ITALTEL SPA GROUP
2017 DIRECTORS' REPORT &
CONSOLIDATED FINANCIAL STATEMENTS

ITALTEL

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CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

The business combination between Italtel and Exprivia (a company listed on the STAR segment of the Italian Stock Exchange that serves the vertical markets Healthcare & Government, Banks & Insurers, Telco & Media and Energy & Utilities, offering original software products and development and system integration services on major market-leading platforms such as SAP) was closed on December 14, 2017.

This combination is crucial as with the development of 5G technologies telecommunications networks are becoming "virtual", meaning that they are becoming more like computer networks in which the "central cloud" approach will be accompanied by distributed or "edge" clouds: in other words, networks will become information technology. On the other hand, information technology is moving in the direction of technologies that analyse vast amounts of data and artificial intelligence that benefits from the data collection made possible by extremely diffuse telecommunications networks that connect billions of intelligent devices: in other words, information technology becomes a network. The Exprivia Italtel Group, which has extensive expertise in information technology and telecommunications networks, is precisely what this convergent market needs.

It is no coincidence that Cisco – as part of its transformation from hardware to software – took a significant part in the capital increase dedicated to the Expriva Italtel transaction, since it regards the new group as the model partner of tomorrow, in which software, the Internet of things and analytics will be dominant and essential to the development and growth of the global market.

The transaction involved a capital increase of Euro 47 million by Italtel S.p.A., of which Euro 25 million was subscribed by Exprivia and Euro 22 million by Cisco, through the issuance of 6 million ordinary shares and 16 million preference shares, as well as the conversion of bank debt of approximately Euro 67 million into equity instruments. The transaction also provided access to an additional Euro 26 million of new financing from the bank syndicate (led by the Agent Bank, UniCredit). The remaining bank debt shall be extended to 2024, with repayment from 2019.

As the Exprivia Italtel Group, we will target clients in an integrated, coordinated manner, focusing on four vertical segments – Finance, Healthcare, Telco & Media and Enterprise – while moving forward with our International development at an even swifter pace. Considerable resources will be dedicated to product and service innovation, as mentioned above, based on the deep convergence between information technology and telecommunications.

In 2017 the Italian domestic Digital market grew by 2.3%, with a sharp increase in the ICT software component (+6.5%). In the next few years, this trend will continue, rising to +2.6% in 2018 and then to +2.9% in 2020. In addition, telecommunications services – which remained in negative territory in 2017 at -0.5% – will begin to grow again for the first time after many years, reaching +0.1% in 2018 and +0.6% in 2019. This means a positive, encouraging digital market in our main region.

In Italy we have also seen that the government is strongly committed to expediting the digital transformation of the country's economy for the benefit of Italian companies and the public sector. The Ultra-Broadband (UBB) and Industry 4.0 strategic plans – which will have a truly significant impact on our business – have entered the full implementation stage. In particular, in the light of the creation of Open Fiber and the selection of Italtel to design clusters C and D of the fiber-optic network, the UBB project remains crucial to our group's results in the short and medium term. Another strategic plan – Digital Growth, dedicated to development of the government's information technology system – is also taking off, as shown by the government's recent Three-Year Information Technology Systems Plan, which brings new development models to sectors of strong interest such as Digital Healthcare and Smart Cities.

The technologies that will drive growth in this area relate to software and solutions, and in particular to what are known as "digital enablers": Cloud, IOT, Big Data & Analytics, Mobile Apps, Cyber Security. There is also growth in Telecommunications – where, as mentioned above, there is an unprecedented race to build fiber-optic networks in Italy. 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 international market in which our company operates is fundamentally Europe (Spain, France, Germany, Belgium, the UK and Poland) and Latin America (Brazil, Argentina, Peru, Colombia and Ecuador). Like its Italian counterpart, the European ICT market posted sound 2% growth, driven by the digital transformation programs in the public and private sectors and the increasing use of digital technology (e-commerce, social networks, entertainment and education). In absolute terms, this market reached USD 1,150 billion. The South American ICT market grew by 2.2% for similar reasons, while remaining much smaller than its European counterpart at around USD 450 billion. The general political and social climate in the most important country in the region – Brazil – still does not support a positive outlook, although the Brazilian economy has officially emerged from the recession that began in 2015. The recovery was driven above all by household spending, which is believed to have benefited from lower inflation and a stronger job market.

The Company enjoyed a positive year in 2017 in terms of commercial results, with increases in revenues to Euro 430 million (+6% compared with 2016) and in margin to Euro 113 million (+4%), with an EBITDA of Euro 20 million, fully meeting the target set in the Business Plan, for an increase of 4% compared with 2016.

Results continued to be very positive on the Italian domestic market this year, with revenues of Euro 270 million (+14%), while continuing to fall short of our expectations on international markets, with revenues of Euro 160 million, down by 5% on 2016. Italian domestic revenues accounted for 63% of the Group total, a sharp reversal of what had been a very positive trend until 2015, when international revenues reached 55% of the Group's total market volumes. It is important to return to this situation as soon as possible.

The Italian domestic performance was literally driven by two clients: TIM and Open Fiber. In the case of TIM, there was a significant investment in ultra-broadband networks, which resulted in a very strong increase in demand for capacity on the IP backbone, in addition to demand to update the older technologies present in the network. The result was Euro 146 million, up dramatically (+24%) on 2016. However, it must be emphasized that we do not foresee such a dynamic performance in the current year, since the further change of senior management has been followed by a severe slowdown of investments and a dramatic revision of the overall strategy, with scenarios only recently presented to the market, following the meeting of the Board of Directors on March 6. In the case of Open Fiber, the development of ultra-broadband continued in 2017 in both large cities and clusters C and D, which encompass an impressive 6,750 municipalities. Our involvement was considerably greater and yielded revenues of nearly Euro 23 million, up by 15% on 2016, with the prospect for a strong increase above all in 2018 and 2019.

