ITALTEL SPA
2014 DIRECTORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS

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CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

In 2014 we again operated within a recessionary environment. Although in the initial months of the year the global economy appeared to be recovering, by the spring it once again began to stall. Eurozone growth in 2014, forecasted at 1.2% in April and 0.8% in October, was again weak - while Latin America reported modest growth of 2.5%. Italian forecasts were revised downwards by a full percentage point – from +0.6% to -0.4%. Slow growth and high unemployment has been accompanied nearly everywhere by low or negative inflation.

We view with confidence the launching of development initiatives at European level in 2015, the structural reforms which Italy has committed to and the increased competitivity lent by our currency, which facilitates international development.

In terms of results, in 2014 Italtel delivered a significant increase in business volumes (+7%) and EBITDA - stand out results within a contracting marketplace. The reported loss more than halved on 2013 and the Company forecasts - in substantial alignment with the Industrial Plan - the return to a net profit after many years of losses. In addition, close financial management enabled - although in a year of growth - an unaltered debt level on the previous year.

The Industrial Restructuring Plan may be considered complete and the Company has established a size and a cost level which facilitates financial equilibrium and the deliverance of new and further growth over the coming three-year period. The streamlining of costs was achieved through reducing departures under incentivized voluntary redundancy, the placement of employees at a number of partners, prudent management of turnover and the use of social security schemes. Continuous and transparent negotiations with the Trade Unions have enabled - even in a very difficult time for the labor markets - the achievement of company objectives without recourse to redundancies.

Italtel's product offer was further strengthened and many of the systems designed and developed over the last two years have been rolled out at a large number of clients. The decision to base products on a Network Function Virtualization (NFV) approach is proving to be very beneficial, with the application of Cloud Computing technologies and architectures to the Telecommunication Networks, as is the focus on "All IP Network Transformation", an approach now adopted by all major Telecommunications Operators globally. All Company products are based on NFV. Among the major achievements we highlight the execution at Vodafone of one of the first Virtualization projects in the world, which today allows over two million customers in Germany to communicate under the IP protocol, thanks to the virtualized iMCS platform on a CISCO technology server. This success has driven CISCO in Europe to commercialize a joint offer with Italtel, called "All IP Voice", on the basis of which further proposals will be developed from 2015.

The range of professional services was further extended. There are now nine Skills Centers, enabling the provision of engineering services and network management for an extensive number of clients in the Telecommunications and Enterprise segments. The "Multivendor Network Maintenance" and "Network Decommissioning" Skill Centers have been particularly successful, which respectively provided services concerning the Multivendor project for the Telecom Italia network and the switching outphasing project services for Belgacom. Both these projects will generate additional benefits in the future thanks to the skills developed. In this remit we consider the recent awarding of a significant part of the Decommissioning project (or switching outphasing) within a major network transformation initiative, considered as one of the four major Telecom Italia Three-Year Plan projects, which will last for at least ten years.

In summary, 2014 was the year in which a decisive turnaround was confirmed, which saw our extensive engagement in the execution of our Plan due to the number of fronts in which we were committed, and in which the general economic environment remained sluggish.

I wish to thank the women and men of Italtel for their professionalism, commitment and enthusiasm, in spite of such challenging circumstances, and on behalf of management I wish to thank the Shareholders and Stakeholders for continuing their support and for showing such confidence in our Company.

Stefano Pileri

INTRODUCTION

One of the features which has distinguished Italtel throughout its long industrial history is its vocation towards innovation through leveraging on its technological know-how. The key words of the new communications marketplace are mobility, partnership, virtualization, integration and transformation towards the new IP protocol paradigm. Italtel strives through engaging in these areas to drive progress in telecommunications and to provide high quality products, solutions and services, which meet the particular needs of clients - whether operators or businesses or public or private entities. In a sector known for extremely fast technological development, Italtel designs innovative network architecture and network decommissioning and inter-operability solutions and offers high added-value consultancy services through unrivaled know-how and a top class IT sector partner network.

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

Italtel Group

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

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

Italtel maintains a close focus on innovation and invests on an ongoing basis in research and development. Four of the eight largest telecommunication groups (Communications Service Providers) in the world and two of the three largest operators in Latin America are listed among the client base. 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: operating in France, Belgium, Germany, Spain, Greece, Poland, the United Arab Emirates and in Latin America (Argentina, Brazil, Columbia and Peru).

Key Financial Highlights

(thousands of Euro)

	2014	**2013[*]**
	IFRS	**IFRS**
Revenues	400,190	374,187
Profitability to external costs [1] %	*30.08*	*34.07*
Normalized EBITDA [2]	33,758	32,617
Margin %	*8.43*	*8.72*
EBITDA [3]	23,225	11,587
Margin %	*5.80*	*3.10*
EBIT [4]	636	(14,211)
Margin %	0.16	(3.80)
Net loss	(15,066)	(32,717)
Margin %	(3.76)	(8.74)
ROI [5] %	0.26	(5.92)
Average workforce, excl. lay-off schemes	1,162	1,236
	December 31, 2014	**December 31, 2013[*]**
Capex [6]	16,453	19,315
Net Debt [7]	182,834	182,855
Shareholders' Equity	56,354	73,337
NCE [8]	239,188	256,192
Adjusted NCE [9]	71,973	88,977
Cash flow from operating activities [10]	19,019	2,619
Cash flow from investing activities [10]	(20,311)	(18,976)
Cash flow from financing activities [10]	(1,970)	31,676
Client average (days) [11]	81	117
Suppliers average (days) [12]	150	151
Number of employees	1,334	1,628
of which Italy [13]	1,129	1,445
of which Overseas	205	183

[*] In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

(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 36
(8) Net Capital Employed (NCE), as described at page 35
(9) Net Capital Employed (NCE), adjusted for Goodwill
(10) Cash Flow Statement at page 43
(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. shareholder

Italtel S.p.A. is wholly-owned by Italtel Group S.p.A. which shareholders are:

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) (1) 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) (1), 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) (1), 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) (1), is an English registered trust, exclusively established in order to hold and manage shares of Italtel Group S.p.A..

Cordusio Fiduciaria

Cordusio Fiduciaria per Azioni (holding of 2.65% in Italtel Group S.p.A., taking account of the ordinary Class "A" shares) (1) is a trust company of the UniCredit Group, appointed to manage the share-based plans and the existing stock options of employees and Directors of Italtel. The above-stated holdings represent both the shares of employees and Directors (or Ex-Directors), in addition to the treasury shares of the company.

(1) The subscribed and paid-in share capital of Italtel Group S.p.A., amounting to Euro 825,695 at December 31, 2014, 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 (1)

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

Board of Statutory Auditors (4)

Chairman	Marco Tani
Standing members	Giuseppe Benini (6)
	Carlo Delladio
Alternate members	Monica Grassi (7)
	Guido Paolucci

Independent Audit Firm

PricewaterhouseCoopers S.p.A.

(1)Appointed on April 29, 2013 and in office until the Shareholders' AGM for the approval of the 2015 Annual Accounts
(2)Confirmed Director (appointed by EFI class A holders) and Chairman of the Board of Directors, appointed on January 20, 2014 and in office until the Shareholders' AGM 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 Sales Committee

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

(5) Appointed on December 21, 2012 and in office until the Shareholders' AGM for the approval of the 2014 Annual Accounts
(6) Appointed Statutory Auditor on January 20, 2014. In office until the Shareholders' AGM for the approval of the 2014 Annual Accounts

(7) Appointed Alternate Auditor on January 20, 2014. In office until the Shareholders' AGM for the approval of the 2014 Annual Accounts

(*) Member of the Remuneration Committee, appointed by EFI class A holders, in addition to the Sales Committee and Chairman of both these Committees
(**) Director appointed by EFI class A holders, member of the Internal Control Committee and member of the Remuneration Committee, appointed by Italtel Group S.p.A. Member of the Sales Committee
(***) 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 2014 Group Results highlight the continual improvement of the underlying business and profitability fundamentals of the Italtel Group: a net loss is again reported - although more than halving on 2013, with the EBITDA improving and the net debt better than the 2012-2017 Industrial Plan forecast. The actions implemented by management are therefore delivering upon the Plan objectives.

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

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

Basis of presentation

On February 26, 2013, with filing at the Company Registration Office on March 1, 2013, the Debt Restructuring Agreement as per Article 182-*bis* of the Bankruptcy Law was approved by the Milan Court.
Subsequently, all legal acts were completed to implement the measures established by the Restructuring Agreement, including the signing of new loan contracts, the settlement with Telecom Italia and the deferment of the Cisco receivables.

The subscribed and paid-in share capital of Italtel S.p.A. amounted therefore 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.

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:

Creditor	**Number of 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
Total	**153,035,272**	**100**

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

The Consolidated Financial Statements of the Italtel Group at December 31, 2014 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2014, issued by the International Accounting Standard Board (IASB) and adopted by European Union regulations.

These financial statements include the balance sheet, the income statement, the comprehensive income

statement, the cash flow statement, the statement of changes in shareholders' equity and the explanatory notes, which contains a list of the significant accounting principles adopted and other notes in accordance with the requirements of IFRS.
The Consolidated Financial Statements include the financial statements at December 31, 2014 of Italtel Group S.p.A., the Parent Company, of Italtel S.p.A. and of the companies in which Italtel S.p.A. holds control in accordance with IFRS 10.

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

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

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

- the beneficiary of the proceeds from any sale of the company;
- the correlation between IFRS 10 and the exposure to variable investment returns from Italtel by holders of Equity financial instruments and by Italtel Group S.p.A..

This opinion, together with the subsequent supplement, concluded that on the basis of IFRS 10, Italtel Group S.p.A. does not control Italtel S.p.A., with the consequence that from January 1, 2014:

- Italtel Group S.p.A. was no longer obliged by law to prepare the Consolidated Financial Statements, therefore preparing the Consolidated Financial Statements only for contractual purposes, in order to monitor the results in comparison to the Restructuring Plan.
- Italtel S.p.A. must prepare the Consolidated Financial Statements, which will then be attached to the separate financial statements of Italtel Group SpA for disclosure purposes.

The Consolidated Financial Statements were prepared based on the financial statements at December 31, 2014 prepared by the Boards of Directors or, where available, the financial statements approved by the Shareholders' Meetings of the respective consolidated companies, appropriately adjusted where necessary to align them with the classification criteria and accounting standards adopted by the Group.

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

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

The accounting period and the balance sheet date for the preparation of the Consolidated Financial Statements correspond to those of the financial statements of the Parent Company and all of the consolidated companies. The consolidated financial statements were prepared in Euro, which is the functional currency of the Parent Company.

Market Overview and position of Italtel

Market overview

For the first time since 2007, the European Union member states in 2015 expect growth. This finding emerges from the European Commission winter forecasts, which underline an improved general outlook, but also a higher degree of uncertainty in terms of forecasting. Potential threats to growth stem from geopolitical tensions, financial market volatility, an incomplete delivery of reforms and a protracted period of low inflation - or indeed deflation.

In the initial months of 2014, global economic growth appeared to extend upon the slight recovery which began in 2013. However, in the spring the first signs of a fresh slowdown emerged. In the third quarter, the stall set in and pessimism permeated the general outlook.

Eurozone growth in 2014, forecasted at 1.2% in April and 0.8% in October, was again weak. Italian forecasts were revised downwards by a full percentage point – from +0.6% to -0.4%. The quelling of the optimism at the beginning of the year affected all countries. Slow growth and high unemployment has been accompanied nearly everywhere by low or negative inflation.

The recent drop in oil prices supported the recovery of the global economy - which however remains slow and uneven across the various regions. Growth remains strong in the United States, is losing pace in China and has not yet returned strongly in Japan. Economic conditions in Russia further deteriorated, although the contagion of other emerging markets is currently limited. Global trade appeared to pick up. The drop in energy prices drove inflation downwards globally and is seen as one of the major factors which will shape the global economy in 2015.

A significant stimulus of the Eurozone recovery stems from the "Quantitative easing" launched by the ECB, with the objective to drive down the cost of government debt and interest rates, improving lending conditions and halting deflation.

The ICT sector, although impacted by the economic crisis, has begun to show signs of recovery. The Global TLC market in 2014 was worth USD 2,200 billion, slightly expanding (+1.6%) on the previous year. The principal market segments are: Fixed network services, Mobile network and Mobile device services, Public telecommunication network infrastructure, Operating systems and Enterprise network Services and Equipment.

The various global regions grew at differing speeds: APAC and NA continue to drive the market (+6.3% and +2.9% respectively); Europe contracted slightly (-0.8%), while Latin America for the first time reported a contraction (-3.5%).

The network infrastructure segment, a core market for Italtel, reported an improved performance on the previous year (+4.7%), reaching USD 84 billion (EMEA +7.2% and Latin America +6.4%). The majority of service providers however focused CAPEX on access to mobile broadband and increasingly away from fixed broadband, although this shift in the coming years will change with ultra-broadband networks increasing the speed of development.

Significant challenges face the telecommunication sector. Together with heightened competition among many operators, particularly in Europe, and the war with the Over The Tops (Apple, Google, Amazon, Microsoft, Facebook, etc.) which is driving down revenues and margins for the traditional Telecommunications and Television operators, new and promising trends are emerging: an exponential increase in data traffic driven by high definition video, an extension of services and applications as part of the Internet of Things (IoT), increased OTT smart phones and messaging, the need for continual lowering of latency to enable the development of transactions and remote operations in real time (ePayment, Self Driving Car, Telemedicine, etc.)
Opportunities are multiplying also thanks to the widespread use of the Cloud. Operators have embraced the Cloud to offer new services for users, prompting a complete conversion towards the "Telco Cloud". Network Function Virtualization (NFV), Software Defined Networking (SDN) and Orchestration are the new technological developments upon which new standards are being defined and upon which the new development

projects of the various Telco sector players and new opportunities for the telecommunications industry in general are based.
The strategic ultra-broadband and digital growth plans recently launched by the Renzi Government are expected to deliver a significant boost to our Digital Infrastructure.
The plans seek to deliver a dual objective of satisfying the ultra-broadband coverage needs under the European Digital Agenda and, at the same time, providing Italy with digital infrastructure for the future.
At global level, mobile continues to be the major growth driver, thanks to the mass usage of smartphones and the consequent insatiable demand for mobile broadband. Data traffic in Italy is growing at more than 40% per year, however mobile service revenues are contracting by between 10% and 15% per year, due to significant competition among operators offering increasingly discounted services within a saturated market.
Looking to the Italian market, where Italtel derives approx. 55% of its revenues, we note that some signs of recovery have become apparent also on this market. The Italian Digital market, born from the crossover of TLC, Digital Media and IT, reached in 2014 (Assinform Estimate) Euro 63.9 billion, contracting 1.8% on 2013. However, the reduction eased on that reported in 2013. We note that the innovative components have begun to grow significantly.

From a user viewpoint, the key issues for fixed and mobile network services in 2014 were:

- Fixed lines numbered 22.6 million, decreasing 2.6% compared to 2013. The market of share of incumbent operators totaled 61.3%. The operators on the market are: Telecom Italia, Wind, Vodafone, Fastweb, Tiscali and BT.
- The slow growth of broadband access, which reached 14.23 million (+2% compared to 2013). Incumbent market share reduced to 48.7%.
- Mobile access reduced, with 94.65 million SIM's, of which 6.6 million belonging to Mobile Virtual Operators. There are 4 operators on the mobile market: TIM, Vodafone, Wind and H3G.
- The significant increase in mobile broadband access, which now number 41.9 million - thanks to the runaway success of smartphones (growth of 18%).

A focus on the overall digital market will be crucial for the positioning of Italtel in the coming years. The world is changing and is changing fast. Mobility, data demand, broadband and ultra-broadband, increasing number of terminals connected to the internet, more interest users, with an increasing number of devices. A digital infrastructure capable of supporting the new demands and of driving the growth of the entire economic system has become indispensable.

Domestic market – Telecom Italia Domestic

The telecommunications ICT and Information Technology market, as outlined above, in Italy in 2014 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 revenue growth on 2013 of approx. Euro 26 million, for total revenues of Euro 133.5 million.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2014 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.
- Launching of the pilot project for the DECOMMISSIONING of Telecom Italia legacy technologies, in particular for the public commutation network domain (PSTN)
- 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 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
- 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 new Telecom Italia 2015-2017 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 2014 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.

In terms of the provision of proprietary products and services, the most significant activity was with Vodafone, who chose Italtel as the system integrator for the innovative Voice over LTE *(VOLTE)* project and for which the NetMatch-S product was installed for the connection of businesses to the Vodafone network. This result is significant as it extends to Italy, (following the UK, Spain and Germany) the footprint of Vodafone operating companies utilizing Italtel network products. In terms of operating systems, Vodafone in addition chose the i-QAC Italtel solution for the monitoring of the service quality offered on the international network of its group company V-CNO. This positioning has laid the foundations for solid growth and the international expansion of relations with this client for the coming year, which is demonstrating itself as one of the most innovative Telecommunication players internationally.

