ITALTEL SPA GROUP
2016 DIRECTORS' REPORT &
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

The economies of the countries in which we operate underperformed in 2016. Latin American economic development stalled for the second consecutive year, while the expected boost following elections in key countries such as Peru and Argentina has yet to materialize. 2016 GDP declined across all major markets such as Brazil, Argentina, Peru and Columbia.

Italian growth was very contained and impacted by continued banking system scrutiny and persistently critical unemployment levels, particularly among young persons.

Significant improvements are expected in the current year, although due attention should be paid to risks emerging internationally, such as the threat of terrorism and consequent migratory flows, and finally the still relatively significant amount of debt default.

Signals from the domestic Telecommunications and IT market - and the Digital Market generally - appear encouraging. Growth of 2.3% is already forecast for the current year, compared to 1.8% in 2016 and 1% in 2015. The strongest growth concerns software and solutions at 5.7%, particularly for "Digital Enablers", the Cloud, IOT, Big Data & Analytics, Mobile Apps and Cyber Security.

The Telecommunications market is seeing an unprecedented demand for fiber optics. This competition - between TIM and FASTWEB on the one hand, and OPEN FIBER, WIND3 and VODAFONE on the other - in just a few months has significantly closed Italy's Ultra Broadband connectivity gap with our major European partners. Investment has grown to such an extent that difficulties have arisen in organizing and sourcing the necessary staff and equipment, with such complications expected to continue at least into the medium-term. Furthermore, a telecommunications industry race to implement the major technology and marketing challenge of 5G which is set to launch in 2020 around the world has begun. Speed and coverage improvements are at the same time driving significantly higher backbone capacity demand (with mobile growth of over 60% per year). The company is set to benefit also in the short-term from these developments. Finally, growth in the Telecommunications software enabling all network devices to become "virtual", run on "network clouds" and requiring very similar orchestration and automation applications to those used in Data Centers.

The IT "digital transformation" is in train across all major Industrial, Service and Public Sector segments. This transformation is driven by "data" which - together with capital and labor - is now a key resource for market success. The data is generated by networks of persons (social), objects (IOT) and Apps.

2016 was not a strong year commercially as despite substantial confirmation of the 2015 results on the major domestic market which accounts for 58% of business (-2% on 2015 and with the gross margin up 3%), the international market significantly contracted (revenues down 15% on 2015 and the gross margin down 21%) - largely as a result of the economic and market developments outlined previously. This brought an end to three years of revenue growth, which mirrors the company's strong recent performance. Growth however has decisively re-emerged in the current year. This is clearly demonstrated by the 20% H1 2017 improvement over 2016 - bringing us close to 2015 levels.

Considering the gross margin on the domestic market alone, the TIM customer results were strong (+5%), as were those for the Enterprise segment (+39%), while the Other Licensed Operators (-8%) and the Public Sector (-30%) segments underperformed. The launch of a new major collaboration with the company Open Fiber, which is developing a fiber optic network to reach much of Italy, was of key importance. Italtel was Open Fiber's Chosen Engineer for the initial two Infratel tenders for the development of "White Area" (market failure) fiber optic networks, with both won by Open Fiber. As stated, 2016 international market results contracted both on the EMEA market (margins down 19% on 2015) and on the LATAM market (margins down 22%).

Again in comparison to 2015, the gross margin reduced 10 million, having a similar impact on EBITDA and despite contained personnel and external costs.

The Telecommunications Market once again in 2016 provided the company’s core clients - the Telecom Italia Group, the Telefonica Group, the Vodafone Group, Wind3 - which has just completed the merger of Wind and H3G - Fastweb, British Telecom Italia and other leading names, such as in Belgium Proximus and in France Hub One, which manages telecommunications for the Paris Airports.

For the Enterprise and Public Sector segment, the numerous customers included Enel, Eni and Terna in the Energy and Utilities segment, Unicredit, Intesa and MPS in the Bank segment and Poste Italiane and Rai among the State-run companies. In the Public Sector, we also launched major projects with Sogei, the Bank of Italy and Poligrafico Zecca dello Stato.

We highlight in particular the client Open Fiber, now held 50% by Enel and 50% by Cassa Depositi e Prestiti, whose Business volumes in 2016 were approx. 20 million and are likely to be maintained over the coming two or three years.

Internationally, in 2016 the strengthening of relations with Telefonica stood out, extended from Europe (most notably Spain and Germany) to Latin America with Brazil, Argentina, Peru and Columbia. We highlight the major push in Brazil with Telefonica Vivo, diversifying our market positioning which was previously dominated by a single client.

In terms of products, the poor proprietary product performance in 2016 has sped up the refocus on more Cloud-oriented products and the virtualization of our centers. Software products and engineering and management competences lie behind a new catalogue of Solutions: the collaboration between individuals and customer relations, the Cloud Data center and virtualization, “All IP” Communication, Cyber Security, Data and video networks Infrastructure, the Internet of Things, Network and services management systems and finally Managed & Engineering services.

The network virtualization and automation solutions include the new Netwrapper™ product, developed according to the latest Software Defined Networks (SDN) methodologies and capable of interconnecting and integrating with Cisco’s SDN platforms. This product was included in Cisco’s international catalogue. All of our software products continue to focus on virtualization, through which all telecommunication networks are hand in hand transforming into data center networks.

For Managed & Engineering services, 2016 featured numerous major projects with leading clients such as the Bank of Italy and Open Fiber in Italy and Telefonica and Proximus internationally. Going forward, this will constitute an increasingly important business area.

Finally, personnel numbers were substantially stable on 2015. This objective was achieved while maintaining close and constructive relations with the trade unions. The company has always closely focused on industrial relations in the firm belief that transparency and correctness in terms of the key aspects of industrial relations deliver important benefits in terms of improved staff relations and business success. At the end of 2016, we therefore signed a trade union agreement which - considering the economic and financial difficulties emerging in 2016 - is crucial for the company’s operational continuity.

Telecommunications and IT market developments, together with the poor general economic outlook and the impact on the 2016 results, required a review of the business growth estimates and the drawing up of a new industrial plan 2017-2023. As outlined in the Directors’ Report, the results for the year, together with the reduced goodwill, required the reconstitution of shareholders’ equity. These circumstances lay behind the M&A initiated in 2015 and closely considered in 2016, with the finalization of an agreement - subject to approval by the Milan Court as per Article 182 *bis* of the Bankruptcy Law - setting out major equity and financial measures for the restructuring of the company and the re-establishment of the conditions required for our company’s long-term growth.

Progress to date has been very positive and the quickly developing situation is expected to significantly alter the industrial and financial profile of our business.

Since the middle of 2015, EXPRIVIA, with revenues of approx. Euro 140 million and listed on the Mid Cap STAR segment of the Italian Stock Exchange, has expressed interest in acquiring a majority holding in Italtel. This interest was maintained during the endless subsequent months and has led to an M&A agreement and the signing of a binding contract between the parties, which in our view is of great significance and very positive.

The transaction, subject to Court approval, in fact stipulates a share capital increase of Euro 47 million, subscribed by Exprivia for Euro 25 million and by Cisco for Euro 22 million, of which 6 million in ordinary shares and 16 million in preference shares. It in addition includes the conversion of Euro 68 million of bank debt into equity financial instruments and an additional Euro 26 million of new funding from a bank syndicate (led by the agent bank Unicredit). This amounts to Euro 141 million of available funding, of which Euro 115 million increasing shareholders’ equity and Euro 73 million in support of cash (including the Euro 47 million share capital increase). The remaining bank debt shall be extended to 2024, with repayment from 2019.

Exprivia and Italtel will enter the Telecommunications and IT market as a new entity. The combination of network and data processing expertise will be a winning factor for partnering a great many businesses on their digital transformation.

I view therefore 2017 and the near future in general with great optimism considering what we have built in recent years and our current market positioning in a sector assuming ever greater importance for our shared future.

I wish to thank the men and women of Italtel who have believed and continue to believe in the company, committing themselves at an important time and endeavoring to further improve results and the satisfaction of our customers. We look forward to a challenging yet exciting year and a step up in scale as we compete with the best and tackle the major challenges of growth, sustainability and inclusion.

On behalf of management, I wish to thank in addition the Shareholders and all our Stakeholders for continuing their support and showing further and concrete trust in our company.

Stefano Pileri

INTRODUCTION

Always committed to delivering innovation through its technical know-how, Italtel has now dedicated itself to designing digital solutions which meet the demands of the digital transformation underway. The company over many years has played a central role in the development of communications in Italy and in many countries across the world. This unique experience is now leveraged to build solutions for the new frontiers of Information & Communication Technology, whose core themes are mobility, partnership, virtualization, integration and transformation towards the new IP paradigm.

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

Italtel accompanies service providers as they transform their businesses, achieving greater flexibility, cutting costs and particularly through establishing new revenue streams. It operates as a technological vendor and system integrator, assisting in the choice and delivery of the most effective internal and external communication solutions. Solutions are made available for the Public Sector for network transformation and the provision of services for these entities and the general public.

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

Italtel Group

Italtel is an Information and Communication Technology multinational with a major innovation focus. Italtel designs and constructs solutions for the networks and communication services of service providers and enterprises in Italy, the major EMEA countries and Latin America. The solutions combine proprietary products, developed according to Network Functions Virtualization (NFV) and Software Defined Networking (SDN) concepts, and third party products. They are completed by an extensive range of engineering and consultancy services - from the design of networks to their maintenance and from migration to interoperability with varying technologies. Solutions are provided for environments such as All IP Voice, Unified Communication & Collaboration, Data Center & Virtualization, Big Data & Analytics and the Internet of Things for vertical segments such as Smart Grid, Smart Cities, Healthcare, in addition to system integration operations for the construction and transformation of complex networks.

The complex network management know-how matured puts Italtel in the privileged position of being able to interpret the gradually blend IT and telecommunications and to provide solutions which meet the latest communications needs of individuals and businesses. Italtel relies on a solid partner network: in addition to the strategic partnerships with Cisco and Exprivia, the company has also technological and commercial partnerships with numerous international IT companies.

Italtel counts among its customer base four of the largest telecommunication groups (Communications Service Providers) in the world, the majority of European incumbents and two of the three largest operators in Latin America. In Italy, the company is a leading partner of nearly all of the largest public and private enterprises and works with many large companies and Public Sector 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, Italtel has established a strong presence abroad: in France, Belgium, Germany, Spain, Poland and in Latin America, where in 2015 new offices were opened in Ecuador, in addition to Argentina, Brazil, Colombia and Peru. At the end of 2015, the first offices in the United States were also opened (Miami).

Key Financial Highlights

(Euro thousands)

	2016 IFRS	2015 IFRS
Revenues	405,411	441,074
Profitability to external costs (1) %	*26.75*	*26.97*
Normalized EBITDA (2)	19,253	31,278
Margin %	*4.75*	*7.09*
EBITDA (3)	(1,113)	30,163
Margin %	*(0.27)*	*6.84*
EBIT (4)	(73,381)	10,363
Margin %	*(18.10)*	*2.35*
Net loss	(97,934)	(18,764)
Margin %	*(24.16)*	*(4.25)*
Average workforce, excl. lay-off schemes	1,245	1,223
	At December 31, 2016	**At December 31, 2015**
Capex (5)	20,140	18,268
Net Debt (6)	216,677	172,585
Shareholders' Equity	(64,160)	34,674
NCE (7)	152,517	207,259
Adjusted NCE (8)	30,302	40,044
Cash flow from operating activities (9)	(23,751)	32,193
Cash flow from investing activities (9)	(14,949)	(22,922)
Cash flow from financing activities (9)	3,239	11,560
Number of employees (10)	1,357	1,366
of which Italy	1,103	1,107
of which Overseas	254	259

(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 (described in the comments on the results in the Directors' Report).
(3) EBITDA is the operating result before amortization, depreciation and write-downs
(4) EBIT is the operating result
(5) Capex or capital expenditure is the sum of intangible and tangible asset investments
(6) Net Debt is reported in the Directors' Report at page 59
(7) Net Capital Employed (NCE), as described at page 58
(8) Net Capital Employed (NCE), adjusted for Goodwill
(9) Cash Flow Statement at page 64
(10) 1,305 including departures already formally agreed

Information on Italtel S.p.A. shareholders

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

Clayton Dubilier & Rice

Clayton Dubilier & Rice Investment III Sarl (holding of 48.77% in Italtel Group S.p.A., taking account only of the ordinary Class "A" shares) (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, 2016, 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	Stefano Carlino (4)(***)
	Paolo Leone (5)(****)
	Salvatore Spiniello (**)(***)
Secretary of the Board of Directors	Nicolò de' Castiglioni

Board of Statutory Auditors (6)

Chairman	Mauro Romano
Statutory auditors	Giuseppe Benini
	Monica Grassi(7)
Alternate Auditors	Guido Paolucci
	Attilio Sommavilla (8)

Independent Audit Firm (9)

PricewaterhouseCoopers S.p.A.

(1)Appointed by the Shareholders' Meeting of June 28, 2016 and in office until the Shareholders' Meeting for the approval of the 2018 Annual Accounts

(2)Appointed Director by the EFI class A holders at the Shareholders' Meeting of June 28, 2016 (and Chairman with board motion of the same date), in office until the Shareholders' Meeting for the approval of the 2018 Annual Accounts

(3)Appointed Chief Executive Officer through Board of Directors' motion of June 28, 2016; member of the Sale Committee

(4)Member of the Internal Control Committee (previously Chairman of the Committee until January 9, 2017) and member of the Remuneration Committee, appointed by Italtel Group S.p.A.

(5)Confirmed by the Shareholders' Meeting of April 28, 2017 and in office until the Shareholders' Meeting called to approve the 2018 Annual Accounts, previously co-opted by the Board of Directors on December 1, 2016 (following the resignation with effect from November 30, 2016 of the Director and COO Gerardo Benuzzi) .The Board of Directors of May 8, 2017, with effect from appointment on April 28, 2017, appointed him as a member and Chairman of the Internal Control Committee (confirming the previous appointments as per Board motion of January 9, 2017)

(6)Appointed by the Shareholders' Meeting of April 29, 2015 and supplemented in accordance with Article 2401 of the Civil Code with subsequent Shareholders' Meeting motion of April 28, 2017; in office until the Shareholders' Meeting called to approve the 2017 Annual Accounts.

(7)Confirmed as statutory auditor by the Shareholders' Meeting of April 28, 2017, previously an alternate auditor, sub-entering automatically in accordance with Article 2401 of the Civil code as a statutory auditor (following the resignation with effect from November 24, 2016 of the statutory auditor Carlo Delladio, appointed by the Shareholders' Meeting of April 29, 2015).

(8) Appointed alternate auditor by the Shareholders' Meeting of April 28, 2017 which - among other matters - supplemented the Board of Statutory Auditors in accordance with Article 2401 of the Civil Code.

(9) Appointed by the Shareholders' Meeting of June 28, 2016 for the 2016, 2017 and 2018 three-year period.

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

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

(***) Directors 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)

(****) Directors considered of professional standing (as per Article 26.6, paragraph (ii) lett. a) and b) of the By-Laws)

DIRECTORS' REPORT

2016 revenues amounted to Euro 405.4 million, compared to Euro 441.1 million in 2015 - decreasing Euro 35.7 million (-8.1%). Against substantial confirmation of the 2015 domestic market results (accounting for 59% of business volumes), the international market significantly contracted (revenues reducing 15% on 2015, gross margin decreasing 22%). The gross margin in fact reduced approx. Euro 10 million on 2015. Normalized 2016 EBITDA was Euro 19.2 million (Euro 31.3 million in 2015).
The net loss of Euro 97.9 million (compared to a loss of Euro 18.8 million in 2015) includes the goodwill write-down of Euro 45 million, the write-down of other assets, in particular development costs and deferred tax assets for Euro 18.3 million, and costs of approx. Euro 17 million regarding the personnel provision as part of the restructuring under the 2017-2023 Industrial Plan.
Investments in the year amounted to Euro 20.1 million, of which Euro 17.7 million in intangible assets.
The net financial debt increased approx. Euro 44 million on the previous year, partly due to a significant reduction in without recourse factoring.

The Italtel Group's 2016 results did not match those outlined in the 2012-2017 Industrial Plan, such as to constitute non-compliance with certain financial covenants established by loan contracts. Consequently, the directors of Italtel S.p.A. have undertaken in a timely manner appropriate measures to neutralize the related contractual effects, as described below.

Italtel S.p.A. significant events and Directors' considerations on the going concern

On February 21, 2013, with filing at the Companies Registration Office on March 1, 2013, the Debt Restructuring Agreement as per Article 182-bis of the Bankruptcy Law signed on December 11, 2012 was approved by the Milan Court, according to the relative industrial and financial plan for the 2012-2016 period (the "2012 Plan"), whose feasibility was declared by Ms. Stefania Chiaruttini and Mr. Enrico Laghi (the "2012 Restructuring Agreement").

Subsequently, all legal acts were completed to implement the measures established by the 2012 Restructuring Agreement, including, among others, the conversion of a part of receivables into Equity Financial Instruments (EFI's), the signing of new loan contracts, the settlement with Telecom Italia, the deferment of the Cisco receivables and the full and timely repayment of third party creditors.

Following the operations executed under the 2012 Restructuring Agreement, the subscribed and paid-in share capital of Italtel S.p.A. amounted to Euro 2,000,000, comprising 2,000,000 shares, all held by the sole shareholder Italtel Group S.p.A. and committed in guarantee of the creditors (identified in the 2012 Debt Restructuring Agreement). As part of the 2012 Restructuring Agreement, Italtel S.p.A. also issued, as per Article 2346 of the Civil Code - again against the conversion of the respective receivables - Equity Financial Instruments ("EFI") in favor of the lending banks, Cisco and Telecom Italia Finance (the "EFI Holders").

The 2012 Restructuring Agreement, in addition to supporting the recovery of Italtel S.p.A.'s capital position and earnings, sought to restructure the debt with a view also to permitting the sale of shares to an industrial and/or financial partner. Therefore, Italtel Group S.p.A., with the approval of the EFI Holders, had by 2015 appointed a financial advisor to support the identification of one or more potential parties interested in acquiring a majority holding in Italtel S.p.A. Following a number of manifestations of interest, through this process the parties identified Exprivia S.p.A. ("Exprivia") – also an Italian information technology leader and particularly in terms of developing innovative digital communication solutions, listed on the STAR segment of the Italian Stock Exchange - as a preferred party for the pursuit of investment negotiations (the "Investment").

Ahead of these negotiations and from 2016 - also due to the market slowdown which impacted Italtel product and service earnings and margins - the company's results and equity and financial position were impacted, with some significant divergences from forecasts for this period under the 2012 Plan.

As a result, Italtel S.p.A. requested from the lending banks (the "Banks") the suspension of applicable loan covenants, as granted and formalized under a "stand-still agreement" signed on May 31, 2016 (the "Stand-still Agreement") and subsequently extended until November 30, 2017 (the "Stand-still Agreement Extension"), permitting therefore the Investment agreement (as defined herein).

Italtel S.p.A. therefore drew up a new industrial, economic and financial plan for the 2017-2023 period, with the final version approved by the Board of Directors on July 19, 2017 (the "2017-2023 Industrial Plan") which, on the one hand, reflects the altered economic and market environment and, on the other, *inter alia*, the Restructuring (as defined herein) and consequent Investment agreements. The 2017-2023 Industrial Plan will constitute, in addition, an annex to the New Restructuring Agreement defined herein.

According to the 2017-2023 Industrial Plan, an impairment test was carried out with the support of a leading consultancy firm which resulted in a goodwill write-down of Euro 45 million. This write-down, together with additional write-downs concerning, in particular, deferred tax assets, capitalized development costs, prior operating losses and the 2016 net loss, resulted in negative shareholders' equity of Euro 64,160 thousand and, therefore, the need for the Board of Directors to call an Extraordinary Shareholders' Meeting in accordance with Article 2447 of the Civil Code for the undertaking of appropriate measures (the "2447 Shareholders' Meeting").

The 2447 Shareholders' Meeting, held in first call on April 28, 2017, was postponed to July 28, 2017 i.e. the date on which the New Restructuring Agreement (reported herein) is expected to be signed and filed.

This led to: (i) with the Banks and Cisco, negotiations for the refinancing and extension of the debt within the new debt restructuring agreement as per Article 182 *bis* of the Bankruptcy Law (LF) in implementation of the 2017-2023 Industrial Plan (the "New Restructuring Agreement"), to be signed on July 21, 2017 or in the days immediately after and however by July 28, 2017; and (ii) with Exprivia, negotiations which involved, in addition to Italtel S.p.A. and Italtel Group S.p.A., also Cisco and the Banks, as EFI Holders, in addition to the main Italtel S.p.A. creditors - to establish the terms and conditions of the Investment within a framework agreement (the "Framework Agreement") to be signed by the date indicated above.

In short, the New Restructuring Agreement and the Framework Agreement stipulate:

(A) the recapitalization of Italtel S.p.A., following sale to the banks, at a symbolic value, by Cisco and Telecom Italia Finance of the totality of EFI's issued by Italtel under the 2012 Restructuring Agreement cited above, through the following operations (substantially to be carried out contemporaneously):

- (i) the coverage of the shareholder equity losses - which will be approved by the Board of Directors in accordance with Articles 2446 and 2447 of the Civil Code - through cancellation of the existing reserves and the share capital, in addition to the utilization of a portion of the share capital and the reserves from the operations at points (ii) and (iii) below;
- (ii) the issue of new Equity Financial Instruments to be fully subscribed by the Banks through the conversion of a portion of their receivables for a total amount of Euro 68 million;
- (iii) the approval of a subsequent share capital increase reserved for Exprivia and Cisco for a total Euro 47 million to be subscribed as follows:
  - Euro 25 million by Exprivia against the issue by Italtel S.p.A. of ordinary shares constituting 81% of the ordinary share capital, of which Euro 16.2 million as nominal share capital and Euro 8.8 million as share premium;
  - Euro 22 million by Cisco against the issue by Italtel S.p.A.: (a) of Euro 6 million of ordinary shares constituting the remaining 19% of the ordinary share capital, of which Euro 3.8 million as nominal share capital and Euro 2.2 million as share premium and (b) Euro 16 million of preference shares without ordinary shareholders' meeting voting rights, of which Euro 1.0 as nominal share capital and Euro 15.9 million as share premium, granting to Cisco specific financial rights.

On conclusion of these operations, the ordinary share capital of Italtel S.p.A. will be fully held by Exprivia (with a holding of 81%) and Cisco (with a holding of 19%), while the entire preference share capital will be held by Cisco.
Italtel Group S.p.A. will no longer therefore be a shareholder of Italtel S.p.A..

The new Equity Financial Instruments will however be subscribed as follows:

Lending Bank	**New Equity Financial Instruments subscribed***	**Percentage**
Unicredit	42,782,579	62.91
Banco BPM	1,001,999	1.47
BPM	13,284,283	19.54
Interbanca (previously GE Capital)	7,730,401	11.37
UBI	2,003,998	2.95
ABC	1,196,740	1.76
Total	**68,000,000**	**100.00**

* subject to the minimum roundings necessary to balance the operation

(B) the refinancing and extension of Italtel S.p.A.'s bank debt regarding three loan contracts, two of which (the "RCF Contract" and the "Restructuring Loan Contract") with original maturity of June 30, 2017 and currently extended to November 30, 2017, already subject to restructuring and/or refinancing under the 2012 Restructuring Agreement - to be executed through:

- (i) the signing of two new loan contracts with the Banks to refinance the residual debt following the conversion and, in particular: (a) a loan contract of approx. Euro 93 million, and (b) a loan contract of approx. Euro 36 million to refinance the bank debt, with preferential payment as per Article 182 *quater* of the LF and with final maturity of December 31, 2024;
- (ii) the signing of an additional loan contract, of a maximum Euro 80 million, for the concession to Italtel S.p.A. of a number of new lines for execution of the New Restructuring Agreement and the 2017-2023 Industrial Plan, with preferential payment as per Article 182 *quater* of the LF;
- (iii) utilization of a part of the new funding at the previous point (ii) in the period between the signing of the New Restructuring Agreement and the definitive date of the approving decree, all subject to authorization by the Milan Court as per Article 182 *quinquies* of the LF; and
- (iv) the confirmation and extension of the majority of guarantees in place (including the pledge on 100% of the Italtel S.p.A. shares and excluding those issued in turn by Italtel Group S.p.A.), in addition to the future granting of new guarantees on the shares of one or more subsidiaries holding the totality of the investment of the Italtel Group companies resident in Latin America, in guarantee of the debt under the contracts at points (i) and (ii).

The New Restructuring Agreement stipulates in addition the adoption of a new By-Laws and new rules for the governance of the existing EFI's and the newly issued EFI's.

The 2017-2023 Industrial Plan and the New Restructuring Agreement were reviewed by Mr. Franco Carlo Papa, who fulfills the obligations at Article 67, paragraph 3, letter d) of the LF, for the issue of the relative report declaring the correctness of company data and the feasibility of the 2017-2023 Industrial Plan and of implementation of the New Restructuring Agreement (the "Declaration"). The expert has in addition confirmed the positive outcome of the assessments for the Declaration, which shall be issued and legalized with the signing of the New Restructuring Agreement.

The New Restructuring Agreement will be filed at the Milan Court for approval in accordance with Article 182 *bis* LF. All the deeds, contracts and transactions concerning the Restructuring and the consequent investment shall be subject to, inter alia, finalization of the decree approving the New Restructuring Agreement.
With regards to the 2447 Shareholders' Meeting, from the filing date of the application as per Article 182 *bis* LF for approval of the New Restructuring Agreement and until approval - as per Article 182 *sexies* LF - the provisions at Articles 2446 and 2447 of the Civil Code shall not be applied and, therefore, this Shareholders' Meeting will conclude without the adoption of any measures, ahead of the approval of the New Restructuring Agreement, on execution of which a new Extraordinary Shareholders' Meeting will be called to pass the relative motions, resolving therefore the current Article 2447 position.

As per IAS 1, the Directors, having assessed the significant uncertainties above which may put in doubt the company's going concern, in consideration of:

- agreement among the parties of the contractual documents concerning the Restructuring and the Investment, and in particular the Framework Agreement and the Restructuring Agreement, whose core conditions have already been approved by the competent corporate boards of Italtel Group S.p.A., of Italtel S.p.A., of the Banks (both as lenders and EFI Holders), of Exprivia and of Cisco;
- the imminent signing of the Framework Agreement, fixed for July 21, 2017 or the days immediately following and however by July 28, 2017;
- the imminent signing of the New Restructuring Agreement, fixed for July 21, 2017 or the days immediately following and however by July 28, 2017;
- the entry into force of the Stand-still Agreement (as latterly extended under the Stand-still Extension Agreement);
- the reconstitution of shareholders' equity following the transactions under the Framework Agreement and the New Restructuring Agreement;
- the 2017-2023 Industrial Plan which will be subject to the Declaration; and
- the ongoing monitoring of Italtel S.p.A.'s financial position,
- the economic-financial performance for the initial months of 2017, which was substantially in line with the 2017 budget figures of the 2017-2023 Industrial Plan;
- the expert's positive assessments for the Declaration which will be issued on the basis of the agreed draft contracts.

consider sufficient elements to be in place to reasonably expect the signing and subsequent execution of all of the agreements necessary and opportune to implement the Restructuring and the consequent Investment, including the filing of the application as per Article 182 *bis* of the LF for approval of the New Restructuring Agreement.

Under the power granted to the Chief Executive Officer of Italtel S.p.A. by the Board of Directors on July 19, 2017, the matters illustrated above and approved by the Board of Directors has been executed are implemented by the following:

It is noted that, on July 25, 2017, Mr. Papa, the expert appointed to prepare the Declaration presented his report which was thereafter legally certified. In addition, on the same day, the expert presented the declaration report in accordance with Article 182 *quinquies* L.F., in turn legally certified, which declares that the bridge financing which the company intends to source before approval is satisfactory to creditor needs.

On July 26 and 27, 2017, *inter alia*, the following were signed (i) the New Restructuring Agreement between Italtel S.p.A. (together with Italtel Group S.p.A. and a number of overseas Italtel Group subsidiaries) on the one hand and the Lending Banks and other Cisco Group companies on the other, (ii) an additional Restructuring Agreement (also in accordance with Article 182 *bis* L.F.) between Italtel S.p.A. on the one hand, and Intesa Sanpaolo, Mediocredito Italiano and Cassa Depositi and Prestiti on the other and (iii) the Framework Agreement between Italtel S.p.A. and Italtel Group S.p.A., Exprivia, the Lending Banks, a number of Cisco Group companies and Telecom Italia Finance.

As a result, Italtel S.p.A. will proceed without delay with the filing of the application as per Article 182 *bis* L.F. at the Milan Court for approval of the Restructuring Agreements, in addition to the application as per Article 182 *quinquies* to obtain authorization to contract new bridge funding to cover company requirements until issue of the approval.