The revenues generated by the other licensed operators (OLOs) segment of the Italian domestic market amounted to Euro 35 million, compared with Euro 40 million in 2016, but with a strong improvement in margin to 37% from 29% in 2016. In particular, revenues on business with FASTWEB improved significantly to Euro 21 million from Euro 17 million in 2016, due to the sharp rise in traffic resulting from the successful offering of Ultra-Broadband services and the initiative aimed at developing the Mobile Virtual Operator business.

Finally, we achieved strong results on business with Italian public and private sector clients, continuing to enjoy sound relationships with many major clients such as Enel, Eni and Terna, in the Energy and Utilities segment, Unicredit, Intesa and MPS, in the banking segment, and Poste Italiane and RAI among state-owned enterprises. In the Public Sector, we also launched major projects with Sogei, the Bank of Italy and Poligrafico Zecca dello Stato. Revenues amounted to Euro 66 million, up by 10% on the previous year, with a similar improvement in margins.

In contrast, for the second consecutive year, there continued to be difficulty in meeting expectations on international markets in terms of growth and results. In EMEA, revenues amounted to Euro 45 million, down by 8%, although margins rose due to the clear change of business model that is taking place in Spain as a result of the launch of the NOC project for Telefonica. In Spain, our company was awarded an important contract to provide Network Operations Center and Security Operations Center services, requiring the recruitment of approximately 80 specialized personnel and greatly expediting the transition to a model with a stronger service component. In Latin America, revenues came to Euro 115 million, down by 3% on 2016. Margin also declined significantly, falling by 18% to Euro 23 million. This was mainly due to the further increase in the use of competitive procurement processes by all telecommunications operators in the region.

The most significant events in 2017 on the offering front included the development of the Exprivia Italtel group's solutions known as "joint offers", which can be used to approach the market and create value for clients based on the group's expertise in the fields of information technology and telecommunications. Joint offers are divided into four functional levels: (i) Digital Infrastructures, (ii) Digital Enablers, (iii) Support Processes and (iv) Business Processes. These functional levels include a total of 23 solutions, the core components of the offers. Business Processes – the highest level of applications – include solutions relating to the segments Industry 4.0, smart grids (Energy and Utilities), Aerospace, Healthcare, Smart Cities, Telco & Media, Finance and International Solutions. Support Processes include solutions relating to ICT Governance, Supply Chain Management, Human Capital Management, Finance Administration & Control and Business Processes Outsourcing. Digital Enablers include solutions relating to ICT Security, IoT, Big Data & Analytics, Digital Channels and Cloud Integration & Orchestration. Finally, Digital Infrastructure refers to solutions relating to IT service management, data centers and virtualization, collaboration and communication, IP UBB networks and control rooms.

In particular, for our Proprietary Products, we moved up the timetable for virtualization, along with the analogous transition to the Cloud and Cyber Security for our Engineering Services. 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 NetwrapperTMproduct, 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.

Finally, in 2017 we created the UBB and FWA (Fixed Wireless Access) Network Design Center, currently dedicated to the needs of Open Fiber, which has reached 100 specialists. The Center will continue to grow, doubling its headcount over the next two years. This change had a significant impact at the level of human resources, resulting in an increase in overall headcount compared to 2016. There were 1,433 staff at the end of 2017, up by 6% from 1,357 at the end of 2016. In particular, there was a slight decline in Italy, as a result of stage one of the redundancy plan approved in the Agreement dated December 28, 2016, offset in part by a considerable number of new recruits due to the aforementioned increasing needs of the ultra-broadband project. At the international level, growth was very swift and is fundamentally justified by the launch of the Network Operations Center (NOC) project in Spain that we are carrying out for the client Telefonica and that required the recruitment of approximately 80 employees.

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. With this in mind, at the end of 2017 we signed a trade union agreement on the adoption of the redundancy mechanisms implemented in the Solidarity Contract for the period January – June 2018.

In terms of performance, change in shareholder structure and the dawn of a new era of prospects and growth for our Company, 2017 is to be considered a watershed year. I am convinced that the foundations have been laid for the creation of a major international player in the information and communication technology market capable of attracting top talent, bringing Italian software technology and expertise to the world and playing a key role in the digital transformation, which is an indispensable element to growing and increasing the competitiveness of our Company.

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 endeavouring to further improve results and the satisfaction of our clients. 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 the entire management team, I wish to express also heartfelt gratitude to the shareholders who, through Italtel Group S.p.A., have been alongside us for many years and who since December 14, 2017 are no longer part of our ownership. In particular, my thoughts are with Telecom Italia who, despite the difficulties of the complex period encompassing the economic crisis emerging in 2009, never fell short in terms of support and encouragement. Finally, I would like to express my special gratitude to our new shareholders (Exprivia), our long-term shareholders (Cisco) and all of our other Financial Stakeholders for believing in our development as a company and thus enabling the creation of a Group that is truly significant in terms of size, skills and competencies.

Stefano Pileri

INTRODUCTION

Italtel is an Information & Communication Technology (ICT) multinational with a strong commitment to innovation that over the years has led it to pursue research projects in the fields of telecommunications and IT software at the European, Italian and regional levels. Drawing on its deep technological expertise, which has its roots in the company's long history of transforming telecommunications in Italy and worldwide, it designs the software solutions that make the ongoing digital revolution a reality.

Italtel's portfolio includes solutions for networks, data centers, business collaboration, digital security and the Internet of things. Its solutions include proprietary and third-party products, managed services, engineering services and consultancy.