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, in addition to installing the Italtel Netmatch-S equipment dedicated to interconnection with other operators, confirmed the key role of Italtel in the IP networks field, both for the extension and modernization of the existing IP Backbone infrastructure and for the construction of the Content Delivery Network, in support of transport of television content on the basis of strategic agreements with the major Media Companies.

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 2014, the Italian ICT market was significantly impacted by the general economic uncertainty within the country. Investments declined significantly with the only exceptions being the bank/insurance sector (+3%) and the utility sector (+4.4%).
Spending Reviews and Stability Agreements slowed investment and spending in Information Technology by the Regions and Local Bodies (-4% and beyond), although the contraction in investments concerned also, sometimes to a greater degree, the Central Public Administration.
Despite this, Italtel substantially maintained its revenue base, improving margins for the Enterprise market, also thanks to Energy & Transportation growth of 36% in terms of revenues, with the margin improving 29%.

The consolidation of Italtel's positioning for Smart Grid solutions and services with the Enel and Terna groups was a significant development.
The proprietary product NetMatch-S played a key role in delivering strong results, such as those with Eni, Ubi and Banca Intesa. The activities focused on expanding the client based continued in 2014.
The revenues and margins from the Public Administration were lower than expectations, although the margin improved significantly. The reduction in revenues followed the considerable delay in the EXPO 2015 works and the heavy contraction in investments by the Defense sector. The extension of the client base through direct contracts (Poste Mobile, Banca D'Italia, Sogin, Acea) was also significant, in addition to the strengthening relations with the major Public Health Bodies (Humanitas, Local Health Authority 7 Conegliano, Local Health Authority 12 Venice, Milan Health System) and Data Centers (Nato forces).
More in general, the positioning of Italtel strengthened in terms of Ultra Broadband and Digital Services (Monza and Varese tenders) and with regard to the promising market crossover for solutions and services for the regional, environmental and healthcare sectors.
In 2014, 3 major Partnership initiatives were drawn up and introduced:
- with the company Rockwell, leader in industrial automation, within the Internet of Things to position Italtel in the Connected Industry sector;
- with Selex Electronic System (SES) an agreement for the supply of CISCO products and Italtel engineering and specialist support services, for the commercialization via SES of innovative Italtel products (NM, i-MCS, Embrace) for the implementation and integration of solutions for the Military and Professional market and for the commercialization of SES solutions in Italy, France, Germany and Spain through Italtel;
- with IBM Italia for the joint proposition of the Italtel Unified Communication and Collaboration solution, based on the proprietary NetMatch-S and Embrace products.
The Teaming Agreement lays the foundation for further partnerships.

EMEA Market

In 2014, on the EMEA market Italtel reported a turnaround performance, with a return to growth of approx. 12% on 2013, 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.

Telefonica chose 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.

Vodafone, also following the recent acquisitions of other domestic operators, extended the new generation network built over recent years with Italtel solutions, in the UK, Spain and, particularly in Germany where the fixed network, based on the Italtel MCS product, is one of the best examples in Europe of a virtualized data center platform. In particular, the "Virtual Next Generation Network" project, or vNGN, is the first successful initiative delivered by Vodafone as part of its new "Telco over Cloud" strategy, which will deliver in the coming years a transformation of the network on the basis of "Network Function Virtualization" with the objective to drastically transform through cloud technology the major intelligent functions of the Telecommunication Networks. This approach is expected to accelerate in the coming years, which Italtel welcomes as it began to develop NFV products a number of years ago.

In relation to France, the foundations were also laid for the launching of the 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 deployment of the SFR network continued.

In terms of the system integration of IP network solutions in Cisco technology, a central role was also played in 2014 on the Spanish market, principally with Telefonica, for which Italtel was newly awarded the supply contract for the international network of the subsidiary TIWS.

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

We also highlight in this regard the acquisition of the IP technology international network project of the Libyan operator LITC, built and delivered by Italtel despite the significant political-economic difficulties within the Country.

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.

LATAM Market

In 2014, the Italtel Group in the LATAM region confirmed and grew its position as a key player on the ICT market and maintained its position as one of the principal Global System Integrators of Cisco products in Brazil, Argentina, Peru and Colombia.
Thanks to the changes and corrections introduced in 2013, in 2014 it was possible to achieve the prefixed industrial plan objectives. Despite the impacts from the depreciation of the local currency, 2014 revenues reached Euro 134.4 million, growing 13% on 2013 and with the margin reaching Euro 32 million, improving 24% on 2013.

We also highlight that, in addition to profit objectives, we have segmented the offer; in particular in Brazil, for the client Tim Brazil, Italtel completed the upgrade of the IP backbone with the introduction of high capacity new generation equipment, introduced within the NGN infrastructure the proprietary software in virtualized configuration and participated in and won the tender for the supply of a highly innovative fixed and mobile convergence solution (VoWifi). This solution, now featuring in the Italtel catalogue, offers operators the choice to transparently enable, through their network and for their clients, Wifi – Mobile (Smartphone) convergence services. In relation to the professional services area, Italtel maintained its position and the growth established in 2013 with a continual increase in the level of activities and a presence in various market segments - from operations to network planning and to IT - due to the recognized know-how of TIM Brasil.

In Peru, thanks to the quality of work delivered in recent years, Italtel further expanded its integrator role for Telefonica (both in relation to infrastructure and the Market). The company also won a tender for the supply of advanced ICT solutions in support of the new "*Centro de Convenciones*", which will offer audio, video and multimedia services to clients.

Development and positioning of the Italtel offer: the Proprietary Products

In 2014 the Client base utilizing Italtel products with highly innovative components was extended, in addition to the size of the installed base, within a market in which telecommunications operators have confirmed their interest in solutions based on the new Network Functions Virtualization – NFV paradigm. The focus on the Proprietary Products proposition strengthened the functionality of a number of products, supplied both to the Service Providers and Enterprise/Public Sector markets. A significant commitment was required to overcome the usability and quality gaps, which was demonstrated in particular by the NetMatch platform in a number of "in the field" applications. This focus will be intensified in the coming year in order to deliver better products than the competition and with a highly competitive quality/price ratio.

In particular, the product catalogue developed as outlined below.

iMCS (*Italtel Multimedia Communication Suite*) product

The iMCS product 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. The products are applied in the following major functional contexts:

- Voice over LTE (VoLTE) for the 4G mobile networks.
- Voice over IP, within the Ultra Broadband Fixed Network in FTTC, FTTdP, FTTB and FTTH (in summary FTTx) technology.
- Voice over WIFI, also known as WIFI calling within the new generation Fixed-Mobile convergence network context.
- IP Interconnection and LTE roaming for the interconnection of voice traffic between differing operator networks with the IP protocol.
- SIP Trunking for the inter-operability of new generation private exchanges (IP PBX) with the operator networks.

The iMCS product is used in the migration projects of the installed i-SSW towards virtualized platforms on HW COTS (Commercial Off-The-Shelf) according to the NFV standard.

iRPS product (Italtel Routing & Policy Server)

As part of the significant transformation of networks in terms of the migration of communication and delivery services content on the IP protocols ("ALL IP Network Transformation") the Central Routering Engine undertakes a central role. Operators such as Telefonica and Vodafone are utilizing these products and are increasingly interested in their extension.

The iRPS Product, which is the Central Routering Engine solution of Italtel, has significantly evolved in order to guarantee the success of the propositions at two Telefonica Group entities, in a Fixed/Mobile context and in terms of TDM-NGN/IMS hybrid networks. An integrated DNS/ENUM scalable Server and NFV-ready was created, capable of "adapting" to virtualized OpenSource environments based on LinuxKVM and OpenStack.

NetMatch Product

The family of Netmatch products is today in use and has been further deployed at a number of clients, such as for example: Telecom Italia, Fastweb, Vodafone, BT, TIM Brasil, Exatel, ENEL, ENI, Intesa Sanpaolo, Banca D'Italia and Unicredit.

The Netmatch products such as Media&Signalling Gateway were delivered in M2 and M14 versions. Netmatch products such as Session Border Controller, with its usage extended to WebRTC network interconnection and HD video connection to external technological domains (Cisco, Microsoft) were tested also in the KVM/OpenStack environment and in the MS HyperV/Azure environment. The deployment involved the use of the entire product range, of the "VSE – Very Small Enterprise" configuration, up to the "PE – Performance Edition", developed for operator networks and Large Enterprises with high capacity.

NetMatch-S was successfully positioned in the Enterprise/Public Sector segment, both directly and through "sell-through" Operators. The Indirect sales Channel, on the other hand, remained limited in number and in terms of related business volumes, both due to a number of product technical limitations concerning the footprint and simplicity of use, in addition to commercial order reasons and go-to-market problems, both in the EMEA and LATAM regions.

Embrace Product

Embrace, created in 2013, is based on the emerging WebRTC (Web Real Time Communication) standards, which provides high quality and low cost video and voice communication functions based on Web Browsers (Chrome, Mozilla and Opera currently) for consumer and business clients and integrates with IMS systems for interoperability with VoIP and VOLTE terminals.

VNF Manager Product

For the NetMatch-S and Embrace Products, in addition, the VNF-Manager function was developed, which can execute onboarding of product applications in a NFV environment, both based on KVM/Openstack and VMware technologies;

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

The iQAC product implements the 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.

"*Collaboration at Work*" solution

Thanks to the combination of the adaptation functionality and audio/video transcoding of NetMatch-S, combined with the capacity of Embrace to dialogue with endpoints based on browsers, Italtel developed the "Collaboration at Work" Solution, which can integrate best-in-class technologies on the market such as Cisco and Microsoft, enabling Business Trunking (connection of businesses to the public networks in All-IP) and inter-domain collaboration with multi-conference audio/video services and integrated messaging. This network architecture was developed primarily according to Italtel network developments, according to the "use what you sell" principle. In addition, based on the specific needs of each client, it addressed the demands of a number of the leading Large Enterprises in the country such as ENI, ENEL, UniCredit, Banca Intesa, Poste Italiane and Pirelli.

"All IP *Voice*" Solution

During the year, together with CISCO, a solution which can transform the NFV and ALL IP of the Telecommunication Operators networks was launched. The solution uses the iMCS, Netmatch S, Netmatch M, Embrace, VNF manager, iNEM of ITALTEL and the Orchestrator (NSO) products, the Virtual PBX system called HSC and the Evolved Packet Core network, virtualized and the PCRF system of CISCO.
It was presented to operators such as Vodafone, Telecom Italia, Vimpelcom and Telefonica and various demonstrations in technologically innovative scenarios were prepared, drawing on SDN and NFV concepts, applied to various communication aspects, based on IP available in the relative solution.

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

In 2014 Italtel continued to develop and extend 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. The Technical Assistance service also played a key role in 2014 for the networks, excluding 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 complete 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 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 implement solutions.

In 2014, Italtel particularly 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, with the Decommissioning service, Italtel began the testing phase for this Telecom Italia project, following on from the success achieved in Belgium with the MANTRA project.

In particular, the Solution and Services offer in 2014 was deployed throughout the areas covered by the following Competence Centers:

"IP NGN, Mobile and Optical" Competence Center

Italtel implemented IP networks of all scales and dimensions, beginning principally with the Cisco catalogue, which includes multi-service equipment with Layer2/Layer3 (routing and switching) functionality for all network hierarchy levels (access, aggregation, core). The development of Operator networks is increasingly guided by IP network integration with the optic level. In 2014 Italtel continued to develop promising innovations relating to the programmability of networks, whose new paradigms introduce intelligence and flexibility to the traditional infrastructure, permitting the creation of a multitude of new services. The characteristic elements of the SDN (Software Defined Network) architecture are integrated in the Italtel vision, with quality control instruments to allow networks to dynamically adapt to the requirements of the applications and to traffic conditions.
In 2014, Italtel further developed its IP backhaul solutions offer, in response to growing mobile network data traffic demand, deriving from the introduction of the very latest new fourth generation LTE (Long Term Evolution) technology mobile networks. The awarding of the Mobile Backhauling contract for the domestic network of the mobile operator Wind was a major result. The market demand for connectivity in all internal and external environments, and for data transmission on mobile devices is responded to also by the development of Wi-Fi networks in public environments and the new technologies focused on radio coverage efficiency (both external and internal) with small cells, low consumption radio-base stations and Wi-Fi access points, solutions and technologies which are a core element of the Italtel offer in terms of convergence architecture between Wi-Fi and LTE technologies. The design and subsequent rolling out of the Wi-Fi coverage solutions for the Milan EXPO are a major success for this Italtel proposal.

"Multimedia Communication & Collaboration" Competence Center

Thanks to its proprietary products and an extensive multivendor catalogue, Italtel supports business in improving competitivity with the most advanced Communication and Collaboration tools available. The architecture founded on IP-PBX allows for the provision, together with voice, of other advanced Collaboration services, such as video communication. The voice/video end-points proposed by Italtel range from Immersive (TelePresence) to personal devices; mobile use of the service is enabled. The HD Video infrastructure enables also consultancy and distance support services. Video recording can become a company document which can be edited and shared. The Digital Signage solutions allow finally for the creation and dynamic publication of digital content on monitors, displays, interactive windows and multimedia kiosks.
In 2014 Italtel consolidated the multi-technology Collaboration solution called Collaboration at Work which combines, according to market needs, the best components of each vendor, with particular regard to the IP-PBX of Cisco (Communications Manager) and the Microsoft Lync client, thanks to the mediation and trans-codifications functions implemented by the Italtel *NetMatch-S* product, which also plays the role of Session Border Controller, or an interface between the company network and that of the Operator in the SIP trunk connection.

"Data Center" Competence Centre

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

In 2014 the company studiously endeavored to expand the Data Center of the Italian Army, both for the completion and extension of the previously Italtel constructed infrastructure and for the migration of Office Automation applications and basic Information Services.

"Cyber Security" Competence Centre

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

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

In 2014, the Italtel offer in this environment was significantly extended with the building of the *NetOSS* suite, comprising a set of applications in the network Operations System Support area, with the proprietary development of the Quality Assurance, Network & Performance Management and Business Analytics components.

In particular, in the Quality Assurance area, Italtel consolidated the development of its iQAC (Italtel Quality Assurance Centre) product, an instrument which evaluates the experience of the service final users. Stimulating the network through active agents, iQAC acquires information on the state and the level of the perceived service quality. The simulation of traffic favors a proactive approach in the recognition of any reduction in service quality, minimizing therefore interruption. iQAC was acquired and utilized for differing purposes by all the principal Italian Service Providers.

Through the alliance with the company SAS, Italtel developed an innovative Business Analytics solutions which combines the performance of the SAS data analytics product with the flexibility of the ETL (Extract Transform and Load) layer, achieved from the proprietary development of Italtel of the iDCP (Italtel Data Collector and Processor) product. The consolidated knowledge of Italtel of network elements and the performance data semantics and traffic of these products, combined with knowledge on the functionality of these elements, enable the development in the iDCP of an extractor and normalizer of data (traffic measures, call records), totally configurable and adaptable to the range of technologies present in the Multi-vendor networks. The integration of the iDCP with a Commercial Data Base and SAS analysis motor makes the Italtel Business Analytics solution particularly competitive.

In the NetOSS suite offer, the Mediation products developed by Italtel (iNEM) and the Inventory and Provisioning products of the user terminals (DevMan) were also included.

"Network Decommissioning" Competence Centre

The development of the MANTRA contract at Belgacom, acquired in 2013 and the beginning of a 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, enabled for the focusing of a group of specialized skills on the 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.

"Multivendor Network Maintenance" Competence Center

Through the provision of a complete set of professional services, from consultancy to design, from engineering to implementation, from management to optimization, Italtel can design, implement and maintain telecommunication and IT solutions. The managed service area activities were particularly significant, in which in 2014 the network care and operation offer was consolidated, with strong results based on approx. 40 Domestic and international clients and with the execution of the first year of the three-year Multivendor contract with Telecom Italia. Through the Multivendor contract, Italtel ensures the Network Care of all fixed and mobile telephone platforms of the Operator, in addition to all the DWDM transport technologies or SDH traditional technologies and all fixed access technologies from Fiber to the CAB (FTTCAB), to the multi service voice/data access equipment (MSAN – MultiService Access Node). The Italtel proposal includes also the provision, through a complex operating machine, of the Refitting services of all the units which comprise the telecommunication equipment of the various Vendors, including control of the logistics, the management of the repair engineers and the close control and tracing of contractual response times (SLA).
Italtel supports operators and enterprises in finding the correct response to their needs, thanks to consultancy, assessment, engineering and testing services; clients are assisted in finding the best possible technological choices (demonstrating the ROI of the initiatives), designing scalable architecture, tracking minimal impact migration plans and providing knowledge and technological training. In addition, the company can successfully support certification processes for interconnection between operators and between operators and businesses.
In relation to the implementation of projects, Italtel can provide high quality implementation services, drawing on its ability to introduce multi-technology solutions and create the relative facilities.
Finally, Italtel can handle the operating activities for network and IT solutions, providing the necessary technical support at every level, optimizing solutions and testing and improving the Quality of Experience (QoE). The Network Operation Centers (NOC) and Security Operation Centers (SOC) are important assets in support of the outsourced Managed Services.