In conclusion, the Directors, after analyzing all of the events and circumstances outlined above on the basis of the Declaration Report issued by the appointed expert, Mr. Franco Carlo Papa, on the feasibility of the agreements and of the plan, while also considering the significant number of subscribing creditors, reasonably expect approval by the Court.
However, the Directors recognize that at the presentation date of this report, an element of uncertainty still exists concerning the approval of the New Restructuring Agreement, planned for November 2017, which is an essential requirement for finalization of the above-mentioned agreement. . Although aware that the Italtel Group's capacity to operate as a going concern may be threatened in the absence of such finalization, the Directors however - and having undertaken the necessary verifications and assessed the uncertainties identified above - reasonably consider that the company has adequate resources to continue operations and have prepared the financial statements of Italtel S.p.A. at December 31, 2016 on a going concern basis.

Basis of presentation

The financial statements of Italtel S.p.A. at December 31, 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2016, issued by the International Accounting Standard Board (IASB) and adopted by European Union regulations.

The financial statements of Italtel S.p.A. include the balance sheet, the income statement, the comprehensive income statement, the cash flow statement, the statement of changes in shareholders' equity and the explanatory notes, which contains a list of the significant accounting policies adopted and other notes in accordance with the requirements of IFRS.

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

With regards to the going concern principle, reference should be made to the preceding paragraph.

The Board of Directors of the company on March 28, 2017, after noting (i) the ongoing negotiations with the investors and the Banks, as EFI holders, with regards to the corporate transaction, in addition to those with the Banks as lenders concerning the debt restructuring and that (ii) the Board of Statutory Auditors of the company agrees with such a postponement ahead of conclusion of the above negotiations, postponed approval of the statutory and consolidated financial statements at December 31, 2016 to the extended deadline of 180 days from year-end, as per Article 17.2 of the By-Laws.

Market Overview and position of Italtel

Market overview

The principal segments targeted by Italtel's proprietary products are the:

- Service Provider VoIP (Voice over IP) and IMS (IP Multimedia Subsystem) segment concerning the main core telecommunication network components.
- NFV (Network Function Virtualization) segment, focused in particular on virtualized solutions for IMS architecture and Session Border Controllers (SBC) telecommunication network components.
- Enterprise Session border Controllers (eSBC) segment, including VoIP architecture functionalities for the control of reporting, the media component and Enterprise environment security.
- Unified Communication segment which identifies real-time communication platforms, integrating voice, chat, presence, extension of services to mobile, web and videoconference and desktop sharing.
- Internet of Things segment indicates the market generated by applications and services utilizing the interconnection of smart "objects" to dynamically deliver and exchange data and the architecture that collects, analyzes, processes and exports the received data.

The segments analyzed present two main trends:

- Stabilization and maintenance of revenues for segments employing mature and consolidated technologies, such as VoIP and IMS on the basis of new network installations, upgrades and new architectures (such as NFV).
- Rapid two-digit growth rates in innovative areas such as the Internet of Things and Unified and Contextual Communications, even in highly fragmented and divergent competitive scenarios with strategic positioning challenges.

VoIP and IMS Service Provider Market

The VoIP and IMS segments in 2016 reported slight estimated growth at approx. 1%, due principally to CALA area operations, where the deployment of VoLTE technology commenced, and the EMEA region, due principally to VoLTE and network upgrades. Against this, North America and APAC are showing signs of slowdown.
Additional revenues in 2016 were generated by Network Transformation activities, in particular NFV.

The overall segment reported volumes of approx. USD 5.7B in 2016, on the basis of the main network functionalities: CSCF, HSS, MRF, SBC, IMS Voice Application Servers and Legacy components such as SSW and Trunk Media Gateway. The percentage of revenues generated by VNF functionalities (i.e. only SW functionalities installed on commercial hardware) ranges from 46% for MRF, 25% for CSCF and HSS, to 4% for SBC, with growth forecast for the coming years.

Huawei and Ericsson dominate this market, generating half of all revenues (respectively 27% and 23%), followed by Nokia, ZTE and Genband and a number of companies specialized in niche markets, operating in specific regions and network functionalities.

NFV Market

A particular focus is placed on the NFV market, a strategic technology which Italtel has applied since 2016 to all of proprietary products. The IMS and SBC NFV functionalities generated in 2016 total revenues of USD 0.9B (against approx. USD 700M in 2015), with growth of 24% forecast over the coming five years.
Once again, VoLTE technology is one of the main drivers also for IMS and SBC NFV.

The marketplace in this case presents a significant difference from the traditional market, due to the differing approaches that even major players have adopted in the development of NFV telecommunications networks, allowing smaller players to find market niches.

Enterprise Session Border Controller Market

The use of enterprise SBC (hereafter eSBC) in recent years has seen sustained growth (from USD 250M in 2014 to approx. USD 350M in 2016). The market is led principally by North America which accounts for more than 60% of total revenues. This technology is however rapidly expanding particularly in Europe, with approx. 20% of the market.

Competition is extremely dynamic and highly fragmented, with over 15 vendors offering SBC functionalities, both integrated with other network elements and on dedicated devices. Cisco has a 21% market share and is followed by three big players (Oracle, Audiocodes and Edgewater Networks), with shares ranging from between 10% and 20%.

Unified Communication

Unified Communication revenues have gradually risen over recent years, hitting USD 900M in 2016 (recovering on 2015 in which the reduced budget slowed the market).
The main market drivers are: the need for integrated and effective communication tools, to avoid communication delays and reduced productivity and integrated Unified Communication and PBX service solutions.

North America accounts for more than 40% of the market, with EMEA representing 35% and the remainder in APAC and CALA. The distribution is set to remain relatively stable over the coming years.

The Unified Communication platforms market is dominated by Microsoft with a market share ranging from 40-45%, followed by Cisco and Avaya with approx. 20% each and Huawei and ZTE with around 5%.

Internet of Things

Analysts break down the IoT services market into three macro-segments:
- Consumer world services i.e. related to endpoint or consumer device installations.
- Connectivity services i.e. related to connectivity supply, such as WAN, for the IoT endpoints, both directly and via gateways;
- Professional services which include the Consulting, Implementation and Operations phases.

Volumes generated by the Professional Services segment are expected to reach approx. USD 400B by 2020, although growing at a more contained rate than other segments at an estimated 19.5% over the 2013-20 period. 2016 estimated revenues are USD 250B (Gartner estimate).

In general, the IoT market is highly fragmented and although generating very high volumes, establishing a dedicated solution market foothold is very challenging due to the vast range of solutions and stakeholders in play.
Segment players present a greatly varied range of sizes and structures: from IT environment multinationals to start-ups developing specific apps for smartphones.

Domestic market – TIM

The telecommunications and Information Technology ICT market, as outlined above, in Italy in 2016 was again impacted by the international crisis beginning 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.
Despite difficult economic conditions, Telecommunications operators in 2016 have launched major network transformation projects based on the development of ultra-broadband access networks (fixed and mobile), the development of Backbone IP networks and the simplification of legacy networks (e.g. PSTN), which will be gradually replaced by ALL IP networks.

For the client Telecom Italia Domestic, despite heightened competition levels, commercial development resulted in stable Italtel Group revenues on 2015 of Euro 118 million.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2016 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.
- Public Switch Telephone Network (PSTN) Decommissioning, with massive migration of customers to innovative VoIP platforms and launch of simplification projects on other legacy network segments
- Development of innovative Network Management projects (Net OSS) for the simplification of the network OSS layer, with pro-active monitoring of the quality of services based on the QoE (Quality of Experience) paradigm and traffic data analysis (Network Analytics)
- Development of the "Intelligent Pipe" project for the analysis of fixed and mobile network traffic data (e.g. band utilized by each protocol, traffic by type of 3G/4G radio access, monitoring of traffic over time), in order to proactively intervene on the network, bringing to the market innovative solutions
- Development of Smart Working for the creation of the infrastructure and environment for business collaboration
- Development of business market solutions (Nuvola Italiana) for IP inter-functionality of the Virtual PBX (*SIP TRunking)* based on Netmatch-S product in virtualized configuration
- Start-up of an IoT project in TIM technological infrastructure areas for the monitoring of the alarms for equipment present in the centers
- Development of a new generation Data Center for the provision of the Vision in Cloud TIM Service
- Professional services in support of the IP networks conversion processes, also for energy saving, such as Solution Design, Integration & Testing and Network Transformation

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

Domestic market – Other Telecommunications Operators

Italtel confirmed itself as a leading player also on the Other Telecommunications Operators domestic market through the acquisition of large strategic projects from the major domestic operators, although revenues slightly declined on 2015 to Euro 40.1 million.

In terms of the provision of proprietary products and services, the most significant activity concerned Vodafone, who chose Italtel as system integrator for the innovative "Full MVNO" project and began the conversion of the voice network on a Network Function Virtualization basis, utilizing the iMCS and Netmatch-S platform, in addition to Fastweb who chose Italtel for the Full MVNO project to integrate voice mobile services through the Italtel Gateway MSC solution.

For these clients, Italtel is a supplier also of the interconnection and transit network based on IP through the Netmatch-S product. 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.

Other significant successes related to the system integration projects:

- Fastweb confirmed the key role of Italtel in the IP networks field, both for the extension and conversion of the existing IP Backbone infrastructure and the development of Intelligent Traffic management solutions based on Sandvine technology.
- Tiscali also chose Italtel for the development of the entire IP infrastructure dedicated to public connectivity services.
- Wind 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.

Domestic market – Enterprises and Public Sector

In 2016, the Italian ICT market recovered slightly (+1.8%), principally due to the most innovative "digital transformation" components which - although diverging in extent - is apparent across all sectors.
The progress of 2016 is framed within an as yet uncertain economic environment, where increasing importance surrounds investment in: Cloud, IoT, mobile services and Web applications.
2016 featured also the launch of Government plans to boost Italian manufacturing and the delays accumulated in previous years with regards to the 2020 Europe strategy: Ultra-broadband and Industry 4.0 Digital Strategy
Spending Reviews and Stability Agreements continue to slow investment and spending in Information Technology by the Regions, Local Bodies and the Central Public Administration.

Despite this, Italtel in 2016 reported for the Enterprise and Public sector domestic market continued volume (+10.3%) and margin (+8%) growth.

In the Enterprise segment, Italtel further consolidated its positioning at the Enel Group for ICT solutions and services.
Italtel was confirmed as Costa Crociere's main partner for system integration projects with Cisco technology and for the modernization of the data network and the VoIP service for the fleet of 15 ships.
Among the new clients, we highlight Open Fiber, an emerging ultra-broadband fiber optic infrastructure builder (BUL) across Italy.
Italtel was the exclusive engineer supporting OF in the initial 2 Infratel tenders for the construction of white area ultra-broadband infrastructure. Italtel will operate as engineer also in the subsequent executive engineering phase for all lots awarded to OF.

In terms of the Public Sector, the expansion of the customer base through direct contracts and the strengthening of relations with Italtel's existing large Public Entities clients and particularly: IPZS, Bank of Italy, Poste and Sogei.
A contract for the execution of the Electronic Passport project was formalized with IPZS following the tender award of 2015. Contracts concerning the tenders awarded in 2015 were formalized with the Bank of Italy: System assistance, LAN equipment Framework Agreement, Contact Center.
Italtel consolidated its central position within the Poste VoIP network, with the installation of a new proprietary application: iRPS.
Strong Healthcare sector results were delivered also, consolidating operations with: Niguarda Hospital, the National Tumors Institute, Maggiore Mangiagalli Hospital and with the Humanitas Group for the development and securitization of its fixed network infrastructure.

The design and execution for NATO of 2 "Campali Data Centers" was of particular importance, for use in the various operating theaters in which the Alliances forces are engaged.

EMEA Market

Italtel's EMEA market revenues contracted in 2016 against 2015, due to a general reduction in client spend, in particular by the main service providers and specifically Vodafone Global.

Despite this, Italtel maintains its position from the previous year at the Telefonica Group, where Italtel Germany acquired a major System Integration order for the IP Backbone also at Telefonica O2 Deutschland, consolidating further its position as a leading partner for the client.

Revenues from the Telefonica Group increased significantly, particularly due to system integration operations in which Italtel solidified its position as the go-to provider internationally for the integration of Unified Communication (in particular on Cisco HCS technology), backbone IP and Enterprise market projects. In addition, the Telefonica Group continued to rely on Italtel as its strategic supplier of its proprietary iRPS Italtel Central Routing Engine platform, on both fixed and mobile networks, with IP technology, both for the European and international markets.

In France, the rollout and the entry into service of all virtualized SFR network solutions with the iMCS product successfully concluded, while the client in addition chose Netmatch M technology for the replacement of obsolete technologies to merge the legacy traffic onto "IP".

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

The campaign launched at the end of 2014 to expand the customer base continued on the French, Benelux and Russian markets.

The client Hubone, with whom a contract was signed for the supply of telecommunication services to major corporate users, is in the rollout phase and will shortly enter into production. The client is discussing with Italtel the extension of the project also to other clients in portfolio. Italtel provides a virtualized and innovative turnkey solution based on a complete "ALL IP" offer.

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, consolidating the role of Italtel and extending the collaboration over a 3-5 year timeframe.

Italtel in March 2016 established a strong foothold on the Iranian and South African markets, setting up commercial relations and opportunities.

The Greek market has been impacted by the major financial crises which have hit the country: investments have dropped across all sectors and also among Service Providers. The client OnNet was forced to suspend services.

LATAM Market

2016 was a very challenging year on the Latin American market. Political and economic-financial instability in Brazil, the region's main market, following the impeachment of President Dilma Roussef, together with a collapse in raw material prices, affected the entire region with currency, inflation and investment planning repercussions.
In Peru, investment decision-making was held up, partly due to the extensive and highly uncertain presidential election campaign. Argentina, even under the government led by Maurizio Macri, saw investment plans put

further on hold due to extended delays in changing the previous system and difficulties in sourcing foreign investment.

Italtel's results in the region therefore fell short of expectations, principally due to the impact of economic conditions on the main clients who decided to suspend or delay infrastructural investment.

A number of major projects were however executed, including:

- expansion of the Core IP network in Argentina for two incumbent operators;
- mobile network IP RAN backhauling for Tim in Brazil;
- the extension of Telefonica Brasile network structure;
- The consolidation of the intelligent routing project for TIM Brasile multimedia applications;

In terms of VAR (Value Added Reseller) & System Integration, Italtel confirmed its key positioning within the Cisco LATAM ecosystem, renewing its Gold certification in Brazil, Peru and Argentina and achieving it in Columbia.

The region's VAR market suffered major margin pressure (for commercial but also financial reasons related to currency fluctuations), opening the door to new consolidation possibilities and a major opportunity for Italtel.

Development and positioning of the Italtel offer: Proprietary Products

Following the re-launch of differing network models, with new generations of fixed and mobile networks, from traditional Telco to Digital Telco networks with multiservice cloud platforms and for which 2015 was the turning point, new networks articulated the growing demand for Cloud Edge processing, for the internet of things and for an ever greater proximity to users, understood as a profound knowledge of user processes with the goal of influencing them through the introduction of innovative technological solutions. In view of this, 2016 marked the transition of such paradigms from implementation to consolidation.

The future of the telecommunications industry will coalesce around at least three major trends that will fundamentally change the architecture of networks and the way in which networks will contribute to the evolution of the Industry and Services sectors:

1) Video communication;

2) Software and data considered as a new factor of production;

3) The internet of things, which is set to connect tens of billions of smart objects over the next few years.

New Hi-Fi and Ultra Hi-Fi (4k) high-definition video communications will move progressively on from traditional broadcasting networks to Ultra Broadband (fixed and mobile) telecommunications networks, the only networks capable of carrying numerous simultaneous streams at speeds between 5 and 30 Mbit/s. Transmissions will be predominantly unicast and on demand, with customized and flexible scheduling. Receiving terminals will be smart TVs, smartphones, tablets and connected cars. Video will account for over 75% of network capacity (55% today) within 5 years. Thus, networks must be carefully reassessed in order to provide the highest possible viewing quality, immediate response to content selection and effective adaptation to a wide variety of terminal devices.

Network devices are evolving into apps, that is software capable of being run on standard devices (i.e. server and storage devices). This evolution comes from the virtualization of data centers and will deeply transform network architecture. The future of telecommunications vendors will be measured against their ability to develop the various necessary functions through the Network Function Virtualization (NFV) paradigm, namely the application of the cloud concept to telecommunications networks, in which functions are automatically created according to the service traffic required by customers.

The very high demand for service quality, especially video, will be handled by the application of big data logic i.e. by the collection of data from network elements, customers, real-time monitoring and content providers in such a way as to continuously adapt the functionalities and capabilities of the networks, which will have to communicate not only with people but also objects.

These objects are physical objects, with smart or logical functions like Apps. One of the most trusted estimates predicts that over 50 billion objects will be connected by 2020, approximately 7 for each and every one of us. Many of these objects will require very high performance such as connection speeds in the order of Gbit/s, latencies (i.e. response times) in the order of 1 ms and network availability greater than or equal to 99.99999%. Other objects, such as geographically distributed sensors, will on the other hand require low bit rates but high efficiencies so that batteries can last for more than 10 years. Networks will have to abandon the concept of providing coverage for every head of population and replace it with capillary and total coverage of the whole territory. Thus, the internet of things is a whole set of technologies behind digital transformation in a great variety of industries that is pushing the development of networks drastically different from those of today. Accordingly, the network model of the future is made up of three essential components:

(a) Access that provides high performance communication with devices and objects;

(b) A backbone with extremely high capacity and low cost that allows users to connect and exchange content;

(c) A two-level (edge and core) cloud architecture that hosts applications, data and content.

The strategy is based on the accumulation of added value, on a portfolio of flexible and innovative solutions to support the digitalization of businesses and the public sector, on greater commercial activity focused on vertical markets (not necessarily related to telecommunications) and on further growth in international markets. The mere proposal of innovative solutions is no longer enough. There is also a need for consolidation, a high degree of product usability, a greater presence in markets where Italtel has not been historically present and international marketing campaigns to promote new proprietary products.
The main lines of development must combine in an even deeper and more effective way the transition initiated during the previous year from the concept of a 'transactional offer' towards a 'service offer'.
2016 was the turning point of this transition, making it possible to adopt a profound change in relation to the whole of the proprietary product catalogue.
Thus, Italtel began proposing itself more as a company offering a 'service-product', progressing increasingly from the concept of 'end-product' to the 'always-becoming product line', with products extending their lifecycles through continuous change under a permanent maintenance contract.
This is typically a defining feature of network service products, which, as such, must always be ready to integrate change - precisely as the development of Border Layer product has shown.
Any product line or increasingly any object has the potential to become ever more intelligent, to begin acquiring intelligence from the network just as in the industrial revolution electricity began to be acquired from the grid. In this regard, the role of data and its processing is essential. Accordingly, the development of 360° management and SDN monitoring and automation lines has been based strictly on predictive data-analytic techniques as a replacement for retrospective rectification (Cognifying Product Line). Such lines are designed to change their characteristics during product lifecycles, through the analysis of behavior data and feedback.
The migration from written or printed to screen text (i.e. screening) marks another crucial stage in the evolution of communications. The movement from a cold interaction via keyboard towards comprehensive body interaction introduces another feature that combined with the screening of information has been the focal point of the development of contextual communication.
The transition from dumb objects to smart objects transforms them into continuous interactive elements that significantly extend and evolve the kinds of communication between humans and things. The internet of things product line closely follows this paradigm.
In classic TLC segments, related to the evolution of IMS networks and centralized routing and service logic, Italtel has been able to consolidate product lines for clients and markets while effectuating alignment with the dynamics of SDN and NFV (End-Product-Solutions)
In extreme summary, last year's financial statements separated the more mature products subject to a stabilization and adaptation to market demands policy and those developing according to the considerations outlined previously.

The following are the main product lines developed over the course of 2016 that Italtel intends to pursue in the coming years:

1) All IP Communication:
- a) Border Layer Evolution Netmatch always-becoming Product Line
- b) Centralized Signaling & Routing iRP Send-Product-Solutions
- c) IMS functionalities iMCS & iTD Send-Product-Solutions

2) SDN & Automation Netwrapper Product Line

3) Management Layer Evolution iNEM, OSS cognifying Product Line

4) Contextual Communication Evolution Embrace interacting&screening Product Line
5) Internet of Things IOT interacting& cognifying Product Line

In particular, the product catalogue developed as outlined below.

NetMatch Border Layer Evolution

The family of Netmatch-S (SBC) products has undergone accelerated development for the cloud(Netmatch-S Cloud Inside Product), both from a technological and a commercial point of view. From a technological viewpoint, 5G is currently one of the hottest topics in the mobile sphere. Advancement of the technology is well underway and the first testing and pilot projects will start in 2018, a year in which international standards are set to be confirmed, with full maturity and adoption forecast for 2020 and further developments expected until 2030. Definition of the 5G standard will be driven by completely new services and requirements, led by the network presence of billions of connected objects (see chapter on IoT) and Gbit/s connection speeds. 5G will further exploit millimeter wave technology, will be easy-to-install, low-latency, scalable, low cost compared to previous technologies and energy-efficient, both for terminals and radio stations. Several of the technologies helping to achieve these goals are the following:

- Software-Defined Networking (SDN)
- Network Functions Virtualization (NFV)
- Mobile Edge Computing (MEC)

SDN and NFV are two maturing technologies already widely used in Italtel products, in the NGN-IMS/VoLTE, SDN Monitoring & Automation and Border Layer segments. In particular, the NM-S CI (Cloud Inside) product, involving Border Layer, which is soon to launch, makes extensive use of NFV technology.

In contrast, models based on TELCO hardware platforms have been frozen and declared at EOL. The NM-S LE product line has been targeted at the Enterprise and Indirect Channel markets, while the remainder of the products have moved to Cloud Inside deployment.

The 2017 development strategy is focused on NFV adoption also in stand-alone solutions, on P-CSCF development for the IMS market and on adoption of hardware accelerators for the finalization of high performance computing capabilities.

iRPS ProductCentralized Signaling & Routing

The iRPS product, as is the case for iMCS, follows the same consolidation path of the Service Providers market segment. In a scenario in which market analyses indicate rapid growth, Italtel's strategy has remained focused on IMS/NGN and IPX (IP Packet eXchange) solutions, considering that the evolution of IPX is led by LTE roaming. Innovation in the line will also be tied to NFV technology, which is key to consolidating the Italtel footprint regarding captive customers (Telefonica, TIM Brazil).
The year 2016 was marked by a major development effort to consolidate the product for Telefonica Global Solutions and Telefonica Germany. Just as iMCS, iRPS has also been adapted to HubOne targeted customizations, and further developments for the Enterprise segment have completed the development cycle.

iMCS&iTDS Product IMS functionalities

In the context of a stable outlook for IMS (Control Layer, Voice App Layer and HSS) capabilities, the iMCS product line, which implements IMS architecture features and the IP Multimedia System, has been oriented to target MVNO and the long tail of IMS/NGN.
For this reason, this line has been classified in the family of end-Product-Solutions i.e. under maintenance with tailor-made customization and consolidation of iMCS and iTDS products, extending to markets at risk (Iran, Russia) in order to avoid aggressive competition with the main competitors. The multiuse product that includes Control Layer, TAS, HSS and third-party integration saw the development of much of the improvement features for HubOne and VDF IVC.

Netwrapper Product - SDN & Automation

The continuous technological evolution of the network facilitates new business models that develop in line with innovation needs relating to the improvement of the end-user experience of services. The introduction of SDN, in particular, enables a rational interaction between the application layer and the network, overcoming the traditional separation and ensuring effective use of resources in response to actual business needs.

On the basis of this important trend, Italtel has decided to invest in developing applications that leverage SDN controllers in order to implement more and more automated control logic.

The first application in this field is the Netwrapper tool for collaboration.

Within a company, opportune use of collaborative tools not only guarantees increases in productivity, but also provides a better opening to the growing phenomenon of smart working.

Netwrapper, thanks to its interaction with the Cisco APIC-EM SDN controller, has real-time visibility over actual use of the band by the various UC&C services. Consequently, optimal adjustments can be made to admission control policy at a global level in order to always achieve the best possible QoE.

In the development of Netwrapper, interaction with Cisco's Collaboration and Enterprise Networking business units has been fundamental. Indeed, Netwrapper marks a paradigm shift in the relationship with our majority shareholder, establishing Italtel as a value-added partner capable of enriching Cisco solutions with developments that optimize the positioning of Cisco's own products.

The close and extensive collaboration with the Cisco business units will also help us to identify and build new components in order to improve market positioning.

INEM & OSS ProductManagement Layer Evolution

The new market scenarios are characterized by the development of a wide variety of innovative applications that steadily improve user experience. In this context, communications service providers have to extend their service catalogue by leveraging new technologies and experimenting with new business models that adopt self-service portals providing users with automatically configured on-demand services. This requires goals to be reached in operational efficiency and agility in network services lifecycle management. Consequently, operators will have to adopt new models for the lifecycle automation of network features and services, enabled by NFV and SDN technologies. The term adopted by TM Forum to define the new paradigm is 'Future Mode of Operation'.

Italtel, which has always been present in the management layer with its own Element Manager (i-NEM) and various other network management applications, also for OSS/BSS systems, is intent on proposing developmental support for the 'Future Mode of Operation'. A significant aspect of Italtel's approach, in particular, is consideration of the fact that the traditional separation between management and network control activities is increasingly blurred. This evolution is also referred to as the "management and control continuum". Indeed, thanks to the use of NFV and SDN technologies, network operation can be accomplished with automatic correlation of assurance and fulfillment procedures, meaning that network monitoring and alarms are immediately exploitable for reconfiguration of the network and instantiation of new functions. Management practices must therefore also be fully revised and incorporate practices from the Information Technology and DevOps fields.

In light of this, 2016 was marked by a significant investment in the development of digital enablers, with the specific aim of achieving a common platform based on 360° open source adoption, successively adapted for each project according to individual client needs. The platform based on operating systems derived from open source such as RedHat and traditional Oracle systems remains the right choice for evolution towards the NFV scenario. Accordingly, the process involves a shift from the current management paradigm towards one of end-to-end service orchestration in hybrid environments in multiple management domains (e.g. legacy, SDN and NFV).

Embrace Product Contextual Communication Evolution

Over the past few years, Italtel has provided the market with audio and video communications solutions in line with the main industry trends, in particular, by offering innovative WebRTC technology with a software and cloud-ready platform that supports audio, video and data services through the implementation of APIs and JavaScript in a client-less solution. To complete the Web Application Server solution, Italtel also provides a dedicated gateway offering convergence and integration with other unified communications technologies and IMS/LTE networks.

Italtel's WebRTC platform is also targeted at segments such as e-learning, web-based contact centers and e-health communications solutions.

The natural evolution of this type of solution is towards a communication system that can integrate a huge amount of contextual data to improve and adapt the user experience to specific service use cases and through the exploitation of the new 5G networks that will enable innovative application scenarios with increased bandwidth and coverage, reduced latency and the availability of a capillary network of sensors.

2016 was marked by the research and development of a general-purpose platform integrating WebRTC functionality with data derived from multiple sources, both physical data, collected through a network of sensors, and virtual data, collected through user profiles on web and social platforms and from external sources. Strong progress was also made in terms of a developmental HealthCare system for the integration of data on patients from wearable devices and healthcare facility databases and of opportune communication systems to monitor patients through all phases of their care from hospitalization right through to post-treatment care. The proposed solutions are set to be tested in specific field trials, in particular, in healthcare and hospital facilities, in order to verify their effectiveness and allow for continued analyses of the specific requirements of the scenario.

IoT Internet of Things Product

Over the next decade, the IoT sector promises strong development, with some analysts forecasting growth of between 20% and 40%, depending on the specific segment and a highly fragmented market.

Italtel is already offering a general client-server platform that implements a data acquisition and storage layer and a data presentation and analysis supporting exposed web services for integration in an application layer. 2016 saw investment in the development of the platform and the creation of the right conditions for pursuing and strengthening several strategic lines such as those relating to Industry 4.0, platform optimization to support the scenarios and potential offered by 5G networks and research into the development of blockchain database integration. By leveraging its advanced system integrator experience, fundamental in this area, Italtel intends to strengthen its propositions according to the above strategic lines in order to ensure that such propositions, beyond today’s commercial success, are well proportioned as a winning competitive strategy.