Together with Exprivia – which in December 2017 purchased a controlling interest in Italtel – it represents a new major Italian ICT group that aims to play a leading role in the digital transformation by developing innovative solutions and services both in Italy and internationally.

Italtel's clients are public- and private-sector service providers, with a specific focus on vertical markets such as Energy, Healthcare, Industry, Defense, Finance and Smart Cities.

Italtel Group

The Italtel Group has its headquarters and R&D facilities in Italy and international offices in 14 countries. The Group has successfully leveraged the skillset that propelled it to play a leading role in the dramatic transformation of telephone networks of Italy and of many other international operators, and it now operates in major countries throughout Europe and Latin America, where its clients range from large enterprises to the public sector and service providers, as a key player in the digital transformation.

Its client portfolio includes four of the world's largest global service providers (Telefonica, Telecom Italia, Vodafone and Orange), which it serves in multiple countries, most of Italy's fixed-line and mobile communications operators, many of Italy's largest state-owned and private companies and various major multinationals.

The Italtel Group offers end-to-end solutions in areas that are crucial to the productivity and success of a business and to the development and simplification of network infrastructure. It serves the following sectors: Telecommunications, the Central and Local Public Sector, Healthcare, Defense, Finance, Energy and Manufacturing.

Its solutions combine its products – developed according to approaches based on Network Function Virtualization (NFV) and Software Defined Networking (SDN) – with those of third parties, most notably those of Cisco Systems, which has been Italtel's main international partner for over 15 years. 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, Internet of Things and Cyber Security for vertical segments such as Industry 4.0, Smart Grid, Smart Cities, Healthcare, in addition to system integration operations for the construction and transformation of complex networks, such as fiber optic ultra-broadband (UBB) infrastructure.

In terms of original products, the offer covers a number of key service, edge and operating level network infrastructure components.

In addition to its leadership position on the Italian market, the Italtel Group has established a strong presence abroad: it operates in Spain, France, Germany, Belgium, Poland and in Latin America, with a presence in Brazil, Argentina, Colombia, Peru and Ecuador.

Key Financial Highlights

(Euro thousands)

	2017 IFRS	2016 IFRS
Revenues	430,211	405,411
Profitability to external costs [(1)] %	*26.24*	*26.75*
Adjusted EBITDA [(2)]	20,014	19,253
Margin %	*4.65*	*4.75*
EBITDA [(3)]	14,835	(1,113)
Margin %	*3.45*	*(0.27)*
EBIT [(4)]	2,153	(73,381)
Margin %	*0.50*	*(18.10)*
Net loss	(10,458)	(97,934)
Margin %	*(2.43)*	*(24.16)*
	At December 31, 2017	**At December 31, 2016**
Capex [(5)]	19,050	20,140
Net Debt [(6)]	165,133	216,677
Shareholders' Equity	35,618	(64,160)
NCE [(7)]	200,751	152,517
Adjusted NCE [(8)]	78,536	30,302
Cash flow from operating activities [(9)]	(44,236)	(23,751)
Cash flow from investing activities [(9)]	(15,523)	(14,949)
Cash flow from financing activities [(9)]	60,372	3,239
Number of employees	1,433	1,357
of which Italy	1,078	1,103
of which Overseas	355	254

(1) Profitability to external costs: Margin / Revenues
(2) Adjusted EBITDA measures the operating result, plus amortization, depreciation and write-downs and less restructuring charges and other non-recurring items.
(3) EBITDA comprises the operating result before amortization, depreciation and write-downs
(4) EBIT is the operating result
(5) Capex or capital expenditure is the sum of intangible and tangible asset investments
(6) Net Debt is reported in the Directors' Report at page 108
(7) Net Capital Employed (NCE), as described at page 107
(8) Net Capital Employed (NCE), adjusted for Goodwill
(9) Cash Flow Statement at page 68

Information on Italtel S.p.A. shareholders

Since December 14, 2017, following completion of the corporate transaction outlined in the subsequent "Significant events concerning Italtel S.p.A." paragraph, the ordinary share capital of Italtel S.p.A. has been held 81% by Exprivia S.p.A., with the remaining 19% held by Cisco Systems (Italy) S.r.l. The preference shares are however entirely held by Cisco Systems (Italy) S.r.l.

A brief description of the shareholders follows.

Exprivia S.p.A.

Exprivia S.p.A. is an Italian company listed on the STAR segment of the Italian Stock Exchange and the parent of an international group that is playing an active part in ongoing digital transformation processes based on solutions extending throughout the entire value chain.
What sets the Exprivia Group apart is its ability to manage complex products by vertical and horizontal competencies in a connected, integrated manner, along with its ability to create solutions that are easy to use and update because as based on constant research and innovation. Drawing on the know-how and experience gained in its over 30 years of constant market presence, Exprivia offers a team of experts specialized in various fields of technology, from Capital Markets to Credit & Risk Management, IT Governance, BPO, IT Security, Big Data, the cloud, IoT, Mobile and SAP, spread across its various offices in Italy and the rest of the world (Europe, America and Asia), servicing clients in Banking & Finance, Telco & Media, Energy & Utilities, Aerospace & Defense, Manufacturing & Distribution, Health & Government.

Cisco Systems (Italy) S.r.l.

Cisco Systems (Italy) S.r.l. is an Italian company that is a part of the multinational group of the same name specialized in providing networking devices and Information Technology. The parent company Cisco Systems, Inc. is listed on the NYSE.

Italtel S.p.A. was a fully-owned subsidiary of Italtel Group S.p.A. until December 14, 2017.

