15,066)
<b>Total</b>	<b>(66,054)</b>	<b>(44,374)</b>

In relation to the recapitalization 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, 2015 and December 31, 2014, 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 year.

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:

	2015	2014
<b>Balance at January 1</b>	<b>(2,986)</b>	<b>(2,406)</b>
Conversion of opening net equity and consolidation adjustments	(2,690)	(644)
Conversion of Profit/(loss)	(1,037)	64
<b>Balance at December 31</b>	<b>(6,713)</b>	<b>(2,986)</b>

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:

	31/12/2015	31/12/2014
Post-employment benefits	18,814	22,312
Indemnity for the advanced settlement of contract	561	881
Deferred employee benefits provisions for foreign companies	48	42
<b>Total</b>	<b>19,423</b>	<b>23,235</b>

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

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:

	31/12/2015	31/12/2014
<b>ECONOMIC ASSUMPTIONS</b>		
Increase in the cost of living	1.75% annual	1.75% annual
Discount rate	2.03% annual	1.50% annual
Salary increases	-	-
Annual increase in post-employment benefit	2.81% annual	2.81% annual
<b>DEMOGRAPHIC ASSUMPTIONS</b>		
Probability of death	Italian population data recorded by ISTAT in 2007 based on gender	Italian population data recorded by ISTAT in 2007 based on gender
Probability of invalidity	Projections for 2010 from the INPS tables by age and gender. This probability was created from the age and gender of the pensions at January 1, 1987, commencing from 1984, 1985 and 1986 relating to the personnel of the credit division	Projections for 2010 from the INPS tables by age and gender. This probability was created from the age and gender of the pensions at January 1, 1987, commencing from 1984, 1985 and 1986 relating to the personnel of the credit division
Probability of dismissal	Annual frequencies of 3% were considered	Annual frequencies of 3% were considered
Probability of retirement	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached
Probability of advances	Annual value of 3% was considered	Annual value of 3% was considered

Changes in the post-employment benefit were as follows:

	31/12/2015	31/12/2014
<b>Balance at January 1</b>	<b>22,354</b>	<b>24,710</b>
IFRS adjustment – actuarial losses/(profits) Italtel S.p.A.	(1,246)	1,845
Increase in the year Italtel S.p.A.	315	214
Increase in the year - foreign companies	6	6
Utilizations in the year Italtel S.p.A.	(2,567)	(4,421)
Utilizations in the year - foreign companies	-	-
<b>Balance at December 31</b>	<b>18,862</b>	<b>22,354</b>

The actuarial profit calculated for 2015 is Euro 1,246 thousand, while in the previous year actuarial losses of Euro 1,845 thousand were reported.

The increase in the year is essentially due to “Interest costs” for Euro 315 thousand in 2015 (Euro 562 thousand in 2014).

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

	31/12/2015	31/12/2014
<b>Balance at January 1</b>	<b>881</b>	<b>1,497</b>
Provisions in the year	-	-
Utilizations in the year	(320)	(616)
<b>Balance at December 31</b>	<b>561</b>	<b>881</b>

## 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
<b>Balance at January 1, 2014</b>	<b>80</b>	<b>9,898</b>	<b>9,978</b>
Changes in the year:			
- Increases	7	2,517	2,524
- Utilizations/Releases	-	(4,177)	(4,177)
- Translation differences	1	(1)	-
<b>Balance at December 31, 2014</b>	<b>88</b>	<b>8,237</b>	<b>8,325</b>
Changes in the year:			
- Increases	-	1,663	1,663
- Utilizations/Releases	(7)	(3,303)	(3,310)
- Translation differences	(15)	(86)	(101)
<b>Balance at December 31, 2015</b>	<b>66</b>	<b>6,511</b>	<b>6,577</b>

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 6,511 thousand at December 31, 2015 (Euro 8,237 thousand at December 31, 2014) concerns risks related to disputes in progress for Euro 1,847 thousand, future losses on work in progress for Euro 1,531 thousand and tax risks relating to foreign companies for Euro 3,128 thousand, in addition to client supplementary indemnity 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:

	31/12/2015			31/12/2014		
	Short-term	Medium/long-term	Total	Short-term	Medium/long-term	Total
Secured bank loans	-	124,560	124,560	2,605	122,326	124,931
Unsecured loans	-	3,041	3,041	206	538	744
Unsecured loans at subsidized rates	8,829	25,728	34,557	5,063	11,845	16,908
Loans from other lenders	-	-	-	1,309	3,442	4,751
Liabilities for finance leases	41	56	97	55	-	55
<b>Medium/long term loans</b>	<b>8,870</b>	<b>153,385</b>	<b>162,255</b>	<b>9,238</b>	<b>138,151</b>	<b>147,389</b>
Short-term bank loans	86,690	-	86,690	81,784	-	81,784
<b>Total payables to financial institutions</b>	<b>95,560</b>	<b>153,385</b>	<b>248,945</b>	<b>91,022</b>	<b>138,151</b>	<b>229,173</b>
Other payables	944	-	944	846	282	1,128
Accruals and deferred income	120	-	120	142	-	142
<b>Total</b>	<b>96,624</b>	<b>153,385</b>	<b>250,009</b>	<b>92,010</b>	<b>138,433</b>	<b>230,443</b>

The above indicated medium to long-term loans, including the current portion, are repayable as follows:

	31/12/2015	31/12/2014
- within one year	8,870	9,238
- between one and two years	78,330	4,231
- between two and three years	33,038	76,482
- between three and four years	35,381	27,801
- between four and five years	6,636	28,807
- over five years	-	830
<b>Total</b>	<b>162,255</b>	<b>147,389</b>

At December 31, 2015, the medium/long term loans, including the short-term portion, were as follows:

	Variable rate	Fixed rate	31/12/2015
- within one year	41	8,829	8,870
- between one and two years	69,885	8,445	78,330
- between two and three years	26,491	6,547	33,038
- between three and four years	30,027	5,354	35,381
- between four and five years	1,255	5,381	6,636
- over five years			
<b>Total</b>	<b>127,699</b>	<b>34,556</b>	<b>162,255</b>

The loans with secured guarantees, totaling Euro 124,560 thousand and with interest rate of between 2.5% and 3.1%, are broken down as follows:

- Euro 75,317 thousand for two credit lines (A2 and B2), fully utilized, 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 72,663 thousand, is repayable in three equal annual instalments from December 31, 2017, while the B2 line, amounting to Euro 2,654 thousand, will expire on December 31, 2019;
- Euro 18,000 thousand of a new credit line with expiry on June 30, 2017;
- Euro 5,709 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 18,353 thousand of a line drawn down for restructuring costs, of which Euro 3,173 thousand issued in 2013, Euro 8,434 thousand issued in 2014 and Euro 6,746 thousand in 2015, with final maturity on June 30, 2017;
- Euro 3,181 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 12,521 thousand for interest due to the Lending Banks and capitalized on the medium/long-term credit lines, as established by the Restructuring Agreement.

The unsecured loans at standard rates for Euro 3,041 thousand comprise:

- Euro 538 thousand issued by Banca Intesa Sanpaolo S.p.A. for a total Euro 4,178 thousand for research activities concerning the “Asic” project, of which Euro 3,640 thousand at subsidized rates;
- Euro 2,503 thousand issued by the Intesa Sanpaolo Group for a total of Euro 25,033 thousand for research activities on the PAIMS and SIS projects, of which Euro 22,530 thousand at subsidized rates. A restricted account was established for Euro 8,008 thousand in guarantee of this loan.

The unsecured loans at subsidized rates of Euro 34,557 thousand comprise loans at rates between 0.5% and 0.886%, and concern subsidized financing issued based on research, development and industrial innovation laws. These loans increased Euro 23,113 thousand following the receipt of the subsidies awarded for the PAIMS and SIS project (Euro 22,530 thousand), in addition to the balance of the NAIN and PICO projects (Euro 583 thousand) and decreased for Euro 5,464 thousand due to settlements under the relative repayment plans.

The account Short-term bank loans, totaling Euro 86,690 thousand at December 31, 2015 (Euro 81,784 thousand at December 31 2014), include the use of the short-term revolving credit lines. The increase in this account of Euro 4,906 thousand is substantially due to the increased usage of the lines made available which, although technically short-term in nature, refer to “committed” credit lines, therefore lines with settlement not possible before June 30, 2017.

Given that negotiations have been initiated and are currently in progress with the lending banks for the establishment, before the relative repayment date, of new terms and conditions and including new maturities and repayment terms for the current loans, the Restructuring Agreement and the loan contracts provide for

compliance with three covenants, increasingly stringent over the duration of the agreement and measured half-yearly on an annual basis on the Group consolidated financial statements, from June 30, 2014.

The three covenants concern:

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

The following table reports the values of the three covenants required by the Restructuring Agreement:

	<i>Leverage Ratio</i>	<i>Interest Cover Ratio</i>	<i>Capital Expenditure</i>
at June 30, 2014	≤15.8	≥2.6	
at December 31, 2014	≤11.2	≥3.4	17,300,000
at June 30, 2015	≤5.2	≥4.7	
at December 31, 2015	≤4.4	≥4.3	17,900,000
at June 30, 2016	≤3.6	≥4.7	
at December 31, 2016	≤3.5	≥4.5	18,400,000
at June 30, 2017	≤3.1	≥4.6	
at December 31, 2017	≤2.7	≥5.6	18,900,000
at June 30, 2018	≤2.7	≥8.2	
at December 31, 2018	≤2.1	≥12.5	20,900,000
at June 30, 2019	≤1.9	≥13	

As on the basis of the preliminary figures available to the company, sent to the lending banks in recent weeks together with the additional information required by the loan contracts, on approval of these financial statements non-compliance with some of the financial covenants and the loans would be formally confirmed, the company and the lending banks concluded on June 1, 2016 an agreement with duration until January 1, 2017 which suspended the application of the loan clauses concerning the verification of these covenants, and under which the lending banks have committed for the entire period not to implement any remedies contractually established for violation of the financial covenants and not to revoke, reduce or cancel the credit lines granted (“Standstill Agreement”).

The directors, also on the basis of the *pro veritate* opinion of an external consultant concerning the classification of financial payables as per IAS 1, paragraph 74, decided to maintain the classification of such as non-current liabilities. Were this payable classified as short-term, current liabilities would total Euro 221,184 thousand, rather than Euro 96,624 thousand.

For further information, reference should be made Note 2 of the Financial Statements and the paragraph concerning the Directors’ considerations on the going concern.