"Internet of Things" Competence Center

In 2014, Italtel launched a new Competence Center for Engineering and System Integration of the Networks and of the technologies which facilitate the new and promising Internet of Things sector. In fact, together with over 7 billion cellular telephones and smartphones which are active globally today, a higher number of intelligent objects are connected to the networks to improve the efficiency and efficacy of the platforms of many vertical sectors; Smart grids, eHealth, Smart Manufacturing, Intelligent Transportation Systems, ePayment and Safety and Security.
The role of Italtel is today recognized by ENEL in terms of intelligent electrical network engineering, a project which ENEL is bringing forward in a pioneering manner in the international environment.
Italtel also received the "Partner of the Year" award for the Internet of Everything within the CISCO global ecosystem.

Development and Innovation

European projects

The operations of Italtel S.p.A. in 2014 concerned both new initiatives and continued industrial research and development through collaborative projects agreed in previous years within the Seventh Framework Program – Cooperation – of the European Union, in the iCT (Information & Communication Technologies) area.

In 2014 the ANIKETOS IP (Integrating Project) concluded, coordinated by the SINTEF research center in collaboration with 16 international partners, and the IP 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. Also within the Seventh Framework Program, the T-NOVA project began, coordinated by the Demokritos research center, involving 18 participants. The objective of the project is to promote and implement at prototypal level the concept of virtualization of functionality in a TLC network (NFV – Network Function Virtualization), therefore the migration of a number of functions, traditionally carried out by hardware elements, on virtualized infrastructure, according to the NFaaS paradigm (Network Functions as a Service).

In relation to new initiatives, in 2014 Italtel actively contributed to the presentation, in collaboration with other industrial partners and European research centers, of a number of new research ideas as part of the Horizon 2020

ICT tenders, the new European Framework Program for Research Innovation (2014-2020), in particular in relation to new generation mobile networks (5G technology).

Subsidized loans and grants for Development and Innovation

In 2014 Italtel S.p.A. income in this regard totaled approx. Euro 7.05 million, of which Euro 0.75 million concerning Research projects capitalized in previous years. Grants amounted to Euro 10.65 million, while Euro 5.36 million of subsidized loans were received.

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

- Ministry for Economic Development Fund for Competitivity and for the Development of Industrial Innovation technology areas: Energy Efficiency, Sustainable Mobility and Made in Italy;
- National Operative Program Fund (PON) Research and Competitivity 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 2014, the assessment activities of Invitalia successfully concluded on the CAMP (Context Aware Mobility Platform) project, of which Italtel is the coordinator and which comes within the scope of the "Sustainable Mobility" initiatives in the Industry 2015 program.

The activities concerning the various national projects already introduced in previous years continued. In particular, with regard to MIUR PON_04, we highlight those concerning the i-NEXT (Smart Mobility and Smart Grid areas) and Cluster OSDH-SmartFSE-Staywell projects (Smart Health area) concluded in 2014. In relation to MIUR PON_02 the activities of the ENERGETIC (Technologies for Energy and Energy Efficiency) and HIPPOCRATES projects (Development of Micro and Nano-technologies and Advanced Systems for health) continued, through collaboration with the Sicilian Micro and Nano Systems Technology Cluster.

In the second half of 2014, the ministerial assessments on the SIS (OSS/BSS/DSS integrated solutions oriented to services), PA-IMS (Access Platform – IP Multimedia System) and NAIN projects, which concluded a number of years ago, were successfully carried out. In addition, on the mandate of the Ministry for Economic Development, Invitalia carried out an assessment on the "Telecom Italia & Italtel Development Contract" program, concluded in 2013, with the receipt of grants totaling Euro 3.6 million, in addition to the advance received at the beginning of the year of Euro 1.9 million. In 2014, subsidies were also received concerning the ASIC project, for a total of Euro 10.2 million.

In 2014 the joint Telecom Italia & Italtel "Ultra Broadband Development Contract" project began, 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. The project will be carried out in the 2014-2016 three-year period and is co-financed by the Ministry for Economic Development.

In 2014 the Decision Theater projects (in relation to Cloud Computing) began, 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.

Under the "Lombardy Enterprise" Regional Law Agreements for competitivity of February 2014, Italtel presented the ADVENT manifestation of interest, together with the Polytechnic of Milan and the CNR, which has been admitted to the second phase and for which a subsidy application was presented at the end of the year.

Partnerships

Cisco

During 2014 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 2013, 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 2014 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:

- “All IP Voice” – a solution which involves the migration of real time services issued by the Service Provider from traditional technologies to the very latest IP networks. Combining Italtel products with Cisco products, appropriately orchestrated according to the NFV (Network Function Virtualization) paradigm, the solution facilitates scenarios which may extend the offer of the Service Providers (VoLTE, Wi-Fi calling, SIP business trunking etc.).
- “Enterprise SDN” – exploiting the potentials offered by the new network programmability technologies, Italtel has drawn up a proposal which seeks to dynamically improve the perceived quality of video chat services, according to the available bandwidth.

On the basis of that outlined above, Italtel has the capacity to offer a complete Professional Services catalogue, which ranges from Consultancy to Design, from Engineering to implementation and from Management to Optimization.

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 implementation of projects, Italtel can provide high quality Implementation Services, drawing on its ability to introduce multi-technology solutions and create the relative facilities.

Finally, Italtel can handle the operating activities for network and IT solutions, providing the necessary technical support at every level, 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

In October 2014, Italtel signed a major agreement with Tech Mahindra, 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, which 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, concerns a number of aspects:
collaboration in the development of the Italtel Research and Development products and the related network solutions;
synergies in the provision of professional services;
commercial partnership, focused on the promotion and sale of the solutions of both parties on the domestic market and on common international markets.
As part of the agreement, Italtel specialized technical resources were transferred to Tech Mahindra, to enable their entry to the Italian 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' Meetings of Italtel S.p.A. in March 2013, a number of modifications were introduced, including – inter alia - the composition and functioning of the Board of Directors, which entered into force with the appointment of the Board currently in office.

The Board of Directors of Italtel S.p.A., in office until the approval of 2015 Financial Statements, comprises five Directors, including the Chairman, also non-shareholders.

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 the year, the 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

The remuneration of the Directors and Statutory Auditors of Italtel S.p.A. is as follows:

(thousands of Euro)

	2014	2013
Directors [1]	1,137	1,078
Statutory Auditors	89	87

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

Committees

The activities carried out by the committees set up after the restructuring process and with the current governance are described here 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 are 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 2014, the Internal Control Committee met periodically, approving the Audit plan for 2014 and introducing measures to strengthen both the Corporate Governance and Internal Control System.

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

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

In addition, with motion of December 16, 2014, the Board of Directors approved the procedure for Transactions with Related Parties and created, with effect from January 1, 2015, the Committee for Transactions with Related Parties, whose duties are currently carried out by the Internal Control Committee. No remuneration was established for the members of the Committee for Transactions with Related Parties.

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 was set up during the year and did not hold any meetings in 2014.

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 once in 2014 in relation to the activities carried out in execution of its mandate.

Organization, Management and Control Model

During 2014 the Model adopted by the Company for the prevention of the offenses established by Legislative Decree 231/2001 was reviewed. This was undertaken in view of the new version of the *Guidelines for the construction of the Organization, Management and Control Model in accordance with Legislative Decree No. 231 of June 8, 2001*, issued by Confindustria and updated in March 2014.
The review confirmed the content of the 231 Model of Italtel (version approved by the BoD of the Company at the meeting of November 15, 2013).

In 2014 the implementing protocols of the 231 Model were updated and improved in order to incorporate:

- the regulatory updates in the meantime[1],
- company organizational adjustments,
- the simplification and restructuring of information flows with the Supervisory Board of Italtel S.p.A.

1

- ***employment of illegal aliens*** (offense at Article 25-*duodecies* of Legislative Decree 231/01);
- ***undue influence or accessory offenses*** (offense at Article 319-*quater* of the Criminal Code, included in Article 25 of Legislative Decree 231/01, connecting it with the measures established for corruption and bribery);
- ***corruption between private parties*** (offense at Article 2635 of the Civil Code included in Legislative Decree No. 231/2001 at Article 25-*ter* concerning the responsibility of the company for the so-called corporate offenses).

The training activity relating to Legislative Decree 231/2001 and the Organization, Management and Control Model, was carried out through e-learning with two training models addressed to Italtel S.p.A. personnel operating in areas of potential risk for counterfeiting offences and offences against industry and commerce and concerning copyright infringement.

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.

The Compliance Office also conducted audits verifying the correct application of the Management and Control Organizational model as per Legislative Decree No. 231/2001. In particular, the audit activity concerns the correct application of the measures drawn up for the prevention of workplace health and safety violations. The corporate departments impacted were:

- Activities carried out by employees at company offices;
- Activities carried out by personnel outside of company offices;
- Activities carried out on behalf of the company at clients.

The Supervisory Board Regulation, issued in 2008, was updated and approved by the Supervisory Board at the meeting of October 16, 2014, with reporting to the BoD of Italtel S.p.A. at the meeting of November 12, 2014.

In line with that ratified by the BoD of Italtel S.p.A. at the meeting of July 25, 2014 the request for the assignment of the Legality Rating for Italtel S.p.A. was sent to the Anti-trust Authority. The request sent on October 31, 2014 is currently in the preliminary stage with the Anti-trust Authority.

In 2014 the project concerning the extension of the Organization, Management and Control Model principles of Italtel S.p.A. to the subsidiaries and foreign branches was undertaken.
The Prevention Principles and Conduct Guidelines, approved by the Board of Directors of Italtel S.p.A. on November 15, 2013, were enacted by the Boards of Directors of each of the Italtel Group companies and circulated to all employees. The scope of the above stated Principles and Guidelines is to prevent, within the activities carried out by the Group companies, the offenses established by Legislative Decree 231/2001.

The Subsidiary Italtel SA (Spain) has implemented its Corporate Compliance Program in compliance with Ley Organica 5/2010, the Spanish regulation which governs the criminal responsibility of legal persons.

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 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 2015 and the relative budget.

Conflict of Interest Regulation

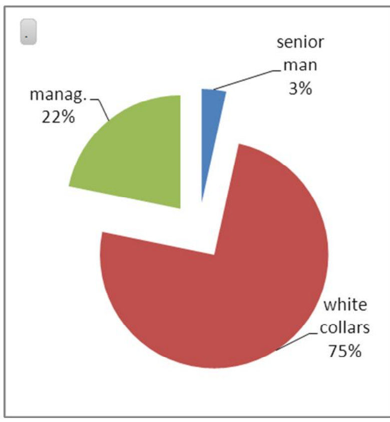
In 2014 the monitoring of cases of conflict of interest of Italtel Group personnel with legal representative powers and specific roles continued.

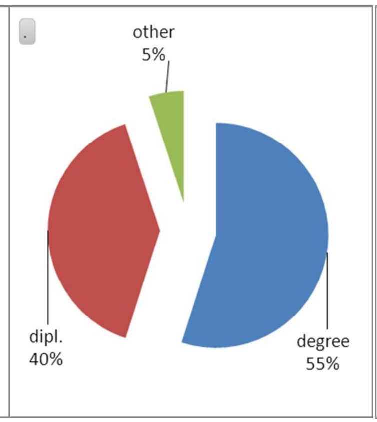
Human resources, the environment and quality assurance

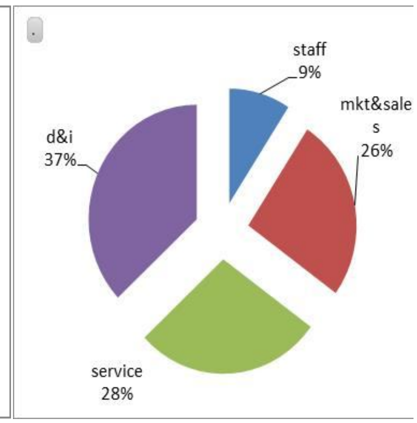
Human resources

Italtel Group employees at December 31, 2014 numbered 1,334, of which 205 overseas (at December 31, 2013 numbering 1,628, of which 183 overseas). The new hires in the year numbered 45 (of which 44 overseas), with 339 departures, of which 108 voluntary departures (in Italy 86 employees, of which 61 placed at other companies) and 229 under leaving incentives. Departing executives numbered 5; at 31/12/2014 there were 46 Executives in the workforce. Personnel are broken down into the following departments: Development and Innovation (37%), Service (28%), Commercial (26%) and Administration and Staff (9%). 55% possessed Degrees, while approx. 40% held Diplomas.

EMPLOYEES BY CATEGORY 31.12.2014	EMPLOYEES BY DEPARTMENT 31.12.2014	EMPLOYEES BY QUALIFICATION 31.12.2014







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

Organization

In 2014, the drawing up of the organizational structure of the foreign subsidiaries was completed.

Industrial relations

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

In particular, on January 22, 2014 an update to the memorandum of November 22, 2012 was signed at the Ministry of Economic Development in which Italtel and the trade union organizations agreed upon, following an extensive review of the financial, economic and market situation of the Company, the content of the Industrial Plan.

Through the trade union agreement signed on January 25, 2014 and ratified on March 28, 2014 at the Ministry for Labor and Social Policy, the Extraordinary Temporary Lay-off Scheme, which concluded on April 11, 2014, was extended for the April 12, 2014 – December 31, 2014 period and concerned a maximum of 230 employees, with 2 and a half monthly rotations of 70 employees. The Solidarity Contract was also used for 800 employees, with a reduction in average hours of 17%, also from April 12, 2014 to December 31, 2014.

Subsequently, with the agreement of December 17, 2014, the Extraordinary Temporary Lay-off Scheme was further extended until April 11, 2015, for a maximum 165 employees and with rotations of 3 weeks, while the Solidarity Contract could not be implemented in 2015 as reaching the maximum consecutive 48 months of use, since January 2011.

In view of the labor cost objectives for the years 2015-2016 in the Industrial Plan, the company on December 30, 2014 sent to the trade unions the letter concerning the withdrawal of the second level contract, communicating at the same time their availability for a round table to find a shared solution.

After a series of meetings at Assolombarda and at the Ministry of Economic Development, the parties on February 12, 2015 reached the agreement as described in the subsequent events section.

Training

In 2014, 17,850 hours of training were provided with 1,615 participations and 109 training events of various types. Training again focused on technological issues. In particular, in relation to Cisco technologies, the number of CCIE at the data center and collaboration and switching branches was increased and the necessary courses for the maintenance of Gold Certification, the ATP and operations on developing markets was ensured. Training in relation to the Data Centers and related technologies (VMWARE, EMC, NETAPP, CITRIX, VCE) was also continued. Managerial training involved the extension of the Ambrosetti Permanent Update Service to a wider group of managers. The partnership initiatives with the Elis Consortium continued, with the involvement of a number of managers in International Strategy and Leadership Development Programs and the intercompany "Italia Lab" project concluded which seeks to relaunch innovative IT projects. In order to facilitate international development, foreign language training was re-introduced in a particularly flexible format based on Skype lessons and individual coaching. In relation to health and safety training, all employees were provided the obligatory training hours under Legislative Decree 81/08, guaranteeing in addition specific training for Managers-in-charge and Executives. First aid courses were organized at the Milan, Rome and Palermo offices. A Training Plan was also drawn up, financed by Fondimpresa, for the upskilling of workers in the lay-off scheme and involving 90 employees. Also in 2014 Training Financing was availed of which covered the entirety of Manager training through the Fondirigenti and contributed approximately 50% to the training of white-collar staff and Managers through the Fondimpresa and the Ongoing Training funds in the Lombardy Region.

Environment and Health

In 2014, Italtel again undertook a significant commitment to the environment, enabling a significant reduction in the environmental indicators, with quick and effective responses to external issues raised – demonstrating and documenting company compliance with regulations – and with a significant saving in electricity consumption (-3% on 2013, and a 6% reduction in the Carini District alone). The Energy Management activities were further consolidated and the solution implemented internally for the monitoring of energy consumption (iESC) was engineered for proposal and sale on the domestic market within the "Smart City" environment.

In 2014, the optimization and reduction program of the operational areas utilized in Settimo Milanese was completed, which will enable, already from next year, a reduced environmental impact and an even greater reduction in consumption. In the Carini Industrial District, the Environmental Management System ISO 14001 certification was confirmed.

Also in terms of Workplace Health and Security, the consolidated risk assessment and management practices – implemented in continual consultation with worker representatives and with the support of Competent Doctors, Executives and Managers-in-charge – the Health Surveillance programs and the programs for Improvement Measures, enabled the elimination or the reduction of the residual risk factors at both the operating offices of Italtel and for the activities carried out at client offices.

The Internal Audits on Informative Activities (Legislative Decree 231/01), carried out in 2014 reported that the "activities in protection of workplace health and safety were carried out in accordance with the provisions of the 231 Model and the relative implementing Protocol and therefore in compliance with legal obligations". Therefore, no possible committal of offenses was highlighted.

All obligations concerning the application of the Workplace Health and Security Act (Legislative Decree 81/2008) were discharged. In particular, in 2014 the Risk Assessment document for the Settimo Milanese offices and the Risk Assessment document for activities carried out at client offices were updated.