Corporate Boards

Board of Directors [(1)]

Chairman [(2)]	Domenico Favuzzi
Chief Executive Officer [(3)]	Stefano Pileri
Directors	Dante Altomare
	Alessandro Cortesi [(4)]
	Mario Ferrario [(5)]
	Tiziano Onesti [(6)]
	Valeria Anna Savelli
Secretary of the Board of Directors	Nicolò de' Castiglioni

Board of Statutory Auditors [(7)]

Chairman	Giuseppe Benini
Statutory Auditors	Ignazio Pellecchia
	Mauro Romano
Alternate Auditors	Anna Lucia Muserra
	Attilio Sommavilla

Independent Audit Firm [(8)]

PricewaterhouseCoopers S.p.A.

(1) Appointed by the Shareholders' Meeting of December 14, 2017 and in office until the Shareholders' Meeting for the approval of the 2019 Annual Accounts
(2) Appointed Chairman of the Board of Directors by the Shareholders' Meeting of December 14, 2017.
(3) Appointed Chief Executive Officer through Board of Directors' motion of December 14, 2017
(4) Independent Director as per Article 16.1. (c) of the By-Laws, appointed by the Board of Directors on December 14, 2017, member of the Related Parties Committee and the Remuneration Committee; appointed Vice Chairman of the Committees by the Board of Directors on February 15, 2018

(5) Non-Executive Director, appointed by the Board of Directors on December 14, 2017, member of the Related Parties Committee and the Remuneration Committee
(6) New EFIs Director as per Article 16.1. (b) of the By-Laws, appointed by the Board of Directors on December 14, 2017 Member of the Related Parties Committee and the Remuneration Committee, in addition to Chairman of these Committees
(7) Appointed by the Shareholders' Meeting of December 14, 2017 and in office until the Shareholders' Meeting approving the 2019 Annual Accounts
(8) Appointed by the Shareholders' Meeting of June 28, 2016 for the 2016, 2017 and 2018 three-year period.

DIRECTORS' REPORT

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 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").

Following the approval decree, all of the necessary acts and deeds were completed for the execution of the 2012 Restructuring Agreement, including in particular the underwriting of new loan contracts and the issue, pursuant to Article 2346 of the Civil Code and against the conversion of the respective receivables, Class A and B Equity Financial Instruments ("EFI") in favour of the lending banks, Cisco and Telecom Italia Finance. The share capital of Italtel S.p.A, subscribed and paid-in, amounted to Euro 2,000,000, comprising 2,000,000 shares of a nominal value of Euro 1 each, all held by the sole shareholder Italtel Group S.p.A. and committed in guarantee to the lending banks.

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. For this purpose, Italtel Group S.p.A., with the support of a financial advisor, 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. Italtel 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 reflects the altered economic and market environment and the completion of a new debt restructuring agreement and the consequent Investment.

According to the 2017-2023 Industrial Plan, in the first months of 2017 an impairment test was carried out 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, capitalised development costs, prior operating losses and the 2016 net loss, resulted in negative shareholders' equity of approx. Euro 64 million 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") as commented upon below.

ITALTEL EXTRAORDINARY TRANSACTION

In the above context, the following were signed on July 27, 2017:

(i) A new debt restructuring agreement with the Banks and Cisco in implementation of the 2017-2023 Industrial Plan (the "Banks and Cisco Restructuring Agreement"), as per Article 182-*bis* of the Bankruptcy Law (L.F.). This was the result of negotiations to define the refinancing and extension of the debt.

(ii) An additional restructuring agreement - submitted for the approving decision together with the Banks and Cisco Restructuring Agreement, as part of the same procedure and the same negotiations - with Intesa Sanpaolo, Mediocredito Italiano and Cassa Depositi e Prestiti (the "Intesa Restructuring Agreement"), (the Banks and Cisco Restructuring Agreement and the Intesa Restructuring Agreement, jointly the "New Restructuring Agreement").

(iii) A framework agreement (the "Framework Agreement") to define the terms and conditions of the Investment with Exprivia, Cisco, Telecom Italia Finance and the Banks, in their capacity as Holders of A and B EFIs and the main creditors of the company.

The documents regulating the extraordinary transaction are, therefore, particularly constituted by the Framework Agreement, the New Restructuring Agreement and their associated annexes.

FRAMEWORK AGREEMENT

The Framework Agreement was signed by the company and by Italtel Group S.p.A., on the one part, and by Exprivia, Cisco Systems International BV, Cisco Systems (Italy) S.r.l., Telecom Italia Finance S.A. (the latter, limited to the obligation to sell the existing A and B EFIs which will be discussed below) and the company's lending bank syndicate, on the other.

The Framework Agreement has, therefore, regulated the extraordinary transaction's procedure and the terms and conditions consisting of a series of interrelated legal and economic transactions, which can be summarised as follows:

a) The signing of the New Restructuring Agreement
b) The signing of Loan Contracts (as defined below)
c) The lending banks' purchase of A and B EFIs held by Cisco and Telecom Italia Finance and their underwriting of new Class C Equity Financial Instruments ("C EFIs"), through the conversion of receivables totalling approximately Euro 66.8 million
d) The subscription and full release of ordinary shares by Exprivia for a total amount of Euro 25 million, equivalent to 81% of the company's new ordinary share capital, of which Euro 16.2 million as nominal share capital and Euro 8.8 million as share premium
e) The subscription and full release by Cisco of:
   (i) Ordinary shares for a total amount of Euro 6 million, equivalent to 19% of the company's new ordinary share capital, of which Euro 3.8 million as nominal share capital and Euro 2.2 million as share premium, and
   (ii) Preference shares for a total amount of Euro 16 million, of which Euro 1.00 as nominal share capital and Euro 15.9 million as share premium
f) The granting and disbursement of new bridge financing pursuant to Art. 182 *quinquies* of the L.F.
g) The adoption by the company's Shareholders' Meeting of a new By-Laws, new rules for the governance of A and B EFIs and rules for the newly issued C EFIs.