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

During 2016, Italtel consolidated the implementation of the previous year’s innovations in its Competence Centers offering professional services, in particular, regarding the internet of things (IoT) and network transformation through major contracts with Telecom Italia. As far as the internet of things is concerned, Italtel began the implementation of the New Alarm Transmission System (NSTA) contract, which represents the first large-scale industrial application of Italtel's internet of things technology and solutions, providing for the remote supervision of alarms and the power monitoring of Telecom Italia centers. Additionally, several Italtel Proof of Concept (PoC) applications were implemented for IoT in collaboration with several clients and for various use cases. Among these were the PoC in partnership with INWIT for allocating power consumption to radio site operators and Italtel’s project for water network leak detection, which won the Innovation Award at the Bologna H20 trade fair. Regarding network transformation, Italtel extended its collaboration with Telecom Italia in its decommissioning project, reaching important milestones in the concentration of telephone lines and the dismantling of obsolete switching technologies through the perfection of a dedicated organizational structure motivated to achieve high weekly productivity indices. Similarly, Italtel successfully carried out the analogous MANTRA migration project with the Belgian operator Proximus, completing all contractual commitments within the agreed timeframe. Furthermore, Italtel developed new expertise, particularly in the design of fiber optic networks, by the creation of a dedicated Design Center equipped with new design tools and methodologies. Through this initiative, Italtel won an important contract with the newly formed Open Fiber to produce the definitive design for optical fiber networks in so-called C&D Clusters within the framework of Infratel tenders for the construction, maintenance and management of an Ultra Broadband passive network for the Italian regions. For Telecom Italia, on the other hand, the last year of a three-year contract saw the continuation of the so-called ‘Multivendor’ technical service to maintain all of Telecom Italia’s networks (e.g. landline and mobile telephony, transmission, carriage, access) through network care and the repair of all the various vendor technologies. Following conclusion of this contract, Italtel obtained the assignment of a new MultiVendor contract for 2017 covering all the technologies of the different Vendors, with the exception of the mobile network. Also under the category of consultancy services, and more specifically ‘Manager & Advisory Services’, Italtel achieved an important result in 2016 by winning a contract for ‘System Assistance Services’ for the Bank of Italy. This was implemented through a dedicated team of approximately 40 consultant experts, most with specialist certifications, working at the client premises to implement and provide assistance for the Bank of Italy's IT infrastructure.
Together with the traditional network life cycle Professional Services offer, the company continued to enrich and innovate the System Integration offer with the consolidation and extension of the Competence Centers, characterized by the most advanced specialist skills (confirmed by a wealth of Certifications), a number of test plant, in which solutions can be tested and consolidated to guarantee quick and effective deployment on the client architecture and, finally, a number of software tools which enrich and complete the standard market systems integrated by Italtel. In particular, during 2016, Italtel expressed its extensive expertise in data network system integration through the long qualification and tender process with the Iranian operator TCI for the creation of a national data backbone to be realized with the most innovative Cisco engineering solutions.

Italtel confirmed its expertise in a multitude of technologies, from Data Center network infrastructure, Unified Communications & Collaboration systems to Management and Control instruments, providing clients with all the specialized and engineering support necessary to design and implement solutions.

Solutions and services products were defined in 2016 through a new catalogue of 8 offer lines grouping together thematic solutions:

- People Collaboration and Customer Relationship – tools to enhance collaboration between employees and interactions with customers;
- Internet of Things & Contextual Communication – solutions that can leverage IoT to improve quality of life and productivity, involving the main areas of interest: Industry 4.0, Healthcare, Smart Cities and Energy;
- Network Transformation – solutions that facilitate the development of real-time services on operator infrastructures according to IP logic;
- Network Service & Business Management – solutions for OSS Transformation, Network Operation support and Advanced Analytics (including data science methodologies) for improving customer experience
- Data Center & Virtualization – solutions for the realization of data centers capable of addressing different needs, from corporate IT to hybrid cloud services and the implementation of NFV and SDN architectures, with a particular focus on enabling infrastructure, automation and orchestration
- IP Network Infrastructure – a set of solutions for the networks of clients ranging from operators to businesses, with a focus on mobile and wireless networks
- Cyber Security – solutions for the protection of business and telco operator infrastructures, from data centers to corporate networks and customer serving operator networks. Italtel also offers managed security through its ISO 27001 certified SOC.
- Managed & Advisory Service – Italtel's expertise at the disposal of clients, managing networks and providing consultancy and specialist engineering services.

Development and Innovation

European projects

In 2016, Italtel S.p.A conducted industrial research and development through projects funded by the European Union under the Horizon 2020 framework and the 7th Framework "Cooperation" Programme in the Information and Communication Technologies (ICT) area.

Under the Seventh Framework Programme, 2016 saw the conclusion of activities relating to the 'Mobile Cloud' Integrating Project, coordinated by SAP AG, and those relating to the 'T-NOVA' project, coordinated by the Demokritos Research Center, both in collaboration with 18 partners.

Under the Horizon 2020 framework, activities continued for the SESAME (Small Cells Coordination for Multi-Tenancy and Edge Services) project, coordinated by the Greek telecommunications company OTE, with the participation of 20 partners from industry and European research institutes. The project seeks to convert the physical resources (Small Cells) of individual Operators into virtualized resources, developing an innovative architecture capable of making available a coverage of small cells to operators "as a service" through a neutral platform using Edge Cloud computing and the Network Function Virtualization (NFV) paradigm.

During 2016, Italtel presented five project proposals under the Horizon 2020 framework: "ACE_CV" (Assessing effectiveness and Cost-Effectiveness profiles of interventions addressed to CardioVascular disease); "5G City" (Enabling Smart Cities through 5G Clouds); "5G Essence" (Embedded Network Services for 5G Experiences); "5Green" (advanced technologies for 5G mobile gREEn Network); "MATILDA" (5G-ready applications and network services over sliced programmable infrastructure).

Subsidized loans and grants for Development and Innovation

In 2016, Italtel S.p.A. reported public grant income of approx. Euro 4.9 million, of which Euro 1.3 million concerning research and development projects capitalized in previous years on the basis of the amortization schedule of the costs to which they refer. Grants amounted to Euro 2.05 million.

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

- 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;
- Regional Operative Programme Fund - EFRD 2014-2020;
- Enacting Regulation of the European Commission on the Seventh Framework Program and Horizon2020.

With regard to MIUR PON_04, the activities concerning the i-NEXT (Smart Mobility and Smart Grid areas) and Cluster OSDH-SmartFSE-Staywell projects (Smart Health area) concluded. For both projects, the ministerial inspections were carried out.

In addition, in relation to MIUR PON_02 the activities of the ENERGETIC (Technologies for Energy and Energy Efficiency) and HIPPOCRATES projects (Development of Micro and Nano-technologies and Advanced Systems for health) concluded, in collaboration with the Sicilian Micro and Nano Systems Technology Cluster. The ministerial inspections were also carried out for these projects.

The "Bigger Data" project, co-financed by the MIUR according to the "Start-Up" notice with Action and Cohesion Plan funds, concluded activities in 2016.

In 2016, the "Ultra Broadband 339 Development Contract" project continued, with the objective to provide ultra-broadband in the convergence regions (Campania, Puglia, Calabria and Sicily), with Italtel's involvement concerning an industrial research project for the development of new products for the ultra-broadband network and a production investment project addressing the industrialization of the prototypes developed at the Carini facility.

Activities concerning the national projects introduced in previous years also continued:

- "Decision Theatre" (in the Cloud Computing area), presented in 2012 in response to the MIUR SCN (National Smart Cities) tender;
- "Servify" (SERVIce FirstlY), co-financed by the MIUR on section PON_03, in collaboration with the Si-Lab consortium, of which Italtel is a founding member;
- "ADVENT" (ADvanced Virtualization for Enabling Network Technology and applications), co-financed by the Lombardy region on the basis of the "LombardyEnterprise" Regional Law - Competitivity Agreements.

In 2016, the Lombardy Region granted funding for the "PROPOLI" *(PROgetto PilOta per analisi e recupero metalLI preziosi*) project, FESR co-funded on the 2014-2020 POR, for the development and implementation of innovation technological solutions which integrate low environmental impact pre-mechanical treatments and chemical recovery processes, to be applied on electronic products at the end of their life.

The application for the "ALL IP" CDS3 Development Contract, a joint Telecom Italia and Italtel project, for the 2016-2019 period, is currently within the Ministry for Economic Development approval phase.

Funding applications were presented to the Ministry for Economic Development - Sustainable Growth Fund, in accordance with Ministerial Decree of June 1, 2016 "Large R&D Projects" concerning the RE-ACTOR projects (Scope: Technologies for the Internet of Things), AGILE-NETWORKS (Scope: Technologies for innovation of the virtualization of platforms, infrastructure and digital services and F-VEGA (Scope: Technologies to achieve the priority objectives "Challenges for society".

As part of the Lombardy 2014-2021 POR "Investments for growth and employment", an application for funding was presented for the IONE+ (Internet Of Things for Industria 4.0) project, coordinated by Italtel together with 9 partners.

Finally, as part of the Ministry for Economic Development Sustainable Growth Fund measures together with the Regions, a major project proposal was presented to the Lombardy Region concerning the development of new TLC products over the 2017-2019 three-year period.

Partnerships

Cisco

In 2016, Italtel continued to extend its catalogue of solutions thanks to competences increasingly based on the Cisco range, appropriately complemented by high quality proprietary products and professional services.

The Cisco technologies operated by Italtel range from network infrastructure to Data Centers and from 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.

The key Certifications gained confirm the Specialist Competences, while the innovative Test Plant ensure the capacity to test and consolidate customer solutions for increasingly rapid and effective deployment

The Solutions and Services offer in 2016 was presented according to the offer line 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 initiatives were undertaken in close collaboration with Cisco, in order to strengthen the partnership and improve the positioning in specific market sectors. In addition to maintaining a high level of partnership which has passed the 20-consecutive year mark and as testified by GOLD certification, 2 Master specializations, numerous specializations and Advanced level qualifications, Italtel has undertaken three specific initiatives to strengthen this relationship.

- "Enterprise SDN" – in continuity with the 2015 initiatives for the Partners Plus program the Netwrapper product was presented: application which interacts with the APIC EM Cisco controller and can efficiently allocate network resources on the basis of collaboration services needs. The Solutions Plus Partner program will result in the inclusion of the application in the Cisco catalogue[1]. This process has required technical compatibility certification with Cisco products from an independent laboratory. Following this certification, in the second half of 2016 administrative and control processes were initiated for inclusion among Cisco's selected suppliers.

- "Hosted Collaboration Solution" - the collaboration with the Collaboration Business Unit of Cisco was formalized with HCS Master Cloud Builder recognition for Italtel, certifying its ability to implement HCS solutions at the Service Provider data center, carrying out the engineering, implementation, support and operations for the entire life cycle of HCS services.

- Security: in 2016 Italtel launched a decisive growth and certification plan as part of Security Cisco, supported by a programme co-financed by Cisco and Italtel called BigBets. The objective is to train Italtel technicians, focus personnel on the Security market and launch activities which within 24 months will lead to Master Security enterprise certification.

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

[1] Inclusion effectively from April 2017

Other partnerships

Italtel has established over time and maintains a range of partnerships with IT and innovative technologies entities. Firstly, with Cisco Ecosystem members i.e. businesses complementing its offer according to shared integrated development plans (EMC, VMWARE, VOSS, CITRIX and others). In addition, major IT players, whose solutions are found at the main clients, in addition to entities operating on specific markets with highly specialized skills, principally IBM, Microsoft, Oracle, Sandvine, SAS and RedHat.

We report below the partnerships which have strengthened the level of maturity in 2016.

Tech Mahindra

The collaboration begun in the second half of 2014 with Tech Mahindra continued, a company belonging to the Indian industrial Group Mahindra, which operates on the global Information Technology market, both on the Service Providers and Enterprise and Public Sector markets. The two companies operate principally in terms of engineering and telecommunication network construction, in OSS and BSS systems, managed services and IT applications.

Exprivia

In 2016 the close collaboration continued between Italtel and Exprivia, the Information Technology leader in Italy and on a number of international markets.
Underlying this collaboration between the two groups is an ever-increasing drive towards international expansion. The bringing together of the competences and commitments to Research and Innovation at both Groups creates an enormous wealth of know-how and an intrinsic value for the Italian TLC and ICT market and the foundation for success internationally - particularly in Latin America and the major European countries in which the two Groups' international operations are currently concentrated most.
This gives rise to a stronger competitive force, allowing the Exprivia-Italtel partnership to establish better positioning in the various vertical sectors and to respond in a quicker and more effective manner to the demands of a continuously developing and increasingly competitive market.

Sigfox

The collaboration between Italtel and Sigfox established in 2015 continued in 2016. Sigfox is a low consumption cellular technology network operator, principally focusing on the business market. Italtel and Sigfox signed a partnership agreement for the joint development of Internet of Things (IoT) and Machine-to-Machine solutions. These solutions, with Italtel acting as system integrator, use Sigfox technology for connectivity, particularly for those applications (e.g. energy control, logistics, agriculture) where low usage and maintenance costs are a key factor.

Corporate Governance and Social Responsibility

Board of Directors

The Board of Directors currently in office was appointed for the 2016, 2017 and 2018 three-year period - following conclusion of the three-year mandate with approval of the 2015 Annual Accounts - by Shareholders' Meeting motion of June 28, 2016 which confirmed its full composition. Subsequently, following the resignation of a Director, the Board's membership was altered firstly with co-option by the Board of Directors on December 1, 2016 and, subsequently, with Shareholders' Meeting motion of April 28, 2017 confirming the appointment of the previously co-opted Director. The membership and functioning of this Board is based on, as noted, the 2012 Restructuring Agreement and is governed by the current By-Laws and regulatory annexes, adopted with Italtel S.p.A. Extraordinary Shareholders' Meeting motion of March 15, 2013.
The company is exclusively managed by the Directors, who carry out the necessary operations to achieve the corporate objects. The Chairman, with the - non-executive - powers established by law and the by-laws, in addition to the Chief Executive Officer, separately may execute signature and legal representation with third parties and within legal fora.

The Board of Directors of Italtel S.p.A., as renewed on June 28, 2016, in office until the approval of the financial statements at December 31, 2018, is comprised of five Directors. In accordance with the By-Laws of Italtel S.p.A. (Article 26.6), the Directors appointed by the EFI shareholders and another member of the Board of Directors of Italtel S.p.A. must possess the independence and professional standing requirements. The declaration concerning the holding of the necessary independence and/or professional standing requirements was provided by, in addition to the two Directors designated by the EFI shareholders, other members of the Board of Directors.

During 2016, the Board of Directors of Italtel S.p.A. met frequently and in compliance with the legal and By-law obligations to examine the matters submitted for their attention.

Remuneration of Directors and Statutory Auditors of Italtel S.p.A.

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

(thousands of Euro)

	2016	**2015**
Directors [(1)]	1,141	1,118
Statutory Auditors	86	83

[(1)]The Board of Directors, with motion of June 28, 2016 (a) confirmed Tiziano Onesti as the Chairman of the Board of Directors, (b) confirmed Tiziano Onesti as (i) a member of the Internal Control Committee (the remuneration for this position is included in the remuneration of Tiziano Onesti for the role of Chairman of the Board of Directors) and (ii) a member of the Remuneration Committee, in addition to its Chairman (no remuneration is provided for this position), (c) assigned to the sitting Chairman of the Internal Control Committee (in office since January 9, 2017), Stefano Carlino, remuneration for office of Euro 10,000 for each financial year. The subsequent Board of Directors which, with motion of January 9, 2017, amended the membership of the Internal Control Committee, in addition appointed as Chairman the Director Paolo Leone, confirming the remuneration for the position of Chairman of Euro 10,000 for each financial year. This appointment was confirmed by the Board of Directors on May 8, 2017 with its appointment through Shareholders' Meeting motion of April 28, 2017.

Committees

The principal activities carried out by the technical and/or consultation Committees in the year are reported below.

Special Committees

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

The Internal Control Committee

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

In 2016, the Internal Control Committee met periodically, approving the Audit plan for 2016 and introducing measures to strengthen both the Corporate Governance and Internal Control System.

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

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

In implementation of the Related Party Transactions Procedure approved by the Board of Directors of the Company with motion of December 16, 2014, the Related Parties Transactions Committee, which equates to the Internal Control Committee, met on three occasions to consider Transactions with Related Parties as part of business operations.
No remuneration was established for the members of the Related Parties Transactions Committee.

Remuneration Committee

The Committee comprises three Directors (two Directors designated by Italtel Group S.p.A. and one Director designated by the EFI A shareholders) and has the duty to communicate to the Board of the Company its non-binding opinion on the remuneration of Directors of the Company with particular roles and of top managers. The Remuneration Committee set up in 2015 was renewed with Board motion of June 28, 2016. The Committee met once in 2016.

Sale Committee

The Sale Committee, established under the Restructuring Agreement with Board of Directors motion of Italtel S.p.A. of July 25, 2015 and renewed by subsequent Italtel S.p.A. Board of Directors motion of June 28, 2016, 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 2016 in relation to the activities carried out in execution of its mandate.

Organization, Management and Control Model

Following the review of the Model adopted by the company, approved by the Board of Directors on March 29, 2016, for the prevention of offenses under Legislative Decree 231/2001, the implementing Protocols of the Model were updated. The updates particularly concerned the regulatory changes reported below.

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

  - unintentional offenses against the environment (Article 452-quinquies);
  - traffic and abandonment of highly radioactive material (Article 452-*sexies*).
- Amendment to False corporate information Article 2621 of the Civil Code, reformed by Law No. 69/2015, entering into force on June 14, 2015, the so called "Anti-corruption Law" and among the offenses at Article 25-ter of Decree 231 (Corporate offenses).

In addition, in 2016, as part of the periodic review of the Organization, Management and Control Model as per Legislative Decree 231/2001 and the implementing Protocols, the provisions issued by ANAC (the National Anti-Corruption Authority) were reviewed with regards to the prevention and fight against Public Sector corruption, in order to identify any areas of interest for Italtel to improve its prevention of Public Sector offenses system. Among the various provisions, we highlight the First and Second Guidelines issued by ANAC in support of the application of Law No. 114/2014.

In summary, in addition to the offenses against the Public Sector and the preparatory offenses already included in Italtel's Model 231, the following were considered, not included in the offenses to which Legislative Decree 231/01 applies:

- Trading of influence (Article 346 *bis* Criminal Code)
- Restricting the freedom to trade (Article 353 Criminal Code)
- Interfering in the tender process (Article 353 bis Criminal Code)

Analyzing the detail of the above offenses, potentially they may be applied to Italtel S.p.A. operations and therefore the pertinent implementing Protocols were amended, including the corresponding risk areas.

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

In 2016, the training initiated in 2015 for all foreign subsidiary personnel operating in the at-risk areas was completed. The training programme involved the provision of 5 e-learning modules concerning the *Principles for the prevention of offenses and Conduct Guidelines*, approved by the Board of Directors of the company and published in the foreign languages used at the Italtel Group (English, French, Spanish and Portuguese).

Also in 2016, training with regards to the prevention of offenses against the Public Sector was extended to all Italtel S.p.A. personnel operating in the at-risk areas for these type of offenses, completing the programme initiated in previous years.
This latest training cycle involved approx. 200 personnel and the provision of 2 e-learning training modules, the first of an introductory nature on Legislative Decree 231/2001 and the 231 Model adopted by the company and the second, more targeted, dedicated to the prevention of Public Sector offenses.

The Compliance Office also conducted an audit verifying the correct application of the Management and Control Organizational model as per Legislative Decree No. 231/2001 with regards to the supply of goods and services to the Public Sector.

The Compliance Officer of Italtel S.p.A. provided regular updates to the Supervisory Board (comprising two external members with expertise in financial reporting and economic – financial matters, risk management and control, the analysis of control systems and the governance required by Legs. Decree 231/2001 and the Internal Audit and Compliance Office Manager) and senior management concerning activities carried out for implementation and verification 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 2017 and the relative budget.

Conflict of Interest Regulation

In 2016 the monitoring of cases of conflict of interest of company personnel with legal representative powers and specific roles continued.

Human resources and quality

Human resources

Italtel Group employees at December 31, 2016 numbered 1,357, of which 254 overseas (at December 31, 2015 numbering 1,366, of which 259 overseas). The new hires in the year numbered 76 (of which 51 overseas), with 85 departures, of which 83 voluntary departures (in Italy 27 employees). Departing executives numbered 2; at 31/12/2016 there were 42 Executives in the workforce. Personnel are broken down into the following departments: Software (32%), Solutions (41%), Sales & Marketing (17%) and Administration and Staff (10%). 49% possessed Degrees, while approx. 47% held Diplomas.

Organization

From an organizational viewpoint, operations in the first half of 2016 continued in line with the previous year. An extensive analysis was launched from the second half of the year, resulting in organizational developments in December 2016.
The new organizational model supports Italtel's current development phase, accelerating the transition from a product-based enterprise to a purely market-based enterprise. This has firstly required interruption of the link between research and development (R&D) and the market in order to interpret demands/needs and rapidly incorporate client feedback/responses, in order to understand the results and the business value of operations.
Two separate Business Units were therefore created dedicated to Software and to Solutions, strongly focused on executive efficiency and efficacy to strengthen the delivery capacity, and a Strategy Innovation & Communication function with the objective of improving the strategic focus on proprietary products by establishing a focal point for the business capable of setting out and efficiently implementing the strategic plan.
During the year, the organizational structures of the subsidiaries Italtel Brasil LTDA (Brazil), Italtel Peru SAC (Peru), Italtel S.A. (Spain) and the Columbian Branch were revised.

Industrial Relations

In 2016 surpluses were managed in order to achieve the labor cost objectives for the years 2015-2016 of the Industrial Plan.
The roundtable involving the trade unions at Assolombarda concluded with the signing of the agreement of November 20, 2015 under which, against the redundancy of 124 workers as an alternative to the collective redundancy procedure (Law 223/1991), the Parties agreed upon a "Defensive" Solidarity Contract, as per Article 21, paragraph 5, letter c) of Legislative Decree 148/2015 and Ministerial Decree No. 46448 of 10/7/2009, which permits diluting of the redundancy obligation through involving a greater number of workers.
The agreement stipulated the use between January 1 and December 31, 2016 of the vertical Solidarity Contract for 846 workers, with a 12% reduction of hours (16 days and 30 minutes per day, corresponding to an additional 16 equivalent days), of the vertical Solidarity Contract for 125 workers for 8 days annually and the re-entry to the workforce with a Solidarity Contract percentage of 50% monthly (in full days) for employees involved in the 2015 Extraordinary Temporary Lay-Off Scheme who had not yet taken the exam under the professional retraining plan and until passing such exam.
Under a subsequent agreement signed at Assolombarda on December 28, 2016, the Parties agreed to continue for 2017 support for the programme to develop and relaunch production, in line with a new Industrial Plan and on the basis of the following key points:

- signing of a "Defensive" Solidarity Contract, applicable from January 1 to December 31, 2017 stipulating a 3% reduction in working hours for 114 employees, of 13% for 738 employees, of 35% for 191 employees and of 50% for 16 workers, against the departure of 200 employees, as an alternative to the collective redundancy procedure (Law 223/1991), diluting the obligation over a greater number of workers;
- introduction of a collective personnel reduction procedure for a maximum 200 departures, to be supported by an incentive plan based on the "non-opposition" of workers involved;
- extension until December 31, 2017 of application of point 3 "New benefit conditions" of the February 12, 2015 agreement concerning the suspension of non-contractual vacations, the Fixed Quota, the Fixed monthly

bonus; reduction of travel allowances; continuation of the monthly allowance for ex One Ans and ex STI Personnel;

- upskilling of solidarity contract personnel involved in the 50% and 35% working hour reduction.

Training

In 2016, 10,538 hours of training were provided, with 751 participations and 77 training events of various types. During the year training once again focused on technological issues. In particular, in relation to Cisco technologies the necessary courses for the maintenance of Gold Certification, the ATP's and operations on developing markets and the development of Selling Business and Business Value Practitioner skills was ensured. A training course was also introduced to develop Security competences, increasing the number of certified CCNP and prospectively CCIE qualified personnel. Cisco Continuous Learning was also introduced, involving training and updating on a wide range of Cisco related issues. Training in relation to virtualization continued, consolidating VMWARE skills and developing Openstack/Red Hat know-how. Training regarding the partnership with Sandvine was extended further.

The ongoing updating of Managers, Supervisors and Professionals continued through participation at business culture meetings organized by Ruling Companies. In addition, a workshop was held utilizing innovative methodologies dedicated to Management Team excellence.

In order to facilitate international development, foreign language training was re-introduced in a particularly flexible format based on Skype lessons and individual coaching.

Finally, with regards to workplace health and safety, updates were provided for the RLS and RSPP and a fire protection course held at the Rome offices.

Also in 2016 Training Financing was availed of, which covered 32.9% of the operating expenses required through Fondimpresa, Fondirigenti and Cisco funds for the Cloud Mdf Project. In addition, funding was acquired from the Lombardy Region for ongoing training regarding technical issues and foreign language skills.

Quality and Certifications

Fulfilling its mission "Connecting people with objects, technologies and networks", Italtel has driven telecommunications technology development through continuous product line improvement. Italtel was a leader from the early 1990's until 2010 before telecommunication network digitalization and thereafter during the transition to IP; from 2010, the company concentrated on NFC and SDN technologies and, consequently, on the virtualization of its products. The drive towards innovation is reflected also in the many Cisco specializations achieved over the years, making it a leading Cisco partner on the Italian and EMEA market. Finally, in order to be more responsive to customer needs, the company changed its *modus operandi*, adopting the AGILE approach to product development.

Since 1992, Italtel has been ISO 9001 certified and, as required by the certification, consistently improves its Quality Control System, overseeing through periodic audits and the monitoring of the main indicators its business processes. Italtel has always considered quality not just as an isolated issue but in terms of customer satisfaction and has therefore, for more than 20 years, carried out periodic surveys upon customer perceived quality as part of customer-supplier relations.

Focus on the customer has led Italtel to develop also Information Security, certifying the Technical Assistance areas, which more than others need to guarantee the correct management of data and information processed, according to the ISO 27001 certification.

With regards to the Group companies, Italtel Spagna has been ISO 9001 certified since 2000, with the companies Italtel Spagna, Italtel Brasile, Italtel Argentina and Italtel Colombia obtaining Cisco Gold partnership, permitting Italtel also in LATAM to be a major Cisco partner.

Sustainability

Italtel again in 2016 committed to operating and pursuing its business objectives while fully respecting the rights of the individual, ensuring fair competition, safeguarding the environment and protecting workplace health and safety.

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

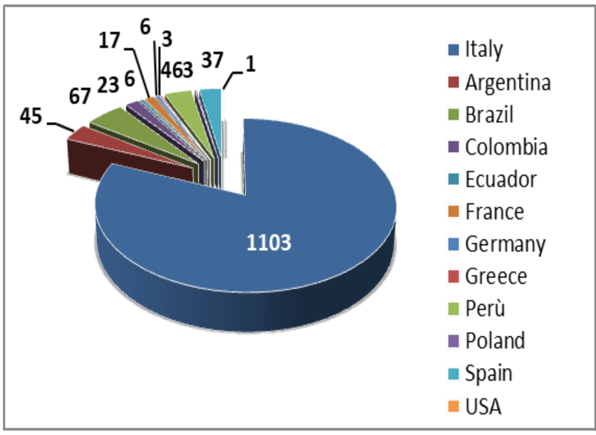
Italtel undertakes a multitude of activities and initiatives directly or indirectly related to environmental and social improvement and innovation. These range from the concept, development, certification, deployment and maintenance phase of our proprietary products and services, through to the research proposed and carried out in support (and in advance of) the launch of our products and services, right through to internal initiatives and our significant involvement in Consortiums, Associations and National and International Bodies.

Italtel was assessed in terms of its compliance with Corporate Social Responsibility principles, receiving in 2015 the "Silver Recognition" of EcoVadis – an international organization which has developed a collaborative platform to assess the sustainability of suppliers within the global supply chain - and obtaining in June 2016 a fresh positive assessment through the ACESIA platform managed by the Afnor Group, one of the leading accredited Certification Bodies globally.

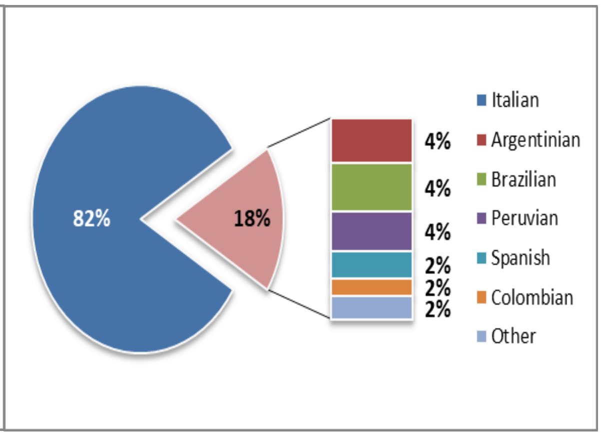
EcoVadis' "Silver Recognition" was reconfirmed in November 2016.

Human Rights

Italtel is present in 11 Countries in Europe and Latin America. Group employees at December 31, 2016 numbered 1,357, of which 254 overseas (at December 31, 2015 numbering 1,366, of which 259 overseas).