Quality

Italtel - as always - places particular attention on quality concerning products, solutions and services, but also in relation to the performance of processes, fulfilling in addition environmental, health and security requirements. This commitment continues through the ongoing renewal of the Quality Management System Certification to the ISO 9001 standard, which the Company has held since 1992. Ongoing re-examination of corporate processes, in addition, is one of the instruments used to evaluate and select internal initiatives to improve company performance. In relation to the products developed, the relative configurations are certified according to the electromagnetic safety compatibility standards and created in accordance with environmental impact minimization criteria (for example: the RoHS - Restrictions of Hazardous Substances Directives); in relation to this, the Company – enrolled in the Manufacturers of Electrical and Electronic equipment Register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment) in relation to the disposal of products at the end of their life cycle. Great attention in fact has been focused on Customer needs, also through the carrying out of Customer Satisfaction campaigns, which periodically involve clients through interviews and which cover the entire range of the client – supplier relationship.

Other events in the year

Potential significant liabilities

Tax dispute in Italy

Italtel S.p.A. has a number of tax disputes pending following the contestation of tax assessments issued by the Tax Agency – Lombardy Region – office of Large Contributions in relation to the 2004, 2005, 2006, 2007, 2008 and 2009 tax years. The Agency principally contested in relation to IRES (i) the non-recharging to CD&R Investment III S.a.r.l. (48.77% shareholder of Italtel Group S.p.A.) of 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.) 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; in addition to (ii) the non-deductibility of costs for services in favor of Italtel S.p.A. by group companies not resident for tax purposes in Italy as not fulfilling the relevance requirement or lacking appropriate supporting documentation for an amount of approx. Euro 5.1 million for 2004, Euro 2.9 million for 2005, Euro 3.5 million for 2006, Euro 1.2 million for 2007, Euro 1.0 million for 2008 and Euro 0.7 million for 2009.

In relation to the assessments for 2005 concerning IRES, IRAP and VAT, the Lombardy Regional Department notified on April 29, 2014 the appeal against judgement No. 242/22/2013, under which the Milan Provincial Tax Commission fully accepted, after unifying them, the appeals presented by the Company. On June 27, 2014, Italtel S.p.A. filed at the Milan Regional Tax Commission its counter claims.

In relation to the 2006 tax assessment concerning IRAP and VAT (in terms of costs for services provided in favor of the company by foreign subsidiaries), the State Prosecution notified on April 22, 2014 the appeal to the Court of Cassation against the judgment of the 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.

For the assessments concerning 2007, in relation to IRES, IRAP and VAT, the Lombardy Regional Agency notified on April 29, 2014 the appeal against the judgement of the Milan Provincial Tax Commission, in relation to the sections for which judgement was awarded against them. On June 27, 2014, the Company filed at the Milan Regional Tax Commission its counter claims, with an incidental appeal against the unfavorable sections of the level 1 judgment. The appeal hearing is fixed for April 13, 2015. In relation to the first level judgement, for the sections with judgment against the Company, while awaiting the second level judgment, the Company paid, according to the means and conditions established by the applicable regulation, the amounts provisionally due.

On December 15, 2014, the Company received tax assessments for the years 2008 and 2009 concerning IRES, IRAP and VAT. The contested amounts, as indicated in the first paragraph, refer to (i) interest charges and costs related to loans granted in relation to the Leverage Buy Out operation and (ii) the indeductibility of service costs in favor of Italtel S.p.A. by non-tax resident group companies.

In relation to the tax assessment for 2004 and 2006 (concerning IRES), in 2015 the second level judgments were filed, which partially accepted the appeal of the Agency in relation to the issues concerning the LBO operation (for further details reference should be made to the subsequent events section).

Currently Italtel, supported by the opinion of its tax consultant, also on the basis of the second level judgments concerning the 2004 and 2006 periods, for which an appeal is being prepared for the Court of Cassation, considers that these potential liabilities only represent 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 2014 and 2013.

Income Statement

The reclassified income statement for 2014 and 2013 is reported below.

(thousands of Euro)

	2014	2013(*)	Changes
Revenues from sales and services	**400,190**	**374,187**	**26,003**
Profitability after external costs	**120,365**	**127,450**	**(7,085)**
% of revenues	*30.1%*	*34.1%*	
Personnel costs	(79,198)	(85,761)	6,563
Operating expenses	(29,052)	(32,523)	3,471
Operating grants	7,055	6,517	538
Capitalization of Research & Development costs	13,490	15,060	(1,570)
Other costs and income	1,098	1,874	(776)
Normalized EBITDA	**33,758**	**32,617**	**1,141**
% of revenues	*8.4%*	*8.7%*	
Extraordinary personnel charges	(9,784)	(19,332)	9,548
Other charges and non-recurring income	(749)	(1,698)	949
EBITDA	**23,225**	**11,587**	**11,638**
% of revenues	*5.8%*	*3.1%*	
Amortization, depreciation & write-downs	(22,589)	(25,798)	3,209
EBIT	**636**	**(14,211)**	**14,847**
Net financial charges	(10,606)	(11,716)	1,110
Loss before taxes	**(9,970)**	**(25,927)**	**15,957**
Income tax	(4,968)	(6,629)	1,661
Discontinued operations profit/(loss)	(128)	(161)	33
Net loss for the year	**(15,066)**	**(32,717)**	**17,651**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

Revenues from sales and services in 2014 amounted to Euro 400,190 thousand, increasing overall by Euro 26,003 thousand (+6.9%) on 2013 (Euro 374,187 thousand).

In greater detail, revenues from Telecom Italia increased Euro 25,474 thousand, an improvement of 23.6%; revenues increased in fact from Euro 108,052 thousand in 2013 to Euro 133,526 thousand in 2014. The improvement is due to the “Multivendor” contract, signed during the year and with three year duration, whose revenues totaled approx. Euro 34,000 thousand.

Revenues from the Other Local Operators (OLO) amounted to Euro 37,213 thousand, compared to Euro 51,265 thousand in 2013 - decreasing Euro 14,052 thousand (-27.4%) and particularly concerning Fastweb and British Telecom Italia. The reduction is substantially due to the continued challenging economic circumstances which resulted in a further drop in operator investments in Italy.

Revenues from Public Administration and Large Enterprises, which totaled Euro 54,328 thousand compared to Euro 59,088 thousand in 2013, reduced Euro 4,760 thousand (-8.1%), reflecting the difficult economic environment and entirely relating to the Public Administration sector, which was impacted by, among other issues, the delays in works for the Expo.

Foreign Operator revenues amounted to Euro 175,123 thousand, compared to Euro 155,782 thousand in 2013, with an increase of Euro 19,341 thousand (+12.4%) and reaching 43.8% of revenues (41.6% in 2013).
EMEA revenues, in particular, increased from Euro 36,381 thousand in 2013 to Euro 40,681 thousand in 2014, up Euro 4,300 thousand (+11.8%), while in the LATAM region revenues increased from Euro 119,401 thousand in 2013 to Euro 134,442 thousand in 2014, up Euro 15,041 thousand (+12.6%).
For the EMEA region, the revenue increases principally stemmed from Spain and Germany, while in the LATAM region a significant increase in revenues was reported for Brazil, Peru and Columbia.

The 2014 revenue performance is summarized in the table below (compared to 2013).

(thousands of Euro)

	2014	% [(a)]	2013	% [(a)]	Change % [(b)]
Telecom Italia	133,526	*33.3%*	108,052	*28.9%*	*23.6%*
Other local operators	37,213	*9.3%*	51,265	*13.7%*	*(27.4)%*
Large enterprises and Public Administration	54,328	*13.6%*	59,088	*15.8%*	*(8.1)%*
Overseas Operators - EMEA	40,681	*10.2%*	36,381	*9.7%*	*11.8%*
Overseas Operators - LATAM	134,442	*33.6%*	119,401	*31.9%*	*12.6%*
Total	**400,190**	***100%***	**374,187**	***100%***	***6.9%***

[(a)] Percentage of total
[(b)] Percentage change on previous year

Profitability after external costs decreased from 34.1% in 2013 to 30.1% in 2014, with the reduction principally relating to Italian market operators, while the Public Administration and Large Enterprises segment reported an increase. This development was substantially caused by the continued economic difficulties and the consequent reduction of investments by sector operators, in addition to significant competitive pressures in the IP and System Integration network areas.

Personnel costs in 2014 totaled Euro 79,198 thousand compared to Euro 85,761 thousand in 2013, decreasing therefore by Euro 6,563 thousand (-7.7%).

2014 net operating expenses amounted to Euro 29,052 thousand, a significant improvement therefore (Euro 3,471 thousand, -10.7%) on the previous year (Euro 32,523 thousand).

Operating grants from public bodies against research projects amounted to Euro 7,055 thousand and increased therefore Euro 538 thousand (+8.3%) compared to the previous year, thanks to the positive conclusion of the PA-IMS and SYS Contracts.

The capitalization of R&D costs is lower than the previous year by Euro 1,570 thousand.

The above indicated cost containment effects (personnel costs and net operating expenses), together with the increase in operating grants, stem the reduction in profitability after external costs and enable a normalized EBITDA of Euro 33,758 thousand, increasing Euro 1,141 thousand (+3.5%) compared to 2013 (Euro 32,617 thousand).

Extraordinary charges (personnel costs and expenses) for redundancies amounted in 2014 to Euro 9,784 thousand, compared to Euro 19,332 thousand in 2013.

The account Other charges and non-recurring income reported charges in 2014 of Euro 749 thousand and entirely relates to expenses incurred for the "Relocation" project, an industrial concentration operation (transfer, restyling of areas, new dedicated thermal station, moving) in 2014, which enabled the "unification" of personnel at Milan Castelletto within a single building. This operation enables an improved use of energy resources and a more efficient cost structure from 2015. In 2013, Other charges and non-recurring income, reporting charges of Euro 1,698 thousand, comprising refinancing operation charges.

After the above-stated items, operationally classified as non-recurring, the 2014 EBITDA amounted to Euro 23,225 thousand (revenue margin of 5.8%), increasing Euro 11,638 thousand (+100.4%) compared to EBITDA of Euro 11,587 thousand in the previous year.

EBIT totaled Euro 636 thousand, compared to an EBIT loss of Euro 14,211 thousand in 2013, improving therefore Euro 14,847 thousand after amortization, depreciation and write-downs of Euro 22,589 thousand (Euro 25,798 thousand in 2013).

Net financial charges total Euro 10,606 thousand, compared to Euro 11,716 thousand in the previous year, improving by Euro 1,110 thousand (9.5%).

The Group pre-tax result reports a loss of Euro 9,970 thousand compared to the loss of Euro 25,927 thousand in 2013.

Income taxes totaled Euro 4,968 thousand, while in the previous year totaling Euro 6,629 thousand.

The net loss on discontinued operations of Euro 128 thousand relates to the companies Italtel Kenya Ltd in liquidation and Italtel Arabia Ltd in liquidation, while in the previous year concerning only Italtel Kenya Ltd in liquidation and amounting to Euro 161 thousand.

The 2014 Net Result reports a loss of Euro 15,066 thousand, compared with a loss in the previous year of Euro 32,717 thousand, an improvement therefore of Euro 17,651 thousand.

Balance Sheet

The balance sheet at December 31, 2014 and 2013 is reported below.

(thousands of Euro)

	31/12/2014	31/12/2013(*)	Changes
Non-current assets and liabilities:			
+ Goodwill	167,215	167,215	-
+ Property, plant and machinery and other intangible assets	39,702	45,876	(6,174)
+ Other assets	14,874	7,138	7,736
+ Deferred tax assets	83,739	81,145	2,594
- Employee provisions	(23,235)	(26,207)	2,972
- Provision for contingencies and charges	(8,325)	(9,978)	1,653
- Other liabilities	(415)	(451)	36
Non-current assets and liabilities	**273,555**	**264,738**	**8,817**
Working capital:			
+ Inventories	29,084	28,898	186
+ Trade receivables	88,871	119,974	(31,103)
+ Other receivables	28,579	36,509	(7,930)
+ Assets held-for-sale	738	140	598
- Trade payables	(135,013)	(120,720)	(14,293)
- Other payables	(46,425)	(73,244)	26,819
- Liabilities related to assets held-for-sale	(201)	(103)	(98)
Working capital	**(34,367)**	**(8,546)**	**(25,821)**
Total net capital employed	**239,188**	**256,192**	**(17,004)**
Net financial debt	**182,834**	**182,855**	**(21)**
of which cash	(44,437)	(48,254)	3,817
Consolidated Shareholders' Equity	**56,354**	**73,337**	**(16,983)**
Share capital	2,000	2,000	-
Other reserves including the net result	54,354	71,337	(16,983)
Total Debt and Net Equity	**239,188**	**256,192**	**(17,004)**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

The change in net capital employed substantially reflects the reduction in Group shareholders' equity following the loss for the year. The increase in non-current assets and liabilities is due for 4,875 thousand to the reclassification of Tax receivables from current assets to non-current assets.
The Balance Sheet reflects the extensive restructuring implemented, which concluded in March 2013, reporting a Net Debt in line with the previous year and substantially stable levels of liquidity.

Investments

Investments in the year totaled Euro 16,453 thousand, of which Euro 14,739 thousand in intangible assets and Euro 1,714 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 754 thousand. In addition, Euro 306 thousand was invested in the extraordinary maintenance of plant and machinery for the Castelletto and Palermo offices and Euro 514 thousand in EDP and computers for the technological upgrading of the IT systems and the updating of the data network.

Financial Position

The table below reports the breakdown of working capital in 2014 and in 2013 and the changes:

(thousands of Euro)

	2014	2013(*)	Change
Inventories	29,084	28,898	186
Trade receivables	88,871	119,974	(31,103)
Trade payables	(135,013)	(120,720)	(14,293)
Tax receivables	710	1,942	(1,232)
Other receivables and assets	27,869	34,567	(6,698)
Current income tax payables	(1,155)	(1,039)	(116)
Other payables and liabilities	(45,270)	(72,205)	26,935
Assets held-for-sale	738	140	598
Liabilities related to assets held-for-sale	(201)	(103)	(98)
Changes in working capital	**(34,367)**	**(8,546)**	**(25,821)**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

Working Capital decreased from Euro -8,546 thousand to Euro -34,367 thousand. As indicated above the reduction is due for Euro 4,875 thousand to the reclassification of Tax receivables from current assets to non-current assets.

The net debt was as follows:

(thousands of Euro)

	31/12/2014	31/12/2013(*)	Changes
Short-term bank loans	91,022	92,567	(1,545)
Medium/long-term loans (bank and subsidized)	138,151	136,548	1,603
Other financial payables	1,128	3,104	(1,976)
Accrued expenses and deferred income	142	193	(51)
Gross debt	**230,443**	**232,412**	**(1,969)**
Cash in hand and similar	(3,573)	(750)	(2,823)
On demand bank current accounts	(35,802)	(47,504)	11,702
Restricted current accounts	(5,062)	-	(5,062)
Short-term financial receivables	(3,056)	(1,230)	(1,826)
Prepayments and accrued income	(116)	(73)	(43)
Other working capital securities	-	-	-
Net debt	**182,834**	**182,855**	**(21)**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

The net debt at December 31, 2014 totaled Euro 182,834 thousand and increased Euro 21 thousand compared to Euro 182,855 thousand at December 31, 2013, due to the reduction in liquidity and cash and cash equivalents for Euro 1,948 thousand, offset by the reduction in the gross debt of Euro 1,969 thousand.

Short-term bank loans reduced Euro 1,545 thousand, due for Euro 10,752 thousand to repayments (of which Euro 5,940 thousand loans at subsidized rates), offset by new loans issued for Euro 622 thousand and Euro 8,585 thousand as the current portion of medium/long-term loans.

Medium/long-term loans increased Euro 1,603 thousand, concerning for Euro 13,708 thousand the new loans issued (of which Euro 4,842 thousand at subsidized rates), Euro 3,521 thousand of repayments, and as indicated in the previous paragraph for Euro 8,584 thousand the reclassifications to short-term.

Other financial payables reduced Euro 2,027 thousand, substantially due to currency hedging operation valuations, which increased from a negative Euro 786 thousand at December 31, 2013 to a positive Euro 1,517 thousand at December 31, 2014, classified to current financial receivables.

The balance of restricted current accounts of Euro 5,062 thousand refers to liquidity from the receipt in 2014 of the "Asic" subsidized rate loan, agreed in 2013 with the lending institutions and other lenders and restricted for payment of restructuring costs.

Financial risk management

Credit Risk

In relation to the group objectives and policies concerning the credit risk, reference should be made to Note 5 of the Notes to the consolidated financial statements.

Liquidity risk

In relation to the Group objectives and policies concerning the liquidity risk, reference should be made to Note 5 of the Notes to the Consolidated Financial Statements.

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

Transactions with related parties

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.

The Company is completing the formalization of an internal procedure concerning transactions with related parties. The Board of Directors of the Company at the meeting of December 16, 2014 approved its content.

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

Subsequent events

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, a maximum 820 workers will be involved in two weeks of the Employee Temporary Lay-Off Scheme, while a further 137 employees will be involved for a period limited to 5 days from August 16 to December 31, 2015.