NEW RESTRUCTURING AGREEMENT

Certain transactions envisaged in the Framework Agreement and, in particular, transactions related to the restructuring and refinancing of the company's debt were regulated by the New Restructuring Agreement signed on July 27, 2017 and submitted for the approval of the Court of Milan pursuant to Art. 182-*bis* of the L.F.
Parties to this Agreement, in addition to the company as the proponent, and Italtel Group, are the lending banks, Cisco Systems (Italy) S.r.l. and Cisco Systems International BV, in the capacity of subscribing creditors, and the subsidiaries Italtel Deutschland Gmbh and Italtel S.A., also as subscribing creditors.

More specifically, in addition to the transactions relating to the conversion of receivables from lending banks into C EFIs, the New Restructuring Agreement also envisaged the signing of the following medium/long-term loan contracts (the "Loan Contracts"):

- A loan contract for a maximum total amount of Euro 77,183,451 concerning the granting of new credit lines as an overdraft or performance guarantee, to support the company's financial requirements during the period of the 2017-2023 Industrial Plan. Part of this amount can be used for the issue of guarantees and other unsecured guarantees during the period between the date of the filing of the appeal and the approval date, once authorisation is received by the Court pursuant to Art. 182-*quinquies* of the L.F.

- An amendment to the existing loan contract, for a maximum amount of Euro 36,352,867, for the deferment of exposures arising from the loan contract granted in execution of the debt restructuring agreement approved in 2013; and
- A loan contract for a maximum total amount of Euro 95,652,163.66 for the consolidation and deferment of residual exposures (following the conversion) arising from the TERM loan contract and the existing RCF loan contract. The final maturity date of these loan contracts is December 31, 2024 (although some of the new financing lines will mature on December 31, 2023).

The New Restructuring Agreement involved a report, drawn up by Mr. Papa, declaring the correctness of company data and the implementation of the agreement pursuant to Article 182-*bis* of the L.F. Furthermore, for the purposes of the granting of new financing during the period between the date of filing the appeal and the approval date, Mr. Papa issued a specific attestation pursuant to Article 182-*quinquies* of the L.F., which attested that the granting of this new financing is functional to the best satisfaction of creditors.

On July 28, 2017, the New Restructuring Agreement, together with the Appeal as per Art. 182-*bis* of the L.F. the Application as per Art. 182-*quinquies* of the L.F. for the bridge financing, and the associated documentation required by law, were filed at the Court of Milan for the purposes of obtaining the approval decree.
On August 3, 2017, the Court authorised Italtel by decree to take out new bridge financing pursuant to Art. 182-*quinquies*. Thereafter, on August 22, 2017, the New Restructuring Agreement was entered in the Companies Register of Milan and on November 13, 2017, the Milan Court issued the approval decree.
On November 30, 2017, after the 15-day period provided for by Article 182-*bis*, paragraph V, the Court of Appeal of Milan declared the absence of objections against the approval decree which then became final.

OBLIGATIONS PRELIMINARY TO CLOSING AND THE CLOSING

Since the provisions of Articles 2446 and 2447 of the Civil Code do not apply with effect from the date of the filing of the appeal as per Article 182-*bis* of the L.F. for the approval of the New Restructuring Agreement and up to its approval – pursuant to Article 182-*sexies* of the L.F. - the 2447 Shareholders' Meeting, during its last session of July 28, 2017 was closed without the adoption of any measure in view of the New Restructuring Agreement having been filed by that date.

A new Extraordinary Shareholders' Meeting of Italtel S.p.A. was therefore held on November 27, 2017 which, *inter alia*:

- Approved the balance sheet at September 30, 2017
- Resolved to cover losses, subject to the subscription of Class C EFIs and the share capital increase referred to below
- Approved the increase of ordinary share capital for a total of Euro 31,000,000 (of which Euro 20,000,000 as nominal share capital and Euro 11,000,000 as share premium) to be offered in subscription to Exprivia S.p.A. for Euro 25,000,000 (of which Euro 16,200,000 as nominal share capital and Euro 8,800,000 as share premium) and to Cisco Systems (Italy) S.r.l. for Euro 6,000,000 (of which Euro 3,800,000 as nominal share capital and Euro 2,200,000 as share premium)
- Approved a further increase in share capital for a total of Euro 16,000,000 (of which Euro 1.00 as nominal share capital and Euro 15,999,999 as share premium) to be offered in subscription to Cisco Systems (Italy) S.r.l.
- Approved the issue of 66,803,260 Class C EFIs
- With effect from the full subscription of the Class C EFIs, passed a resolution on (a) the adoption of a new By-Laws, (b) the amendment of Class A and B EFI rules, and (c) the adoption of rules for the new Class C EFIs.

On December 14, 2017, following the finalisation of the approval decree, the closing of the transaction took place during which the resolutions passed by the Extraordinary Shareholders' Meeting on November 27, 2017 were executed, particularly:

a) Exprivia S.p.A. subscribed to 25,000,000 Class A ordinary shares without nominal value (of which Euro 2,000,000 through the conversion of undisputed receivables from Italtel S.p.A.)
b) Cisco Systems (Italy) S.r.l. subscribed to 6,000,000 Class B ordinary shares without nominal value (entirely through the conversion of undisputed receivables from Italtel S.p.A.)
c) Cisco Systems (Italy) S.r.l. subscribed to 16,000,000 special shares without nominal value (entirely through the conversion of undisputed receivables from Italtel S.p.A.)
d) The lending banks (UniCredit S.p.A., Banco BPM S.p.A., Banca Popolare di Milano S.p.A., Banca IFIS S.p.A. and UBI Banca S.p.A.) subscribed to a total of 66,803,260 Class C EFIs without nominal value (through the partial conversion of an equal amount of financial receivables from Italtel S.p.A.)
e) The Loan Contracts were signed
f) Guarantee documents in favour of the lending banks were signed (a pledge on newly issued shares, mortgage and privilege) and guarantees previously offered by Italtel Group S.p.A. and by its shareholders released.