### Liquidity

Net liquidity at December 31, 2015 and 2014 was broken down as follows:

	<b>31/12/2015</b>	<b>31/12/2014</b>
Cash and cash equivalents	3,422	3,573
On demand bank current accounts	58,244	35,802
Restricted current accounts	-	5,062
<b>Total</b>	<b>61,666</b>	<b>44,437</b>

The changes in the net liquidity of the group are reported below:

	31/12/2015	31/12/2014
Cash generated/(absorbed) by operating activities	32,193	19,019
Cash generated/(absorbed) by investing activities	(22,922)	(20,311)
Cash generated/(absorbed) by financing activities	11,560	(1,970)
Other shareholders' equity changes	(3,602)	(555)
<b>Changes in the year</b>	<b>17,229</b>	<b>(3,817)</b>

In 2015, the Group generated liquidity for Euro 17,229 thousand, against an absorption of cash of Euro 3,817 thousand in the previous year, as follows:

#### Cash flow generated by operating activities

The cash flow generated by operating activities totaled Euro 32,193 thousand.

Cash flow from operating activities before working capital changes of Euro 6,556 thousand is accompanied by the change in net working capital, with the generation of cash of Euro 25,637 thousand, also thanks to the significant recourse to factoring operations.

#### Cash absorbed by investing activities

In 2015, investing activities absorbed cash of Euro 22,922 thousand, principally due to investment in property, plant and equipment for Euro 1,657 thousand and in intangible assets for Euro 16,611 thousand. Finally, Euro 3,262 thousand was invested in funds comprising Argentinian government securities liquefiable and due in the very short-term.

#### Cash generated by financing activities

Financing activities in 2015 generated liquidity of Euro 11,560 thousand.

During the year, the net balance of short-term loan issues was Euro 2,981 thousand, with the repayment also of medium/long-term loans for Euro 19,915 thousand, while new medium/long-term loans were granted for Euro 34,740 thousand.

### Note 27 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2015	31/12/2014
Medium/long term accrued liabilities and deferred income	305	254
Deposits	112	161
ITL SPA Other payables	586	-
<b>Total</b>	<b>1,003</b>	<b>415</b>

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.

Other medium/long-term liabilities concern the FASI (Supplementary Health Assistance Provision) payable concerning the fund joining fee. The payable is broken into quarterly instalments from April 30, 2015, with final maturity January 31, 2018.

The book value of the other liabilities approximates their Fair Value.

## Note 28 - Trade payables

The account is composed as follows:

	31/12/2015	31/12/2014
Trade payables	143,319	134,841
Payables to associated companies	172	172
<b>Total</b>	<b>143,491</b>	<b>135,013</b>

At December 31, 2015, there were no deferred payables to Cisco. At December 31, 2014, the account included Euro 7.9 million of deferred Cisco payables, of which Euro 6 million with maturity in January 2015.

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:

	31/12/2015		31/12/2014
	Foreign currency	Euro	Foreign currency
US Dollar	72,399	66,501	76,634
UK Sterling	188	256	195
Argentinean Peso	20,797	1,475	23,369
Brazilian Real	7,538	1,748	9,774
Polish Zloty	437	102	28
Colombian Peso	3,306,345	957	4,227,109
Peruvian Nuevo Sol	30,931	8,341	6,105
Oman Riyal	-	-	3
Philippine Peso	474	9	474
Swiss Franc	32	29	-
Arab Emirates Dirham	-	-	104

## Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 1,829 thousand and Euro 1,155 thousand at December 31, 2015 and December 31, 2014 respectively, representing the Income tax payables:

	31/12/2015	31/12/2014
IRES	-	-
IRAP	-	-
Income taxes – foreign countries	1,829	1,155
<b>Total</b>	<b>1,829</b>	<b>1,155</b>

## Note 30 - Other payables and liabilities

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

	31/12/2015	31/12/2014
Employee payables	14,262	21,620
Social security institutions	4,024	1,875
Accruals and deferred income	12,905	7,467
VAT	8,943	2,657
Withholding taxes to be paid	2,257	2,825
Other taxes	1,202	696
Customer advances	2,200	2,623
Other liabilities	9,705	5,507
<b>Total</b>	<b>55,498</b>	<b>45,270</b>

Employee payables decreased Euro 7,358 thousand, principally due to the payment of indemnities, recognised at December 31, 2014, paid in 2015 to personnel of the company Italtel S.p.A. with whom Industrial Mediation Agreements were individually signed as per Article 2113, paragraph IV of the Civil Code and Articles 410 and 411, paragraph III of the Civil Procedural Code. At December 31, 2015, payables for holidays and deferred salaries reduced.

Social security payables at December 31, 2015 increased on December 31, 2014 by Euro 2,149 thousand. At December 31, 2014, the Company offset the INPS receivables for the recovery of the Solidarity Contracts with payables for contributions to be paid in January 2015.

The social security institution payables include the current portion of the FASI payable, as commented upon in Note 27.

Accruals and deferred income include revenues received for the future provision of goods and services.

The VAT payable at December 31, 2015 includes Euro 6,700 thousand concerning Italtel S.p.A. paid in January 2016.

The increase in Other liabilities of Euro 4,198 thousand is principally due to the recognition of the payable to Italtel S.p.A. personnel for December salaries paid in January 2016 (Euro 2,386 thousand) and the increase in advances received from Public entities during the year (Euro 1,122 thousand).

### Note 31 - Revenues from sales and services

The following tables report the revenues from sales and services in 2015 and 2014, broken down by client and region.