The agreement also provides for an upskilling course for 127 employees in the ongoing Extraordinary Temporary Lay-Off Scheme, which concerns technical and managerial training courses, following an assessment of skill sets and with a subsequent exam for certification, where required, or a test to assess the effective knowledge gained. The passing of the exam will allow employees to re-enter the company in 2016.

The parties finally agreed a series of actions on the financial conditions under the second level contract which, suspending or significantly reducing the amounts of social security, production and availability bonuses, travel time and expenses and additional holidays, than established under the National Contract, will allow the company to maintain personnel costs within the Plant.

Also on February 12, a further agreement was signed between Italtel and FIM-FIOM-UILM which – on conclusion of the Extraordinary Temporary Lay-Off Scheme – establishes for the utilization of a Solidarity Contract for the coming year for 950 employees, with an average hour reduction of 14-15%, in order to maintain stable labor costs also for 2016, as established by the Industrial Plan.

Organization

On January 1, 2015 a new organization was introduced, which concerned both the commercial departments and the technical-operational departments, leaving therefore the staff units which reports to the COO substantially unchanged. More particularly, a new function called "Chief Marketing & Technology Officer" reporting to the CEO was created, with the duties of innovation leading, strategic marketing, offer definition and qualification; commercial activities will therefore be pursued on a client/business basis rather than on a purely geographical basis through the shift from a Market Region – EMEA and LATAM - approach to the Global Service Providers and Enterprises & Public Sector departments; finally, the two Product Units were unified into a single organization called Product & Services, concerning technological research and development, delivery and post-sales assistance.

Partnerships

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 on 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 upon 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.

Tax dispute in Italy

In relation to the 2004 tax assessments for IRES, IRAP and VAT, on January 19, 2015 the hearing concerning the appeals proposed by the Tax Agency was held, as fully rejected at first level. On February 4, 2015 the judgment under which the Milan Regional Tax Commission partially accepted the appeal of the Agency in relation to findings concerning the LBO operation was filed and which reduced the initial taxes from approx. Euro 19.5 million to approx. Euro 9.8 million. The deadline to propose an appeal to the Court of Cassation against the above judgement expires on September 4, 2015.
In relation to the further issues raised concerning services provided by group companies not tax resident in Italy for an amount of Euro 5.1 million, the Regional Tax Commission rejected the appeals presented by the Agency in terms of IRES, IRAP and VAT.
In relation to the 2005 tax assessment, on February 23, 2015 the appeal hearing was held. At the preparation date of the present financial statements, the judgment had not yet been filed.

For the tax declaration concerning IRES for 2006, on January 19, 2015, the appeal hearing presented by the Company and the Tax Agency was held. On February 4, 2015 the judgment under which the Regional Tax Commission partially accepted the appeal of the Agency in relation to findings concerning the LBO operation was filed and which reduced the initial taxes from approx. Euro 17.5 million to approx. Euro 8.8 million. The deadline to propose an appeal to the Court of Cassation against the above judgement expires on September 4, 2015.
In relation to the further issues raised concerning services provided by group companies not tax resident in Italy for an amount of Euro 3.5 million, the Regional Tax Commission accepted the appeal presented by the Agency in terms of IRES.

For the tax assessments concerning 2008 and 2009 in relation to IRES, IRAP and VAT, the Company filed an agreed settlement application in accordance with the applicable regulation on February 13, 2015.

Currently Italtel, supported by the opinion of its tax consultant, also on the basis of the second level judgments concerning the 2004 and 2006 periods, for which an appeal is being prepared for the Court of Cassation, considers that these potential liabilities only represent a possible risk and therefore has not made any provision.

Outlook

According to the initial indications, reflected in the 2015 budget to be considered by the Board of Directors for approval on March 30, 2015, the Italtel Group is proceeding according to that set out in the Industrial Plan.

Settimo Milanese, March 30, 2015

For the Board of Directors

The Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated Balance Sheet at December 31, 2014 and 2013

(thousands of Euro)

	Note	31/12/2014	31/12/2013(*)
Assets			
Non-current assets			
Property, plant and equipment	(7)	15,606	17,452
Goodwill	(8)	167,215	167,215
Other intangible assets	(9)	24,096	28,424
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	2,132	131
Other assets	(12)	12,548	6,813
Deferred tax assets	(13)	83,739	81,145
Total non-current assets		**305,530**	**301,374**
Current assets			
Inventories	(14)	29,084	28,898
Trade receivables	(15)	88,871	119,974
Tax receivables	(16)	710	1,942
Other receivables and assets	(17)	27,869	34,567
Short-term financial assets	(18)	3,172	1,303
Restricted current accounts	(19)	5,062	-
Cash and cash equivalents	(19)	39,375	48,254
Total current assets		**194,143**	**234,938**
Discontinued non-current assets	(41)	**738**	**140**
Total assets		**500,411**	**536.452**
Shareholders' Equity and Liabilities			
Shareholders' Equity			
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)	(44,374)	(27,391)
Group Shareholders' Equity		**56,354**	**73,337**
Share capital and reserves pertaining to minority interest	(23)	-	-
Total Shareholders' Equity		**56,354**	**73,337**
Liabilities			
Non-current liabilities			
Employee provisions	(24)	23,235	26,207
Provisions for risks and charges	(25)	8,325	9,978
Medium/long term financial liabilities	(26)	138,433	137,113
Other liabilities	(27)	415	451
Total non-current liabilities		**170,408**	**173,749**
Current liabilities			
Trade payables	(28)	135,013	120,720
Current tax payables	(29)	1,155	1,039
Other payables and liabilities	(30)	45,270	72,205
Current financial liabilities	(26)	92,010	95,299
Total current liabilities		**273,448**	**289,263**
Discontinued non-current liabilities	(41)	**201**	**103**
Total liabilities		**444,057**	**463,115**
Total shareholders' equity and liabilities		**500,411**	**536,452**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

2014 and 2013 Consolidated Income Statement

(thousands of Euro)

	Note	2014	2013(*)
Revenues from sales and services	(31)	400,190	374,187
Other income	(32)	24,792	21,250
Purchase of materials and services	(33)	(320,054)	(283,613)
Personnel costs	(34)	(89,018)	(107,406)
Amortization, depreciation & write-downs	(35)	(22,589)	(25,798)
Other operating costs	(36)	(8,475)	(7,639)
Change in inventories	(37)	1,437	(438)
Internal cost capitalizations on fixed assets	(38)	14,353	15,246
EBIT		**636**	**(14,211)**
Financial income	(39)	16,763	11,013
Financial expenses	(39)	(27,369)	(22,729)
Net income/(charges) from investments recorded under the net equity method		-	-
Loss before taxes		**(9,970)**	**(25.927)**
Income taxes	(40)	(4,968)	(6,629)
Loss from normal operations		**(14,938)**	**(32,556)**
Discontinued operations loss	(41)	(128)	(161)
NET LOSS FOR THE YEAR		**(15,066)**	**(32,717)**
Group share		**(15,066)**	**(32,717)**
Minority interest share		**-**	**-**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

2014 and 2013 Consolidated Comprehensive Income Statement

(thousands of Euro)

	2014	2013(*)
Net loss for the year	**(15,066)**	**(32,717)**
Profit/(losses) which will reverse to the income statement in future:		
Profits/(losses) from conversion of accounts of overseas companies	(580)	(1,938)
Profit/(losses) which will not reverse to the income statement in future:		
Re-measuring of employee plan (IAS 19):		
Actuarial profits/(losses)	(1,844)	204
Tax effect	507	(56)
Total other profits/(losses) directly recorded to net equity	**(1,917)**	**(1,790)**
Total comprehensive loss	**(16,983)**	**(34,507)**
Group share	**(16,983)**	**(34,507)**
Minority interest share	**-**	**-**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

Consolidated Cash Flow Statement at December 31, 2014 and December 31, 2013

(thousands of Euro)

	2014	2013(*)
A - Opening cash and cash equivalents (net short-term debt)	**48,254**	**34,655**
B – Cash flow from operating activities		
Loss for the year (including minority interests share)	(15,066)	(32,717)
Amortization, depreciation & write-downs	22,589	25,798
(Gains)/losses on disposed assets	2	5
(Increase)/ Decrease in deferred tax assets	(2,087)	(210)
Increase/(Decrease) of employee benefits provisions	(4,816)	(1,995)
Changes in other provisions	(1,653)	703
Cash flow from activities before changes in working capital	**(1,031)**	**(8,416)**
Change in working capital		
(Increase) / Decrease in receivables	31,737	(22,465)
(Increase) / Decrease in inventories	(186)	4,043
(Increase) / Decrease of other assets	963	1,098
Increase / (Decrease) in trade and other payables	(12,464)	28,359
Total changes in working capital	**20,050**	**11,035**
Total (B) (1)	**19,019**	**2,619**
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	(2,001)	9
(Increase) / Decrease in other financial assets	(1,869)	300
Divestment of fixed assets	12	30
Investments in property, plant & equipment	(1,714)	(2,979)
Investments in intangible assets	(14,739)	(16,336)
Total (C)	**(20,311)**	**(18,976)**
D - Cash flow from financing activities		
Granting and repayments of short-term loans	(4,587)	11,940
New loans	14,308	28,054
Repayment of loans to third parties	(9,656)	(8,666)
Granting of finance leases	23	-
Repayment of finance leases	(31)	(122)
Variation of the financial relations with Italtel Group	(317)	(270)
Increase / (Decrease) in other financial liabilities	(1,710)	740
Total (D)	**(1,970)**	**31,676**
E – Cash flow for the year (B+C+D)	**(3,262)**	**15,319**
Other shareholders' equity changes	(555)	(1,720)
F – Closing cash and cash equivalents	**44,437**	**48,254**

(*) In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

(1) This amount includes the payment of current taxes for Euro 6,301 thousand and Euro 3,983 thousand, respectively in 2014 and 2013.

Statement of changes in Shareholders Equity for the years ending December 31, 2013 and 2014

(thousands of Euro)

	Group Share					Minority interest share	Total Shareholders' Equity
	Share capital	**Reserves**	**Treasury shares**	**Other reserves including the result**	**Total**		
Balance at January 1, 2013[1]	**116,858**	**-**	**-**	**(160,149)**	**(43,291)**	**-**	**(43,291)**
IAS 19[1] amendment	-	-	-	(1,900)	(1,900)	-	(1,900)
Balance at January 1, 2013 Restated	**116,858**	**-**	**-**	**(162,049)**	**(45,191)**	**-**	**(45,191)**
Transactions with shareholders:							
- Covering of losses carried forward of Italtel S.p.A.	(114,858)	-	-	114,858	-	-	-
- Conferment in Italtel S.p.A. for EFI (Equity Financial Instruments)	-	153,035	-	-	153,035	-	153,035
Partial EFI utilization for Italtel S.p.A. loss coverage:	-	(54,307)	-	54,307	-	-	-
Comprehensive Profit/(Loss)	-	-	-	(34,507)	(34,507)	-	(34,507)
Balance at December 31, 2013	**2,000**	**98,728**	**-**	**(27,391)**	**73,337**	**-**	**73,337**
Comprehensive Profit/(Loss)	-	-	-	(16,983)	(16,983)	-	(16,983)
Balance at December 31, 2014	**2,000**	**98,728**	**-**	**(44,374)**	**56,354**	**-**	**56,354**

[*] In accordance with the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

(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.

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 8, 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, 2014, 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.

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

There were no changes in the consolidation scope in 2014.

The company Italtel Arabia Ltd was placed in liquidation and recognized as a discontinued operation.

Financial Statement Presentation

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

The Group for the 2014 financial statements prepared the Consolidated Financial Statements in compliance with IRFS 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, 2014:

- On December 29, 2012, Regulation 1254/2012, issued by the European Union on December 11, 2012, was published in the European Official Gazette (No. 360), which approved the following standards:

- IFRS 10 – Consolidated Financial Statements, whose objective is to establish a single consolidated financial statement model which establishes control as a basis for the consolidation of all types of companies. In achieving this objective, the principles included in IAS 27 (Consolidated and separate statements) were therefore incorporated, which consequently was republished amended, and the interpretation concerning SIC 12 (Consolidation – specific purpose entities). The new standard provides also further indications for the determination of control in cases in which it is difficult to ascertain. According to IFRS 10, a company may exercise control if it is exposed to, or holds the right to, profit participation (positive and negative) in the investee, and if capable of exercising power to influence results. The standard establishes a number of indicators to be considered in assessing the existence of control which include, among others, potential rights, merely protective rights, and the existence of agency or franchising relations. The new provisions, in addition, recognize the possibility to exercise control on an investee also without majority voting rights, due to the fragmented shareholder structure or the passive involvement of the other investors.

- The Company applies this standard from January 1, 2014.

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

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

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

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

- Under Regulation No.1256/2012 issued by the European Commission on December 13, 2012 the amendments to IFRS 32 "Financial Instruments : disclosure – Offsetting of financial assets" were approved, which clarify application of some of the criteria already presented in IAS 32 for the offsetting of financial assets and liabilities. In particular, the amendment clarifies a legal right to offset where both the following conditions are satisfied: (i) the right to offset must be currently exercisable and not dependent on a future event; (ii) the right to offset must be legally exercised by all counterparties both in ordinary business activity and in the case of the insolvency of one of the counterparties.

- On April 5, 2013 Regulation (EU) 313/2013 was published in Official Gazette L95 of the Commission of April 4, 2013, through which the amendments contained in the "Guide to transitory provisions (Amendments to IFRS 10, IFRS 11 and IFRS 12)" were approved. The objective of the amendments is to facilitate the transition of IFRS 10, IFRS 11 and IFRS 12, limiting the obligation to provide adjusted comparative disclosure to only the preceding year. In particular, this document clarifies that the date of first application of the three new standards stated above is the first day of the administrative period in which IFRS 10 is adopted for the first time. Entities which adopt IFRS 10 must evaluate control at the date of first application and the treatment of the comparative figures is based on this evaluation.

- On December 20, 2013, Regulation (EU) 1374/2013 of the Commission of December 19, 2013 was published in Official Gazette L346, through which the amendments contained in the document issued by the

IASB on June 27, 2013 *"Additional disclosure on the recoverable value of non-financial assets (Amendments to IAS 36)"* were approved. The amendments concern the disclosure to be provided on the recoverable value of assets which have incurred an impairment, in the case in which the recoverable value is based on the Fair Value net of disposal costs.

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

- Regulation No. 634/2014 issued by the European Commission on June 13, 2014 approved the interpretation "IFRIC 21: Levies", which defines the accounting treatment of payments requested from the public authorities, other than from income taxes, fines and penalties deriving from legal violations. IFRIC 21 indicates the criteria for the recognition of liabilities, establishing that the event which gives rise to the obligation, and therefore the recognition of the liability, concerns the execution of business activity which, in accordance with the applicable regulation, requires payment. For entities based in EU countries, the interpretation must be applied "at the latest" from periods beginning June 17, 2014 (for periods coinciding with the calendar year, therefore from January 1, 2015). Earlier application is however permitted.

Changes to accounting standards, interpretations and amendments applied after January 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, clarifying the definition of "vesting condition" and introducing the definitions of service and result conditions; (ii) to IFRS 3, 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 recognized to the income statement; (iii) to IFRS 8, 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 and IAS 38, 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, 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. 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 3, clarifying that IFRS 3 is not applicable to recognize the accounting effects concerning the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of the joint ventures or joint operations; (ii) 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; (iii) 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.

- 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.

The new provisions applied from periods beginning or subsequent to February 1, 2015 and according to the preliminary analysis by management will not generate significant impacts on the Italtel Group S.p.A. financial statements.

Note 2 - Accounting Principles Adopted

Consolidation method

The consolidated financial statements include the financial statements of Italtel Group S.p.A. (the Parent Company) and the companies in which it directly or indirectly controls, from the date of acquisition and until the date the control terminates.

Control exists where the Parent Company simultaneously:

- Exercises decision-making power over the investee, i.e. has the capacity to manage its main activities, therefore those activities which have a significant impact on the investee's results;
- Has the right to variable profits or losses from its investment in the entity;
- Has the capacity to utilize its decision-making power to establish the amount of profits devolving from its investment in the entity.

Under the first application of IFRS 10, the 2013 figures were prepared for comparative purposes only.

The financial statements used for the consolidation were prepared at December 31, 2014 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 balance sheet date;
- the costs and revenues are translated at the average exchange rate for the period;
- the "Translation reserve" includes both the foreign exchange differences generated from the translation of foreign currency transactions at a rate different than at the balance sheet date and those generated from the translation of the opening shareholders' equity at a different rate than that at the balance sheet date;
- the goodwill and the Fair Value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date;
- in the preparation of the consolidated cash flow statement the average exchange rates for the year are used to convert the cash flows of foreign subsidiaries.

The exchange rates applied are reported below.