The share capital of Italtel S.p.A. therefore amounts to Euro 20,000,001.00, while the Class C EFIs were subscribed as follows:

Lending Bank	Number Equity Financial Instruments Class C	Percentage
UniCredit S.p.A.	42,782,579	64.0
Banca Popolare di Milano S.p.A.	13,284,283	19.9
Banca IFIS S.p.A.	7,730,401	11.6
Unione di Banche Italiane S.p.A.	2,003,998	3.0
Banco BPM S.p.A.	1,001,999	1.5
Total	**66,803,260**	**100.00**

On the conclusion of Italtel S.p.A.'s recapitalisation as described above, Italtel Group S.p.A. fully exited the share capital of Italtel S.p.A. as envisaged by the Restructuring Agreement.
The new shareholders of the company are, therefore, Exprivia S.p.A. with a holding of 81% of the share capital, and Cisco Systems (Italy) S.r.l. with a holding of 19%.

Also held on the same date, December 14, 2017, in execution of the agreements signed in July: (i) the Ordinary Shareholders' Meeting of Italtel S.p.A. which, inter alia, appointed the new Board of Directors and the new Board of Statutory Auditors and (ii) the meeting of the Board of Directors for the assignment of offices and the conferral of powers to the Directors.

As a result of the extraordinary transaction's positive conclusion and the recapitalisation of Italtel S.p.A., the Directors believe that the previous uncertainties regarding business continuity have been completely overcome and that the company has sufficient resources to continue its operational activity.
Results achieved in financial year 2017 have confirmed the projections of the first year of the Industrial Plan and, in 2018, the Company is also operating in accordance with the strategic guidelines established by the Industrial Plan.
For this reason, the Directors have drawn up the financial statements of Italtel S.p.A. at December 31, 2017 on a going concern basis.

Basis of presentation

The financial statements of Italtel S.p.A. at December 31, 2017 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2017, 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.

Market Overview and position of Italtel

Market overview

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

- VoIP (Voice over IP) and IMS (IP Multimedia Subsystem) segment concerning the main core and border network telecommunication network components.
- NFV (Network Function Virtualization) and SDN (Software Defined Networking) segment, which for Italtel particularly concerns the proposal of a number of virtualised network elements and the development of SDN solutions on the software platforms of international vendors, particularly Cisco Systems.
- Network & Service Management segment, focused on intelligent and rapid management for network control, traditionally relying on OSS and BSS platforms, but currently shifting towards more integrated and flexible systems with a greater range of functionalities (NFV-MANO).
- MEC (Multi Access Edge Computing) segment, which provides edge network tools for the management of traffic, media and security through innovative SDN and NFV virtualization and wireless technologies (4/5G and Wi-Fi) that allow the migration of various functions, services and content from the core network to the mobile edge network.
- Unified Communication and Collaboration 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, analyses, processes and exports the received data.
- Cyber Security segment which includes the set of technologies, processes and services to protect IT systems and data in terms of availability, confidentiality and integrity.

The segments analysed present two main trends:

- Stabilization and substantial maintenance of revenues for segments employing mature and consolidated technologies, such as VoIP and IMS on the basis of new network installations, upgrades and particularly new architectures (such as NFV) which create a *de facto* "substitution market".
- Rapid two-digit growth rates in innovative areas such as the Internet of Things and Cyber Security, even in highly fragmented and divergent competitive scenarios with strategic positioning challenges.

VoIP & IMS Market

The VoIP and IMS segment reported a contraction of 13% in 2017, principally due to weakness in the CALA (Central and Latin America) and EMEA (Europe, Middle-East and Africa) regions - the areas in which Italtel is most heavily involved - while the North America and APAC (Asia-Pacific) regions were unchanged on 2016.

The market is based on the following main network functionalities: CSCF, HSS, MRF, SBC, IMS Voice Application Servers and Legacy components such as SSW and Trunk Media Gateway, worth approx. USD 1.1 billion in 2017. The percentage of revenues generated by VNF functionalities (i.e. only SW functionalities installed on commercial hardware) ranges from 46% for MRF, 38% for CSCF, 42% for HSS, 43% for VAS and 32% for SBC.

The use of SBC enterprise in recent years has seen sustained growth (from USD 376M in 2016 to approx. USD 452M in 2017). 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.

This market is denominated by global vendors such as Huawei, Ericsson and Nokia, generating more than half of its turnover, each with market shares of around 22% and 21%, followed by NEC, Sonus (which at the end of 2017 was merged with Genband), BroadSoft (acquired by Cisco in 2017) and a number of companies specialized in niche markets, operating in specific regions and network functionalities.

NFV & SDN Market

A particular focus is placed on the overall NFV market, a strategic technology which Italtel has applied since 2016 to all of proprietary products. The markets generated in 2017 total revenues of USD 14B (against approx. USD 10B in 2016), with growth of 27% forecast over the coming five years.
They include big players such as Cisco, VMware, Dell and other smaller players. It however should be noted that this technological trend represents a disruption to the traditional TLC market, enabling therefore the opening of the market also to smaller players, increasing granularity and creating specific new niches.