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

	2015	2014
Telecom Italia	130,153	133,526
Other local operators	41,072	37,213
Large enterprises and Public Administration	71,877	54,328
Overseas Operators	197,972	175,123
<b>Total</b>	<b>441,074</b>	<b>400,190</b>

#### *ii) Revenues from sales and services broken down by region*

	2015	2014
Italy	238,509	222,377
Other European countries	60,260	39,771
Central and South America	140,481	134,595
USA	896	574
Africa	239	1,506
Asia	689	1,367
<b>Total</b>	<b>441,074</b>	<b>400,190</b>

### Note 32 – Other income

This account Other income is comprised of:

	2015	2014
Grants	5,552	7,055
Gains on disposals	22	11
Others	12,858	17,726
<b>Total</b>	<b>18,432</b>	<b>24,792</b>



Operating grants for Euro 5,552 thousand concern contributions for costs incurred for research and development activities (Euro 7,055 thousand in 2014).

The account Others concerns prior year income for Euro 2,052 thousand (Euro 5,054 thousand in 2014), Euro 5,949 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 5,052 thousand in 2014) and the release of provisions for Euro 1,550 thousand (Euro 4,440 thousand in the previous year).

### Note 33 - Purchase of materials and services

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

	2015	2014
Purchases of materials	243,368	203,889
Purchases of services	110,587	116,165
<b>Total</b>	<b>353,955</b>	<b>320,054</b>

The breakdown of purchases on materials and services by Italtel Group companies from the companies Telecom Italia and Cisco is reported in Note 42 – Transactions with related parties, to which reference should be made.

### Note 34 - Personnel costs

The account Personnel costs is broken down as follows:

	2015	2014
Wages and salaries	62,258	60,188
Social security charges	16,542	16,887
Post-employment benefits	3,610	3,523
Mobility and other non-recurring charges	576	7,259
Others	1,098	1,161
<b>Total</b>	<b>84,084</b>	<b>89,018</b>

Personnel costs include non-recurring restructuring charges for a total of Euro 576 thousand (in 2014 Euro 7,259 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 1,489 in 2014 to 1,348 in 2015.

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

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

	2015	2014
Development Costs	15,584	17,888
Other intangible assets	1,069	1,209
Other tangible asset write-downs	29	-
Industrial buildings	705	755
Plant and machinery	698	839
Industrial and commercial equipment	989	1,102
Other assets	703	796
Other tangible asset write-downs	23	-
<b>Total</b>	<b>19,800</b>	<b>22,589</b>

### Note 36 - Other operating costs

This account Other operating costs is comprised of:

	2015	2014
Other operating expenses	5,609	5,451
Provisions for risks	1,663	2,355
Write-down of receivables	68	669
<b>Total</b>	<b>7,340</b>	<b>8,475</b>

The account miscellaneous operating costs includes prior year charges of Euro 1,145 thousand (Euro 772 thousand in 2014).

### Note 37 - Change in inventories

The following table highlights the principle components of the account:

	2015	2014
Raw materials, ancillary and consumables	133	-
Products in work-in-progress and semi-finished	4,431	(230)
Finished products and goods	(2,528)	1,667
<b>Total</b>	<b>2,036</b>	<b>1,437</b>

The increase of Euro 4,241 thousand concerns works in progress according to the percentage of completion method, included in the revenue from Telecom Italia reported at Note 31.

### Note 38 - Increases on internal works capitalised

The account increases on internal works capitalized amounted to Euro 14,000 thousand in 2015 (Euro 14,353 thousand in 2014) and concerns the capitalizations of tangible and intangible fixed assets of the production costs, not including financing charges.

In 2015, the account concerned for Euro 13,676 thousand (Euro 14,114 thousand in 2014) the capitalization 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.

	2015			2014		
	Charges	Income	Net charges/(income)	Charges	Income	Net charges/(income)
Exchange losses/(gains)	22,811	18,600	4,211	20,728	14,250	6,478
Interest	7,210	1,106	6,104	3,848	36	3,812
Others	6,257	4,917	1,340	2,793	2,477	316
<b>Total</b>	<b>36,278</b>	<b>24,623</b>	<b>11,655</b>	<b>27,369</b>	<b>16,763</b>	<b>10,606</b>

Net financial charges total Euro 11,655 thousand, compared to Euro 10,606 thousand in the previous year, increasing Euro 1,049 thousand.

Compared to 2014 factoring operation charges of Euro 980 thousand were reclassified from other operating charges and income.

Net exchange losses decreased from Euro 6,478 thousand in 2014 to Euro 4,211 thousand in 2015, an improvement of Euro 2,267 thousand.

Net interest charges increased from Euro 3,812 thousand in 2014 to Euro 6,104 thousand in 2015, rising therefore Euro 2,292 thousand.

The increase is substantially due to the increased interest on bank payables due to the higher rates applied following the restructuring agreement of 2013, which stipulated a reduction for two years of the rates applied.

Other net charges increased from Euro 316 thousand in 2014 to Euro 1,340 thousand in 2015.

In 2015 and 2014, the Italtel Group recognized net financial charges from transactions undertaken with holders of EFI, as follows:

	2015	2014
Unicredit	5,812	2,517
GE Capital	52	81
Banco di Brescia	698	652
<b>Total</b>	<b>6,562</b>	<b>3,250</b>

#### Note 40 - Income taxes

The income tax account in 2015 reports a charge of Euro 17,348 thousand, compared to Euro 4,968 thousand in the previous year. This does not include IRAP for the current year (Euro 950 thousand in 2014) and comprises: foreign income taxes for Euro 6,742 thousand (Euro 6,131 thousand in 2014), lower taxes relating to previous years for Euro 44 thousand (lower taxes for Euro 120 thousand in 2014), in addition to deferred tax income of Euro 2,143 thousand (Euro 1,993 thousand in 2014). Net deferred tax income entirely concerns the Group foreign companies and the Columbian branch of Italtel S.p.A..