	2014 Average	**December 31, 2014**	**2013 Average**	**December 31, 2013**
Argentinean Peso	10.7718	10.2755	7.27739	8.98914
Kenyan Shilling	116.779	110.05	114.377	119.091
Brazilian Real	3.12113	3.2207	2.86866	3.2576
UK Sterling	0.80612	0.7789	0.849255	0.8337
US Dollar	1.3285	1.2141	1.32812	1.3791
Polish Zloty	4.18426	4.2732	4.19749	4.1543
Arab Emirates Dirham	4.87957	4.45942	4.87817	5.06539
Peruvian Nuevo Sol	3.76781	3.63265	3.5918	3.85865
Saudi Arabian Riyal	4.98307	4.55733	4.98086	5.17242
Oman Riyal	0.511258	0.467245	0.511103	0.530728

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

The amount of development costs are recorded under intangible assets from the date in which the result generated from the project is 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 amortized 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.

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 recapitalized (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 recognized 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.

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 principles

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

- Impairments: in accordance with the accounting principles applied by the Group, the tangible and intangible assets with finite life and goodwill are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. In the case of goodwill, this test is carried out at least annually. The verification of the existence of the above-mentioned indicators requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available. The same valuation techniques are applied for the determination of the recoverability of goodwill; these verifications are carried out at least annually. The correct identification of the indicators of the existence of a potential reduction in value as well as the estimates for their determination depends on factors which may vary over time impacting upon the valuations and estimates made by the Directors.
- Amortization and depreciation: amortization and depreciation constitutes a significant cost for the Group. The cost of property, plant and equipment is depreciated on a straight-line basis on the estimated useful life of the asset. The useful life of the fixed assets of the Group is determined by the Directors when the fixed assets are purchased. This is based on the historical experiences for similar fixed assets, market conditions and considerations relating to future events which could have an impact on the useful life, such as changes in technology. Therefore, the effective useful life may be different from the estimated useful life. The Group periodically evaluates technological and sector changes to update the residual useful life. This periodic update could result in a change in the depreciation period and therefore in the depreciation charge in future years.
- Deferred tax assets: the accounting of the deferred tax assets is made on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.
- Provisions for legal and tax risks: provisions are recorded against the legal and 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 in accordance with their maturities over the duration of the Industrial Plan.

The Company has in place a number of covenants and the actions taken in the 2015 budget allow compliance with such. For further information, reference should be made to Note 26.

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, 2014 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 176,897 thousand (Euro 210,911 thousand at December 31, 2013).

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, 2014 trade receivables for Euro 88,871 thousand (Euro 119,974 thousand at December 31, 2013) were recorded, net of write-downs of Euro 9,267 thousand (Euro 9,235 thousand at December 31, 2013).

At December 31, 2014 overdue trade receivables, net of the doubtful debt provision, amounted to Euro 9 million (Euro 12.0 million at December 31, 2013), of which Euro 2.1 million may be offset against supplier payables and Euro 3.5 million concerning technical overdues.

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, 2014	51,800	-	51,800
December 31, 2013	22,855	-	22,855

(*) At exchange rate of December 31

At December 31, 2014 and 2013 the fair value of the derivative contracts was as follows:

	31/12/2014	**31/12/2013**
Exchange risk hedges	1,517	(786)

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:

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

2014	Land	Industrial buildings	Plant and machinery	Industrial equipment	Other assets	Assets in progress	Total
Historical cost							
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)
Balance at December 31, 2014	**327**	**24,285**	**26,431**	**52,826**	**79,813**	**87**	**183,769**
Accumulated depreciation							
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
Balance at December 31, 2014	**-**	**(15,757)**	**(23,665)**	**(50,900)**	**(77,841)**	**-**	**(168,163)**
Net book value							
Balance at January 1, 2014	327	9,216	3,309	2,175	2,228	197	17,452
Balance at December 31, 2014	**327**	**8,528**	**2,766**	**1,926**	**1,972**	**87**	**15,606**

The investments in property, plant & equipment amounted to Euro 1,714 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 754 thousand. In addition, Euro 306 thousand was invested in the extraordinary maintenance of plant and machinery for the Castelletto and Palermo offices and Euro 514 thousand in EDP and computers for the technological upgrading of the IT systems and the updating of the data network.

At December 31, 2014 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:

	31/12/2014	31/12/2013
Value at January 1	**167,215**	**167,215**
Increases	-	-
Write-downs	-	-
Value at December 31	**167,215**	**167,215**

The Goodwill originated following the assumption of full control of the ex-Italtel S.p.A by the previous parent company Italtel Acquisition S.p.A, called Italtel S.p.A., after the merger be incorporation and represents the difference between the acquisition cost and the consolidated net equity at December 31, 2000, net of the accumulated amortization at December 31, 2003 and the write-down of December 31, 2009 and December 31, 2011.

This is not subject to systematic 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 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 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.

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 2015-2017 Plan of the Italtel Group.

In relation to the operational sustainability of the plan, the analysis considers that the actions outlined by the Directors, in part introduced in 2014 and with completion scheduled over the coming years, permit the best use of Group assets as a market competitor.

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

In relation to the methods applied, for the DCF method a model was adopted with an explicit period of future cash flows of three 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 March 30, 2015, 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 8.7% and 14.6% 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 11.1% (the 2013 WACC was 11.5%);
- 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%.

For the multipliers reference was made to the indicators of the value of capital employed by a number of companies listed in the sector. The multipliers concern the forecast results for 2015. In greater detail, an FV/EBITDA multiplier of 6.8 was utilized. The multipliers were applied to EBITDA forecasts of the Italtel Group for 2015, 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 297 million to Euro 311 million interval, against a book value of approx. Euro 262 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 150 basis points of the WACC rate would result in a decrease (increase) of the recoverable value of the assets of Euro 34.3 million (decrease)/Euro 47.9 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 11.9 million (increase) / Euro 10.7 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 2014 does not exceed approx. 12.8%.

Therefore, the Directors consider the value of goodwill under the impairment test approved by the Board of Directors on March 30, 2015 as confirmed.

Note 9 - Other intangible assets

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

	Industrial patents and intellectual property rights, licenses and similar rights	Development costs	Assets in progress	Others	Total
Balance at January 1, 2013	**1,979**	**32,037**	**279**	**-**	**34,295**
Increases	1,201	15,060	75	-	16,336
Write-downs	-	-	(1)	-	(1)
Disposals	-	-	-	-	-
Translation differences	(1)	-	-	-	(1)
Amortization	(1,458)	(20,747)	-	-	(22,205)
Reclassifications	279	-	(279)	-	-
Balance at December 31, 2013	**2,000**	**26,350**	**74**	**-**	**28,424**
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
Balance at December 31, 2014	**1,387**	**22,576**	**133**	**-**	**24,096**

The investments in intangible assets amounted to Euro 14,739 thousand. In particular, Euro 14,114 thousand was invested in research and innovation activities and Euro 625 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 2014 and 2013, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2014	31/12/2013
Research and Development activities carried out	33,011	34,628
of which:		
- capitalized	14,114	15,060
- recognized to the Income statement	18,897	19,568
Amortization in the year of development costs	17,888	20,747

The net value of intangible assets concerning Development Costs was Euro 22,576 thousand and Euro 26,350 thousand, respectively at December 31, 2014 and 2013.

Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

	31/12/2014	31/12/2013
Value at January 1	194	194
Adjustments in the year	-	-
Reclassifications to the account “AFS non-current assets”	-	-
Value at December 31	**194**	**194**

At December 31, 2014 none of the associated companies had securities listed on regulated markets.

Note 11 - Medium/long term financial assets

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

	Equity investments in other companies	Securities other than equity investments	Financial Receivables and other non-current assets	Total
Balance at January 1, 2013	**125**	**1**	**51**	**177**
Acquisitions / movements in the year	6	(1)	(8)	(3)
Reclassifications	-	-	(37)	(37)
Disposals / liquidations	-	-	-	-
Write-down / revaluations	(6)	-	-	(6)
Balance at December 31, 2013	**125**	**-**	**6**	**131**
Acquisitions / movements in the year	-	-	2,001	2,001
Reclassifications	-	-	-	-
Disposals / liquidations	-	-	-	-
Write-down / revaluations	-	-	-	-
Balance at December 31, 2014	**125**	**-**	**2,007**	**2,132**

The investments in other companies are all valued at cost.

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

The increase of Euro 2,001 thousand concerns a 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.

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

Note 12 – Other assets

This account Other assets is comprised of:

	31/12/2014	31/12/2013
Guarantee deposits	870	498
Tax receivables	5,315	438
Tax reimbursements requested	6,732	6,245
Other	4	5
Other non-current receivables doubtful debt provision	(373)	(373)
Total	**12,548**	**6,813**

Tax Receivables totaled Euro 5,315 thousand and increased Euro 4,875 thousand, due to the reclassification of the Tax Receivables for withholding taxes incurred abroad, classified under Other current receivables at December 31, 2013, with payment due in the medium/long-term, in a period of between 2 and 8 years. These Tax Receivables for withholding taxes incurred abroad at December 31, 2013 amounted to Euro 4,785 thousand.

On tax reimbursements requested for repayment interest matures at an annual rate of 2% (Euro 113 thousand in 2014).

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

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

Note 13 - Deferred tax assets

This account Deferred tax assets is comprised of:

	31/12/2014	31/12/2013
Deferred tax assets	86,193	84,258
Deferred tax liabilities	(2,454)	(3,113)
Total	**83,739**	**81,145**

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	
	31/12/2014	**31/12/2013**	**31/12/2014**	**31/12/2013**
Temporary differences originate from:				
- Capital grants and operating grants	-	-	1,494	2,163
- Accelerated depreciation	-	-	134	134
- Doubtful debts provision	2,620	2,657	-	-
- Inventory obsolescence provision	15,441	15,545	-	-
- Amortization and depreciation	157	157	-	-
- Other provisions for risks and charges	1,643	2,560	-	-
- Surplus interest charges carried forward	13,046	13,046	-	-
- Other	401	-	-	44
- For temporary differences concerning the Columbian branch in accordance with local tax laws	619	76		
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	4,635	2,927	-	-
- Deferred tax asset relating to tax losses of Italtel S.p.A.	46,392	46,392	-	-
- Deferred tax asset relating to tax losses of the foreign subsidiaries	-	233	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	812	758
- Discounting of revised post-employment benefit provision [(1)]	1,172	665	-	-
- Adjustment in measurement of amortization and depreciation of fixed assets	-	-	14	14
- Consolidation adjustments	67	-	-	-
Total	**86,193**	**84,258**	**2,454**	**3,113**

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

At December 31, 2014 the principal subsidiary Italtel S.p.A. reports tax losses carried forward of Euro 168,697 thousand. Against the above-stated losses deferred tax assets for Euro 46,392 thousand were recorded as it was considered that Italtel S.p.A. could benefit from the use of these losses from 2015.

Taking account on the one hand of the increased negative assessable amount recorded in the years 2013/2014 compared to that forecast in the plan, it is expected, in consideration of the uncertainty concerning the long-term forecasts in the corporate restructuring plans, that the value of deferred taxes recognized to the 2013 financial statements will substantially be confirmed for 2014.

Deferred tax assets concerning tax losses of foreign subsidiaries from the previous year related to Brazil. There are none at December 31, 2014.

At December 31, 2014 and 2013 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	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
- Discounting provision[(1)]	1,172	665	-	-
Total	**1,172**	**665**	**-**	**-**

[(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:

2013	Raw materials, ancillary and consumables	Products in work-in-progress and semi-finished	Finished products and goods for resale	Advances	Total
Opening inventories					
Balance at January 1	6,118	28,807	49,545	750	85,220
Changes in the year	(27)	(9,568)	6,684	(437)	(3,348)
Balance at December 31	**6,091**	**19,239**	**56,229**	**313**	**81,872**
Inventory obsolescence provision					
Balance at January 1	(6,106)	(10,581)	(35,592)	-	(52,279)
(Provision) / utilization	15	(114)	(596)	-	(695)
Balance at December 31	**(6,091)**	**(10,695)**	**(36,188)**	**-**	**(52,974)**
Net inventories					
Balance at December 31	**-**	**8,544**	**20,041**	**313**	**28,898**

2014	Raw materials, ancillary and consumables	Products in work-in-progress and semi-finished	Finished products and goods for resale	Advances	Total
Opening inventories					
Balance at January 1	6,091	19,239	56,229	313	81,872
Changes in the year	(1,553)	(831)	2,447	(288)	(225)
Balance at December 31	**4,538**	**18,408**	**58,676**	**25**	**81,647**
Inventory obsolescence provision					
Balance at January 1	(6,091)	(10,695)	(36,188)	-	(52,974)
(Provision) / Utilization	1,553	266	(1,408)	-	411
Balance at December 31	**(4,538)**	**(10,429)**	**(37,596)**	**-**	**(52,563)**
Net inventories					
Balance at December 31	**-**	**7,979**	**21,080**	**25**	**29,084**

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

At December 31, 2014 and 2013 Inventories act as guarantees for loans in place at that date.

Note 15 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2014	31/12/2013
Receivables from customers	98,052	129,123
Receivables from associated companies	86	86
Cumulative write-down of receivables	(9,267)	(9,235)
Total net receivables	**88,871**	**119,974**

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

	31/12/2014	31/12/2013
Balance at January 1	**9,235**	**9,172**
Changes in the year:		
- Increases	668	110
- Utilizations	(637)	(40)
- Translation differences of foreign currencies	1	(7)
Balance at December 31	**9,267**	**9,235**

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, 2014 totaled Euro 69.2 million (at December 31, 2013 Euro 40.2 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:

(thousands)

	31/12/2014		31/12/2013
	Foreign currency	Euro	Foreign currency
US Dollar	28,237	23,258	33,039
UK Sterling	137	176	205
Brazilian Real	23,894	7,419	24,777
Peruvian Nuevo Sol	33,186	9,135	5
Polish Zloty	648	152	9,445
Saudi Riyal	1,297	285	1,297
Colombian Peso	1,909,174	660	4,149,416
Philippine Peso	1,193	22	1,193
Oman Riyal	58	125	58
Arab Emirates Dirham	404	91	-
Argentinean Peso	14,517	1,413	20,120

Note 16 - Income tax receivables

Income tax receivables at December 31, 2014 amounted to Euro 710 thousand (at December 31, 2013 totaling Euro 1,942 thousand), 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:

	31/12/2014	31/12/2013
Employee receivables	1,996	2,491
Social security institution receivables	3,457	3,852
Prepayments and accrued income	1,127	1,265
Short-term tax receivable	8,883	9,876
Receivables from the state for subventions and grants	11,246	14,987
Other various receivables	2,570	3,676
Cumulative write-down of receivables	(1,410)	(1,580)
Total	**27,869**	**34,567**

The employee receivables referred principally to advances provided for work transport (Euro 1,228 thousand) and the portion of salaries paid by the company Italtel S.p.A. to employees in December for the days in which the Solidarity Contract was applied and included in the payslip of the subsequent month (Euro 429 thousand).

Social security institution receivables include the amount of receivables of Italtel S.p.A. from the INPS for advance salary payments to personnel in the Extraordinary Temporary Lay-Off Scheme for the April 12 - December 31, 2014 period for the Castelletto (Settimo Milanese) Rome and Carini offices and, for the same period, advance salary payments by the Company to personnel under the Solidarity Contract at the Rome and Carini offices.

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

Short-terms tax receivables totaled Euro 8,883 thousand at December 31, 2014.
The decrease on December 31, 2013 is principally due to the reclassification of Euro 4,875 thousand from Other medium/long-term assets of tax receivables of Italtel S.pA. for withholding taxes incurred abroad and the decrease of Euro 626 of tax receivables for the tax dispute in place also of Italtel S.p.A. In detail, in 2014 the above Company received Euro 823 thousand as repayment for amounts paid in previous years provisionally ahead of the tax assessment judgments for the years 2004 – 2005 – 2006, repaid following the judgment in favor of Italtel S.p.A.. The Company in addition recognized in the year a receivable of Euro 197 thousand for the payment of provisional sums following the first level judgment, partially unfavorable, on the IRES and IRAP assessment for 2007.
For further details concerning the tax disputes outstanding at the reporting date, reference should be made to the note “Other operating events” of the Directors Report.

The VAT receivable of Euro 2,600 thousand also refers to Italtel Sp.A..

The other tax receivables of Euro 5,516 thousand comprise the Tax Receivables of the foreign companies, principally for VAT.

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 2,570 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:

	31/12/2014	31/12/2013
Other financial receivables	938	643
Short-term financial prepayments and accrued income	116	73
Financial receivables from non-consolidated subsidiaries	601	587
Derivative hedging assets	1,517	-
Total	**3,172**	**1,303**

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

The derivative hedging assets totaled Euro 1,517 thousand and are based on the valuation at December 31, 2014 of exchange rate hedging contracts. At December 31, 2013 a liability of Euro 786 thousand was recognized.