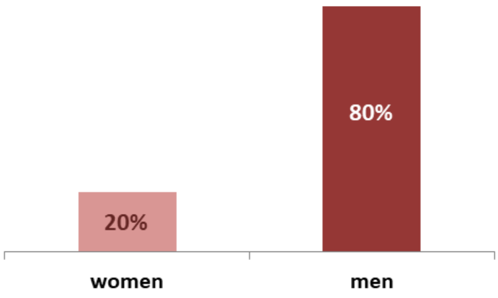


Employees by country



Employees by nationality

The percentage of women in the workforce and in managerial positions (slightly up on 2015) corresponds to Italtel's business sector female participation rate.
For example, in Italy women in 2014 accounted for 26% of scientific and engineering faculty graduates, declining to 14% considering only IT engineering and telecommunications. [*Source: Ministry for University and Scientific Research]*



16%
managerial positions held by women

Employees by gender

Women's salaries are **6.3% lower** than men's

This figure, known as the Gender Salary Gap (salary difference between men and women) improved on 2015 (7.6%), decreasing 1.3%.
Italtel's Gender Salary Gap is however above average among Italian businesses and also among the main European countries; in fact, the "2016 Gender Gap Report" (*) places Italy 8th (-10.9%), France at 18th (-15.3%), Spain at 25th (-18.8%) and Germany at 28th (-21.6%). In addition, in the telecommunications sector the Gender Salary Gap in Italy was -14.5%.
(*) [*Source*: *"Gender Gap Report 2016" by JobPricing with Eurostat figures]*

Workplace health and safety

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

The accident indices for the last three years are presented below.

Accident frequency index
Calculated according to the formula:
No. of accidents X 1,000,000 / No. work hours
(Regulation UNI 7249/2007)

2016	2015	2014
3,73	2,46	8,10
0,63 (*)	1,23 (*)	2,02 (*)

Accident gravity index
Calculated according to the formula:
No. absent days X 1,000 / No. work hours
(Regulation UNI 7249/2007)

2016	2015	2014
0,06	0,05	0,18
0,01 (*)	0,04 (*)	0,05 (*)

(*) index calculated excluding accidents during commute

The total number of days of absence for accidents in 2016 was 91, against 84 in 2015 and 262 in 2014.

Excluding accidents during commute, the days of absence for accidents in 2016 was 16, against 73 in 2015 and 71 in 2014.

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

-78%

days of absence for accidents in 2016 compared to 2015 (excluding accidents during commute)

Charity and support activities

In 2016, Italtel was involved in a range of activities in protection of the individual and with regard to health and social development.

Vietato Mollare Tour

- Italtel supports the "Vietato Mollare Tour", a one-of-a-kind undertaking by two bikers: Oscar Civiletti, a young TIM employee with Multiple Sclerosis, and the champion Paolo Pirozzi who has twice circled the globe on a Ducati. Together they travelled 2,700 kilometers throughout Italy to educate upon multiple sclerosis and raise funds for research, relating their experience in terms of the importance of independence and upon the capacity of persons with multiple sclerosis to dictate their destiny without giving up on their goals and to make their dreams reality.
- The "Vietato Mollare Tour" left Palermo on May 7, 2016 and following a number of stages throughout Italy arrived in Rome on May 25, 2016 - the Global Multiple Sclerosis Day (as part of the National Multiple Sclerosis Week May 23-29).
- Throughout the journey, Oscar and Paolo met representatives and volunteers from the AISM (Italian Multiple Sclerosis Association) provincial sections and hosted a number of events - including a meeting at Italtel's Milan offices on May 19, 2016.
- The funds raised will support an AISM research project involving 4 Italian Neurological Centers with a focus on tailoring the rehabilitation of multiple sclerosis patients experiencing upper limb difficulties.

L'Aquila Earthquake

- In support of the reconstruction of areas hit by the L'Aquila earthquake of 2009, Italtel donated Euro 17,000 (of which Euro 8,591.63 donated by employees and Euro 8,408.37 by the company) in December 2016 to the non-profit ONNA. This association, with offices in the municipality of the same name of L'Aquila, is reconstructing various buildings, including a multi-functional center and a sports center.

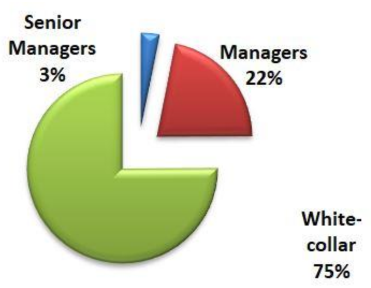
Central Italy Earthquake

- Following the earthquake which hit Central Italy in August 2016, Italtel and the Italtel RSU's (workers' associations) of Settimo Milanese, Rome and Carini contributed through a joint project, identifying as a partner the Vico Badio di Fonte del Campo Association of Accumoli.
- Following also a number of aftershocks, the buildings in the affected areas suffered often irreparable very severe damage. Reconstruction will be a long process - as is always the case - and each contribution is vital.
- By the middle of December 2016, Euro 8,000 had been donated (of which Euro 3,970.50 donated by employees and Euro 4,029.50 by the company). The contribution will go towards the reconstruction of the association's offices which provide a meeting point for this very hard hit community.
- In addition, Italtel just a few days after the earthquake made available 100 free WiFi access points at the camps, installing and activating the equipment.

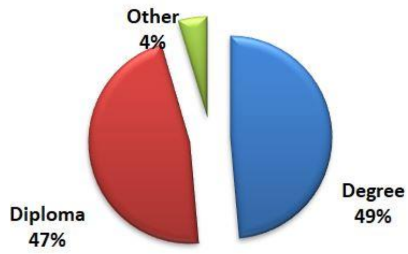
Workforce

The Italtel group workforce at December 31, 2016 comprises 75% blue-collar workers, 22% while-collar and 3% managers.
49% possessed Degrees, while approx. 47% held Diplomas.
Personnel are broken down into the following departments: Software, Solutions, Sales & Marketing and Administration and Staff.

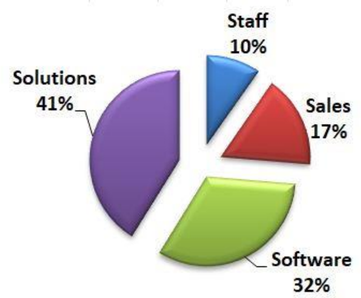
Employees by category



Employees by qualification



Employees by department



96%

employees with **full-time contracts**

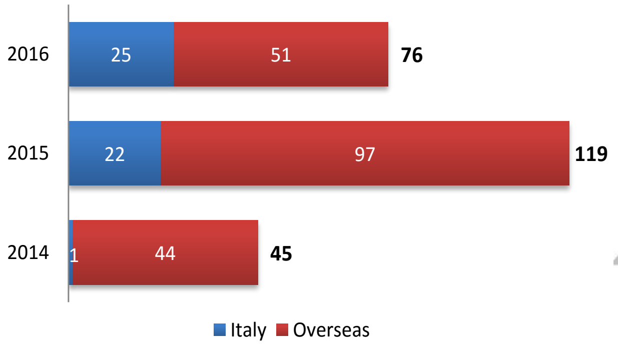
100%

employees in Europe with **flexible working hours** (^)

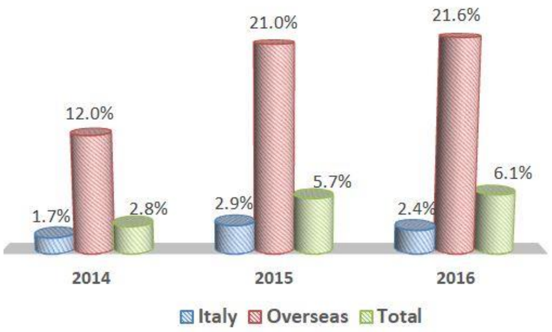
100%

employees in Italy with **salaries greater than the contractual minimum**

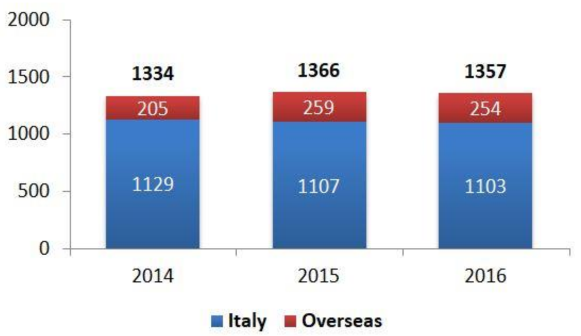
(^) at the Latin American companies work hour flexibility is not available.



New hires (number)



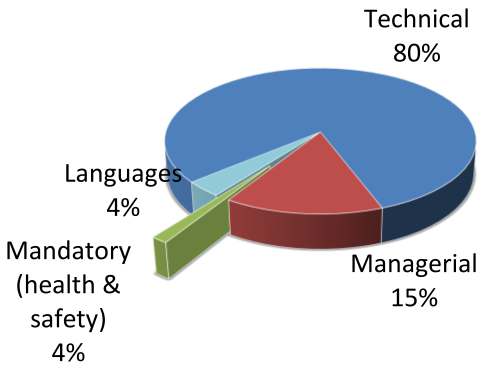
Voluntary turnover
(% of voluntary departures out of workforce)



Workforce (number)

Training

In 2016, in total approx. 10,500 hours of training were provided in Italy, with 751 participations and 77 training events of various types. Training hours were equal to 1% of hours worked.



21

pro-capita training hours 2016(*)

45%

employees attending at least one training course in 2016 (*).

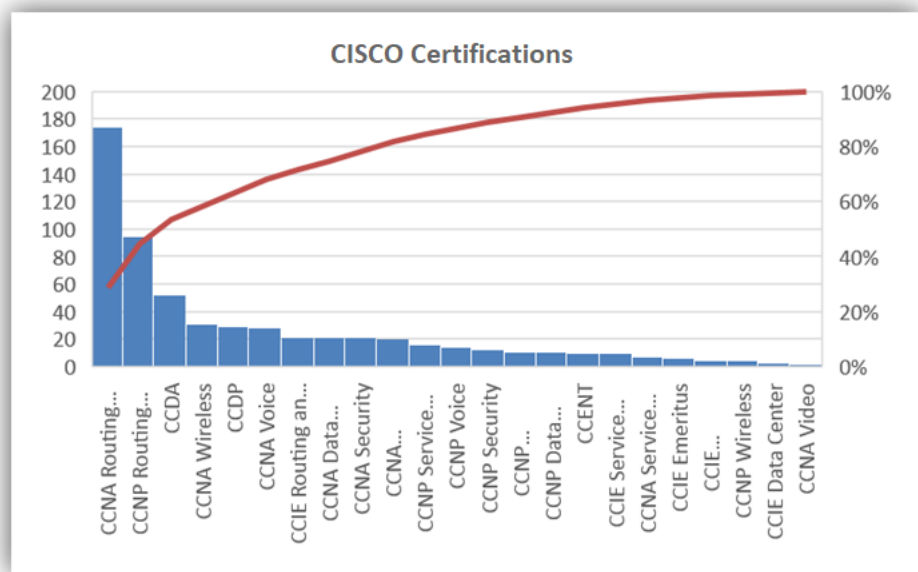
8%

increase in no. of employees trained in 2016 compared to 2015 although the number of overall training hours reduced

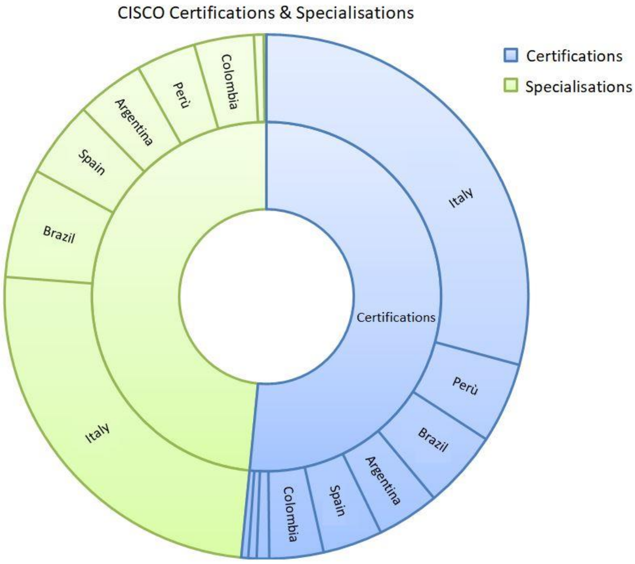
(*) excluding mandatory training (on health and safety).

During the year training once again focused on technological issues. In particular, in relation to Cisco technologies the necessary courses for the maintenance of Gold Certification, the ATP's and operations on developing markets and the development of Selling Business and Business Value Practitioner skills was ensured.

A training course was also introduced to develop Security competences, increasing the number of certified CCNP and prospectively CCIE qualified personnel. Cisco Continuous Learning was also introduced, involving training and updating on a wide range of Cisco related issues. Training in relation to virtualization continued, consolidating VMWARE skills and developing Openstack/Red Hat know-how. Training regarding the partnership with



Sandvine was extended further.



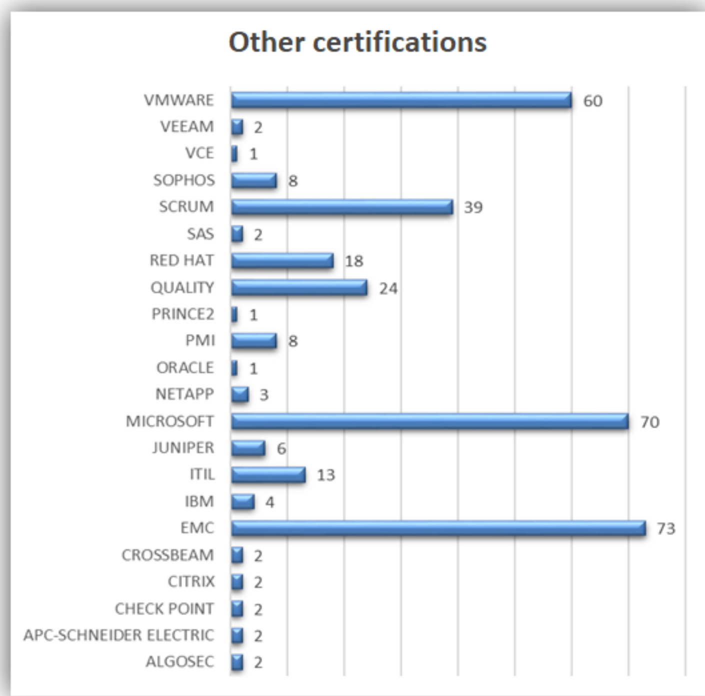
602 Cisco certifications and 566 specializations worldwide

The ongoing updating of Managers, Supervisors and Professionals continued through participation at business culture meetings organized by Ruling Companies. In addition, a workshop was held utilizing innovative methodologies dedicated to Management Team excellence.

In order to facilitate international development, foreign language training was re-introduced in a particularly flexible format based on Skype lessons and individual coaching.

Finally, with regards to workplace health and safety, updates were provided for the RLS and RSPP and a fire protection course held at the Rome offices.

Also in 2016 Training Financing was availed of, which covered 32.9% of the operating expenses required through Fondimpresa, Fondirigenti and Cisco funds for the Cloud Mdf Project. In addition, funding was acquired from the Lombardy Region for ongoing training regarding technical issues and foreign language skills.



343 others certifications

Industrial Relations

In 2016 surpluses were managed in order to achieve the labor cost objectives for the years 2015-2016 of the Industrial Plan.
The roundtable involving the trade unions at Assolombarda concluded with the signing of the agreement of November 20, 2015 under which, against the redundancy of 124 workers as an alternative to the collective redundancy procedure (Law 223/1991), the Parties agreed upon a "Defensive" Solidarity Contract, as per Article 21, paragraph 5, letter c) of Legislative Decree 148/2015 and Ministerial Decree No. 46448 of 10/7/2009, which permits diluting of the redundancy obligation through involving a greater number of workers.

The agreement stipulated the use between January 1 and December 31, 2016 of the vertical Solidarity Contract for 846 workers, with a 12% reduction of hours (16 days and 30 minutes per day, corresponding to an additional 16 equivalent days), of the vertical Solidarity Contract for 125 workers for 8 days annually and the re-entry to the workforce with a Solidarity Contract percentage of 50% monthly (in full days) for employees involved in the 2015 Extraordinary Temporary Lay-Off Scheme who had not yet taken the exam under the professional retraining plan and until passing such exam.
Under a subsequent agreement signed at Assolombarda on December 28, 2016, the Parties agreed to continue for 2017 support for the programme to develop and relaunch production, in line with a new Industrial Plan and on the basis of the following key points:

- signing of a "Defensive" Solidarity Contract, applicable from January 1 to December 31, 2017 stipulating a 3% reduction in working hours for 114 employees, of 13% for 738 employees, of 35% for 191 employees and of 50% for 16 workers, against the departure of 200 employees, as an alternative to the collective redundancy procedure (Law 223/1991), diluting the obligation over a greater number of workers;
- introduction of a collective personnel reduction procedure for a maximum 200 departures, to be supported by an incentive plan based on the "non-opposition" of workers involved;
- extension until December 31, 2017 of application of point 3 "New benefit conditions" of the February 12, 2015 agreement concerning the suspension of non-contractual vacations, the Fixed Quota, the Fixed monthly bonus; reduction of travel allowances; continuation of the monthly allowance for ex One Ans and ex STI Personnel;
- upskilling of solidarity contract personnel involved in the 50% and 35% working hour reduction.

Smart Working

Smart working is an innovative workplace organization model adopted by an ever-increasing number of entities. It is defined as "a new approach to work featuring greater flexibility and independence in terms of work space, hours and tools". To implement this innovative workplace vision, a culture which places a greater focus on results is fundamental.

Italtel decided to assess this approach to work, launching, on the basis of the Trade Union Agreement of October 24, 2016, a six-month pilot project to consider its efficacy, effective compatibility with company activities and the possibility to make it permanent.

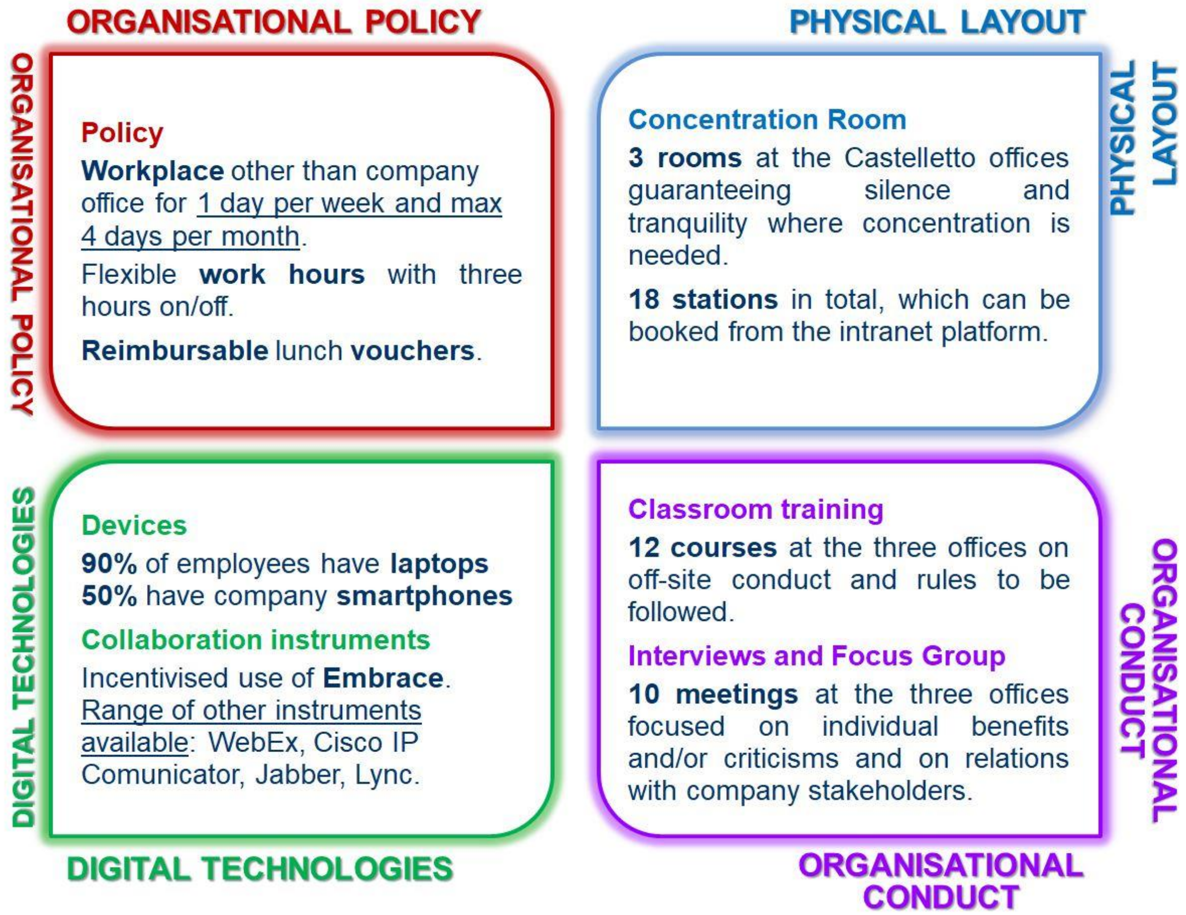
The project objectives are to:

- increase the degree of responsibility assumed by individuals for results
- blend work hours with employee's lives
- promote the use of our Collaboration at Work tools to encourage use outside the workplace

and the expected benefits are:

- increased efficiency of individual workers

- increased satisfaction and engagement among employees



Smart working at Italtel

The initial project phases began in July 2015 with a number of important steps for the training of individuals involved in testing and with regards to workplace environments. The effective launch was November 2, 2016, concluding on April 28, 2017.

149 employees signed up, of which 77 men, 61% college graduates and 84% "over 40's".

During the initial months of testing (November and December 2016), 401 smart working days were undertaken, with an average of 1.9 days per month per person.
On average, sample employees travelled 49 KM's per day (out and back) on their commute and took 86 minutes. Therefore, in the initial two months of testing approx. 20,700 KM and 607 hours (approx. 81 working days) were saved.
One day of smart working by the 149 employees involved in the sample reduces CO_2 emissions by 1,230 KG, equal to the quantity of carbon dioxide absorbed in a year by 41 trees, reducing traffic at the three offices by 16%.

On February 18, 2016, Italtel - together with 170 other Milan-based companies - was involved in the Municipality of Milan initiative "Smart working Day" to promote remote working in order to deliver benefits for the individual and for the environment.

Initiative Logo

The Environment

In 2016, Italtel again undertook a significant commitment to the environment, enabling a significant reduction in environmental impact, with quick and effective responses to external issues raised – demonstrating and documenting company compliance with regulations – and with a significant saving in electric and thermal energy. The Energy Management activities were further consolidated, also through the solution implemented internally for the monitoring of energy consumption (iESC), engineered for proposal and sale on the market within the "Smart City" environment.

In 2016, the plant consumption education and reduction programme at the Settimo Milanese test rooms continued, with an 18.6% IT use reduction. The new condensing thermal station installed at Settimo Milanese in 2014, in addition to reducing methane consumption by 55.4% in the year compared to the previous station, focused also on consumption in relation to the outside temperature. In 2016, methane gas consumption was further reduced by 8.0%.

In the Carini Industrial District, the Environmental Management System ISO 14001 certification was confirmed, held since 2001.

The Energy Diagnosis of the Castelletto and Carini sites carried out in 2015 is under validation, in accordance with Legislative Decree 102/2014 "Energy Efficiency" by a Certified company.

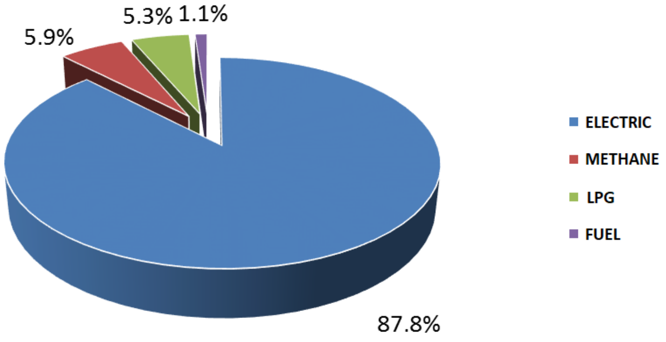
A focus on consumption containment, energy efficiency and the consequent environmental impact has translated into the continual decline of direct and indirect atmospheric emissions during the 2012-2016 five-year period.

The environmental performance improvement guidelines were:

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

Results and Consumption Trends

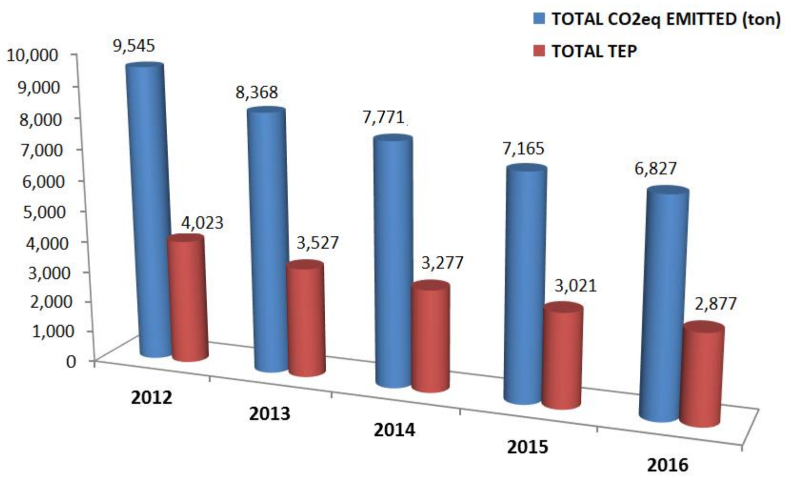
Electrical Energy is the principal source, accounting for 87.8%, corresponding to 13.51 GWh in 2016. Combustibles (methane gas and LPG) and fuels follow.



Energy Splitting by type year 2016

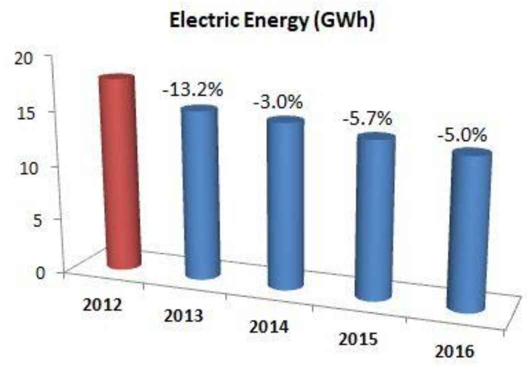
The five-year trend of total Energy follows, expressed also in terms of emissions:

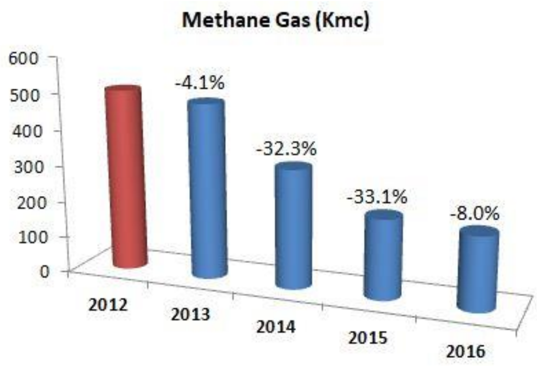
OVERALL TEP/CO2eq	2012	2013	2014	2015	2016
TOTAL TEP	4,014	3,519	3,263	3,004	2,864
TOTAL CO2eq EMITTED (ton)	9,519	8,344	7,729	7,119	6,789
Change%		-12.3%	-7.3%	-7.9%	**-4.7%**
Cumulative Cge.%		-12.3%	-18.7%	-25.2%	**-28.7%**

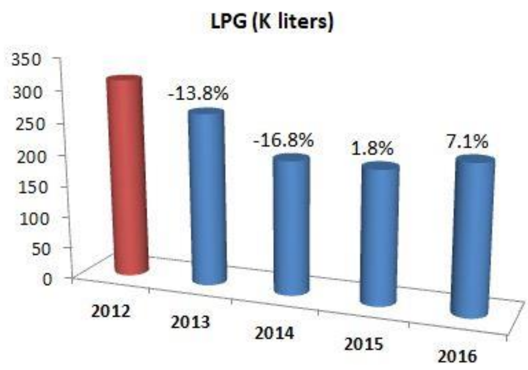


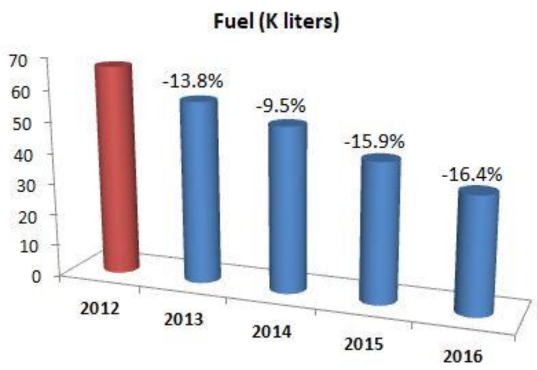
CO2 eq. trend and TEP 2012-2016

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









-4.7%

overall reduction of **Energy** in 2016 compared to 2015

-5.0%

reduction of **Electricity** in 2016 compared to 2015

-8.0%

reduction of **Gas** in 2016 compared to 2015

-28.5%

cumulative reduction of **Energy** in the five-year period 2012-2016

-24.6%

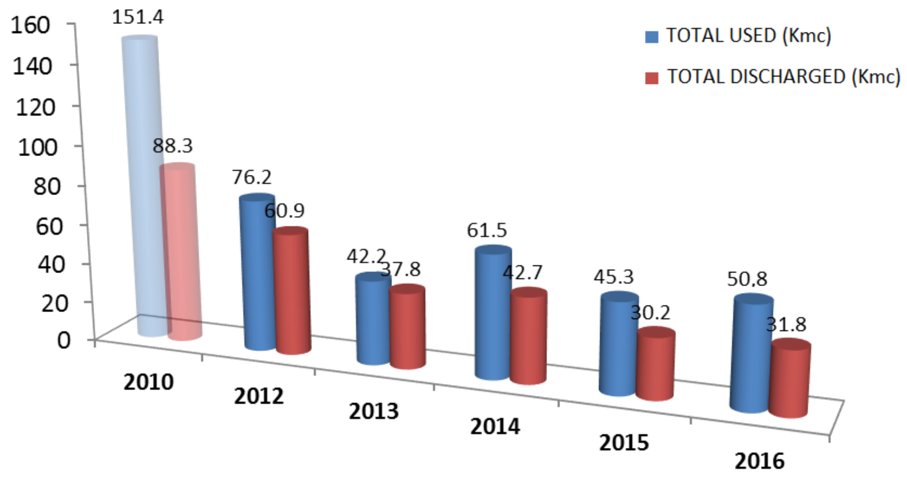
cumulative reduction of **Electricity** in the five-year period 2012-2016

-60.0%

cumulative reduction of **Gas** in the five-year period 2012-2016

Water

Water consumption has been declining at both industrial sites (Settimo Milanese and Carini). At Settimo Milanese, disengagement of the old cooling towers enabled from the middle of 2012 the elimination of the use of well water and in 2016 the discharge was absorbed for civil use. At Carini, the air conditioning plant revamping at the complex enabled the disposal of the old absorbers and a progressive reduction of industrial water use over the years. Taking 2010 as a base year, overall use and discharge reduced respectively by 66.4% and 64%.