The SDN market, considering only the telecommunication operators (Carriers), generated total turnover in 2017 of approx. USD 8.7 billion (USD 5.2 billion in 2016) and specifically for the "Outsourced Services for SDN Projects" market, the main market targeted by Italtel with the strategic support of its partner Cisco, indicates a total revenue value of USD 2.3 billion globally, with forecast average growth of 40% for the subsequent five-year period.

Network & Service Management Market

The Network & Service Management market, subject to modern network developments, is led by the need for the intelligent and quick management of the control of the network itself, of enabled services and of key enterprise operations and activities. The OSS and BSS platforms are usually responsible for these tasks, although traditional instruments are evolving towards more integrated, flexible and functionality-rich systems. The appearance of the new concepts of Network Function Virtualization and Software Defined Networking, often co-existing with the traditional network, raises new challenges for global Service & Network Management, with a need to provide an end-to-end vision in order to avoid a partially inefficient process.

In 2017, the market (only considering the vRouters, Mobile Core & EPC, PCRF & DPI, Security, IMS, SBC & DSC, Video CDN, SD-WAN and services segments) reached a total value of USD 5 billion, with the NFV-MANO (Management and Orchestration) segment, in which Italtel is principally engaged, reaching USD 294 million. The MANO market grew 90% on 2016, with growth forecast for the coming five years of 44%.

This market is dominated by Huawei, Ericsson, Nokia and Cisco, followed by a number of other vendors such as Amdocs, Oracle, HPE, Ciena and Brocade.

MEC Market

The Multi Access Edge Computing (MEC) market, as defined in ETSI terms, utilises virtualisation (SDN and NFV) principles and new wireless technologies (4G/5G and Wi-Fi), allowing the migration of a number of functions, services and content of the core network to the mobile edge network and is influenced and driven by the spread of IoT support technologies.

Global Mobile Edge Computing revenues were Euro 156 million in 2017, with average growth forecast for the subsequent five-year period of 35.2%. The "competition arena" in this specific sector involves all of the major global Network Vendors, such as Nokia, Ericsson, Huawei, etc.

Unified Communication & Collaboration Market

The main drivers of the UC&C solutions market are the need for integrated and effective communication tools, avoiding information exchange delays, boosting the productivity of companies and integrating into existing company communication support systems (PBX's).

Unified Communication revenues have gradually grown over recent years to approx. USD 946 million in 2017 (similar to 2016 where lower budgets partially slowed the market). North America accounts for more than 40% of the market, with EMEA representing 35% and the remainder in APAC and CALA.

The Unified Communication platforms market is dominated by Microsoft with a market share ranging from 58-64%, followed by Cisco and Avaya with approx. 10% each and Huawei and ZTE with around 1-2%.

Internet of Things Market

2017 was a key year for the IoT market, which saw the number of connected devices and units rise by over 31%, from 6.3 billion connected objects in 2016 to 8.4 billion in 2017, predominantly in China, North America and Western Europe.

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.

The Consumer segment in 2017 generated volumes of USD 725 billion, with USD 280 billion concerning the cross-industry business segment and USD 683 billion of global revenues from specific vertical applications. Finally, Professional Services totalled approx. USD 258 billion in 2017, with significant growth expected over the coming five years (Gartner estimate).

In general, the IoT market is highly fragmented and presents a greatly varied range of sizes and structures: from IT environment multinationals to start-ups developing specific apps for smartphones.

Cyber Security

2017 saw an incessant and progressive increase in cybercrime activities, with increasingly frequent and ever more aggressive and sophisticated attacks. However, the attention of businesses to cyber security and resources allocated to prevent attacks increased simultaneously.

The information security, or InfoSec, market was worth more than USD 94 billion in 2017 (source Gartner), and around Euro 1 billion in Italy alone, representing a 12% increase over 2016.

Naturally, Italtel invested significantly in this sector, and at the end of 2017 began a specific project to strengthen its Security Operations Centers, in terms of services and specialist capabilities.

The competitive arena of the InfoSec market features a number of large international players with specific end-point solutions, such as McAfee, Symantec, TrendMicro and Sophos, and with next-generation computer security solutions, such as Cisco, CyberArk, CheckPoint, PaloAlto, Splunk and CarbonBlack, among others.

Italtel, as a system integrator and provider of managed services in the security field, faces competition from international giants, including IBM, EMC and Microsoft, but also from competitive Italian companies on the domestic market, such as Engineering, Reply, MaticMind, and so on.

Domestic market – TIM

The telecommunications and Information Technology ICT market, as outlined above, in Italy in 2017 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 2017 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 TIM Domestic, despite heightened competition levels, commercial development resulted in substantial revenue growth on 2016 of Euro 145.8 million.

In addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2017 various innovative projects were launched, such as:

- A major metro network renewal project by TIM (OPM) for the convergence of fixed and mobile traffic (broadband & ultra-broadband) with migration of customers to the new Cisco technology-based nodes
- Development of the Transit and Interconnection network through the introduction of new NFV (Network Function Virtualization) functionalities for the development of the edge functionality of the network
- Public Switch Telephone Network (PSTN) Decommissioning 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 network and mobile network voice traffic and multimedia data and the composition of the relative network analytics 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
- Expansion of the new generation Data Center for the management of multi-media services (e.g. TIM Vision)
- Professional Services with top quality competences in support of multiservice network transformation processes, such as Solution Design, Integration & Testing and Network Transformation.

The business undertaken with TIM 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 TIM 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 projects from the major domestic operators, although revenues slightly declined on 2016 to Euro 35.4 million.