In addition, following the 2016 Stability Law (Law No. 208/15, Article 1, paragraph 61) which reduced the IRES rate from 27.5% to 24% from 2017, a reduction of Euro 9,735 thousand of deferred tax assets was recognised to the income statement.

Finally, in 2015 withholding taxes incurred abroad were provisioned to the income statement for a total of Euro 3,058 thousand.

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

	2015	2014
Theoretical taxes <sup>(a)</sup>	(410)	(2,795)
IRAP	-	950
Withholding taxes foreign currencies	3,058	-
Deferred tax asset reduction due to 2017 rate change	9,735	-
Difference between the tax rate on foreign entities	709	960
Non-deductible (exempt) tax components	480	390
Deferred taxes not recorded on tax losses and temporary differences	4,822	6,151
Positive components not subject to taxation	(540)	(631)
Other changes	(506)	(57)
<b>Effective tax</b>	<b>17,348</b>	<b>4,968</b>

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

## Note 41 – Discontinued operations

Discontinued assets and liabilities at December 31, 2015 concern the company Italtel Arabia Ltd in liquidation, while at December 31, 2014 related in addition to the Middle Eastern company also 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 Italtel Kenya Ltd. Consequently, the Managing Director was assigned the tasks required under local laws.

On September 4, 2015, the notice of cancellation of Italtel Kenya Ltd. was published in the Official Gazette.

The Board of Directors Italtel S.p.A. on December 16, 2014 placed into liquidation the company Italtel Middle East Fz-LLC, following closure of the Branch Office in Oman.

On March 4, 2015, Italtel S.p.A. signed the Shareholders' Resolution concerning the placement into liquidation of the subsidiary Italtel Middle East FZ-LLC and on April 8, 2015, the Board of Directors of Italtel Middle East approved the closure of the branch in Oman.

The liquidation of the Middle Eastern company and its branch concluded on October 26, 2015 with the cancellation of the company.

The Board of Directors of Italtel S.p.A. on July 24, 2014 approved the placement into liquidation of the company Italtel Arabia Ltd. Consequently, a local attorney was appointed as liquidator to carry out the tasks required under local laws.

The liquidation of the company is still in progress.

The assets for Euro 248 thousand (Euro 738 thousand at December 31, 2014) comprise liquidity of Euro 61 thousand (Euro 450 thousand at December 31, 2014) and trade and other receivables of Euro 187 thousand (Euro 288 thousand at December 31, 2014).

The liabilities of Euro 392 thousand (Euro 201 thousand at December 31, 2014) are for Euro 70 thousand (Euro 140 thousand at December 31, 2014) miscellaneous payables and for Euro 322 thousand tax payables (Euro 61 thousand at December 31, 2014).

The net loss from discontinued operations in 2015 was Euro 124 thousand, comprising the net profit from the liquidation of Italtel Kenya Ltd of Euro 47 thousand, the net profit from the liquidation of Italtel Middle East Fz-Llc of Euro 5 thousand and the net loss for the year of the company Italtel Arabia Ltd of Euro 176 thousand.

In the previous year, the net loss related for Euro 50 thousand to Italtel Kenya Ltd and for Euro 78 thousand to Italtel Arabia Ltd.

**Note 42 - Transactions with related parties**

Transactions with the related parties were as follows:

<b>December 31, 2014</b>	<b>Trade receivables</b>	<b>Financial receivables</b>	<b>Trade payables</b>	<b>Financial payables</b>	<b>Other receiv./payables</b>
<b>Subsidiaries not consolidated:</b>					
Italtel Telesis Consortium in liquidation	-	601	-	-	-
<b>Associated companies:</b>					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(69)
Hermes consortium in liquidation	27	-	-	-	(103)
<b>Other related parties:</b>					
Italtel Group S.p.A.	-	-	-	(966)	-
Telecom Italia Group	24,172	-	(162)	(4,751)	(595)
Cisco Systems Group	2,293	-	(54,823)	(151)	-
<b>Total</b>	<b>26,551</b>	<b>601</b>	<b>(54,985)</b>	<b>(4,902)</b>	<b>(767)</b>
<b>December 31, 2015</b>					
	<b>Trade receivables</b>	<b>Financial receivables</b>	<b>Trade payables</b>	<b>Financial payables</b>	<b>Other receiv./payables</b>
<b>Subsidiaries not consolidated:</b>					
Italtel Telesis Consortium in liquidation	-	618	-	-	-
<b>Associated companies:</b>					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(69)
Hermes consortium in liquidation	27	-	-	-	(103)
<b>Other related parties:</b>					
Italtel Group S.p.A.	-	-	-	(735)	-
Telecom Italia Group	22,993	-	(86)	-	(1,094)
Cisco Systems Group	4,359	-	(59,987)	(37)	-
<b>Total</b>	<b>27,438</b>	<b>618</b>	<b>(60,073)</b>	<b>(772)</b>	<b>(1,266)</b>

In 2014 and 2015, the Italtel Group reports transactions with related parties as follows:

<b>2014</b>	<b>Sales</b>	<b>Purchases</b>	<b>Financial income /(charges)</b>	<b>Other</b>
<b>Subsidiaries not consolidated:</b>				
Italtel Telesis Consortium in liquidation	-	-	13	-
<b>Associated companies:</b>				
Cored - Reti Duemila consortium in liquidation	-	-	-	(4)
Hermes consortium in liquidation	-	-	-	(6)
<b>Other related parties:</b>				
Italtel Group S.p.A.	-	-	(5)	1
Telecom Italia Group	207,401	(1,490)	(172)	-
Cisco Systems Group	3,275	(165,089)	-	5,052
<b>Total</b>	<b>210,676</b>	<b>(166,579)</b>	<b>(164)</b>	<b>5,043</b>
<b>2015</b>				
	<b>Sales</b>	<b>Purchases</b>	<b>Financial income /(charges)</b>	<b>Other</b>
<b>Subsidiaries not consolidated:</b>				
Italtel Telesis Consortium in liquidation	-	-	12	2
<b>Associated companies:</b>				
Cored - Reti Duemila consortium in liquidation	-	-	-	-
Hermes consortium in liquidation	-	-	-	-
<b>Other related parties:</b>				
Italtel Group S.p.A.	-	-	(6)	1
Telecom Italia Group	213,745	(1,312)	(100)	-
Cisco Systems Group	35,969	(211,279)	-	5,949
<b>Total</b>	<b>249,714</b>	<b>(212,591)</b>	<b>(94)</b>	<b>5,952</b>

Transactions with the Telecom Italia Group and with the Cisco Group concern those for the purchase and sale of goods and services typical of Italtel Group ordinary operations and are undertaken at market conditions.

In relation to senior managers with strategic responsibilities, in 2015 and in 2014 emoluments were matured for a total amount respectively of Euro 2,497 thousand and Euro 2,388 thousand. These emoluments were as follows:

	<b>2015</b>	<b>2014</b>
Current Emoluments	2,390	2,274
Post-employment benefits	107	114
<b>Total</b>	<b>2,497</b>	<b>2,388</b>

### Note 43 - Commitments

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

	31/12/2015	31/12/2014
<b>To be repaid</b>		
- within one year	6,143	6,003
- between one and two years	5,652	5,720
- between two and three years	5,480	5,263
- between three and four years	82	4,183
- between four and five years	32	15
- over five years	-	-
<b>Total</b>	<b>17,389</b>	<b>21,184</b>

The Italtel Group has in place commercial guarantees for Euro 36,192 thousand, of which Euro 707 thousand concerning the client Telecom Italia S.p.A., broken down into bank guarantees for Euro 15,219 thousand and insurance guarantees for Euro 20,984 thousand.

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

In 2015, sureties in addition were granted for Euro 14,500 thousand in guarantee of the two loans for research and development.

### 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 2015 for the auditing of accounts and other services provided to the companies of the Italtel Group by PricewaterhouseCoopers.

	Italtel S.p.A.	Subsidiaries	Italtel Group
Audit Services	278	166	444
Other services	48	24	72
<b>Total 2015 costs for auditing and other services</b>	<b>326</b>	<b>190</b>	<b>516</b>

### Note 45 – Subsequent events

The events subsequent to December 31, 2015 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	825,625		
<b>Italian subsidiaries</b>					
2) Italtel S.p.A. (telecommunication systems and services)	Settimo Milanese	Euro	2,000,000	100	Italtel Group S.p.A.
<b>Overseas subsidiaries</b>					
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 28.54	Italtel BV Italtel S.p.A.
6) Italtel Kenya Ltd Removed following cancellation on 4/9/2015 (on conclusion of the liquidation process)	Nairobi (Kenya)	Kenyan Shilling	500,000	99.98 0.02	Italtel BV Italtel S.p.A.
7) Italtel Brasil Ltda (telecommunication systems)	Sao Paulo (Brazil)	Real Brazilian	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
8) Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel S.p.A. Italtel BV
9) Italtel France Sas (commercial)	Courbevoie (France)	Euro	40,000	100	Italtel S.p.A.
10) Italtel Telecommunication Hellas EPE (commercial)	Athens (Greece)	Euro	18,000	100	Italtel S.p.A.
11) Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	60 40	Italtel S.p.A. Italtel BV
12) Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	500,000 (Euro 200,000 paid-in)	60 40	Italtel S.p.A. Italtel BV
13) Italtel Poland Sp.Zo.O. (commercial)	Warsaw (Poland)	Zloty	400,000	100	Italtel S.p.A.
14) Italtel Middle East Fz-LLC Removed following winding-up on 26/10/2015 (on conclusion of the liquidation process)	Dubai (United Arab Emirates)	AED	2,500,000	100	Italtel S.p.A.
15) Italtel Arabia Ltd (commercial) in liquidation	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
16) Italtel Perú S.a.c. (commercial)	Lima (Peru)	Nuevo Sol	3,028,000	90 10	Italtel BV Italtel S.p.A.
17) Ausoitaltel S.A. (commercial) incorporated on 27.4.2015	Quito (Ecuador)	USD	500,000	1 99	Italtel BV Italtel S.p.A.
18) Italtel USA LLC incorporated on 23.12.2015	Miami (Florida)	USD	75,000	100	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	
<b>Italian associated companies</b>						
19) Cored - Consorzio Reti 2000 in liquidation (broadband networks)	Milan	Euro	260,000	30	Italtel S.p.A.	76
20) Hermes consortium in liquidation (transmission systems)	Milan	Euro	484,353	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	
<b>Non-consolidated Italian subsidiaries valued at cost</b>						
21) Italtel Telesis Consortium in liquidation (integrated telematic systems)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	-
<b>Non-consolidated foreign subsidiaries valued at cost</b>						
22) Italtel de Venezuela S.A. in liquidation (commercial)	Caracas (Venezuela)	Bolivar Fuerte	940,000	95 5	Italtel S.p.A. Italtel BV	-