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

Note 19 - Cash and cash equivalents and restricted current accounts

Restricted current accounts amount to Euro 5,062 thousand and relate 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:

	31/12/2014	31/12/2013
Cash at banks, financial institutions and post offices	35,802	47,504
Checks	3,509	710
Cash	64	40
Total cash and cash equivalents	**39,375**	**48,254**

The checks are principally held by the company Italtel Argentina S.A., for Euro 3,459 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, 2014 and December 31, 2013, 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, 2014, 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:

	31/12/2014	31/12/2013
Equity financial instruments Contribution Reserve	98,728	98,728
Total	**98,728**	**98,728**

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 of 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
Total	**153,035,272**	**100**

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, 2014 and December 31, 2013 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:

	31/12/2014	31/12/2013
Prior year losses carried forward	(26,322)	7,732
Translation reserve	(2,986)	(2,406)
Loss for the year	(15,066)	(32,717)
Total	**(44,374)**	**(27,391)**

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 financial statements 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, 2014 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:

	2014	2013
Balance at January 1	**(2,406)**	**(468)**
Conversion of opening net equity and consolidation adjustments	(644)	(1,609)
Conversion of Profit/(loss)	64	(329)
Balance at December 31	**(2,986)**	**(2,406)**

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:

	31/12/2014	31/12/2013
Post-employment benefits	22,312	24,674
Indemnity for the advanced settlement of contract	881	1,497
Deferred employee benefits provisions for foreign companies	42	36
Total	**23,235**	**26,207**

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:

	31/12/2014	31/12/2013
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	1.75% annual	2.00% annual
Discount rate	1.50% annual	2.50% annual
Salary increases	-	-
Annual increase in post-employment benefit	2.81% annual	3.00% annual
DEMOGRAPHIC ASSUMPTIONS		
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	The annual frequencies capable of resulting in a company plan which involves the exit from the Company of 135 employees by April 2014 and of a further 300 employees by the end of 2014; a turnover frequency assumption of 25% for 2014 for all employees in service, with the exception of 135 employees considered in the workforce until April 30, 2014 and of 7.5% for all subsequent years.
Probability of retirement	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached	The reaching of the first of the pensionable requirements necessary for General Compulsory Insurance in light of the regulatory amendments from January 1, 2012 under the Monti provisions was included
Probability of advances	Annual value of 3% was considered	Annual value of 3% was considered

Changes in the post-employment benefit were as follows:

	31/12/2014	31/12/2013
Balance at January 1	**24,710**	**26,293**
IFRS adjustment – actuarial losses/(profits) Italtel S.p.A.	1,845	(204)
Increase in the year Italtel S.p.A.	214	653
Increase in the year - foreign companies	6	5
Utilizations in the year Italtel S.p.A.	(4,421)	(2,002)
Utilizations in the year - foreign companies	-	(35)
Balance at December 31	**22,354**	**24,710**

The actuarial losses calculated for 2014 amounted to Euro 1.845 thousand.

The increase in the year includes "Interest costs" for Euro 562 thousand in 2014 (Euro 653 thousand in 2013), reducing Euro 348 thousand due to the change in the discounting rate on Post-Employment Benefits.

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

	31/12/2014	31/12/2013
Balance at January 1	**1,497**	**1,909**
Provisions in the year	-	112
Utilizations in the year	(616)	(524)
Balance at December 31	**881**	**1,497**

Note 25 - Provision for risks and charges

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

	Contractual guarantees	Other risks	Total
Balance at January 1, 2013	**69**	**9,206**	**9,275**
Changes in the year:			
- Increases	23	4,286	4,309
- Utilizations/Releases	-	(3,593)	(3,593)
- Translation differences	(12)	(1)	(13)
Balance at December 31, 2013	**80**	**9,898**	**9,978**
Changes in the year:			
- Increases	7	2,517	2,524
- Utilizations/Releases	-	(4,177)	(4,177)
- Translation differences	1	(1)	-
Balance at December 31, 2014	**88**	**8,237**	**8,325**

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 8,237 thousand at December 31, 2014 (Euro 9,898 thousand at December 31, 2013) concerns the risks related to disputes in progress for Euro 1,601 thousand, contractual risks for Euro 447 thousand and tax, contribution and various risks, also relating to foreign companies, relating to a non-defined tax period for Euro 6,184 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:

	31/12/2014			31/12/2013		
	Short-term	**Medium/long term**	**Total**	**Short-term**	**Medium/long term**	**Total**
Secured bank loans	2,605	122,326	124,931	-	118,347	118,347
Unsecured loans	206	538	744	195	206	401
Unsecured loans at subsidized rates	5,063	11,845	16,908	5,939	12,066	18,005
Loans from other lenders	1,309	3,442	4,751	-	5,929	5,929
Liabilities for finance leases	55	-	55	63	-	63
Medium/long term loans	**9,238**	**138,151**	**147,389**	**6,197**	**136,548**	**142,745**
Short-term bank loans	81,784	-	81,784	86,370	-	86,370
Total payables to financial institutions	**91,022**	**138,151**	**229,173**	**92,567**	**136,548**	**229,115**
Other payables	846	282	1,128	2,539	565	3,104
Accruals and deferred income	142	-	142	193	-	193
Total	**92,010**	**138,433**	**230,443**	**95,299**	**137,113**	**232,412**

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

	31/12/2014	31/12/2013
- within one year	9,238	6,197
- between one and two years	4,231	4,068
- between two and three years	76,482	3,024
- between three and four years	27,801	73,823
- between four and five years	28,807	25,973
- over five years	830	29,660
Total	**147,389**	**142,745**

At December 31, 2014, the medium/long term loans, including the short-term portion, were as follows:

	Variable rate	Fixed rate	31/12/2014
- within one year	4,121	5,117	9,238
- between one and two years	-	4,231	4,231
- between two and three years	72,566	3,916	76,482
- between three and four years	25,760	2,041	27,801
- between four and five years	27,981	826	28,807
- over five years	-	830	830
Total	**130,428**	**16,961**	**147,389**

The loans with secured guarantees, totaling Euro 124,931 thousand and with interest rate of between 0.6% and 3.1%, are broken down as follows:

- Euro 73,230 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 70,649 thousand, is repayable in three equal annual instalments from December 31, 2017, while the B2 line, amounting to Euro 2,581 thousand, will expire on December 31, 2019;
- Euro 18,000 thousand of a new credit line with expiry on June 30, 2017;
- Euro 9,451 thousand in replacement of subsidized rate loans and grants not received from public bodies with final expiry on June 30, 2017; the repayment of Euro 2,343 thousand at December 31, 2013 was due to the receipt of grants for the "Asic" project.

- Euro 5,550 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 11,607 thousand of a line drawn down for restructuring costs, of which Euro 3,173 thousand issued in 2013 and Euro 8,434 thousand in 2014, with final maturity on June 30, 2017;
- Euro 3,093 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 10,189 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 subsidized rates for Euro 744 thousand and Loans from other lenders of Euro 4,751 thousand, comprise:

- Euro 206 thousand obtained in 2010 from the Banca del Mezzogiorno-Mediocredito Centrale and still in place for a total of Euro 935 thousand for research activities, of which Euro 729 thousand at subsidized rates;
- Euro 4,751 thousand (Euro 5,929 thousand at December 31, 2013) issued by Telecom Italia in replacement of the subsidized rate loans not received by Public Bodies and with final maturity on June 30, 2017; the repayment of Euro 1,178 thousand compared to December 31, 2013 is due to the receipt of the grants for the "Asic" project;
- Euro 538 thousand issued by Banca Intesa Sanpaolo for a total Euro 5,380 thousand for research activities concerning the "Asic" project, of which Euro 4,842 thousand at subsidized rates;
- Following the receipt of grants and subsidized loans for the "Asic" research project, the company in 2014 repaid the lending banks part of the amount advanced in 2013, with the remaining part restricted for the coverage of restructuring costs.

The unsecured loans at subsidized rates of Euro 16,908 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 4,842 thousand following the receipt of the subsidies awarded for the ASIC project and decreased for Euro 5,939 thousand due to settlements under the relative repayment plans.

The account Short-term bank loans, totaling Euro 81,784 thousand at December 31 2014 (Euro 86,370 thousand at December 31 2013), include the use of the short-term revolving credit lines. The reduction in this account of Euro 4,976 thousand is substantially due to the lesser 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.

The restructuring agreement includes three covenants, increasingly stringent over the duration of the agreement and measured half-yearly on an annual basis on the Italtel Group S.p.A. prepared solely for contractual purposes consolidated financial statements, from June 30, 2014.

The three covenants concern:

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

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

	Leverage Ratio	*Interest Cover Ratio*	*Capital Expenditure*
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	

The three covenants in 2014, the first year in which they have been measured, were complied with.

The actions established by the Company, reflected in the 2015 budget, will ensure compliance with these covenants also for the current year.

Unforeseen events, also related to outside factors, may not be excluded and may have an impact. However, given the progress made in the last two years and the relations developed with the lending banks, the Directors currently do not foresee a situation in which the lending institutions may take actions which would comprise the going concern.

Liquidity

Net liquidity at December 31, 2014 and 2013 was broken down as follows:

	31/12/2014	**31/12/2013**
Cash and cash equivalents	3,573	750
On demand bank current accounts	35,802	47,504
Restricted current accounts	5,062	-
Total	**44,437**	**48,254**

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

	31/12/2014	**31/12/2013**
Cash generated/(absorbed) by operating activities	19,019	2,619
Cash generated/(absorbed) by investing activities	(20,311)	(18,976)
Cash generated/(absorbed) by financing activities	(1,970)	31,676
Other shareholders' equity changes	(555)	(1,720)
Changes in the year	**(3,817)**	**13,599**

In 2014, the Group absorbed liquidity for Euro 3,817 thousand, against a generation of cash of Euro 13,599 thousand in the previous year, as follows:

Cash flow generated by operating activities

The cash flow generated by operating activities totaled Euro 19,019 thousand.
The cash absorption from operating activities before working capital changes of Euro 1,031 thousand and the decrease in trade and other payables of Euro 12,464 thousand is accompanied by a decrease in trade receivables, which generated cash of 31,737 thousand, also thanks to the significant recourse to factoring operations.

Cash absorbed by investing activities

In 2014, investing activities absorbed cash of Euro 20,311 thousand, principally due to investment in property, plant and equipment for Euro 1,714 thousand and in intangible assets for Euro 14,739 thousand.

Cash absorbed by investing activities

Financial assets in 2014 absorbed liquidity of Euro 1,970 thousand.
During the year, the net balance of short-term loan repayment was Euro 4,587 thousand, with the repayment also of medium/long-term loans for Euro 9,656 thousand, while new medium/long-term loans were granted for Euro 14,308 thousand.

Note 27 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2014	31/12/2013
Medium/long term accruals and deferred income	254	339
Deposits	161	112
Total	**415**	**451**

Deferred income concerns the portion of capital public grants whose recognition to the income statement is related to the payment plan of the investments within the Telecom Italia & Italtel Development Contract signed in November 2013.

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

Note 28 - Trade payables

The account is composed as follows:

	31/12/2014	31/12/2013
Trade payables	134,841	120,568
Payables to associated companies	172	152
Total	**135,013**	**120,720**

The account includes 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:

(thousands)

	31/12/2014		31/12/2013
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	76,634	63,120	98,032
UK Sterling	195	250	194
Argentinean Peso	23,369	2,274	23,756
Brazilian Real	9,774	3,035	5,724
Polish Zloty	28	7	87
Colombian Peso	4,227,109	1,462	3,130,921
Peruvian Nuevo Sol	6,105	1,681	1,386
Oman Riyal	3	6	-
Philippine Peso	474	9	474
Arab Emirates Dirham	104	23	146

Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 1,155 thousand and Euro 1,039 thousand at December 31, 2014 and December 31, 2013 respectively, representing the Income tax payables:

	31/12/2014	31/12/2013
IRES	-	-
IRAP	-	416
Income taxes – foreign countries	1,155	623
Total	**1,155**	**1,039**

Note 30 - Other payables and liabilities

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

	31/12/2014	31/12/2013
Employee payables	21,620	31,257
Social security payables	1,875	673
Accruals and deferred income	7,467	18,842
VAT	2,657	6,771
Withholding taxes to be paid	2,825	3,088
Other taxes	696	478
Customer advances	2,623	4,947
Other liabilities	5,507	6,149
Total	**45,270**	**72,205**

Employee payables include Euro 5,391 thousand concerning indemnities to be recognized in 2015 to company personnel with whom Industrial Mediation Agreements were individually signed as per Article 2113, paragraph IV of the Civil Code and Articles 410 and 411, paragraph III of the Civil Procedural Code. The reduction of Euro 9,637 thousand relates to the payment of indemnities recognized to the prior year financial statements and paid to departing personnel in 2014.

Social security payables at December 31, 2014 increased on December 31, 2013 by Euro 1,202 thousand. At December 31, 2013 the company Italtel S.p.A. offset the payables to social security institutions with the INPS receivables advanced by the Company to employees of all Company offices involved in the Solidarity Contracts (April 12, 2013 - April 11, 2014 period), approved by the Ministry for Labor with Ministerial Decree 76582 of 31/10/2013. As stated in Note 17 Other receivables and assets, the Company awaits authorization for the repayment of receivables under the Extraordinary Temporary Lay-Off Scheme and the Solidarity Contract for the April 12, 2014 – December 31, 2014 period. During the year, the INPS payable for mobility charges as per Law 223/91 increased, following the placement in mobility in 2014 of 214 workers.
The book value of the other liabilities approximates their Fair Value.

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

Note 31 - Revenues from sales and services

The following tables report the revenues from sales and services in 2014 and 2013, broken down by client and region.

i) Revenues from sales and services broken down by client

	2014	2013
Telecom Italia [(a)]	133,526	108,052
Other local operators	37,213	51,265
Large enterprises and Public Administration	54,328	59,088
Overseas Operators	175,123	155,782
Total	**400,190**	**374,187**

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

ii) Revenues from sales and services broken down by region

	2014	2013
Italy	222,377	218,001
Other European countries	39,771	34,105
Central and South America	134,595	119,524
USA	574	-
Africa	1,506	453
Asia	1,367	2,104
Total	**400,190**	**374,187**

Note 32 – Other income

This account Other income is comprised of:

	2014	2013
Grants	7,055	6,517
Gains on disposals	11	3
Others	17,726	14,730
Total	**24,792**	**21,250**

Operating grants for Euro 7,055 thousand concern contributions for costs incurred for research and development activities (Euro 6,517 thousand in 2013).

The account Others concerns prior year income for Euro 5,054 thousand (Euro 3,057 thousand in 2013), Euro 5,052 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 5,549 thousand in 2013) and the release of provisions for Euro 4,440 thousand (Euro 3,015 thousand in the previous year).

Note 33 - Purchase of materials and services

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

	2014	2013
Purchases of materials	203,889	196,312
Purchases of services	116,165	87,301
Total	**320,054**	**283,613**

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:

	2014	2013
Wages and salaries	60,188	64,705
Social security	16,887	18,362
Post-employment benefit	3,523	4,549
Mobility and other non-recurring charges	7,259	19,040
Others	1,161	750
Total	**89,018**	**107,406**

Personnel costs include non-recurring restructuring charges for a total of Euro 7,259 thousand (in 2013 Euro 19,040 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 1,674 in 2013 to 1,489 in 2014.

Note 35 - Amortization, depreciation and write-downs

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

	2014	2013
Development Costs	17,888	20,747
Other intangible assets	1,209	1,458
Industrial buildings	755	711
Plant and machinery	839	803
Industrial and commercial equipment	1,102	1,159
Other assets	796	850
Other tangible asset write-downs	-	70
Total	**22,589**	**25,798**

Note 36 - Other operating costs

This account Other operating costs is comprised of:

	2014	2013
Other operating charges	5,451	6,007
Provisions for risks	2,355	1,521
Write-down of receivables	669	111
Total	**8,475**	**7,639**

The account miscellaneous operating costs includes prior year charges of Euro 771 thousand (Euro 711 thousand in 2013).

Note 37 - Change in inventories

The following table highlights the principle components of the account:

	2014	2013
Raw material, ancillary and consumables	-	-
Products in work-in-progress and semi-finished	(230)	(8,367)
Finished products and goods for resale	1,667	7,929
Total	**1,437**	**(438)**

Note 38 - Increases on internal works capitalized

The account increases on internal works capitalized amounted to Euro 14,353 thousand in 2014 (Euro 15,246 thousand in 2013) and concerns the capitalizations of tangible and intangible fixed assets of the production costs, not including financing charges.
In 2014, the account concerned for Euro 14,114 thousand (Euro 15,060 thousand in 2013) 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.

	2014			2013		
	Charges	Income	Net charges (income)	Charges	Income	Net charges (income)
Exchange losses/(gains)	20,728	14,250	6,478	14,998	10,362	4,636
Interest	3,848	36	3,812	4,254	125	4,129
Others	2,793	2,477	316	3,477	526	2,951
Total	**27.369**	**16,763**	**10.606**	**22,729**	**11,013**	**11,716**

Net financial charges total Euro 10,606 thousand, compared to Euro 11,716 thousand in the previous year, improving by Euro 1,110 thousand (9.5%).

Net exchange losses increased from Euro 4,636 thousand in 2013 to Euro 6,478 thousand in 2014, deteriorating therefore Euro 1,842 thousand.