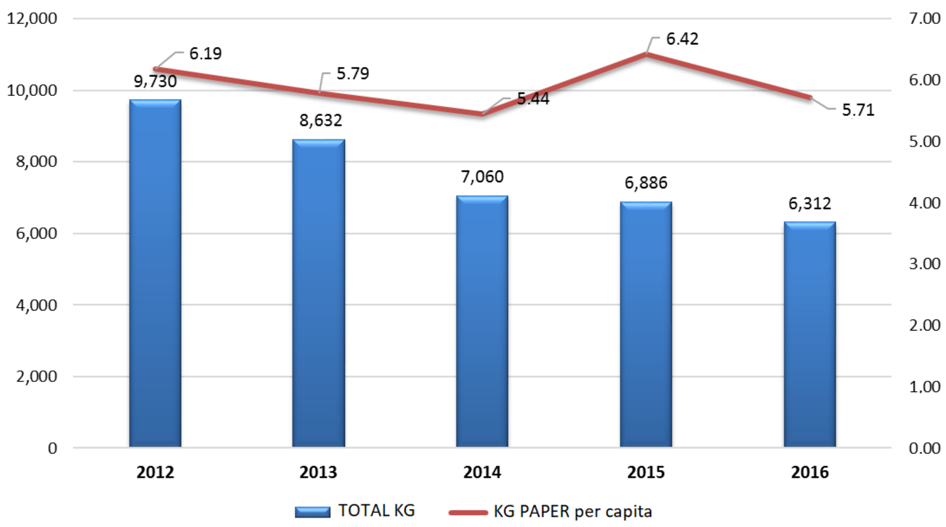


Use/Discharge Water 2012-2016

-100% Reduction use/discharge Castelletto site since 2012	**-33.3% / -47.9%** Reduction use/discharge in the five-year period 2012-2016

Paper for office use

Paper consumption has reduced both in absolute terms and in pro-capita terms.
Lower consumption is related to the refinement of the multifunctional printing center projects shared with other services, in place since 2007. Compared to 2015, total consumption reduced 8.3% and pro-capita by 11.1%.



Consumption of Paper for office use 2012-2016

-35.1%

Cumulative reduction of paper consumption in the five-year period 2012-2016

-7.7%

Pro-capita reduction of paper consumption in the five-year period 2012-2016

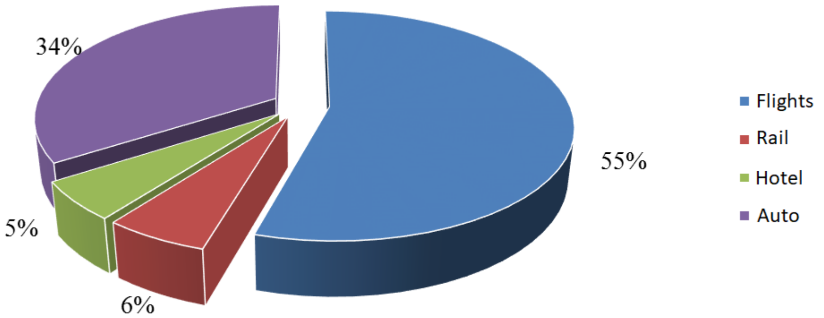
Regulatory compliance

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

Travel

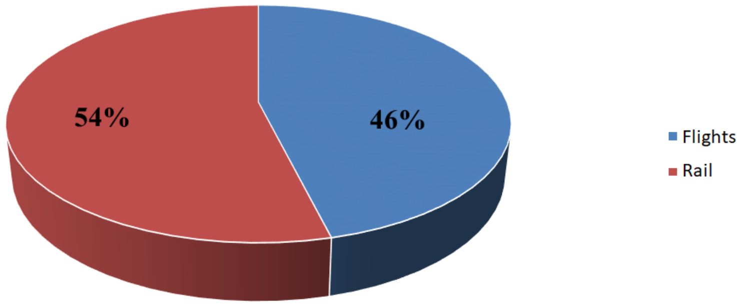
The company promotes the reduction of travel among its employees through distance communication and working options. However, specific demands require employees to undertake journeys both in Italy and overseas, producing CO_2 emissions of approx. 1136 tons in 2016, representing approx. 14.3% of all direct and indirect emissions related to company activities.

The majority of CO_2 emissions concern flights (55% of the total).



Breakdown of CO_2 emissions from work related journeys in 2016

The company policy for work related travel in Italy promotes the use of rail. Rail use for domestic journeys in fact reduces CO_2 emissions as at like-for-like distance train journeys entail between 20% and 30% less emissions than air travel. In line with the company policy on domestic travel, rail use in 2016 accounted for 54%, against 36% air usage, therefore significantly improving on the previous year (rail of 48%, air use of 52%).



Domestic journeys 2016

Suppliers

In 2016, the new Italtel Group Procurement Policy was issued in order to guarantee customers the provision of products and services which meet their quality, cost, timing and reliability demands, through working with suppliers who share our respect for the individual, the protection of the environment and the honesty and integrity principles outlined in the Italtel Ethics Code.
The selection of suppliers and purchase transactions therefore gave priority to businesses satisfying the following criteria:

- compliance with law and regulations in terms of Corporate Social Responsibility (CSR) and placing a focus on the respect of human rights and the protection of the environment
- those whose core business relates to the subject of the transaction

- availing of an organization and of tangible and intangible assets of an adequate quality and quantity in terms of the type and extent of provision to be made and which guarantee adequate quality, prices and delivery timings
- capable of guaranteeing the required quality level
- able to guarantee the stability and continuity of the provision of goods and/or services over time, also through formalized emergency plans and with the flexibility required to rapidly respond to fluctuations in market demand/supply

Applying this Italtel Policy, the number of registered Suppliers with a Corporate and Social Responsibility (CSR) focus increased from 18% to 28%.
In 2016 however, the volume of purchases from these suppliers slightly reduced on the previous year from 69% to 60%. This reduction was due exclusively to business requirements, with Italtel implementing a "mix change" in terms of values procured compared to 2015, featuring an increase in procurement for classes of goods where certain suppliers had not yet fully adopted the CSR policy. This change is principally caused by external issues imposed by customers and in absolute terms this result was impacted also by a market contraction resulting in a general reduction of 12% in total purchases compared to 2015.

	2016	2015
Suppliers declaring implementation of CSR policies (Total number CSR suppliers/Total number Registered suppliers)	28%	18%
Procurement volumes from Suppliers declaring implementation of CSR policies (Total value acquired from CSR suppliers/ total procurement value)	60%	69%

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

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

60%
ISO Certified suppliers

24%
Suppliers with special technical certifications

Business ethics

Integrity, loyalty, conflicts of interest

Italtel for many years has had an internal system which highlights irregularities, available to employees and all those operating on behalf or in favor of the Company. This system comprises dedicated telephone lines and an e-mail address to which any violations of the Ethics Code may be communicated or, more in general, unlawful activity. In 2016, as in the two previous years, no violations of the Ethics Code were reported, nor unlawful acts within the workplace.

In relation to conflicts of interest, Italtel utilizes an internal procedure to identify and handle situations of potential conflict. In 2016, as was the case in the two preceding years, no cases of conflict of interest arose.

No
reporting of violations of the Ethics Code in the three-year period 2014 - 2016

No
unlawful acts in the workplace in the three-year period 2014 -2016

No
conflicts of interest encountered in the three-year period 2014 - 2016

Fair competition and legal compliance

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

"Legality Rating" allocated by the Anti-trust Authority

In confirmation of this commitment, in 2016 - as in the two previous years - no disputes concerning legal violations by company personnel in the exercise of their duties were recorded, nor sanctions for violation of the regulations upon product security, privacy, industrial and intellectual property, misleading advertising or anti-competitive behavior by Italtel S.p.A. or by Group companies.

No dispute
for violations of the law imposed on company personnel in the exercise of their duties in the three-year period 2014 - 2016

No penalty
for violation of regulations, for misleading advertising or for anti-competitive conduct in the three-year period 2014 - 2016

Business ethics training

In 2014, in Italy 100% of employees operating in areas at risk received training upon the prevention of unlawful acts in accordance with Legislative Decree 231/2001.
In 2015 a training program was initiated involving all overseas Group companies in terms of these issues, concluding in 2016. The program involved approx. 60% of employees operating overseas in the at-risk areas.
In 2016, a training program for the prevention of offenses against the Public Sector was held, involving approx. 200 Italian-based employees involved in areas potentially at risk for these offenses.

90%
of employees operating in Italy in the at-risk areas for PS offences were trained in 2016

Internal controls

Italtel carries out systematic internal auditing, part of which concerns business ethics. In 2016, 10 internal audits in this regard were carried out. In 2015, 10 internal business ethics audits were carried out, with 12 in 2014.

32

internal audits on business ethics in the three-year period 2014 - 2016

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

Italtel was subject to external audits carried out by third parties with whom it undertakes business relations; in 2016, 5 were held, with 3 in 2015 and 1 in 2014; they concerned intellectual property rights in the use of third party software and information security. All audits had positive outcomes.

Relations with the Public Sector

Italtel maintains close relations with the Public Sector. This is highlighted by the significant amount of support which the Company receives to support internal research and development, in the form of grants and subsidized rate loans. In 2016, Italtel received grants worth Euro 2.05 million.

Grants

15.6M€ in the three-year period 2014-2016

Subsidized rate loans **36.9M€ in the three-year period 2014-2016**

In addition, Italtel is among 41 entities included in the Italian Public Sector suppliers list.

41

Inclusion on Public Sector Suppliers list in 2016

Finally, Italtel holds an SOA for the execution of public works in accordance with Presidential Decree No. 207/2010. The SOA is a mandatory certification for participation in public works tenders and is therefore necessary and sufficient to prove, within tenders, the capacity of the company to execute, directly and through sub-contract, public works with a tender value of over Euro 150,000; this assurance guarantees the holding by construction sector companies of all of the requirements of the currently applicable Public Works Contracts regulation. In addition to technical and financial capacities, the SOA establishes also professional standards requirements, the absence of serious violations in the execution of company activities and the proper implementation of labor law.
In 2016, the SOA (n.17122/4/00) was updated and extended, acquiring certification for design and construction.

Other events in the year

Potential significant liabilities

Tax dispute in Italy

With regards to tax disputes arising in the 2004 to 2010 period concerning mainly financial charges related to the Leveraged Buy Out, on December 22, 2016 a Framework Agreement was signed with the Italian Tax Authorities (Tax Agency - Lombardy Regional Section - Large Contributions Office) for the final settlement of the dispute both with regards to these tax periods and in relation to tax periods from 2011 to 2015 (for this latter, the settlement involved only the earnings component relating to the financial charges for the Leveraged Buy Out).

The Framework Agreement involves, for the financial charges relating to the LBO, the non-deductibility of interest charges concerning only the Italtel Holding S.p.A. (now Italtel Group S.p.A.) holding of Telecom, through its Luxembourg-based subsidiary Telecom Italia Finance SA. (equal to 19.37%).

As a result of the above-stated agreement, tax losses reported in the declaration of income and interest temporarily not deducted which did not result in a charge in the financial statements were adjusted, as the relative deferred tax assets were not recorded.

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 2016 and 2015.

Income Statement

The reclassified income statement for 2016 and 2015 is reported below.

(Euro thousands)

	2016	2015	Changes
Revenues from sales and services	**405,411**	**441,074**	**(35,663)**
Profitability after external costs/Gross margin	**108,474**	**118,988**	**(10,514)**
% of revenues	*26.75%*	*27.0%*	
Personnel costs	(82,513)	(81,613)	(900)
Operating expenses	(23,433)	(25,153)	1,720
Grants related to income	4,900	5,552	(652)
Capitalization of Research & Development costs	12,995	13,602	(607)
Other costs and income	(1,170)	(98)	(1,072)
Adjusted EBITDA	**19,253**	**31,278**	**(12,025)**
% of revenues	*4.7%*	*7.1%*	
Non-recurring personnel charges	(17,200)	(576)	(16,624)
Other charges and non-recurring income	(3,166)	(539)	(2,627)
EBITDA	**(1,113)**	**30,163**	**(31,276)**
% of revenues	*(0.3)%*	*6.8%*	
Amortization, depreciation & write-downs	(72,268)	(19,800)	(52,468)
EBIT	**(73,381)**	**10,363**	**(83,744)**
Net financial charges	(10,695)	(11,655)	960
Loss before taxes	**(84,076)**	**(1,292)**	**(82,784)**
Income taxes	(13,795)	(17,348)	3,553
Discontinued operations profit/(loss)	(63)	(124)	61
Net loss for the year	**(97,934)**	**(18,764)**	**(79,170)**

Revenues from sales and services in 2016 amounted to Euro 405,411 thousand, decreasing Euro 35,663 thousand (-18.3%) on 2015 (revenues of Euro 441,074 thousand).

Only Large Enterprise and Public Sector revenues increased (+Euro 7,393 thousand, up 10.3% from Euro 71,877 thousand in 2015 to Euro 79,270 thousand in 2016), while the other markets all contracted.

Other Italian operator revenues totaled Euro 40,148 thousand, compared to Euro 41,072 thousand in 2015, decreasing Euro 924 thousand (-2.2%).
Large Enterprise and Public Sector revenues totaled Euro 79,270 thousand, compared to Euro 71,877 thousand in 2015, up Euro 7,393 thousand (+10.3%). This principally concerns the initial two broadband infrastructure construction projects on which Italtel operated as the exclusive engineer in support of Enel Open Fiber.

Foreign Operator revenues contracted significantly on the previous year (Euro -29,996 thousand), accounting for 41.4% of total revenues (44.9% in 2015).

In further detail, EMEA area revenues decreased from Euro 57,582 thousand in 2015 to Euro 49,164 thousand in 2016, reducing Euro 8,418 thousand (-14.6%), due entirely to Spain which in 2015 benefitted from the HSC special project.

In the LATAM area, revenues decreased from Euro 140,390 thousand in 2015 to Euro 118,812 thousand in 2016, down Euro 21,578 thousand (-15.4%) on the previous year, substantially due to reduced revenues in Brazil, Peru and Colombia.

The 2016 revenue performance compared with 2015 is reported below.

(Euro thousands)

	2016	%	2015	%	Change %
		(a)		(a)	(b)
Telecom Italia Group	118,017	*29.1%*	130,153	*29.5%*	*(9.3)%*
Other local operators	40,148	*9.9%*	41,072	*9.3%*	*(2.2)%*
Large enterprises and Public Sector	79,270	*19.6%*	71,877	*16.3%*	*10.3%*
Overseas Operators – EMEA	49,164	*12.1%*	57,582	*13.1%*	*(14.6)%*
Overseas Operators - LATAM	118,812	*29.3%*	140,390	*31.8%*	*(15.4)%*
Total	**405,411**	***100%***	**441,074**	***100%***	***(8.1)%***

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

Due to the revenue contraction, profitability after external costs reduced from Euro 118,988 thousand in 2015 to Euro 108,474 thousand in 2016 (-Euro 10,514 thousand). The margin however remained substantially stable on the previous year (26.7% in 2016 compared to 27.0% in 2015).

Personnel costs in 2016 totaled Euro 82,513 thousand, compared to Euro 81,613 thousand in 2015, increasing Euro 900 thousand (+1.1%).

Net operating expenses in 2016 amounted to Euro 23,433 thousand, a significant improvement therefore (Euro 1,720 thousand, 6.8%) on the previous year (Euro 25,153 thousand). This is principally due to the renegotiation of the Settimo Milanese building rental contract, resulting in a benefit of approx. Euro 1,300 thousand.

Operating grants from public bodies against research projects amounted to Euro 4,900 thousand, decreasing therefore Euro 652 thousand (-11.7%) compared to the previous year.

The capitalization of R&D costs is lower than the previous year by Euro 607 thousand.

Other operating costs increased in 2016 Euro 1,072 thousand on 2015, which benefitted from the release of provisions.

After the above-stated items, normalized EBITDA in 2016 totaled Euro 19,253 thousand (revenue margin of 4.7%), reducing Euro 12,025 thousand (-38.4%) on EBITDA in the previous year of Euro 31,278 thousand.

Non-recurring personnel costs in 2016 amounted to Euro 17,200 thousand (compared to Euro 576 thousand in 2015) and almost entirely concerned the provision made (Euro 16,800 thousand) for personnel as part of the 2017-2023 Industrial Plan restructuring.

Other non-recurring charges and income reported a charge of Euro 3,166 thousand, increasing Euro 2,627 thousand on the previous year. The increase is principally due to the non-recurring write-down of inventory related to proprietary products for Euro 1,743 thousand and non-recurring charges incurred for the corporate acquisition by Exprivia outlined at the beginning of the Directors' Report for Euro 679 thousand, in addition to a contractual penalty arising in previous years of Euro 730 thousand.

The above-stated non-recurring charges result in a financial statement EBITDA loss for 2016 of Euro 1,113 thousand, down Euro 31,276 thousand on an EBITDA profit of Euro 30,163 thousand for the previous year.

Amortization, depreciation and write-downs totaled Euro 72,268 thousand compared to Euro 19,800 thousand in 2015 (+Euro 52,468 thousand). This is due to the non-recurring write-downs in the year of Euro 53,261 thousand, of which Euro 45,000 for goodwill and Euro 8,261 thousand for intangible assets in relation to development costs no longer considered recoverable.

Consequently, EBIT was a loss of Euro 73,381 thousand, compared to a profit of Euro 10,363 thousand in 2015 (therefore declining Euro 83,744 thousand).

Net financial charges were Euro 10,695 thousand, compared to Euro 11,655 thousand in the previous year, reducing Euro 960 thousand (-8.2%).

The Group pre-tax result reports a loss of Euro 84,076 thousand due to the stated extraordinary items, increasing on the loss of Euro 1,292 thousand in 2015.

2016 income taxes of Euro 13,795 thousand compared to Euro 17,348 thousand for the previous year (-Euro 3,553 thousand). In 2016, deferred tax assets were written down for Euro 10,000 thousand and oversees withholding taxes for Euro 1,842 thousand. In the previous year, similar write-downs amounted to Euro 12,793 thousand.

The 2016 net result, following a net loss from discontinued operations of Euro 63 thousand (Euro 124 thousand in 2015), was a loss of Euro 97,934 thousand, compared to a loss of Euro 18,764 thousand in the previous year.

Balance Sheet

The balance sheet at December 31, 2016 and 2015 is reported below.

(Euro thousands)

	31/12/2016	31/12/2015	Changes
Non-current assets and liabilities:			
+ Goodwill	122,215	167,215	(45,000)
+ Property, plant and machinery and other intangible assets	30,947	38,051	(7,104)
+ Other assets	5,672	13,102	(7,430)
+ Deferred tax assets	63,352	74,016	(10,664)
- Employee provisions	(20,360)	(19,423)	(937)
- Provision for contingencies and charges	(20,668)	(6,577)	(14,091)
- Other liabilities	(486)	(1,003)	517
Non-current assets and liabilities	**180,672**	**265,381**	**(84,709)**
Working capital:			
+ Inventories	40,379	34,687	5,692
+ Trade receivables	125,296	87,252	38,044
+ Other receivables	20,547	20,901	(354)
+ Assets held-for-sale	12	248	(236)
- Trade payables	(163,262)	(143,491)	(19,771)
- Other payables	(50,741)	(57,327)	6,586
- Liabilities related to assets held-for-sale	(386)	(392)	6
Working capital	**(28,155)**	**(58,122)**	**29,967**
Total net capital employed	**152,517**	**207,259**	**(54,742)**
Net financial debt	**216,677**	**172,585**	**44,092**
of which cash	(25,998)	(61,666)	35,668
Consolidated shareholders' equity	**(64,160)**	**34,674**	**(98,834)**
Share capital	2,000	2,000	-
Other reserves including the net result	(66,160)	32,674	(98,834)
Total Debt and Net Equity	**152,517**	**207,259**	**(54,742)**

Investments

Investments in the year totaled Euro 20,140 thousand, of which Euro 17,742 thousand in intangible assets and Euro 2,398 thousand in property, plant and equipment.

Specifically, Euro 15,979 thousand was invested in Development and Innovation activities and Euro 1,763 thousand in software applications acquired under unlimited use licenses and software development projects.

During the year, investments were made in industrial equipment of Euro 466 thousand, principally regarding that used for the development of software solutions and for the test plant of products launched on the market, for a total of Euro 720 thousand. In addition, Euro 1,557 thousand was invested in EDP and computers for the technological updating of the Company IT systems and Euro 60 thousand in the extraordinary maintenance of the Carini office building.

Financial Highlights

The net debt was as follows:

(Euro thousands)

	31/12/2016	31/12/2015	Changes
Short-term bank loans	234,249	95,560	138,689
Medium/long-term loans (bank and subsidized)	20,300	153,385	(133,085)
Other financial payables	618	944	(326)
Accrued liabilities and deferred income	112	120	(8)
Gross debt	**255,279**	**250,009**	**5,270**
Cash in hand and similar	(7,357)	(3,422)	(3,935)
On demand bank current accounts	(18,641)	(58,244)	39,603
Restricted current accounts	(8,009)	(8,008)	(1)
Short-term financial receivables	(3,999)	(3,926)	(73)
Prepayments and accrued income	(322)	(562)	240
Other working capital securities	(274)	(3,262)	2,988
Net debt	**216,677**	**172,585**	**44,092**

The net debt at December 31, 2016 totaled Euro 216,677 thousand and increased Euro 44,092 thousand compared to Euro 172,585 thousand at December 31, 2015, due to the increase in liquidity and financial receivables for Euro 38,822 thousand, offset by the increased gross debt of Euro 5,270 thousand.

Short-term loans increased Euro 138,689 thousand, due to new loans of Euro 14,221 thousand, offset by subsidized rate loan repayments of Euro 8,783 thousand and the payment of finance lease charges of Euro 58 thousand. A total of Euro 133,309 thousand of short-term loans were reclassified to medium/long-term, of which 8,624 concerning subsidized rate loans, Euro 125 thousand concerning finance lease payables and Euro 124,560 thousand relating to medium/long-term bank loans which, as indicated in the 2015 Annual Accounts, were renegotiated with the Lending banks. These loans increased Euro 2,189 thousand in terms of interest matured in the year and capitalized on medium/long-term credit lines as per the 2013 Restructuring Agreement.

Medium/long-term loans decreased Euro 133,085 thousand from the reclassifications cited in the previous paragraph for Euro 133,309 thousand, offset by the finance leases obtained of Euro 224 thousand.

Other financial payables reduced Euro 326 thousand, with accrued liabilities and deferred income decreasing Euro 8 thousand.

The balance of restricted current accounts of Euro 8,009 thousand relates to liquidity held as a guarantee for the issue in 2015 of two loans for the PAIMS and SIS research projects.

Financial receivables increased Euro 73 thousand, while prepayments and accrued income decreased Euro 240 thousand.

Other current securities reduced Euro 2,988 thousand. Euro 274 thousand concerns short-term securities received from the Columbian tax authorities against the repayment of tax receivables of the branch office.

Related party transactions

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

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

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

Subsequent events

There were no significant events after the end of the year, further to those outlined in the relative section concerning the Italtel S.p.A. significant events and Directors’ considerations on the going concern in the Directors’ Report.

Outlook

Results to date are substantially in line with the 2017 budget figures of the 2017-2023 Industrial Plan approved by the Board of Directors on July 19, 2017 and subject to appraisal as part of the New Restructuring Agreement, under completion and awaiting approval by the Milan Court.

Settimo Milanese, July 19, 2017

For the Board of Directors

The Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated Balance Sheet at December 31, 2016 and 2015

(Euro thousands)

	Note	31/12/2016	31/12/2015
Assets			
Non-current assets			
Property, plant and equipment	(7)	13,553	14,039
Goodwill	(8)	122,215	167,215
Other intangible assets	(9)	17,394	24,012
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	10,435	10,587
Other assets	(12)	3,249	10,677
Deferred tax assets	(13)	63,352	74,016
Total non-current assets		**230,392**	**300,740**
Current assets			
Inventories	(14)	40,379	34,687
Trade receivables	(15)	125,296	87,252
Tax receivables	(16)	3,185	786
Other receivables and assets	(17)	17,362	20,115
Short-term financial assets	(18)	4,398	7,402
Restricted current accounts	(19)	-	-
Cash and cash equivalents	(19)	25,998	61,666
Total current assets		**216,618**	**211,908**
Discontinued non-current assets	(41)	**12**	**248**
Total assets		**447,022**	**512,896**
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)	(164,888)	(66,054)
Group Shareholders' equity		**(64,160)**	**34,674**
Share capital and reserves pertaining to minority interest		-	-
Total Shareholders' Equity		**(64,160)**	**34,674**
Liabilities			
Non-current liabilities			
Employee provisions	(24)	20,360	19,423
Provisions for risks and charges	(25)	20,668	6,577
Medium/long term financial liabilities	(26)	20,300	153,385
Other liabilities	(27)	486	1,003
Total non-current liabilities		**61,814**	**180,388**
Current liabilities			
Trade payables	(28)	163,262	143,491
Current income taxes	(29)	127	1,829
Other payables and liabilities	(30)	50,614	55,498
Current financial liabilities	(26)	234,979	96,624
Total current liabilities		**448,982**	**297,442**
Discontinued non-current liabilities	(41)	**386**	**392**
Total liabilities		**511,182**	**478,222**
Total shareholders' equity and liabilities		**447,022**	**512,896**

2016 and 2015 Consolidated Income Statement

(Euro thousands)

	Note	2016	2015
Revenues from sales and services	(31)	405,411	441,074
Other income	(32)	16,581	18,432
Purchase of materials and services	(33)	(338,056)	(353,955)
Personnel costs	(34)	(101,061)	(84,084)
Amortization, depreciation & write-downs	(35)	(72,268)	(19,800)
Other operating costs	(36)	(7,224)	(7,340)
Change in inventories	(37)	9,702	2,036
Increase in internal work capitalized	(38)	13,534	14,000
EBIT		**(73,381)**	**10,363**
Financial income	(39)	21,682	24,623
Financial charges	(39)	(32,377)	(36,278)
Net investment gains/(losses) under the equity method:		-	-
Loss before taxes		**(84,076)**	**(1,292)**
Income taxes	(40)	(13,795)	(17,348)
Loss from normal operations		**(97,871)**	**(18,640)**
Discontinued operations loss	(41)	(63)	(124)
NET LOSS FOR THE YEAR		**(97,934)**	**(18,764)**
Group share		(97,934)	(18,764)
Minority interest share		-	-

2016 and 2015 Consolidated Comprehensive Income Statement

(Euro thousands)

	2016	2015
Net loss for the year	**(97,934)**	**(18,764)**
Profit/(losses) which will reverse to the income statement in future:		
Profits/(losses) from conversion of accounts of overseas companies	(178)	(3,727)
Profit/(losses) which will not reverse to the income statement in future:		
Re-measuring of employee plan (IAS 19):		
Actuarial profits/(losses)	(950)	1,246
Tax effect	228	(449)
Total other profits/(losses) directly recorded to net equity	**(900)**	**(2,930)**
Total comprehensive loss	**(98,834)**	**(21,694)**
Group share	(98,834)	(21,694)
Minority interest share	**-**	**-**

Consolidated Cash Flow Statement at December 31, 2016 and December 31, 2015

(Euro thousands)

	2016	2015
A - Opening cash and cash equivalents (net short-term debt)	**61,666**	**44,437**
B – Cash flow from operating activities		
Loss for the year	(97,934)	(18,764)
Amortization, depreciation & write-downs	72,268	19,800
(Gains)/losses on disposed assets	1	(17)
(Increase)/ Decrease in deferred tax assets	10,892	9,274
Increase/(Decrease) of employee benefits provisions and Restructuring Provision	(13)	(2,566)
Changes in other provisions	14,091	(1,748)
Cash flow from activities before changes in working capital	**(695)**	**5,979**
Change in working capital		
(Increase) / Decrease in receivables	(37,808)	2,109
(Increase) / Decrease in inventories	(5,692)	(5,603)
(Increase) / Decrease of other assets	7,782	9,549
Increase / (Decrease) in trade and other payables	12,662	20,159
Total changes in working capital	**(23,056)**	**26,214**
Total (B) (1)	**(23,751)**	**32,193**
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	152	(447)
(Increase) / Decrease in other financial assets	5,034	(4,230)
Divestment of fixed assets	5	23
Investments in property, plant & equipment	(2,398)	(1,657)
Investments in intangible assets	(17,742)	(16,611)
Total (C)	**(14,949)**	**(22,922)**
D - Cash flow from financing activities (2)		
Granting and repayments of short-term loans	10,224	2,981
New medium/long term loans	3,997	34,740
Repayment of loans to third parties	(8,783)	(19,915)
Reclassification of restricted current accs. long-term financial receivables	-	(8,008)
Granting of finance leases	224	95
Repayment of finance leases	(58)	(53)
Change in financial transactions with Italtel Group S.p.A.	(117)	(231)
Increase / (Decrease) in other financial assets and liabilities	(2,248)	1,951
Total (D)	**3,239**	**11,560**
E – Cash flow for the year (B+C+D)	**(35,461)**	**20,831**
Other shareholders' equity changes	(207)	(3,602)
F – Closing cash and cash equivalents	**25,998**	**61,666**

(1) This amount includes the payment of current taxes for Euro 5,469 thousand and Euro 5,462 thousand, respectively in 2016 and 2015. In November 2016, in addition, Italtel S.p.A. received Euro 5,694 thousand concerning IRAP advances paid in 2017 and requested for repayment in the UNICO 2008 declaration. The amount includes, in addition to taxes, interest of Euro 672 thousand. The receivable was classified to other non-current receivables.