**D) List of investments in other companies valued at cost**

Company name (activities)	Registered office	Currency	Share capital	% held	Book value	
<b>Other companies valued at cost</b>						
23) Cefriel - S.c.r.l. (training and research)	Milan	Euro	1,115,596	5.1809	Italtel S.p.A.	36
24) Consorzio Milano Ricerche (Milan Research Consortium) (design and research)	Milan	Euro	172,456	8.3	Italtel S.p.A.	15
25) Consel - Consorzio Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A.	1
26) SISTEL - Comunicações, Automação e Sistemas S.A. (telecommunication systems)	Monte de Caparica (Portugal)	Euro	10,338,838	0.88 0.72	Italtel S.p.A. Italtel BV	29 7
27) Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	7,626,733	0.04	Consorzio Italtel Telesis in Liquidazione <sup>(*)</sup>	-
28) MIP – Politecnico di Milano S.c.r.l.	Milan	Euro	354,000	3.39	Italtel S.p.A.	-
29) CONAI National Packaging Consortium (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A.	1
30) COFRIDIP Consortium	Padua	Euro	28,402	9.09	Italtel S.p.A.	3
31) Technology District, Sicily Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	4.55	Italtel S.p.A.	27
32) SI-LAB Sicilia S.c.a.r.l.	Palermo	Euro	30,000	18.50	Italtel S.p.A.	6
33) Open Hub Med S.c.a.r.l.	Milan	Euro	800,000	12.50	Italtel S.p.A.	100

(\*) the holding was transferred to Italtel S.p.A. on April 18, 2016

## Note 47 – Key financial highlights of the companies included in the consolidation scope

(thousands of Euro)						
Balance Sheet	Italtel S.p.A.	Italtel BV	Italtel Belgium Sprl	Italtel Deutschland GmbH	Italtel France Sas	
<b>Assets</b>						
<b>Non-current assets</b>						
Property, plant and equipment	13,624	-	-	6	23	
Goodwill	169,565	-	-	-	-	
Other intangible assets	23,927	-	-	-	1	
Investments valued under the equity method	194	-	-	-	-	
Medium/long term financial assets	25,713	10,766	-	-	-	
Other assets	8,947	-	-	-	341	
Deferred tax assets	68,694	-	-	-	-	
<b>Total non-current assets</b>	<b>310,664</b>	<b>10,766</b>	-	<b>6</b>	<b>365</b>	
<b>Current assets</b>						
Inventories	27,742	-	-	11	760	
Trade receivables	66,533	-	694	1,392	3,151	
Tax receivables	-	-	-	557	143	
Other receivables and assets	17,186	-	1	59	163	
Short-term financial assets	3,284	601	-	1,650	1,289	
Cash and cash equivalents	35,008	1,001	17	1,408	793	
<b>Total current assets</b>	<b>149,753</b>	<b>1,602</b>	<b>712</b>	<b>5,077</b>	<b>6,299</b>	
<b>AFS non-current assets</b>	-	-	-	-	-	
<b>Total assets</b>	<b>460,417</b>	<b>12,368</b>	<b>712</b>	<b>5,083</b>	<b>6,664</b>	
<b>Shareholders' Equity and Liabilities</b>						
<b>Shareholders' Equity</b>						
Share capital	2,000	6,000	500	40	40	
Reserves	98,728	3,802	12	2,769	4	
Treasury shares	-	-	-	-	-	
Other reserves including the net result	(77,364)	1,962	200	168	1,054	
<b>Total Shareholders' Equity</b>	<b>23,364</b>	<b>11,764</b>	<b>712</b>	<b>2,977</b>	<b>1,098</b>	
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Employee provisions	19,375	-	-	-	-	
Provisions for risks and charges	5,882	282	-	24	510	
Medium/long term financial liabilities	153,385	-	-	-	-	
Other liabilities	1,003	-	-	-	-	
<b>Total non-current liabilities</b>	<b>179,645</b>	<b>262</b>	-	<b>24</b>	<b>510</b>	
<b>Current liabilities</b>						
Trade payables	113,916	-	-	1,969	1,888	
Current tax payables	-	-	-	-	-	
Other payables and liabilities	43,321	8	-	113	993	
Current financial liabilities	100,171	314	-	-	2,175	
<b>Total current liabilities</b>	<b>257,408</b>	<b>322</b>	-	<b>2,082</b>	<b>5,056</b>	
<b>AFS non-current liabilities</b>	-	-	-	-	-	
<b>Total liabilities</b>	<b>437,053</b>	<b>604</b>	-	<b>2,106</b>	<b>5,566</b>	
<b>Total shareholders' equity and liabilities</b>	<b>460,417</b>	<b>12,368</b>	<b>712</b>	<b>5,083</b>	<b>6,664</b>	
<b>Income Statement</b>						
Revenue from sales and services	296,302	-	-	4,643	7,312	
EBITDA	12,986	(135)	(6)	218	1,612	
EBIT	(6,532)	(135)	(6)	215	1,594	
Net financial income/(charges)	(4,356)	2,050	-	30	(3)	
Profit/(loss) before taxes	(10,888)	1,915	(6)	245	1,591	
Net Profit/(Loss)	(24,277)	1,962	(6)	168	1,054	