Net interest charges decreased from Euro 4,129 thousand in 2013 to Euro 3,812 thousand in 2014, an improvement therefore of Euro 317 thousand. The improvement in net financial charges is due the refinancing process concluded in March 2013.

Other net charges decreased from Euro 2,951 thousand in 2013 to Euro 316 thousand in 2014.
The improvement of Euro 2,635 thousand is due to the positive effect of Euro 2,303 thousand from the valuation of currency risk hedging operations from a negative Euro 786 thousand at December 31, 2013 to a positive Euro 1,517 thousand at December 31, 2014 and for Euro 332 thousand to the reduction in other financial charges.

In 2014 and 2013, the Italtel Group recognized net financial charges from transactions undertaken with holders of EFI, as follows:

	2014	2013
Unicredit	517	3,826
GE Capital	81	4
Banco di Brescia	652	442
Total	**1,250**	**4,272**

Note 40 - Income taxes

The income tax account in 2014 reports a charge of Euro 4,968 thousand, compared to Euro 6,629 thousand in the previous year. This includes: IRAP for Euro 950 thousand (Euro 1,200 thousand in 2013), foreign income taxes for Euro 6,131 thousand (Euro 3,697 thousand in 2013), lower taxes relating to previous years for Euro 120 thousand (lower taxes for Euro 91 thousand in 2013), in addition to deferred tax income of Euro 1,993 thousand (Euro 1,077 thousand in 2013). Net deferred tax income entirely concerns the Group foreign companies and the Columbian branch of Italtel S.p.A.. In addition, in the previous year withholding taxes in Argentina judged as non-recoverable for Euro 2,900 thousand were provisioned to the income statement.

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

	2014	2013
Theoretical taxes [(a)]	(2,742)	(7,130)
IRAP	950	1,200
Argentina withholding taxes	-	2,900
Difference between the tax rate on foreign entities	960	302
Non-deductible (exempt) tax components	390	651
Deferred taxes not recorded on tax losses and temporary differences	6,098	9,346
Positive components not subject to taxation	(631)	(165)
Other changes	(57)	(475)
Effective tax	**4,968**	**6,629**

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

Note 41 – Discontinued operations

The non-current discontinued assets and liabilities, in addition to the net loss from discontinued operations in 2014, refer to the companies Italtel Kenya Ltd in liquidation and Italtel Arabia Ltd. At December 31, 2013, the account concerned only the Kenyan company.

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.
The liquidation of the company is still in progress.

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 738 thousand (Euro 140 thousand at December 31, 2013) comprise liquidity of Euro 450 thousand (Euro 93 thousand at December 31, 2013) and trade and other receivables of Euro 288 thousand (Euro 47 thousand at December 31, 2013).

The liabilities of Euro 201 thousand (Euro 103 thousand at December 31, 2013) are for Euro 88 thousand (Euro 75 thousand at December 31, 2013) payables to the previous Director of the Kenyan company, currently the liquidator of the company, for Euro 61 thousand tax payables (Euro 28 thousand at December 31, 2013) and for Euro 52 thousand concern other payables.

The net loss of Euro 128 thousand (Euro 161 thousand in 2013) is broken down as follows:

	2014	**2013**
Revenues from sales and services	-	25
EBIT	(65)	(142)
Discontinued operations profit/(loss)	(128)	(161)

The net loss concerns Italtel Kenya Ltd for Euro 50 thousand and Italtel Arabia Ltd for Euro 78 thousand.

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.

The company in 2014 was operative.

Note 42 - 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.

The company is completing the formalization of an internal procedure concerning transactions with related parties. The Board of Directors of the Company at the meeting of December 16, 2014 approved its content.

Transactions with the related parties were as follows:

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

December 31, 2014	Trade receivables	Financial receivables	Trade payables	Financial payables	Other receivables/payables
Subsidiaries not consolidated:					
Italtel Telesis Consortium in liquidation	-	601	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(69)
Hermes consortium in liquidation	27	-	-	-	(103)
Other related parties:					
Clayton Dubilier & Rice	-	-	-	-	-
Telecom Italia Group	24,172	-	(162)	(4,751)	(595)
Cisco Systems Group	2,293	-	(54,823)	(151)	-
Total	**26,551**	**601**	**(54,985)**	**(4,902)**	**(767)**

In 2013 and 2014, the Italtel Group reports transactions with related parties as follows:

2013	Sales	Purchases	Financial income /(charges)	Other
Subsidiaries not consolidated:				
Italtel Telesis Consortium in liquidation	-	-	12	-
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	-
Hermes consortium in liquidation	-	-	-	-
Other related parties:				
Clayton Dubilier & Rice	-	-	-	-
Telecom Italia Group	191,818	(2,175)	(10)	-
Cisco Systems Group	1,457	(165,117)	-	5,549
Total	**193,275**	**(167,292)**	**2**	**5,549**

2014	Sales	Purchases	Financial income /(charges)	Other
Subsidiaries not consolidated:				
Italtel Telesis Consortium in liquidation	-	-	13	-
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(4)
Hermes consortium in liquidation	-	-	-	(6)
Other related parties:				
Clayton Dubilier & Rice	-	-	-	-
Telecom Italia Group	207,401	(1,490)	(172)	-
Cisco Systems Group	3,275	(165,089)	-	5,052
Total	**210,676**	**(166,579)**	**(159)**	**5,042**

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 2014 and in 2013 emoluments were matured for a total amount respectively of Euro 2,388 thousand and Euro 2,611 thousand. These emoluments were as follows:

	2014	2013
Current Emoluments	2,274	2,492
Post-employment benefits	114	119
Total	**2,388**	**2,611**

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.

	31/12/2014	31/12/2013
To be repaid		
- within one year	6,003	9,965
- between one and two years	5,720	5,702
- between two and three years	5,263	5,601
- between three and four years	4,183	4,318
- between four and five years	15	4,127
- over five years	-	-
Total	**21,184**	**29,713**

The Italtel Group has in place commercial guarantees for Euro 30,878 thousand, of which Euro 746 thousand concerning the client Telecom Italia S.p.A., broken down into bank guarantees for Euro 9,987 thousand and insurance guarantees for Euro 20,891 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.

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 2014 for the auditing of accounts and other services provided to the companies of the Italtel Group by PricewaterhouseCoopers.

	Italtel Group S.p.A.	Subsidiaries	Italtel Group
Audit Services	270	174	444
Other services	77	38	115
Total 2014 costs for auditing and other services	**347**	**212**	**559**

Note 45 – Subsequent events

The events subsequent to December 31, 2014 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		
Italian subsidiaries						
2)	Italtel S.p.A. (telecommunication systems and services)	Settimo Milanese	Euro	2,000,000	100	Italtel Group S.p.A.
Foreign subsidiaries						
3)	Italtel BV (commercial and finance)	Amsterdam (Holland)	Euro	6,000,000	100	Italtel S.p.A.
4)	Italtel S.A. (telecommunication systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel BV
5)	Italtel Argentina S.A. (telecommunication systems)	Buenos Aires (Argentina)	P.A.	4,030,000	71.46 28.54	Italtel BV Italtel S.p.A.
6) (*)	Italtel Kenya Ltd (telecommunication systems) in liquidation	Nairobi (Kenya)	Kenyan Shilling	500,000	99.98 0.02	Italtel BV Italtel S.p.A.
7)	Italtel Brasil Ltda (telecommunication systems)	San Paolo (Brazil)	Brazilian Real	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
8)	Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel S.p.A. Italtel BV
9)	Italtel France Sas (commercial)	Suresnes (France)	Euro	40,000	100	Italtel S.p.A.
10)	Italtel Telecommunication Hellas EPE (commercial)	Athens (Greece)	Euro	18,000	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)	Varsavia (Poland)	Zloty	400,000	100	Italtel S.p.A.
14) (*)	Italtel Middle East Fz-LLC (commercial)	Dubai (United Arab Emirates)	AED	2,500,000	100	Italtel S.p.A.
15) (*)	Italtel Arabia Ltd (commercial) in liquidation	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
16)	Italtel Perù S.a.c. (commercial)	Lima (Peru)	Nuevo Sol	3,028,000	90 10	Italtel BV Italtel S.p.A.

(*) The placement into liquidation was approved by the Board of Directors of Italtel S.p.A.

B) List of companies valued under the net equity method

Company name (activities)		Registered office	Currency	Share capital	% held		Book value
Italian associated companies							
17)	Cored - Consorzio Reti 2000 in liquidation (broadband networks)	Milan	Euro	260,000	30	Italtel S.p.A.	76
18)	Hermes consortium in liquidation (transmission systems)	Milan	Euro	497,000	24	Italtel S.p.A.	118

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

	Company name (activities)	Registered office	Currency	Share capital	% held		Book value
Non-consolidated Italian subsidiaries valued at cost							
19)	Italtel Telesis Consortium in liquidation (integrated telematic systems)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	-
Non-consolidated foreign subsidiaries valued at cost							
20)	Italtel de Venezuela S.A. (commercial)	Caracas (Venezuela)	Bolivar Fuerte	940,000	95 5	Italtel S.p.A. Italtel BV	-

D) List of investments in other companies valued at cost

	Company name (activities)	Registered office	Currency	Share capital	% held		Book value
Other companies valued at cost							
21)	Cefriel - S.c.r.l. (training and research)	Milan	Euro	100,350	5.8	Italtel S.p.A.	36
22)	Consorzio Milano Ricerche (design and research)	Milan	Euro	186,431	8.3	Italtel S.p.A.	15
23)	Consel - Consorzio Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A.	1
24)	SISTEL - Comunicaçoes, Automaçao e Sistemas S.A. (telecommunication systems)	Monte de Caparica (Portugal)	Euro	10,338,838	0.88 0.72	Italtel S.p.A. Italtel BV	29 7
25)	Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	7,626,733	0.04	Italian Consortium Telesis in liquidation	-
26)	Consorzio MIP – Politecnico di Milano	Milan	Euro	150,000	5.88	Italtel S.p.A.	-
27)	CONAI National Packaging Consortium (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A.	1
28)	Consorzio COFRIDIP	Padova	Euro	28,402	9.09	Italtel S.p.A.	3
29)	Technology District, Sicily Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	4.55	Italtel S.p.A.	27
30)	SI-LAB Sicilia S.c.a.r.l. _	Palermo	Euro	30,000	18.50	Italtel S.p.A.	6

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

(thousands of Euro)

Balance Sheet		Italtel S.p.A.	Italtel BV	Italtel Belgium Sprl	Italtel Deutschland GmbH	Italtel France Sas
Assets						
Non-current assets						
Property, plant and equipment		15,059	-	-	8	39
Goodwill		169,565	-	-	-	-
Other intangible assets		23,981	-	-	-	2
Investments valued under the equity method		194	-	-	-	-
Medium/long term financial assets		16,943	10,761	-	-	-
Other assets		11,635	-	-	-	255
Deferred tax assets		79,037	-	-	-	-
Total non-current assets		**316,414**	**10,761**	**-**	**8**	**296**
Current assets						
Inventories		21,774	-	-	32	199
Trade receivables		71,402	-	694	3,157	3,375
Tax receivables		262	-	-	-	183
Other receivables and assets		21,581	-	-	15	170
Short-term financial assets		4,339	-	-	4,330	3,278
Cash and cash equivalents		28,691	51	24	473	631
Total current assets		**148,049**	**51**	**718**	**8,007**	**7,836**
AFS non-current assets		**-**	**-**	**-**	**-**	**-**
Total assets		**464,463**	**10,812**	**718**	**8,015**	**8,132**
Shareholders' Equity and Liabilities						
Shareholders' Equity						
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		(53,884)	426	206	1,395	1,314
Total Shareholders' Equity		**46,844**	**10,228**	**718**	**4,204**	**1,358**
Liabilities						
Non-current liabilities						
Employee provisions		23,193	-	-	-	-
Provisions for risks and charges		7,361	262	-	31	510
Medium/long term financial liabilities		138,433	-	-	-	-
Other liabilities		415	-	-	-	-
Total non-current liabilities		**169,402**	**262**	**-**	**31**	**510**
Current liabilities						
Trade payables		110,648	-	-	3,136	3,371
Current tax payables		-	-	-	110	-
Other payables and liabilities		35,395	6	-	534	912
Current financial liabilities		102,174	316	-	-	1,981
Total current liabilities		**248,217**	**322**	**-**	**3,780**	**6,264**
AFS non-current liabilities		**-**	**-**	**-**	**-**	**-**
Total liabilities		**417,619**	**584**	**-**	**3,811**	**6,774**
Total shareholders' equity and liabilities		**464,463**	**10,812**	**718**	**8,015**	**8,132**
Income Statement						
Revenues from sales and services		269,766	-	-	6,028	8,260
EBITDA		6,890	(112)	(1)	1,944	1,965
EBIT		(15,400)	(112)	(1)	1,942	1,926
Net financial income/(charges)		(802)	2,408	-	86	50
Profit/(loss) before taxes		(16,202)	2,296	(1)	2,028	1,976
Net profit/(loss) for the year		(17,596)	2,296	(1)	1,395	1,306

(thousands of Euro)

Italtel S.A.	Italtel Tel. Hellas EPE	Italtel U.K. Ltd	Italtel Poland Sp.Zo.O.	Italtel Argentina S.A.	Italtel Brasil Ltda	Italtel Perù S.a.c.	Italtel Kenya Ltd	Italtel Middle East Fz-	Italtel Arabia Ltd
40	1	-	-	50	287	121	-	1	-
-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	74	31	-	-	-
-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-
42	5	-	21	28	58	494	-	10	-
-	-	-	-	3,595	229	811	-	-	-
95	**6**	**-**	**21**	**3,673**	**648**	**1,457**	**-**	**11**	**-**
1,702	3	-	762	1,352	2,160	1,367	-	-	-
6,466	538	-	151	11,341	7,346	9,136	-	214	-
-	91	-	-	174	-	-	-	-	-
530	-	2	7	740	3,697	1,487	-	6	-
7,114	-	-	-	210	-	-	-	569	-
1,221	537	-	693	5,702	3,024	2,762	-	628	-
17,033	**1,169**	**2**	**1,613**	**19,519**	**16,227**	**14,752**	**-**	**1,417**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**75**	**-**	**663**
17,128	**1,175**	**2**	**1,634**	**23,192**	**16,875**	**16,209**	**75**	**1,428**	**663**
7,353	18	33	94	392	2,045	834	5	561	721
936	6	-	-	1,609	153	85	-	100	-
-	-	-	-	-	-	-	-	-	-
516	(179)	(687)	(1,127)	3,026	2,271	1,279	(19)	(454)	(1,869)
8,805	**(155)**	**(654)**	**(1,033)**	**5,027**	**4,469**	**2,198**	**(14)**	**207**	**(1,148)**
-	42	-	-	-	-	-	-	-	-
-	-	-	37	629	58	-	-	-	-
-	-	624	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**42**	**624**	**37**	**629**	**58**	**-**	**-**	**-**	**-**
5,340	488	25	2,542	15,221	6,539	9,665	-	1,199	1,453
94	-	-	-	-	168	781	-	2	-
2,889	82	7	88	1,945	2,231	1,217	-	20	246
-	718	-	-	370	3,410	2,348	-	-	-
8,323	**1,288**	**32**	**2,630**	**17,536**	**12,348**	**14,011**	**-**	**1,221**	**1,699**
-	**-**	**-**	**-**	**-**	**-**	**-**	**89**	**-**	**112**
8,323	**1,330**	**656**	**2,667**	**18,165**	**12,406**	**14,011**	**89**	**1,221**	**1,811**
17,128	**1,175**	**2**	**1,634**	**23,192**	**16,875**	**16,209**	**75**	**1,428**	**663**
17,016	696	-	1,773	42,335	38,498	31,654	-	684	-
526	(179)	(11)	(1,078)	5,944	4,488	2,728	-	(20)	-
498	(180)	(11)	(1,078)	5,885	4,356	2,692	-	(22)	-
123	1	-	(73)	(3,104)	(1,594)	(796)	-	(30)	-
621	(179)	(11)	(1,151)	2,781	2,762	1,896	-	(52)	-
514	(179)	(11)	(1,151)	1,725	2,250	1,200	(50)	(68)	(78)

Settimo Milanese, March 30, 2015

For the Board of Directors

The Chief Executive Officer

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of
ITALTEL SpA

1 We have audited the consolidated financial statements of Italtel SpA and its subsidiaries ("Italtel Group") as of December 31st 2014 which comprise consolidated balance sheet, consolidated income statement, consolidated comprehensive income statement, statement of changes in shareholders' equity, consolidated cash flows statement and related notes. The Directors of Italtel SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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3 In our opinion, the consolidated financial statements of Italtel Group as of December 31st 2014 comply with the International Financial Reporting Standards as adopted by the European Union ; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of Italtel Group for the period then ended.

4 The Directors of Italtel SpA are responsible for the preparation of the Directors' report in compliance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Directors' report with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and recommended by Consob. In our opinion, the Directors' report is consistent with the consolidated financial statements of Italtel Group as of December 31st 2014.

PricewaterhouseCoopers SpA

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Milan, April 13th 2015

PricewaterhouseCoopers SpA

Signed by

Marilena Cederna
(Partner)

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