(2) The Net result includes net interest charges of Euro 4,338 thousand in 2016 (Euro 4,257 thousand in 2015) not paid at year-end.

Statement of changes in Shareholders Equity for the years ending December 31, 2015 and 2016

(Euro thousands)

	Group Share					Minority interest share	Total Shareholders' Equity
	Share capital	Reserves	Treasury shares	Other reserves including the result	Total		
January 1, 2015	**2,000**	**98,728**	**-**	**(44,374)**	**56,354**	**-**	**56,354**
Change in consolidation scope	-	-	-	14	14	-	14
Comprehensive Profit/(Loss)	-	-	-	(21,694)	(21,694)	-	(21,694)
December 31, 2015	**2,000**	**98,728**	**-**	**(66,054)**	**34,674**	**-**	**34,674**
Comprehensive Profit/(Loss)	-	-	-	(98,834)	(98,834)	-	(98,834)
December 31, 2016	**2,000**	**98,728**	**-**	**(164,888)**	**(64,160)**	**-**	**(64,160)**

In accordance with the first application of IFRS 10 from 2014, the 2013 comparative figures were prepared.
(1)The change in the consolidation scope of Euro 14 thousand relates to the company Italtel Kenya Ltd which concluded the liquidation process and has been wound up. At December 31, 2014, the contribution of the Kenyan company to the consolidated financial statements was a negative Euro 14 thousand.

Notes to the consolidated financial statements

Note 1 - Introduction

Introduction

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

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

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

These annual consolidated financial statements, relating to the year ended December 31, 2016, are presented in Euro, being the currency in which the Group operates and consist of the Balance Sheet, Income Statement, Comprehensive Income Statement, Statement of changes in Shareholders' Equity, Cash Flow Statement and the Notes to the financial statements.
All the amounts reported in the consolidated financial statements are expressed in thousands of Euro, unless otherwise indicated.

There were no changes in the consolidation scope in 2016.

The only change was the increase in the share capital of Italtel USA LLC from USD 75,000 to USD 150,000.

Financial Statement Presentation

The Company for the 2016 financial statements prepared the 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, 2016:

- Under Regulation No. 2015/2173 issued by the European Commission on November 24, 2015 the amendments to IFRS 11 "Joint arrangements". The amendment establishes that an entity should adopt IFRS 3 to recognize the accounting effects from the acquisition of an interest in a joint operation which comprises a "business". This principle applies both for the acquisition of an initial interest and for the acquisition of further interests. However, an investment previously held is not revalued where the acquisition of a further share results in the joint control remaining unaltered (i.e. the further acquisition does not result in obtaining control of the investment).

- Under Regulation No. 2015/2231 issued by the European Commission on December 2, 2015, the amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" were approved. The amendments to both standards establish that an asset should not be depreciated based on the revenues to be generated over a set period. The IASB clarifies that revenues generated from an activity which includes the use of an asset generally reflect factors other than the consumption of economic benefit of the asset.

- Under Regulation No. 2015/2441 of December 18, 2015, the European Commission approved the amendments to IAS 27 "Equity Method in Separate Financial Statements". The IASB introduced the faculty to value investments in subsidiaries, associates or joint ventures in the separate financial statements utilizing the equity method. This faculty, which was previously excluded, is added therefore to the other two options which have been maintained: (i) the cost method; (ii) fair value in accordance with IAS 39 or IFRS 9.

  The company from January 1, 2016 will avail of the option to adopt the equity method to measure investments in subsidiaries, associates and joint ventures in the separate financial statements.

- With regulation No. 2015/2343 issued by the European Commission on December 15, 2015, the provisions contained in the document "Annual Improvements to IFRS - 2012–2015 Cycle" were approved. The amendments concerned: (i) IFRS 5, clarifying that where a non-current asset (or disposal group) is reclassified from "held for sale" to "held for distribution" or vice versa, this reclassification does not constitute an amendment to a sales or distribution plan and therefore should not be recognized as such; (ii) IFRS 7 "Service contracts", establishing that where an entity transfers a financial asset to third parties and the conditions of IAS 39 are complied with for the elimination of the asset, disclosure should be provided of any residual involvement which the entity may still have in relation to the transferred asset. In particular, the amendment provides indications on the meaning of "residual involvement" and provides a specific guide to aid management in determining if the terms of an agreement for the provision of a service which regards the asset transferred concerns a residual involvement; (iii) IFRS 7 "Interim Financial Statements", clarifying that the supplementary information concerning the "offsetting" of financial assets and liabilities is obligatory only in relation to annual financial statements. In the case of interim financial statements, this supplementary information is provided only if considered necessary to understand the changes to the financial position and the performance of an entity compared to its first annual financial statements; (iv) to IAS 19 "Employee Benefits" requiring that the discount rate used upon obligations for post-employment benefits should be established based on the market yields of leading company bonds and in the countries where a deep market for these securities does not exist, the market yields of public body bonds should be utilized; (v) to IAS 34 "Interim Financial Reporting" requiring that the supplementary information required by this standard should be included in the notes to the interim financial statements or may be included, with specific cross-references, in other sections of the document which include in turn the interim financial statements prepared in accordance with IAS 34.

- With regulation No. 2015/2406 of December 18, 2015, the European Commission approved the amendments to IAS 1 "Presentation of financial statements". With the "Disclosure initiative (Amendments to IAS 1)" document the IASB clarified a number of aspects with regards to the presentation of the financial statements: (i) emphasis on the significance of supplementary financial statement disclosure (non-significant disclosure should not be provided even if expressly requested by a specific IFRS); (ii) the order of the Explanatory Notes to the financial statements for which a specific order is no longer established; (iii) aggregation/disaggregation of financial statement accounts for clearer disclosure. The minimum financial statement accounts established by IAS 1 may be aggregated where considered non-significant; (iv) sub-totals in the financial statements must comply with specific criteria; (v) information requested for the other items of comprehensive income section. Paragraph 82A of IAS 1 expressly requires the indication also of the OCI share of associates and joint ventures recognized at equity, indicating also for these amounts which may or may not subsequently be reclassified to the net profit (loss) for the year.

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

Accounting standards and interpretations issued by the IASB/IFRIC, endorsed by the European Commission, with mandatory application from January 1, 2018:

- With regulation No. 2016/1905 issued by the European Commission on September 22, 2016, IFRS 15 "Revenue from contracts with customers" (hereafter IFRS 15) was endorsed, which sets out recognition and measurement criteria for revenues from contracts with customers, including those stemming from construction contracts. IFRS 15 will replace the standards which, currently, govern the recognition of revenues, IAS 18 (Revenues), IAS 11 (Construction contracts) and the relative interpretations on revenue recognition. In particular, IFRS 15 requires the recognition of revenues according to the five following steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. the contractual commitments to transfer goods and/or services to a customer); (iii) establishment of the transaction price; (iv) the allocation of the transaction price to the performance obligations identified on the basis of the standalone sales price of each good or service and (v) recognition of revenue upon satisfaction of the relative performance obligation. In addition, IFRS 15 supplements the financial statement disclosure to be provided in relation to the nature, amount, timing and uncertainty of revenues and the relative cash flows.

- With regulation No. 2016/2067 issued by the European Commission on November 22, 2016, the complete version of IFRS 9 "Financial instruments" (hereafter IFRS 9) was endorsed. The new provisions of IFRS 9: (i) amend the classification and measurement model of financial assets according to the features of the financial instrument and the company's business model; (ii) introduce a new method to write-down financial assets, which takes account of expected losses; (iii) amend the hedge accounting provisions.

The company is presently analyzing the documents indicated and has begun to estimate the possible impacts from application of the new standards IFRS 15 and IFRS 9.

Accounting standards and interpretations issued by the IASB/IFRIC, not yet endorsed by the European Commission:

- IFRS 16 "Leases" (hereafter IFRS 16), issued by the IASB on January 13, 2016, which replaces IAS 17 and the relative interpretations. IFRS 16 defines leasing as a contract which assigns to the client (lessee) the usage right for an asset for a set period of time in exchange for consideration. The new accounting standard eliminates the classification of leases as operative or financial for the preparation of the financial statements of businesses acting as the lessee; for all leasing contracts of greater than 12 months, excluding low value asset leases, recognition is required of an asset in terms of the usage right, and of a financial liability, as the obligation to pay that established by the contract and equal to the present value of future leases. These provisions are applied from January 1, 2019.

- Amendments to IAS 12 "Income taxes - Recognition of deferred tax assets on unrealized losses", issued by the IASB on January 19, 2016, which provides clarifications upon the recognition and measurement of deferred tax assets. The amendments to IAS 12 apply from January 1, 2017.

- Amendments to IAS 7 "Cash flow statement - Disclosure initiative", issued by the IASB on January 29, 2016, which raises the disclosure obligation in the presence of monetary and non-monetary changes of financial liabilities. The amendments to IAS 7 apply from January 1, 2017.

- Clarifications to IFRS 15 "Revenue from contracts with customers", document issued by the IASB on April 12, 2016, outlining clarifications with regards to a number of aspects concerning the implementation of the new accounting standard. The amendments to IFRS 15 are applicable from January 1, 2018.

- IFRIC 22 "Foreign currency transactions and advance consideration", issued by the IASB on December 8, 2016, according to which the exchange rate to be utilized for the initial recognition of an asset, cost or revenue related to an advance, previously paid/received, in foreign currencies, is that applicable at the recognition date of the non-monetary asset/liability related to the advance. IFRIC 22 is applied from January 1, 2018.

- Improvements to IFRS (2014-2016 cycle), issued by the IASB on December 8, 2016, containing amendments, of a technical and drafting nature, to international accounting standards. The amendments are applicable from January 1, 2018 with the exception of those to IFRS 12 "Disclosure of interests in other entities", adopted from January 1, 2017.

- IFRIC 23 "Uncertainty over income tax treatments", document issued by the IASB on June 7, 2017 outlining clarifications with regards to a number of aspects concerning tax risks, to be applied from January 1, 2019.

Note 2 - Accounting policies adopted

Directors' considerations on the going concern

2016 revenues amounted to Euro 405.4 million, compared to Euro 441.1 million in 2015 - decreasing Euro 35.7 million (-8.1%). Against substantial confirmation of the 2015 domestic market results (accounting for 59% of business volumes), the international market significantly contracted (revenues reducing 15% on 2015, gross margin decreasing 22%). The gross margin in fact reduced approx. Euro 10 million on 2015. Normalized 2016 EBITDA was Euro 19.2 million (Euro 31.3 million in 2015).
The net loss of Euro 97.9 million (compared to a loss of Euro 18.8 million in 2015) includes the goodwill write-down of Euro 45 million, the write-down of other assets, in particular development costs and deferred tax assets for Euro 18.3 million and costs of approx. Euro 17 million regarding the personnel provision as part of the restructuring under the 2017-2023 Industrial Plan.
Investments in the year amounted to Euro 20.1 million, of which Euro 17.7 million in intangible assets.
The net financial debt increased approx. Euro 44 million on the previous year, partly due to a significant reduction in without recourse factoring.

The Italtel Group's 2016 results did not match those outlined in the 2012-2017 Industrial Plan, such as to constitute non-compliance with certain financial covenants established by loan contracts. Consequently, the directors of Italtel S.p.A. have undertaken in a timely manner appropriate measures to neutralize the related contractual effects, as described below.

On February 21, 2013, with filing at the Companies Registration Office on March 1, 2013, the Debt Restructuring Agreement as per Article 182-bis of the Bankruptcy Law signed on December 11, 2012 was approved by the Milan Court, according to the relative industrial and financial plan for the 2012-2016 period (the "2012 Plan"), whose feasibility was declared by Ms. Stefania Chiaruttini and Mr. Enrico Laghi (the "2012 Restructuring Agreement").

Subsequently, all legal acts were completed to implement the measures established by the 2012 Restructuring Agreement, including, among others, the conversion of a part of receivables into Equity Financial Instruments (EFI's), the signing of new loan contracts, the settlement with Telecom Italia, the deferment of the Cisco receivables and the full and timely repayment of third party creditors.

Following the operations executed under the 2012 Restructuring Agreement, the subscribed and paid-in share capital of Italtel S.p.A. amounted to Euro 2,000,000, comprising 2,000,000 shares, all held by the sole shareholder Italtel Group S.p.A. and committed in guarantee of the creditors (identified in the 2012 Debt Restructuring Agreement). As part of the 2012 Restructuring Agreement, Italtel S.p.A. also issued, as per Article 2346 of the Civil Code - again against the conversion of the respective receivables - Equity Financial Instruments ("EFI") in favor of the lending banks, Cisco and Telecom Italia Finance (the "EFI Holders").

The 2012 Restructuring Agreement, in addition to supporting the recovery of Italtel S.p.A.'s capital position and earnings, sought to restructure the debt with a view also to permitting the sale of shares to an industrial and/or financial partner. Therefore, Italtel Group, with the approval of the EFI Holders, had by 2015 appointed a financial advisor to support the identification of one or more potential parties interested in acquiring a majority holding in Italtel S.p.A.. Following a number of manifestations of interest, through this process the parties identified Exprivia S.p.A. ("Exprivia") – also an Italian information technology leader and particularly in terms of developing innovative digital communication solutions, listed on the STAR segment of the Italian Stock Exchange - as a preferred party for the pursuit of investment negotiations (the "Investment").

Ahead of these negotiations and from 2016 - also due to the market slowdown which impacted Italtel product and service earnings and margins - the company's results and equity and financial position were impacted, with some significant divergences from forecasts for this period under the 2012 Plan.

As a result, Italtel S.p.A. requested from the lending banks (the "Banks") the suspension of applicable loan covenants, as granted and formalized under a "stand-still agreement" signed on May 31, 2016 (the "Stand-still Agreement") and subsequently extended until November 30, 2017 (the "Stand-still Agreement Extension"), permitting therefore the Investment agreement (as defined herein).

Italtel S.p.A. therefore drew up a new industrial, economic and financial plan for the 2017-2023 period, with the final version approved by the Board of Directors on July 19, 2017 (the "2017-2023 Industrial Plan") which, on the one hand, reflects the altered economic and market environment and, on the other, inter alia, the Restructuring (as defined herein) and consequent Investment agreements. The 2017-2023 Industrial Plan will constitute, in addition, an annex to the New Restructuring Agreement defined herein.

According to the 2017-2023 Industrial Plan, an impairment test was carried out with the support of a leading consultancy firm which resulted in a goodwill write-down of Euro 45 million. This write-down, together with additional write-downs concerning, in particular, deferred tax assets, capitalized development costs, prior operating losses and the 2016 net loss, resulted in negative shareholders' equity of Euro 64,159 thousand and, therefore, the need for the Board of Directors to call an Extraordinary Shareholders' Meeting in accordance with Article 2447 of the Civil Code for the undertaking of appropriate measures (the "2447 Shareholders' Meeting"). The 2447 Shareholders' Meeting, held in first call on April 28, 2017, was postponed to July 28, 2017 i.e. the date on which the New Restructuring Agreement (reported herein) is expected to be signed and filed.

This led to: (i) with the Banks and Cisco, negotiations for the refinancing and extension of the debt within the new debt restructuring agreement as per Article 182 bis of the Bankruptcy Law (LF) in implementation of the 2017-2023 Industrial Plan (the "New Restructuring Agreement"), to be signed on July 21, 2017 or in the days immediately after and however by July 28, 2017; and (ii) with Exprivia, negotiations which involved, in addition to Italtel S.p.A. and Italtel Group S.p.A., also Cisco and the Banks, as EFI Holders, in addition to the main Italtel S.p.A. creditors - to establish the terms and conditions of the Investment within a framework agreement (the "Framework Agreement") to be signed by the date indicated above.

In short, the New Restructuring Agreement and the Framework Agreement stipulate:

(A) the recapitalization of Italtel S.p.A., following sale to the banks, at a symbolic value, by Cisco and Telecom Italia Finance of the totality of EFI's issued by Italtel under the 2012 Restructuring Agreement cited above, through the following operations (substantially to be carried out contemporaneously):

- (i) the coverage of the shareholders' equity losses - which will be approved by the Board of Directors in accordance with Articles 2446 and 2447 of the Civil Code - through cancellation of the existing reserves and the share capital, in addition to the utilization of a portion of the share capital and the reserves from the operations at points (ii) and (iii) below;
- (ii) the issue of new Equity Financial Instruments to be fully subscribed by the Banks through the conversion of a portion of their receivables for a total amount of Euro 68 million;
- (iii) the approval of a subsequent share capital increase reserved for Exprivia and Cisco for a total Euro 47 million to be subscribed as follows:

- Euro 25 million by Exprivia against the issue by Italtel S.p.A. of ordinary shares constituting 81% of the ordinary share capital, of which Euro 16.2 million as nominal share capital and Euro 8.8 million as share premium;
- Euro 22 million by Cisco against the issue by Italtel S.p.A.: (a) of Euro 6 million of ordinary shares constituting the remaining 19% of the ordinary share capital, of which Euro 3.8 million as nominal share capital and Euro 2.2 million as share premium and (b) Euro 16 million of preference shares without ordinary shareholders' meeting voting rights, of which Euro 1.0 as nominal share capital and Euro 15.9 million as share premium, granting to Cisco specific financial rights.

On conclusion of these operations, the ordinary share capital of Italtel S.p.A. will be fully held by Exprivia (with a holding of 81%) and Cisco (with a holding of 19%), while the entire preference share capital will be held by Cisco.
Italtel Group S.p.A. will no longer therefore be a shareholder of Italtel S.p.A..

The new Equity Financial Instruments will however be subscribed as follows:

Lending Bank	**New Equity Financial Instruments subscribed***	**Percentage**
Unicredit	42,782,579	62.91
Banco BPM	1,001,999	1.47
BPM	13,284,283	19.54
Interbanca (previously GE Capital)	7,730,401	11.37
UBI	2,003,998	2.95
ABC	1,196,740	1.76
Total	**68,000,000**	**100.00**

(B) the refinancing and extension of Italtel S.p.A.'s bank debt regarding three loan contracts, two of which (the "RCF Contract" and the "Restructuring Loan Contract") with original maturity of June 30, 2017 and currently extended to November 30, 2017, already subject to restructuring and/or refinancing under the 2012 Restructuring Agreement - to be executed through:

(i) the signing of two new loan contracts with the Banks to refinance the residual debt following the conversion and, in particular: (a) a loan contract of approx. Euro 93 million, and (b) a loan contract of approx. Euro 36 million to refinance the bank debt, with preferential payment as per Article 182 *quater* of the LF and with final maturity of December 31, 2024;

(ii) the signing of an additional loan contract, of a maximum Euro 80 million, for the concession to Italtel S.p.A. of a number of new lines for execution of the New Restructuring Agreement and the 2017-2023 Industrial Plan, with preferential payment as per Article 182 *quater* of the LF;

(iii) utilization of a part of the new funding at the previous point (ii) in the period between the signing of the New Restructuring Agreement and the definitive date of the approving decree, all subject to authorization by the Milan Court as per Article 182 *quinquies* of the LF; and

(iv) the confirmation and extension of the majority of guarantees in place (including the pledge on 100% of the Italtel S.p.A. shares and excluding those issued in turn by Italtel Group), in addition to the future granting of new guarantees on the shares of one or more subsidiaries holding the totality of the investments of the Italtel Group companies resident in Latin America, in guarantee of the debt under the contracts at points (i) and (ii).

The New Restructuring Agreement stipulates in addition the adoption of a new By-Laws and new rules for the governance of the existing EFI's and the newly issued EFI's.

The 2017-2023 Industrial Plan and the New Restructuring Agreement were reviewed by Mr. Franco Carlo Papa, who fulfills the obligations at Article 67, paragraph 3, letter d) of the LF, for the issue of the relative report declaring the correctness of company data and the feasibility of the 2017-2023 Industrial Plan and of implementation of the New Restructuring Agreement (the "Declaration"). The expert has in addition confirmed the positive outcome of the assessments for the Declaration, which shall be issued and legalized with the signing of the New Restructuring Agreement.

The New Restructuring Agreement will be filed at the Milan Court for approval in accordance with Article 182 *bis* LF. All the deeds, contracts and transactions concerning the Restructuring and the consequent investment shall be subject to, inter alia, finalization of the decree approving the New Restructuring Agreement.
With regards to the 2447 Shareholders' Meeting, from the filing date of the application as per Article 182 *bis* LF for approval of the New Restructuring Agreement and until approval - as per Article 182 *sexies* LF - the provisions at Articles 2446 and 2447 of the Civil Code shall not be applied and, therefore, this Shareholders' Meeting will conclude without the adoption of any measures, ahead of the approval of the New Restructuring Agreement, on execution of which a new Extraordinary Shareholders' Meeting will be called to pass the relative motions, resolving therefore the current Article 2447 position.

As per IAS 1, the Directors, having assessed the significant uncertainties above which may put in doubt the company's going concern, in consideration of:

- agreement among the parties of the contractual documents concerning the Restructuring and the Investment, and in particular the Framework Agreement and the Restructuring Agreement, whose core conditions have already been approved by the competent corporate boards of Italtel Group S.p.A., of Italtel S.p.A., of the Banks (both as lenders and EFI Holders), of Exprivia and of Cisco;
- the imminent signing of the Framework Agreement, fixed for July 21, 2017 or the days immediately following and however by July 28, 2017;
- the imminent signing of the New Restructuring Agreement, fixed for July 21, 2017 or the days immediately following and however by July 28, 2017;
- the entry into force of the Stand-still Agreement (as latterly extended under the Stand-still Extension Agreement);
- the reconstitution of shareholders' equity following the transactions under the Framework Agreement and the New Restructuring Agreement;
- the 2017-2023 Industrial Plan which will be subject to the Declaration; and
- the ongoing monitoring of Italtel S.p.A.'s financial position,
- the economic-financial performance for the initial months of 2017, which was substantially in line with the 2017 budget figures of the 2017-2023 Industrial Plan;
- the expert's positive assessments for the Declaration which will be issued on the basis of the agreed draft contracts.

consider sufficient elements to be in place to reasonably expect the signing and subsequent execution of all of the agreements necessary and opportune to implement the Restructuring and the consequent Investment, including the filing of the application as per Article 182 *bis* of the LF for approval of the New Restructuring Agreement.

Under the power granted to the Chief Executive Officer of Italtel S.p.A. by the Board of Directors on July 19, 2017, the matters illustrated above and approved by the Board of Directors has been executed are implemented by the following:

It is noted that, on July 25, 2017, Mr. Papa, the expert appointed to prepare the Declaration presented his report which was thereafter legally certified. In addition, on the same day, the expert presented the declaration report in accordance with Article 182 *quinquies* L.F., in turn legally certified, which declares that the bridge financing which the company intends to source before approval is satisfactory to creditor needs.

On July 26 and 27, 2017, *inter alia*, the following were signed (i) the New Restructuring Agreement between Italtel S.p.A. (together with Italtel Group S.p.A. and a number of overseas Italtel Group subsidiaries) on the one hand and the Lending Banks and other Cisco Group companies on the other, (ii) an additional Restructuring Agreement (also in accordance with Article 182 *bis* L.F.) between Italtel S.p.A. on the one hand, and Intesa Sanpaolo, Mediocredito Italiano and Cassa Depositi and Prestiti on the other and (iii) the Framework Agreement between Italtel S.p.A. and Italtel Group S.p.A., Exprivia, the Lending Banks, a number of Cisco Group companies and Telecom Italia Finance.

As a result, Italtel S.p.A. will proceed without delay with the filing of the application as per Article 182 *bis* L.F. at the Milan Court for approval of the Restructuring Agreements, in addition to the application as per Article 182 *quinquies* to obtain authorization to contract new bridge funding to cover company requirements until issue of the approval.

In conclusion, the Directors, after analyzing all of the events and circumstances outlined above on the basis of the Declaration Report issued by the appointed expert, Mr. Franco Carlo Papa, on the feasibility of the agreements and of the plan, while also considering the significant number of subscribing creditors, reasonably expect approval by the Court.
However, the Directors recognize that at the presentation date of this report, an element of uncertainty still exists concerning the approval of the New Restructuring Agreement, planned for November 2017, which is an essential requirement for finalization of the above-mentioned agreement. . Although aware that the Italtel Group's capacity to operate as a going concern may be threatened in the absence of such finalization, the Directors however - and having undertaken the necessary verifications and assessed the uncertainties identified above - reasonably consider that the company has adequate resources to continue operations and have prepared the financial statements of Italtel S.p.A. at December 31, 2016 on a going concern basis.

Consolidation method

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

The financial statements used for the consolidation were prepared at December 31, 2016 and are those prepared and approved by the Board of Directors of the individual companies, appropriately adjusted, where necessary, in accordance with the accounting policies 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.

	2016 average	**At December 31, 2016**	**2015 average**	**At December 31, 2015**
Argentinean Peso	16.342	16.7488	10.2599	14.0972
Brazilian Real	3.85614	3.4305	3.70044	4.3117
UK Sterling	0.819483	0.85618	0.72585	0.73395
US Dollar	1.1069	1.0541	1.10951	1.0887
Polish Zloty	4.36321	4.4103	4.18412	4.2639
Peruvian Nuevo Sol	3.73563	3.5402	3.53237	3.70833
Saudi Arabian Riyal	4.15167	3.95446	4.16201	4.08624

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

Summary of the main accounting principles and policies

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

The principal measurement criteria utilized are described below.

A- Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any loss in value. The cost includes all charges directly incurred for bringing the asset to their condition for use, as well as dismantling and removal charges which will be incurred consequent of contractual obligations, which require the asset to be returned to its original condition.

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

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

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

- Industrial buildings 33 years
- Plant and machinery 5-10 years
- Industrial and commercial equipment 4 years
- Other assets 4-10 years

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

Land is not depreciated.