(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.	Ausoitaltel SA	Italtel Usa Llc	Italtel Arabia Ltd
47	1	-	-	31	180	85	42	-	-
-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	76	2	-	-	-
-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-
43	5	-	21	17	1,202	101	-	-	-
-	-	-	-	3,972	446	904	-	-	-
<b>101</b>	<b>6</b>	<b>-</b>	<b>21</b>	<b>4,020</b>	<b>1,904</b>	<b>1,092</b>	<b>42</b>	<b>-</b>	<b>-</b>
4,782	-	-	704	592	989	2,386	135	-	-
6,186	540	-	999	15,087	5,748	10,844	221	-	-
-	86	-	-	-	-	-	-	-	-
472	-	4	4	279	1,512	515	46	-	-
7,497	-	-	-	5,546	-	-	-	-	-
5,583	496	-	243	3,660	4,736	8,415	306	67	-
<b>24,520</b>	<b>1,122</b>	<b>4</b>	<b>1,950</b>	<b>25,164</b>	<b>12,985</b>	<b>22,160</b>	<b>708</b>	<b>67</b>	<b>-</b>
-	-	-	-	-	-	-	-	-	<b>248</b>
<b>24,621</b>	<b>1,128</b>	<b>4</b>	<b>1,971</b>	<b>29,184</b>	<b>14,889</b>	<b>23,252</b>	<b>750</b>	<b>67</b>	<b>248</b>
7,353	18	35	94	286	1,528	817	459	67	805
988	6	-	-	2,670	181	163	-	-	-
-	-	-	-	-	-	-	-	-	-
1,480	(198)	(740)	(632)	3,446	1,030	2,447	(134)	-	(2,265)
<b>9,821</b>	<b>(174)</b>	<b>(705)</b>	<b>(538)</b>	<b>6,402</b>	<b>2,739</b>	<b>3,427</b>	<b>325</b>	<b>67</b>	<b>(1,460)</b>
-	48	-	-	-	-	-	-	-	-
-	-	-	192	227	43	-	-	-	-
-	-	676	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	<b>48</b>	<b>676</b>	<b>192</b>	<b>227</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
5,887	433	25	2,113	19,669	6,812	12,896	382	-	1,316
259	-	-	-	1,374	-	196	-	-	-
8,654	103	8	204	1,299	2,445	1,726	43	-	-
-	718	-	-	213	2,850	5,007	-	-	-
<b>14,800</b>	<b>1,254</b>	<b>33</b>	<b>2,317</b>	<b>22,555</b>	<b>12,107</b>	<b>19,825</b>	<b>425</b>	<b>-</b>	<b>1,316</b>
-	-	-	-	-	-	-	-	-	<b>392</b>
<b>14,800</b>	<b>1,302</b>	<b>709</b>	<b>2,509</b>	<b>22,782</b>	<b>12,150</b>	<b>19,825</b>	<b>425</b>	<b>-</b>	<b>1,708</b>
<b>24,621</b>	<b>1,128</b>	<b>4</b>	<b>1,971</b>	<b>29,184</b>	<b>14,889</b>	<b>23,252</b>	<b>750</b>	<b>67</b>	<b>248</b>
39,520	796	-	1,649	38,156	37,334	48,538	202	-	-
1,775	(18)	(13)	(617)	6,670	2,391	5,187	(128)	-	-
1,751	(18)	(13)	(617)	6,647	2,273	5,093	(130)	-	-
301	(1)	-	(100)	(1,013)	(3,292)	(1,408)	(2)	-	-
2,052	(19)	(13)	(717)	5,634	(1,019)	3,685	(132)	-	-
1,478	(19)	(13)	(717)	3,761	(699)	2,534	(132)	-	(176)

Settimo Milanese, June 9, 2016

**For the Board of Directors**

**The Chief Executive Officer**



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

To the shareholder of  
Italtel SpA

***Report on the consolidated financial statements***

We have audited the consolidated financial statements of Italtel SpA and its subsidiaries ("Italtel Group") as of December 31, 2015, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated comprehensive income statement, the statement of changes in shareholders' equity, the consolidated cash flows statement and the related notes.

*Directors' responsibility for the consolidated financial statements*

The Directors of Italtel SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***PricewaterhouseCoopers SpA***

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### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Italtel Group as of December 31, 2015 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

### *Emphasis of Matter*

Without qualifying our opinion, we draw your attention to the section "Directors' considerations on the going concern" in Note 2 to the consolidated financial statements as of December 31, 2015, which describes the events and circumstances that indicate material uncertainties exist that may cast doubts on the Company's ability to continue as a going concern. In the same section, the directors illustrate the reasons why they deem the Company able to continue operating as a going concern, on which basis they prepared the consolidated financial statements as of December 31, 2015.

### ***Report on compliance with other laws and regulations***

#### *Opinion on the consistency of the report on operations with the consolidated financial statements*

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, , which is the responsibility of the Directors of Italtel SpA., with the consolidated financial statements of the Italtel Group as of December 31, 2015. In our opinion, the report on operations is consistent with the consolidated financial statements of the Italtel Group as of December 31, 2015.

Milan, 10 June 2016

PricewaterhouseCoopers SpA

*Signed by*

Marilena Cederna  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*