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

B - Leased assets

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

C – Intangible Assets

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

(i) Goodwill

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

When the reduction in value deriving from the test is higher than the value of the goodwill allocated to the cash generating unit the residual amount is allocated to the tangible and intangible assets included in the cash generating unit in proportion to their carrying value. The book value of each asset within the cash generation unit may not be written down below the higher between:

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

(ii) Research and development costs

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

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

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

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

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

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

D Loss in value of intangible and tangible assets

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

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

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

(ii) Goodwill and assets with indefinite life
In relation to the intangible assets with indefinite useful life, including Goodwill, IAS 36 requires the measurement of the recoverable value (impairment test) at least annually and when indications exist of a possible loss in value. The verification is usually carried out at the end of each year; therefore, the valuation date coincides the balance sheet date.
IAS 36 defines the criteria and the rules to be followed to carry out impairment tests, indicating that these criteria are applied both to individual assets and to group of assets called Cash-Generating Units or CGU's.

If the book value of an asset or a cash generating unit (or group of units) exceeds the respective Recoverable Value, an impairment is recognized to the separate income statement.
The Recoverable Value of an asset is the higher between the Fair Value Net of Sales Costs and its Value in Use. The Value in Use is defined by IAS 36 as the present value of the future cash flows expected to be derived from an asset. The calculation of the Value in Use of an asset involves an estimate of the future cash inflows and outflows which will derive from the continuous use of the asset and its final disposal and the application of an appropriate discount rate. The estimate of future cash flows is based on the most recent budget and forecasts approved by management. The cash flows refer to an asset in the conditions of its current use, without including expected affects from restructuring not committed to or from improvements in the conditions of use expected in the future. The discount rate reflects the current market valuations and the risks specifically connected to the businesses assets.

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

E - Financial Instruments

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

- Loans and receivables: they are financial instruments, principally relating to trade receivables, non-derivative, not listed on an active market, from which fixed or determinable payments are expected. They are stated as current assets except for amounts due beyond 12 months from the balance sheet date, which are classified as non-current. On initial recognition, these assets are measured at fair value and subsequently at amortized cost, on the basis of the effective interest rate. When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. Impairments are recognized to the income statement. When, in subsequent periods, the reasons for the write-down no longer exist, the value of the assets is restated up to the value deriving from the application of the 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.

Contract work in progress, where not completed at the reporting date, is valued in accordance with the percentage of completion method as per IAS 11.
Where contract work in progress presents a loss upon completion, such is fully recognized to the year-end financial statements, as per the accounting standards.

G - Trade and other receivables

Receivables are initially recognized at fair value.
This value is thereafter reduced to the realizable value where impairments are identified.
Write-downs are recognized on the basis of the solvency level of the individual debtors, while also referring to the specific underlying credit risk characteristics, taking account of the insurance coverage, the available information and considering historical experience.
Receivables transferred without recourse, in which all the risks and benefits substantially are transferred to the factoring company, result in the elimination of the receivables from the balance sheet where the requirements of IAS 39 have been complied with.

H - Cash and cash equivalents

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

I - Shareholders' Equity

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

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

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

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

(v)Other reserves including the net result

These include the results in the present period and of previous periods for the part not distributed or provisioned to reserves (in the case of profits) or 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. Dividends are recognized to net profit (loss) unless the company has opted for the equity method, in which case the dividends are recognized as a reduction in the book value of the investment.

Note 3 - Use of estimates

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

Note 4 - Significant accounting policies

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

- Impairments: in accordance with the accounting policies applied by the Group, the tangible and intangible assets with finite life and goodwill are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. In the case of goodwill, this test is carried out at least annually. The verification of the existence of the above-mentioned indicators requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available. The same valuation techniques are applied for the determination of the recoverability of goodwill; these verifications are carried out at least annually. The correct identification of the indicators of the existence of a potential reduction in value as well as the estimates for their determination depends on factors which may vary over time impact upon the valuations and estimates made by the Directors.
- 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 taxes: the accounting of the deferred tax assets is made on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.
- Provisions for risks and charges: 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 Directors for the preparation of the company separate 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.

For a description of the funding and credit lines available to the Group to manage liquidity risk and disclosure upon covenants, reference should be made to the Significant events section concerning the company Italtel S.p.A. of the Directors' Report and to Note 26.

Trade payables overdue at December 31, 2016 amounted to Euro 24.0 million, net of those technically overdue (within 30 days) and any disputes.

Of these, Euro 8.8 million within 60 days, Euro 4.6 million within 90 days and Euro 10.6 million beyond 90 days.

Credit risk

The credit risk is the risk that a client or a commercial or financial partner creates a charge by not fulfilling a payment obligation.

The maximum theoretical exposure to credit risk at December 31, 2016 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 162,126 thousand (Euro 187,112 thousand at December 31, 2015).

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, 2016, trade receivables for Euro 125,296 thousand (Euro 87,252 thousand at December 31, 2015) were recorded, net of write-downs of Euro 9,843 thousand (Euro 9,198 thousand at December 31, 2015).

At December 31, 2016 trade receivables, net of the doubtful debt provision, amounted to Euro 16.68 million (Euro 14.67 million at December 31, 2015), of which Euro 2.34 million may be offset against supplier payables and Euro 8.82 million concerning overdue receivables (within 30 days).

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, 2016	30,358	-	30,358
December 31, 2015	43,775	-	43,775

(*) At exchange rate of December 31

At December 31, 2016 and 2015 the fair value of the derivative contracts was as follows:

	31/12/2016	31/12/2015
Exchange risk hedges	1,344	4,697

The fair value indicated in the above table was recognized as income to the 2016 and 2015 income statement.

The exchange risk hedges open at December 31, 2016 all mature between January and June 2017.

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

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:

2015	Land	Industrial buildings	Plant & machinery	Industrial equipment	Other assets	Assets in progress	Total
Historic cost							
Balance at January 1, 2015	327	24,285	26,431	52,826	79,813	87	183,769
Increases	-	19	274	720	565	79	1,657
Write-downs/write-backs	-	-	-	-		(29)	(29)
Disposals	-	(27)	(94)	(1,788)	(3,095)	-	(5,004)
Translation difference	-	-	(42)	-	(225)	-	(267)
Reclassifications	-	-	(17)	20	18	(43)	(22)
Balance at December 31, 2015	**327**	**24,277**	**26,552**	**51,778**	**77,076**	**94**	**180,104**
Accumulated depreciation							
Balance at January 1, 2015	-	(15,757)	(23,665)	(50,900)	(77,841)	-	(168,163)
Depreciation	-	(705)	(698)	(989)	(726)	-	(3,118)
Write-downs/write-backs	-	-		-	-	-	-
Disposals	-	26	91	1,788	3,093	-	4,998
Translation difference	-	-	35	(1)	162	-	196
Reclassifications	-	-	-	-	22	-	22
Balance at December 31, 2015	**-**	**(16,436)**	**(24,237)**	**(50,102)**	**(75,290)**	**-**	**(166,065)**
Net book value							
Balance at January 1, 2015	327	8,528	2,766	1,926	1,972	87	15,606
Balance at December 31, 2015	**327**	**7,841**	**2,315**	**1,676**	**1,786**	**94**	**14,039**

2016	Land	Industrial buildings	Plant & machinery	Industrial equipment	Other assets	Assets in progress	Total
Historic cost							
Balance at January 1, 2016	327	24,277	26,552	51,778	77,076	94	180,104
Increases	-	60	88	466	1,557	227	2,398
Write-downs/write-backs	-	-	-	-		(16)	(16)
Disposals	-	-	(85)	(250)	(1,387)	-	(1,722)
Translation difference	-	-	(16)	-	143	-	127
Reclassifications	-	-	35	118	126	(69)	210
Balance at December 31, 2016	**327**	**24,337**	**26,574**	**52,112**	**77,515**	**236**	**181,101**
Accumulated depreciation							
Balance at January 1, 2016	-	(16,436)	(24,237)	(50,102)	(75,290)	-	(166,065)
Depreciation	-	(618)	(618)	(825)	(871)	-	(2,932)
Write-downs/write-backs	-	-		-	-	-	-
Disposals	-	-	85	250	1,381	-	1,716
Translation difference	-	-	16	-	(121)	-	(105)
Reclassifications	-	-	(18)	(61)	(83)	-	(162)
Balance at December 31, 2016	**-**	**(17,054)**	**(24,772)**	**(50,738)**	**(74,984)**	**-**	**(167,548)**
Net book value							
Balance at January 1, 2016	327	7,841	2,315	1,676	1,786	94	14,039
Balance at December 31, 2016	**327**	**7,283**	**1,802**	**1,374**	**2,531**	**236**	**13,553**

Investments in property, plant & equipment amounted to Euro 2,398 thousand.

During the year, investments were made in industrial equipment of Euro 466 thousand, principally regarding that used for the development of software solutions and for the test plant of products launched on the market. In addition, Euro 1,557 thousand was invested in EDP and computers for the technological updating of the Company IT systems and Euro 60 thousand in the extraordinary maintenance of the Carini office building.

At December 31, 2016, 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:

	31/12/2016	**31/12/2015**
Value at January 1	**167,215**	**167,215**
Increases	-	-
Write-downs	(45,000)	-
Value at December 31	**122,215**	**167,215**

Goodwill at January 1, 2016 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.

As per IAS 36, this is not subject to straight line amortization but a periodic impairment test is made on the carrying value in the accounts. This test is made with reference to the “cash generating unit” to which the goodwill is allocated. A reduction in the value of the goodwill is recorded when the recoverable value of the goodwill is lower than the carrying value. The Recoverable Value is the higher between the fair value of the cash generating unit and the relative Value in Use.

The test at December 31, 2016 was conducted with the support of a leading consultancy company.

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, and the Value in use based on the Discounted Cash Flows (the DCF method). 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 2017-2023 Plan of the Italtel Group. The plan was drawn up to cover a seven-year period, 2017-2023, but for the impairment test only the first five years were considered, in line with the accounting standards. It was approved by the Board of Directors on January 9, 2017 and amended with motion of May 8, 2017.

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

The parameters relating to the average rates utilized in the preparation of the impairment test approved by the Board of Directors on May 8, 2017, 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 8.9% and 18.2% according to the benchmark market and including an Execution Premium of 3.2%;
- weighted average cost of capital corresponding to the KE rate based on the financial structure entirely comprising own capital and therefore equal to 11.5% (the 2015 WACC was 11.6%);
- 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 2.14%.

For the multipliers, reference was made to the indicators of the value of capital employed by a number of comparable listed Information Technology companies. The multipliers concern the forecast results for 2017. In greater detail, an FV/EBITDA multiplier of 7.3 was utilized. The multipliers were applied to normalized EBITDA forecasts of the Italtel Group for 2017, net of the amortization of research and development charges.

Based on the above methodology, the recoverable value of the Group operational assets was revised within the interval of between Euro 72 million (Fair Market Value) and Euro 109 million (Value in use), against a carrying amount, net of Tax Assets, of approx. Euro 154 million.

The Recoverable Value, in accordance with IAS 36, is the higher between the fair market value of an asset and its Value in use. Taking account of the differences obtained in the two cases utilized, the Recoverable value was established as the Value in use of the CGU at the Reporting date, valued at Euro 109 million, and is compared with the corresponding value of the Net Capital Employed, net of Tax Assets, of Euro 154 million. The comparison indicates a reduction in value of Euro 45 million.

Therefore, the Directors confirm the goodwill write-down of Euro 45 million as per the impairment test approved by the Board of Directors on May 8, 2017.

Note 9 - Other intangible assets

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

	Industrial patents and intellectual property rights, licences and similar rights	Development costs	Assets in progress	Others	Total
Balance at January 1st 2015	**1,387**	**22,576**	**133**	**-**	**24,096**
Increases	909	15,450	252	-	16,611
Write-downs	-	-	-	-	-
Disposals	(29)	-	-	-	(29)
Translation differences	(13)	-	-	-	(13)
Amortization	(1,069)	(15,584)	-	-	(16,653)
Reclassifications	24	-	(24)	-	-
Balance at December 31, 2015	**1,209**	**22,442**	**361**	**-**	**24,012**
Increases	1,596	15,629	517	-	17,742
Write-downs	-	(8,261)	(9)	-	(8,270)
Disposals	-	-	-	-	-
Translation differences	16	-	-	-	16
Amortization	(1,103)	(14,972)	-	-	(16,075)
Reclassifications	232	18	(281)	-	(31)
Balance at December 31, 2016	**1,950**	**14,856**	**588**	**-**	**17,394**

The investments in intangible assets amounted to Euro 17,742 thousand. In particular, Euro 15,629 thousand was invested in research and innovation activities and Euro 1,596 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 2016 and 2015, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2016	31/12/2015
Research and Development activities carried out	31,755	31,791
of which:		
- capitalized	15,647	15,450
- recognized to the Income statement	16,108	16,341
Write-down of Development costs	8,261	-
Amortization in the year of development costs	14,972	15,584

The net value of intangible assets concerning Development Costs was Euro 14,856 thousand and Euro 22,442 thousand, respectively at December 31, 2016 and 2015.

Development Costs were capitalized as the company considers these investments recoverable through revenues from the sale of the related products, forecast for 2017 and subsequent years. This assessment took into consideration the proprietary product market, the features of the individual products compared to the main competitors and the current visibility.

On the basis of the above analyses, the significant contraction in proprietary product revenues in 2016 and on the basis of the 2016-2023 industrial plan which sets out a refocusing upon proprietary products, the company wrote down development costs capitalized in previous years for Euro 8,261 thousand.

Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

	31/12/2016	31/12/2015
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, 2016, none of the associated companies had securities listed on regulated markets.

Note 11 - Medium/long term financial assets

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

	Equity investments in other companies	Securities other than equity investments	Financial Receivables and other non-current assets	Financial prepayments and accrued income	Total
Balance at January 1, 2015	**125**	**-**	**2,007**	**-**	**2,132**
Acquisitions / movements in the year	100	-	2,945	348	3,393
Reclassifications	-	-	5,062	-	5,062
Balance at December 31, 2015	**225**	**-**	**10,014**	**348**	**10,587**
Acquisitions / movements in the year	2	-	(3)	(151)	(152)
Balance at December 31, 2016	**227**	**-**	**10,011**	**197**	**10,435**

The equity investments in other companies are all valued at cost.
The increase of Euro 2 thousand concerns the 0.04% of the Scientific and technological park investment of Sicilia S.c.p.A. transferred by the Italtel Telesis in liquidation Consortium to Italtel S.p.A..
With approval of the 2016 Annual Accounts, the Italtel Telesis Consortium concluded activities, with removal from the Companies register on January 24, 2017.
No other changes in investments in other companies are reported. The list is reported at Note 46.

Financial Receivables and other non-current assets exclusively concern Euro 8,008 thousand in the two restricted current accounts in guarantee of the loans issued by Banca Intesa San Paolo S.p.A. and Cassa Depositi and Prestiti S.p.A. for the research and development on the PAIMS and SIS projects, with maturity of 31/12/2020 and the restricted current account with Euro 2,000 thousand. This restriction will be maintained until the issue by Italtel S.p.A. of a new surety by September 30, 2017 in satisfaction of the suspension condition under the rental contract with retroactive effect from January 1, 2016.

Financial prepayments concern the long-term portion, with maturity in 2020, of expenses incurred for the issue of loans for the PAIMS and SIS research projects in 2015.

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

Note 12 – Other assets

This account Other assets is comprised of:

	31/12/2016	31/12/2015
Guarantee deposits	288	544
Tax receivables	6,165	6,339
Tax reimbursements requested	111	6,398
Other	1,410	290
Other non-current receivables doubtful debt provision	(4,725)	(2,894)

Total	**3,249**	**10,677**

Tax Receivables totaled Euro 6,165 thousand and include Euro 4,854 thousand of Tax Receivables for withholding taxes incurred abroad, with payment due in the medium/long-term, in a period of between 2 and 8 years. Doubtful tax receivables were entirely written down for Euro 4,725 thousand (of which Euro 4,353 thousand concerning foreign withholding tax receivables).

During the year, Tax receivables requested for repayment concerning 2004 IRES and 2007 IRAP were settled for Euro 6,363 thousand. The residual amount to be received relates principally to interest matured in 2017 on the 2007 IRAP receivable.

The Others account includes long-term prepayments for the suspension of costs accrued beyond 12 months. The increase relates principally to the recognition of the fees advanced for Euro 1,166 thousand in 2016 for the rental of the Castelletto offices on the basis of the new agreements signed with the building owner for the 2016-2024 period.

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:

	31/12/2016	31/12/2015
Deferred tax assets	65,643	77,717
Deferred tax liabilities	(2,291)	(3,701)
Total	**63,352**	**74,016**

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	
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
Temporary differences originate from:				
- Capital grants and operating grants	-	-	1,615	2,501
- Accelerated depreciation	-	-	-	119
- Doubtful debts provision	2,198	2,287	-	-
- Inventory obsolescence provision	12,502	12,083	-	-
- Amortization and depreciation	24	140	-	-
- Other provisions for risks and charges	526	967	-	-
- Surplus interest charges carried forward	-	11,385	-	-
- Other	172	28	-	381
- For temporary differences concerning the Columbian branch in accordance with local tax laws	539	402		
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	3,800	5,038	-	-
- Deferred tax asset relating to tax losses of Italtel S.p.A.	44,379	44,379	-	-
- Deferred tax asset relating to tax losses of the foreign subsidiaries	551	284	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	664	688
- Discounting of revised post-employment benefit provision **(1)**	952	724	-	-
- Adjustment in measurement of amortization and depreciation of fixed assets	-	-	12	12
- Consolidation adjustments	-	-	-	-
Total	**65,643**	**77,717**	**2,291**	**3,701**

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

The year-end valuations were made with regards to the 2017-2023 Industrial Plan and the reduction of Deferred tax assets is substantially due to the write-down of the interest charge excess carried forward.

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

The reduction of Euro 10,000 thousand is principally due to the write-down of deferred tax assets on the interest charge excess carried forward against the gross operating margin.

At December 31, 2016, the financial statements of Italtel S.p.A. present temporary differences and tax losses of Euro 241,041 thousand (Euro 281,232 thousand at December 31, 2015), with total deferred taxes of Euro 59,001 thousand (Euro 68,694 thousand in 2015), of which Euro 44,379 thousand concerning tax losses and Euro 14,622 thousand concerning other items. The recoverability estimates of tax losses are in line with the 2017-2023 Industrial Plan approved by the Board of Directors on May 8, 2017.

At December 31, 2016, the company presents deferred tax assets not recognized to the financial statements, relating to temporary differences, of Euro 38,206 thousand (Euro 21,947 thousand at December 31, 2015).

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

Deferred tax assets concerning tax losses of foreign subsidiaries relate to Brazil for Euro 427 thousand, Ecuador for Euro 82 thousand and Germany for Euro 42 thousand. At December 31, 2015, the account concerned Brazil.

At December 31, 2016 and 2015 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**	
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
- Discounting provision[(1)]	952	724	-	-
Total	**952**	**724**	**-**	**-**

(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:

2015	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	4,538	18,408	58,676	25	81,647
Changes in the year	(464)	8,611	(8,007)	16	156
Balance at December 31	**4,074**	**27,019**	**50,669**	**41**	**81,803**
Inventory obsolescence provision					
Balance at January 1	(4,538)	(10,429)	(37,596)	-	(52,563)
(Provision) / Utilization	464	87	4,896	-	5,447
Balance at December 31	**(4,074)**	**(10,342)**	**(32,700)**	**-**	**(47,116)**
Net inventories					
Balance at December 31	**-**	**16,677**	**17,969**	**41**	**34,687**

2016	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	4,074	27,019	50,669	41	81,803
Changes in the year	39	(919)	8,452	(41)	7,531
Balance at December 31	**4,113**	**26,100**	**59,121**	**-**	**89,334**
Inventory obsolescence provision					
Balance at January 1	(4,074)	(10,342)	(32,700)	-	(47,116)
(Provision) / Utilization	(39)	(5)	(1,795)	-	(1,839)
Balance at December 31	**(4,113)**	**(10,347)**	**(34,495)**	**-**	**(48,955)**
Net inventories					
Balance at December 31	**-**	**15,753**	**24,626**	**-**	**40,379**

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

Provisions/utilizations include the write-down of inventories related to proprietary products for Euro 1,743 thousand.

At December 31, 2016 and 2015 Inventories act as guarantees for loans in place at that date.

Note 15 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2016	31/12/2015
Receivables from customers	135,053	96,364
Receivables from associated companies	86	86
Cumulative write-down of receivables	(9,843)	(9,198)
Total net receivables	**125,296**	**87,252**

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

	31/12/2016	31/12/2015
Balance at January 1	**9,198**	**9,267**
Changes in the year:		
- Increases	1,072	68
- Utilizations	(436)	(137)
- Translation differences of foreign currencies	9	-
Balance at December 31	**9,843**	**9,198**

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, 2016 totaled Euro 72.2 million (at December 31, 2015 Euro 118.1 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)

	31/12/2016		31/12/2015
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	38,645	36,662	35,637
UK Sterling	33	38	137
Brazilian Real	45,734	13,332	24,706
Peruvian Nuevo Sol	9,954	2,812	39,333
Polish Zloty	3,239	734	2,552
Saudi Riyal	-	-	763
Colombian Peso	3,646,828	1,151	1,899,620
Philippine Peso	-	-	1,193
Argentinean Peso	18,383	1,097	15,682

Note 16 - Income tax receivables

The account receivables for current taxes at December 31, 2016 amounted to Euro 3,185 thousand (at December 31, 2015 totaling Euro 786 thousand), representing the excess of the taxes paid by some foreign companies.

Note 17 - Other receivables and assets

This account Other receivables and assets is comprised of:

	31/12/2016	31/12/2015
Employee receivables	1,881	1,345
Social security institution receivables	599	2,413
Prepayments and accrued income	1,450	1,802
Short-term tax receivable	2,518	2,545
Receivables from the state for subventions and grants	9,685	10,367
Other various receivables	1,706	3,053
Cumulative write-down of receivables	(477)	(1,410)
Total	**17,362**	**20,115**

The employee receivables referred principally to advances provided for work transport (Euro 934 thousand) and employee advances for the Solidarity Contract and strike hours in December and for adjustment in January 2017 (Euro 639 thousand).

Social security institution receivables entirely concern Italtel S.p.A. from the INPS for advance salary payments to personnel in the Extraordinary Temporary Lay-Off Scheme/Solidarity Contract for the period April 12, 2014 - December 31, 2016 for the Settimo Milanese, Rome and Carini offices. In 2016, these receivables decreased Euro 1,760 thousand following the authorization by the INPS for their offsetting with social security payables.

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

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

Other receivables total Euro 1,706 thousand and decreased Euro 1,347 thousand on December 31, 2015. The decrease principally concerns the receipt of Euro 642 thousand concerning the Ifitalia receivables for interest matured on tax receivables factored in previous years and the closure of old receivables of the Philippines and Guatemalan branch offices for Euro 916 thousand considered not recoverable and entirely written down in previous years.

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:

	31/12/2016	**31/12/2015**
Other financial receivables	2,655	11
Short-term financial prepayments and accrued income	125	214
Financial receivables from non-consolidated subsidiaries	-	618
Monetary funds / Securities	274	3,262
Assets for hedging contracts	1,344	3,297
Total	**4,398**	**7,402**

Other financial receivables increased principally due to the recognition of receivables from the factoring companies against the transfer of trade receivables at year-end and settled on January 2, 2017.

The receivable of Euro 618 thousand from the non-consolidated subsidiary Italtel Telesis Consortium decreased as, with approval of the 2016 Annual Accounts, the liquidation of the Consortium was completed, with cancellation from the Companies Register on January 24, 2017.

The Euro 3,262 thousand of Monetary Funds at December 31 of the previous year concerned investments in funds comprising Argentinian government securities liquefiable and due in the very short-term, received during the year.

The derivative hedging assets totaled Euro 1,344 thousand and are based on the valuation at December 31, 2016 of exchange rate hedging contracts.

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

Note 19 - Cash and cash equivalents and restricted current accounts

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

	31/12/2016	31/12/2015
Cash at banks, financial institutions and post offices	18,641	58,244
Cheques	7,254	3,334
Cash	103	88
Total cash and cash equivalents	**25,998**	**61,666**

The checks are principally held by the company Italtel Argentina S.A., for Euro 7,254 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, 2016 and December 31, 2015, 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 December 31, 2016, 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:

	31/12/2016	31/12/2015
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 by the Banks (Unicredit, BPM, GE Capital, Banco Popolare, Centrobanca, Banco di Brescia), Cisco and Telecom Italia. 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, 2016 and December 31, 2015 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:

	31/12/2016	31/12/2015
Prior year losses carried forward	(60,063)	(40,577)
Translation reserve	(6,891)	(6,713)
Loss for the year	(97,934)	(18,764)
Total	**(164,888)**	**(66,054)**

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

- for Euro 114,858,248 through the reduction of the share capital from Euro 116,858,248 to Euro 2,000,000;
- for Euro 54,306,783 through the use of the shareholders' equity reserve of a similar amount, created following the subscription of the Equity Financial Instruments in accordance with Article 2346, sixth paragraph of the Civil Code, for a total of Euro 153,035,272, of a par value of Euro 1, convertible into shares of the Company on the occurrence of events established under the relative clause, subscribed through the conferment of receivables of the company for a similar amount.

At December 31, 2016 and December 31, 2015, 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:

	2016	2015
Balance at January 1	**(6,713)**	**(2,986)**
Conversion of opening net equity and consolidation adjustments	(189)	(2,690)
Conversion of Profit/(loss)	11	(1,037)
Balance at December 31	**(6,891)**	**(6,713)**

Note 24 - Employee benefit provisions

The employee benefits provisions are broken down as follows:

	31/12/2016	31/12/2015
Post-employment benefits	19,680	18,814
Indemnity for the advanced settlement of contract	550	561
Deferred employee benefits provisions for foreign companies	130	48
Total	**20,360**	**19,423**

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:

	31/12/2016	31/12/2015
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	1.5% annual	1.75% annual
Discount rate	1.31% annual	2.03% annual
Salary increases	-	-
Annual increase in post-employment benefit	2.63% annual	2.81% 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	Annual frequencies of 3% were considered
Probability of retirement	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached	It was assumed that the first pensionable requisites valid for the General Compulsory Insurance were reached
Probability of advances	Annual value of 3% was considered	Annual value of 3% was considered

Changes in the post-employment benefit were as follows:

	31/12/2016	31/12/2015
Balance at January 1	**18,862**	**22,354**
IFRS adjustment – actuarial losses/(profits) Italtel S.p.A.	950	(1,246)
Increase in the year Italtel S.p.A.	377	315
Increase in the year - foreign companies	82	6
Utilizations in the year Italtel S.p.A.	(461)	(2,567)
Utilizations in the year - foreign companies	-	-
Balance at December 31	**19,810**	**18,862**

The actuarial loss calculated for 2016 is Euro 950 thousand, while in the previous year actuarial profits of Euro 1,246 thousand were reported.

The increase in the year is essentially due to "Interest costs" for Euro 377 thousand in 2016 (Euro 315 thousand in 2015).

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

	31/12/2016	31/12/2015
Balance at January 1	**561**	**881**
Provisions in the year	-	-
Utilizations in the year	(11)	(320)
Balance at December 31	**550**	**561**

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
January 1, 2015	**88**	**8,237**	**8,325**
Changes in the year:			
- Increases	-	1,663	1,663
- Utilizations/Releases	(7)	(3,303)	(3,310)
- Translation differences	(15)	(86)	(101)
December 31, 2015	**66**	**6,511**	**6,577**
Changes in the year:			
- Increases	-	878	878
- Increase due to personnel restructuring provision	-	16,800	16,800
- Utilizations/Releases	(5)	(3,552)	(3,557)
- Translation differences	11	(41)	(30)
December 31, 2016	**72**	**20,596**	**20,668**

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 3,796 thousand at December 31, 2016 (Euro 6,511 thousand at December 31, 2015) concerns risks related to disputes in progress for Euro 1,203 thousand, future losses on work in progress for Euro 440 thousand and tax risks relating to foreign companies for Euro 2,148 thousand, in addition to client supplementary indemnity for Euro 5 thousand.

During the year, Euro 16,800 thousand was in addition provisioned for personnel as part of the restructuring under the 2017-2023 Industrial Plan.

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:

	31/12/2016			31/12/2015		
	Short-term	**Medium/long-term**	**Total**	**Short-term**	**Medium/long-term**	**Total**
Secured bank loans	126,750	-	126,750	-	124,560	124,560
Unsecured loans	179	2,862	3,041	-	3,041	3,041
Unsecured loans at subsidized rates	8,491	17,283	25,774	8,829	25,728	34,557
Loans from other lenders	-	-	-	-	-	-
Liabilities for finance leases	107	155	262	41	56	97
Medium/long term loans	**135,527**	**20,300**	**155,827**	**8,870**	**153,385**	**162,255**
Short-term bank loans	98,722	-	98,722	86,690	-	86,690
Total payables to financial institutions	**234,249**	**20,300**	**254,549**	**95,560**	**153,385**	**248,945**
Other payables	618	-	618	944	-	944
Accrued liabilities and deferred income	112	-	112	120	-	120
Total	**234,979**	**20,300**	**255,279**	**96,624**	**153,385**	**250,009**

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

	31/12/2016	31/12/2015
- within one year	135,527	8,870
- between one and two years	6,977	78,330
- between two and three years	6,630	33,038
- between three and four years	6,679	35,381
- between four and five years	14	6,636
- over five years	-	-
Total	**155,827**	**162,255**

At December 31, 2016, the medium/long term loans, including the short-term portion, were as follows:

	Variable rate	Fixed rate	31/12/2016
- within one year	127,036	8,491	135,527
- between one and two years	430	6,547	6,977
- between two and three years	1,276	5,354	6,630
- between three and four years	1,298	5,381	6,679
- between four and five years	14	-	14
- over five years	-	-	-
Total	**130,054**	**25,773**	**155,827**

As outlined in detail in the “Italtel S.p.A. significant events and Directors’ considerations on the going concern” paragraph in the Directors’ Report, among others, the agreements with the lending Banks to restructure and extend the bank debt are in the concluding phases; as per the applicable accounting standards, all medium/long-term liabilities currently subject to these renegotiations have been reclassified as short-term as contractually repayable on demand, with the company not in a position to repay the loans according to the conditions and maturities originally established by the 2012 Restructuring Agreement.

The original contractual maturities of these loans are outlined below.

The loans with secured guarantees, totaling Euro 126,750 thousand and with interest rates of between 2.4% and 3.0%, are broken down as follows:

- Euro 77,276 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 74,552 thousand, is repayable in three equal annual instalments from December 31, 2017, while the B2 line, amounting to Euro 2,724 thousand, will expire on December 31, 2019;
- Euro 18,000 thousand of a new credit line with expiry on June 30, 2017;
- Euro 5,857 thousand of a credit line repayable in 3 equal annual instalments from December 31, 2017;
- Euro 4,000 thousand of a credit line issued in 2012, originally with short-term maturity and renegotiated with maturity on June 30, 2017;
- Euro 18,353 thousand of a line drawn down for restructuring costs, of which Euro 3,173 thousand issued in 2013, Euro 8,434 thousand issued in 2014 and Euro 6,746 thousand in 2015, with final maturity on June 30, 2017;
- Euro 3,264 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 19,105 thousand for interest due to the Lending Banks and capitalized on the medium/long-term credit lines, as established by the Restructuring Agreement of 2013 and are under re-negotiation with the Lending banks.

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

• Euro 538 thousand issued by Banca Intesa Sanpaolo S.p.A. for a total Euro 2,971 thousand for research activities concerning the “Asic” project, of which Euro 2,433 thousand at subsidized rates;

• Euro 2,503 thousand issued by the Intesa Sanpaolo Group for a total of Euro 20,572 thousand for research activities on the PAIMS and SIS projects, of which Euro 18,069 thousand at subsidized rates. An escrow account was established for Euro 8,009 thousand in guarantee of this loan.

The unsecured loans at subsidized rates of Euro 25,774 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 decreased Euro 8,783 thousand due to settlements under the relative repayment plans.

The account Short-term bank loans, totaling Euro 98,722 thousand at December 31, 2016 (Euro 86,690 thousand at December 31 2015), include the use of the short-term revolving credit lines. The increase of Euro 12,032 thousand is substantially due to the increased usage of the lines made available with maturity of June 30, 2017. These loans are subject to renegotiation with the lending Banks.

For disclosure purposes, the three covenants are reported under the outstanding loans at the reporting date, although suspended under the stand-still agreement until November 30, 2017 to permit conclusion of the New Restructuring Agreement.

The three covenants concern:

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

For a complete description of the New Restructuring Agreement which covers, among other matters, the restructuring and extension of the bank debt of the company Italtel S.p.A., reference should be made to the Italtel S.p.A. significant events and Directors’ considerations on the going concern in the Directors’ Report.

Liquidity

Net liquidity at December 31, 2016 and 2015 was broken down as follows:

	31/12/2016	31/12/2015
Cash and cash equivalents	7,357	3,422
On demand bank current accounts	18,641	58,244
Restricted current accounts	-	-
Total	**25,998**	**61,666**

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

	31/12/2016	31/12/2015
Cash generated/(absorbed) by operating activities	(23,751)	32,193
Cash generated/(absorbed) by investing activities	(14,949)	(22,922)
Cash generated/(absorbed) by financing activities	3,239	11,560
Other equity changes	(207)	(3,602)
Changes in the year	**(35,668)**	**17,229**

In 2015, the Group absorbed liquidity for Euro 35,668 thousand, against a generation of cash of Euro 17,229 thousand in the previous year, as follows:

Cash generated by operating activities

The cash flow absorbed by operating activities totaled Euro 23,751 thousand.
Cash flow absorbed from operating activities before working capital changes of Euro 695 thousand is accompanied by the change in net working capital, with the absorption of cash of Euro 23,056 thousand, principally due to a lesser recourse to factoring operations.

Cash absorbed by investing activities

In 2016, investing activities absorbed cash of Euro 14,949 thousand, principally due to investment in property, plant and equipment for Euro 2,398 thousand and in intangible assets for Euro 17,742 thousand.

Cash generated by financing activities

Financing activities in 2016 generated liquidity of Euro 3,239 thousand.
During the year, the net balance of short-term loan issues was Euro 10,224 thousand, with the repayment also of medium/long-term loans for Euro 8,783 thousand, while new medium/long-term loans were granted for Euro 3,997 thousand.

Note 27 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2016	31/12/2015
Medium/long term accrued liabilities and deferred income	239	305
Deposits	112	112
Other Italtel S.p.A. payables	135	586
Total	**486**	**1,003**

Deferred income concerns the portion of Italtel S.p.A. capital public grants whose recognition to the income statement is related to the payment plan of the investments within the Telecom Italia & Italtel Development Contract.

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

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

Note 28 - Trade payables

The account is composed as follows:

	31/12/2016	31/12/2015
Payables to suppliers	163,080	143,319
Payables to associated companies	182	172
Total	**163,262**	**143,491**

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)

	31/12/2016		31/12/2015
	Foreign currency	Euro	Foreign currency
US Dollar	71,849	68,161	72,399
UK Sterling	177	207	188
Argentinean Peso	12,364	738	20,797
Brazilian Real	13,184	3,843	7,538
Polish Zloty	447	101	437
Colombian Peso	3.018299	952	3,306,345
Peruvian Nuevo Sol	16,327	4,612	30,931
Philippine Peso	-	-	474
Swiss Franc	32	30	32

Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 127 thousand and Euro 1,829 thousand at December 31, 2016 and December 31, 2015 respectively, representing the Income tax payables:

	31/12/2016	31/12/2015
IRES	-	-
IRAP	-	-
Income taxes – foreign countries	127	1,829
Total	**127**	**1,829**

Note 30 - Other payables and liabilities

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

	31/12/2016	31/12/2015
Employee payables	14,180	14,262
Social security institutions	3,739	4,024
Accrued liabilities and deferred income	16,622	12,905
VAT	4,586	8,943
Withholding taxes to be paid	2,592	2,257
Other taxes	1,688	1,202
Customer advances	3,647	2,200
Other liabilities	3,560	9,705
Total	**50,614**	**55,498**

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

The decrease in Other liabilities of Euro 6,145 thousand principally concerns the settlement of employee payables for December 2015 salaries paid in January 2016 (Euro 2,386 thousand) and the reclassification, reducing the corresponding receivables, of the advances received from Public bodies for grants on a number of projects for which the verifications by the lending bodies have been completed (Euro 3,238 thousand).

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

Note 31 - Revenues from sales and services

The following tables report the revenues from sales and services in 2016 and 2015, broken down by client and region.

i) Revenues from sales and services broken down by client

	2016	2015
Telecom Italia Group	118,017	130,153
Other local operators	40,148	41,072
Large enterprises and Public Sector	79,270	71,877
Overseas Operators	167,976	197,972
Total	**405,411**	**441,074**

ii) Revenues from sales and services broken down by region

	2016	2015
Italy	233,128	238,509
Other European countries	52,565	60,260
Central and South America	118,811	140,481
USA	603	896
Africa	-	239
Asia	304	689
Total	**405,411**	**441,074**

Note 32 – Other income

This account Other income is comprised of:

	2016	2015
Grants	4,900	5,552
Gains on disposals	2	22
Other	11,679	12,858
Total	**16,581**	**18,432**

Operating grants for Euro 4,900 thousand concern contributions for costs incurred for research and development activities (Euro 5,552 thousand in 2015).

The account Others concerns prior year income for Euro 1,389 thousand (Euro 2,052 thousand in 2015), Euro 5,361 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 5,949 thousand in 2015) and the release of provisions for Euro 2,176 thousand (Euro 1,550 thousand in the previous year).

Note 33 - Purchase of materials and services

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

	2016	2015
Purchases of materials	204,259	243,368
Purchases of services	133,797	110,587
Total	**338,056**	**353,955**

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:

	2016	2015
Wages and salaries	61,844	62,258
Social security charges	17,193	16,542
Post-employment benefits	3,574	3,610
Other non-recurring costs and Restructuring provision accruals	17,514	576
Other	936	1,098
Total	**101,061**	**84,084**

Personnel costs include non-recurring charges totaling Euro 17,200 thousand (in 2015 Euro 576 thousand) concerning indemnities paid during the year and the provision at year-end for personnel charges under the restructuring set out in the 2017-2023 Industrial Plan, as outlined at Note 22.

The average workforce increased from 1,348 in 2015 to 1,357 in 2016.

Note 35 - Amortization, depreciation and write-downs

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

	2016	2015
Development Costs	14,972	15,584
Write-downs Development costs	8,261	-
Other intangible assets	1,103	1,069
Other intangible asset write-downs	-	29
Industrial buildings	617	705
Plant and machinery	618	698
Industrial and commercial equipment	825	989
Other assets	872	703
Other tangible asset write-downs	-	23
Goodwill	45,000	-
Total	**72,268**	**19,800**

In 2016, Development costs were written down for Euro 8,261 thousand, as outlined at Note 9 to which reference should be made. For the write-down of goodwill, reference should be made to Note 8.

Note 36 - Other operating costs

This account Other operating costs is comprised of:

	2016	2015
Other operating expenses	5,675	5,609
Provisions for risks	477	1,663
Write-down of receivables	1,072	68
Total	**7,224**	**7,340**

The account miscellaneous operating costs includes prior year charges of Euro 707 thousand (Euro 1,145 thousand in 2015).

Note 37 - Change in inventories

The following table highlights the principle components of the account:

	2016	2015
Raw material, ancillaries and consumables	-	133
Contract work-in-progress and products in work in progress	3,363	4,431
Finished products and goods	6,339	(2,528)
Total	**9,702**	**2,036**

The decrease of Euro 4,241 thousand (increase of a similar amount in 2015) concerns works in progress according to the percentage of completion method, included in the revenue from Telecom Italia reported at Note 31.

Note 38 - Increases on internal works capitalized

The account increases on internal works capitalized amounted to Euro 13,534 thousand in 2016 (Euro 14,000 thousand in 2015) and concerns the capitalizations of tangible and intangible fixed assets of the production or acquisition costs, not including financing charges.
In 2016, the account concerned for Euro 12,995 thousand (Euro 13,677 thousand in 2015) 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.

	2016			2015		
	Charges	Income	Net charges/(income)	Charges	Income	Net charges/(income)
Exchange losses/(gains)	19,642	18,685	957	22,811	18,600	4,211
Interest	7,784	330	7,454	7,210	1,106	6,104
Other	4,951	2,667	2,284	6,257	4,917	1,340
Total	**32,377**	**21,682**	**10,695**	**36,278**	**24,623**	**11,655**

Net financial charges total Euro 10,695 thousand, compared to Euro 11,655 thousand in the previous year, improving Euro 960 thousand.

The reduction is substantially due to currency effects. Net exchange losses in fact decreased from Euro 4,211 thousand in 2015 to Euro 957 thousand in 2016, an improvement of Euro 3,254 thousand.

Net interest charges increased from Euro 6,104 thousand in 2015 to Euro 7,454 thousand in 2016, rising therefore Euro 1,350 thousand, essentially due to the increased debt.

Other charges increased from Euro 1,340 thousand in 2015 to Euro 2,284 thousand in 2016, rising therefore Euro 944 thousand.

In 2016 and 2015, the Italtel Group recognized net financial charges from transactions undertaken with holders of EFI, as follows:

	2016	2015
Unicredit	5,725	5,812
GE Capital	37	52
Banco di Brescia	362	698
Total	**6,124**	**6,562**

Note 40 - Income taxes

The income tax account in 2016 reports a charge of Euro 13,795 thousand, compared to Euro 17,348 thousand in the previous year. The IRAP estimated for the current year, as for the previous, was zero. This comprises: foreign income taxes for Euro 1,367 thousand (Euro 6,742 thousand in 2015), lower taxes relating to previous years for Euro 21 thousand (lower taxes for Euro 44 thousand in 2015), in addition to deferred tax charges of Euro 607 thousand (income of Euro 2,143 thousand in 2015).

As indicated in Note 13, in 2016 deferred tax assets were written down for Euro 10,000 thousand.
In the previous year however, following the 2016 Stability Law (Law No. 208/15, Article 1, paragraph 61) which reduced the IRES rate from 27.5% to 24% from 2017, a reduction of Euro 9,735 thousand of deferred tax assets was recognized to the income statement.

Finally, in 2016 foreign withholding taxes were provisioned to the income statement for Euro 1,842 thousand, while also in 2015 Euro 3,058 thousand was provisioned in this regard.

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

	2016	**2015**
Theoretical taxes [(a)]	(23,121)	(410)
IRAP	-	-
Withholding taxes foreign currencies	1,842	3,058
Deferred tax assets write-down	10,000	9,735
Write-down of non-deductible Italtel S.p.A. goodwill	12,375	-
Difference between the tax rate on foreign entities	355	709
Non-deductible (exempt) tax components	1,019	480
Deferred taxes not recorded on tax losses and temporary differences	11,539	4,822
Positive components not subject to taxation	(632)	(540)
Other changes	418	(506)
Effective tax	**13,795**	**17,348**

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

Note 41 – Discontinued operations

Discontinued assets and liabilities at December 31, 2016 and December 31, 2015 concern the company Italtel Arabia Ltd in liquidation.

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 12 thousand (Euro 248 thousand at December 31, 2015) exclusively concerned liquidity (Euro 61 thousand at December 31, 2015), while in the previous year included also trade and other receivables for Euro 187 thousand.

The liabilities of Euro 386 thousand (Euro 392 thousand at December 31, 2015) concern miscellaneous payables for Euro 62 thousand (Euro 70 thousand at December 31, 2015) and for Euro 324 thousand tax payables (Euro 322 thousand at December 31, 2015).

The net loss from discontinued operations in 2016 was Euro 63 thousand, while in the previous year amounting to Euro 124 thousand, comprising the net profit from the liquidation of Italtel Kenya Ltd of Euro 47 thousand, the net profit from the liquidation of Italtel Middle East Fz-Llc of Euro 5 thousand and the net loss for the year of the company Italtel Arabia Ltd of Euro 176 thousand.
The loss concerned the company’s liquidation operations.

Note 42 - Transactions with related parties

Transactions with the related parties were as follows:

December 31, 2015	**Trade receivables**	**Financial receivables**	**Trade payables**	**Financial payables**	**Other receiv./payables**
Subsidiaries not consolidated:					
Italtel Telesis Consortium in liquidation	-	618	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(69)
Hermes consortium in liquidation	27	-	-	-	(103)
Other related parties:					
Italtel Group S.p.A.	-	-	-	(735)	-
Telecom Italia Group	22,993	-	(86)	-	(1,094)
Cisco Systems Group	4,359	-	(59,987)	(37)	-
Total	**27,438**	**618**	**(60,073)**	**(772)**	**(1,266)**

December 31, 2016	**Trade receivables**	**Financial receivables**	**Trade payables**	**Financial payables**	**Other receiv./payables**
Subsidiaries not consolidated:					
Italtel Telesis Consortium in liquidation	-	-	-	-	-
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(75)
Hermes consortium in liquidation	27	-	-	-	(107)
Other related parties:					
Italtel Group S.p.A.	-	-	-	(618)	-
Telecom Italia Group	23,533	-	(914)	-	-
Cisco Systems Group	2,908	-	(66,258)	-	-
Total	**26,527**	**-**	**(67,172)**	**(618)**	**(182)**

In 2015 and 2016, the Italtel Group reports transactions with related parties as follows:

December 31, 2015	**Sales**	**Purchases**	**Financial income /(charges)**	**Other**
Subsidiaries not consolidated:				
Italtel Telesis Consortium in liquidation	-	-	12	2
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	-
Hermes consortium in liquidation	-	-	-	-
Other related parties:				
Italtel Group S.p.A.	-	-	(6)	1
Telecom Italia Group	213,745	(1,312)	(100)	-
Cisco Systems Group	35,969	(211,279)	-	5,949
Total	**249,714**	**(212,591)**	**(94)**	**5,952**

December 31, 2016	**Sales**	**Purchases**	**Financial income /(charges)**	**Other**
Subsidiaries not consolidated:				
Italtel Telesis Consortium in liquidation	-	-	9	5
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(5)
Hermes consortium in liquidation	-	-	-	(3)
Other related parties:				
Italtel Group S.p.A.	-	-	(7)	1
Telecom Italia Group	154,413	(1,169)	-	(730)
Cisco Systems Group	25,929	(185,575)	-	5,361
Total	**180,342**	**(186,744)**	**2**	**4,629**

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 2016 and in 2015 emoluments were matured for a total amount respectively of Euro 2,349 thousand and Euro 2,497 thousand. These emoluments were as follows:

	2016	**2015**
Current Emoluments	2,244	2,390
Post-employment benefits	105	107
Total	**2,349**	**2,497**

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.

	31/12/2016	31/12/2015
To be repaid		
- within one year	4,772	6,143
- between one and two years	4,617	5,652
- between two and three years	4,557	5,480
- between three and four years	4,470	82
- between four and five years	3,298	32
- over five years	8,431	-
Total	**30,145**	**17,389**

The Italtel Group has in place commercial guarantees for Euro 35,986 thousand, of which Euro 879 thousand concerning the client Telecom Italia S.p.A., broken down into bank guarantees for Euro 14,793 thousand and insurance guarantees for Euro 21,193 thousand. These guarantees have differing maturities until May 2017.

A further bank surety is in place of Euro 12,000 thousand, issued in favor of the lessor and with maturity of June 30, 2017, guaranteeing rental payments on the Castelletto - Settimo Milanese complex.

In 2015, in addition financial sureties were granted for Euro 14,500 thousand in guarantee of the two research and development loans issued, of which Euro 7,400 thousand with maturity of June 30, 2017, Euro 2,000 thousand with maturity of June 30, 2018 and Euro 5,100 thousand with maturity of December 31, 2019.

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 2016 for the auditing of accounts and other services provided to the companies of the Italtel Group by PricewaterhouseCoopers.

	Italtel S.p.A.	Subsidiaries	Italtel Group
Audit Services	240	251	491
Other services	50	65	115
Total 2016 costs for auditing and other services	**290**	**316**	**606**

Note 45 – Subsequent events

No significant events further to those reported in the “Italtel S.p.A. significant events and Directors’ considerations on the going concern” paragraph of the Directors’ Report took place.

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. (telecommunications systems and services)	Settimo Milanese	Euro	2,000,000	100	Italtel Group S.p.A.
Overseas subsidiaries						
3)	Italtel BV (commercial and finance)	Amsterdam (Netherlands)	Euro	6,000,000	100	Italtel S.p.A.
4)	Italtel S.A. (telecommunication systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel BV
5)	Italtel Argentina S.A. (telecommunication systems)	Buenos Aires (Argentina)	P.A.	4,030,000	71.46 28.54	Italtel BV Italtel S.p.A.
6)	Italtel Brasil Ltda (telecommunication systems)	Sao Paolo (Brazil)	Real Brazilian	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
7)	Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel S.p.A. Italtel BV
8)	Italtel France Sas (commercial)	Courbevoie (France)	Euro	40,000	100	Italtel S.p.A.
9)	Italtel Telecommunication Hellas EPE (commercial) in liquidation with effect 7/4/2017 (following motion of 31/3/2017)	Athens (Greece)	Euro	18,000	100	Italtel S.p.A.
10)	Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	60 40	Italtel S.p.A. Italtel BV
11)	Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	500,000 (Euro 200,000 paid-in)	60 40	Italtel S.p.A. Italtel BV
12)	Italtel Poland Sp.Zo.O. (commercial)	Warsaw (Poland)	Zloty	400,000	100	Italtel S.p.A.
13)	Italtel Arabia Ltd (commercial) in liquidation	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
14)	Italtel Perù S.a.c. (commercial)	Lima (Peru)	Nuevo Sol	3,028,000	90 10	Italtel BV Italtel S.p.A.
15)	Ausoitaltel S.A. (commercial)	Quito (Ecuador)	USD	500,000	1 99	Italtel BV Italtel S.p.A.
16)	Italtel USA LLC	Miami (Florida)	USD	150,000	100	Italtel S.p.A.

B) List of companies valued under the net equity method

	Company name (activities)	Registered office	Currency	Share capital	% held		Book value
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	478,422	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 computerized systems), settled with effect 24/01/2017 (following liquidation)	Settimo Milanese	Euro	516,456	100	Italtel S.p.A.	-
Non-consolidated foreign subsidiaries valued at cost							
20)	Italtel de Venezuela S.A. in liquidation (commercial), settled with effect 26/12/2016 (following liquidation)	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	1,115,596	5.1809	Italtel S.p.A.	36
22)	Consorzio Milano Ricerche (Milan Research Consortium) (design and research)	Milan	Euro	172,456	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(*)	2
26)	MIP – Politecnico di Milano S.c.r.l.	Milan	Euro	354,000	3.39	Italtel S.p.A.	-
27)	CONAI National Packaging Consortium (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A.	1
28)	COFRIDIP Consortium	Padua	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
31)	Open Hub Med S.c.a.r.l (**)	Milan	Euro	900,000	11.11	Italtel S.p.A.	100

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

(**) following the increase of the share capital from Euro 900,000 to Euro 1,050,000 approved on 16.2.2017 with the entry of two new shareholders, the holding of Italtel S.p.A. reduced from 11.11% to 9.52%

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

(Euro thousands)

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	12,520	-	-	4	13
Goodwill	122,215	-	-	-	-
Other intangible assets	17,328	-	-	-	-
Investments valued under the equity method	194	-	-	-	-
Medium/long term financial assets	37,680	10,761	-	-	-
Other assets	2,103	-	-	-	86
Deferred tax assets	59,001	-	-	42	-
Total non-current assets	**251,041**	**10,761**	**-**	**46**	**99**
Current assets					
Inventories	29,802	-	-	3	449
Trade receivables	102,698	-	694	741	2,377
Tax receivables	-	-	-	237	406
Other receivables and assets	14,952	-	-	28	110
Short-term financial assets	5,822	51	-	2,352	13
Cash and cash equivalents	7,027	47	12	1,200	123
Total current assets	**160,301**	**98**	**706**	**4,561**	**3,478**
AFS non-current assets	-	-	-	-	-
Total assets	**411,342**	**10,859**	**706**	**4,607**	**3,577**
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	(164,887)	697	194	(180)	(16)
Total Shareholders' Equity	**(64,159)**	**10,499**	**706**	**2,629**	**28**
Liabilities					
Non-current liabilities					
Employee provisions	37,030	-	-	-	-
Provisions for risks and charges	4,969	7	-	19	200
Medium/long term financial liabilities	20,300	-	-	-	-
Other liabilities	486	-	-	-	-
Total non-current liabilities	**62,785**	**7**	**-**	**19**	**200**
Current liabilities					
Trade payables	137,491	-	-	1,767	1,729
Current tax payables	32	-	-	-	-
Other payables and liabilities	31,594	10	-	192	1,123
Current financial liabilities	243,599	343	-	-	497
Total current liabilities	**412,716**	**353**	**-**	**1,959**	**3,349**
AFS non-current liabilities	-	-	-	-	-
Total liabilities	**475,501**	**360**	**-**	**1,978**	**3,549**
Total shareholders' equity and liabilities	**411,342**	**10,859**	**706**	**4,607**	**3,577**
Income Statement					
Revenues from sales and services	276,137	-	-	3,578	7,403
EBITDA	(9,382)	(178)	(6)	(274)	31
EBIT	(81,367)	(178)	(6)	(277)	18
Net financial charges	(4,686)	2,475	-	16	(25)
Pre-tax profit/(loss)	(86,053)	2,297	(6)	(261)	(7)
Net profit/(loss)	(97,933)	2,297	(6)	(180)	(16)

(Euro thousands)

Italtel S.A.	Italtel Tel. Hellas EPE	Italtel U.K. Ltd	Italtel Poland Sp.Zo.O.	Italtel Argentina S.A.	Italtel Brasil Ltda	Italtel Perù S.a.c.	Ausoitaltel SA	Italtel Usa Llc	Italtel Arabia Ltd
112	-	-	-	37	670	102	91	4	-
-	-	-	-	-	-	-	6	-	-
10	-	-	-	-	49	1	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
45	5	-	20	14	929	40	-	3	-
-	-	-	-	2,255	929	1,043	82	-	-
167	**5**	**-**	**20**	**2,306**	**2,577**	**1,186**	**183**	**7**	**-**
5,866	-	-	320	2,139	2,221	1,414	143	-	-
9,950	499	-	779	11,215	13,410	6,947	399	495	-
-	86	-	-	1,973	-	483	-	-	-
76	1	-	6	339	1,170	630	207	-	-
13,353	-	-	-	240	-	-	-	-	-
2,620	651	-	358	7,461	4,059	2,259	111	70	-
31,865	**1,237**	**-**	**1,463**	**23,367**	**20,860**	**11,733**	**860**	**565**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
32,032	**1,242**	**-**	**1,483**	**25,673**	**23,437**	**12,919**	**1,043**	**572**	**12**
7,353	18	30	91	240	1,920	855	474	142	831
1,136	6	-	-	5,147	227	1,466	-	-	-
-	-	-	-	-	-	-	-	-	-
604	(320)	(48)	(302)	2,667	1,982	323	(437)	17	(2,407)
9,093	**(296)**	**(18)**	**(211)**	**8,054**	**4,129**	**2,644**	**37**	**159**	**(1,576)**
-	130	-	-	-	-	-	-	-	-
-	-	-	144	191	54	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**130**	**-**	**144**	**191**	**54**	**-**	**-**	**-**	**-**
13,611	574	-	1,379	11,653	9,051	9,125	870	-	1,202
82	-	-	-	-	-	10	-	3	-
9,246	116	11	171	5,081	3,750	1,140	136	27	-
-	718	7	-	694	6,453	-	-	383	-
22,939	**1,408**	**18**	**1,550**	**17,428**	**19,254**	**10,275**	**1,006**	**413**	**1,202**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**386**
22,939	**1,538**	**18**	**1,694**	**17,619**	**19,308**	**10,275**	**1,006**	**413**	**1,588**
32,032	**1,242**	**-**	**1,483**	**25,673**	**23,437**	**12,919**	**1,043**	**572**	**12**
33,933	488	-	1,169	44,144	34,295	29,919	2,286	-	-
565	(120)	9	(195)	4,934	2,586	1,210	(311)	23	-
525	(121)	9	(195)	4,919	2,411	1,184	(321)	23	-
280	(1)	-	(110)	(645)	(1,564)	(829)	(38)	(4)	-
805	(122)	9	(305)	4,274	847	355	(359)	19	-
604	(122)	9	(305)	2,733	612	273	(284)	16	(63)

Settimo Milanese, July 19, 2017

For the Board of Directors

The Chief Executive Officer

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

To the shareholder of
Italtel SpA

Report on the consolidated financial statements

We have audited the consolidated financial statements of Italtel SpA and its subsidiaries ("Italtel Group") as of December 31, 2016, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated comprehensive income statement, the statement of changes in shareholders' equity, the consolidated cash flows statement and the related notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Italtel Group as of December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the section "Directors' considerations on the going concern" in Note 2 to the consolidated financial statements as of December 31, 2016, in connection with the events and circumstances which indicate that an element of uncertainty still exists concerning the approval by the Milan Court of the New Restructuring Agreement, which is an essential requirement for the finalization of the above mentioned Agreement. In the same section, the Directors illustrate the reasons why they deem the Company able to continue operating as a going concern, on which basis they prepared the consolidated financial statements as of December 31, 2016.

Report on compliance with other laws and regulations

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

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, , which is the responsibility of the Directors of Italtel SpA., with the consolidated financial statements of the Italtel Group as of December 31, 2016. In our opinion, the report on operations is consistent with the consolidated financial statements of the Italtel Group as of December 31, 2016.

Milan, 27 July 2017

PricewaterhouseCoopers SpA

Signed by

Marilena Cederna
(Partner)

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