In terms of the provision of proprietary products and services, the most significant activity concerned Fastweb who chose Italtel as system integrator for the innovative Full MVNO project through the Italtel Gateway MSC solution and for the IP interconnection of new OLO's through the new Netmatch S Cloud Insight product.

Other significant successes related to the system integration projects:

- Fastweb confirmed the key role of Italtel in the IP networks field with the following projects:
  - extension and conversion of the existing IP Backbone infrastructure, based on Cisco technology
  - Launch of NFV (Network Function Virtualization) network development with a supplier of Mini Data Centers to house virtualised network functionalities
  - development of Intelligent Traffic management solutions based on Sandvine technology
- Tiscali chose Italtel to develop the optic MAN network based on DWDM Cisco technology
- Wind chose Italtel for the development of its IT Data Centers, for the establishment of an innovative Unified Communication and Collaboration solution for its employees and for the service IP backbone (DCN network)
- BT chose Italtel for the development of the Data Center to house the Cloud services for the market.

Domestic market – Enterprises and Public Sector

In 2017, the Italian ICT market overall grew slightly (+2.3%), principally due to the most innovative "digital transformation" components which - although diverging in extent - is apparent across all sectors.

Increasing importance surrounds investment in: Cybersecurity, Cloud, Big Data, Mobile services and Web applications. Traditional ICT investments indicated a very contained increase.

2017 featured also the launch of Government plans to recover the delays accumulated in previous years with regards to the 2020 Europe strategy and to upgrade the technological infrastructure used by Italian enterprise: Ultra-broadband and Industry 4.0 Digital Strategy

The progress of 2017 is framed within an as yet uncertain economic environment.
Spending Reviews and Stability Agreements continue to slow investment and spending in Information Technology by the Regions, Local Bodies and the Central Public Administration.

2017 reported for the Enterprise and Public sector domestic market continued volume (+12%) and gross margin (+29%) growth.

In the Enterprise segment, Italtel further consolidated its positioning for ICT solutions and services.
Open Fiber activities undertook a particular qualitative and qualitative significance.
Italtel operates as an "indicated engineer" with the responsibility of designing the entire Ultra-broadband network which Open Fiber will construct following the awarding of the 2 tenders announced by Infratel for the licensed construction and management of the "white area" ultra-broadband infrastructure.
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 an additional 3 ships.
Among the new customers, we highlight Unipol, Nexi (ICBPI ex Carta SI) with the projects for the development of the VoIP communication system and the upgrade of the Lan Network on a CiscoDigital Network Architecture basis.

For the Public Sector, we indicate the consolidation and expansion of market share through direct contracts, with major Public Entities, and in particular: IPZS, Bank of Italy, Poste Italiane.
A contract for the design and execution of the Data Center project of IPZS was formalised.
New clients include the Green Data Center project for the University of Pisa, executed according to precise sustainability criteria, for the containment of operating costs.
Strong Healthcare sector results were delivered also, consolidating operations with: Niguarda Hospital, the National Tumors Institute, Maggiore Mangiagalli Hospital and with the Humanitas Group

In 2017 Cisco, in collaboration with Italtel, launched a series of innovative technology initiatives in the area of Palermo, as part of the strategic Country Digitization Acceleration (CDA) programme of investment to speed up Italy's digitalisation. As part of the initiatives, a project was launched to create in the city center of Palermo, in the so-called "Percorso Arabo Normanno", a UNESCO recognised heritage site, an area equipped with an innovative technological platform, creating the conditions necessary for the development of new "smart" services for citizens, businesses and tourists.

EMEA Market

In 2017, the EMEA market, despite an 8.7% decrease in revenues compared to 2016, recorded an increase in absolute margins of around 11%, up to Euro 18.4 million, due to a changing of the dynamics of the sales mix in the various countries in which Italtel operates.

In Spain, an important project was initiated for Telefonica Business Solutions, already a systems integration and proprietary product (i-RPS) supply customer. The project saw Italtel seize the new opportunities, creating a platform for the management of Network Operations and Security Operations Centers (NOC and SOC), and tripling dedicated workforce resources in just a few months. The traditional systems integration business, on the other hand, continued to suffer from the same pressure on margins as in recent years, though positioning in relation to other service provider and enterprise customers was maintained.

In Germany, significant increases in revenues and margins were recorded over 2016 in relation to the systems integration project implementation for the Telefonica O2 Deutschland IP Backbone and to positive results achieved with Vodafone Deutschland, through expansion and new projects based on Italtel technology. Interesting prospects are evolving for the development of the Regional Service Provider market, as well as for possible collaborations with system integrators, to which Italtel proposes itself as a proprietary technology supplier.

The Polish market returned the same degree of turnover as 2016, with promising news in the expansion of Exatel's capacity, through the supply of an updated suite of proprietary products, among which NetMatch-S 'Cloud Inside', proposed and put into service in record time by the end of 2017, to the full satisfaction of the customer. This was an important prerequisite for 2018's development of the collaboration with the operator, which is controlled by the Polish Ministry of Defense.

In France, support activities were consolidated for the main service providers, such as Orange, Orange Business Services and SFR (Altice Group), for which a voice solution cost containment strategy continued in relation to the fixed network. Despite some delays due to the particular complexity and delicacy of the specific context, supply to HubOne, the telecommunications operator controlled by AdP, arrived by the end of the year, on completion of all preliminary rollout tests and of the migration of the telecommunications services of the airports of Charles de Gaulle and Orly.

In Belgium, a more complex situation evolved in relation to Proximus, for which, over recent years, Italtel has successfully coordinated the implementation of the MANTRA Project, aimed at the migration of fixed network assets and the provision of high added value professional engineering services. Despite the increase in turnover and absolute margins, recent assessments by the customer with a view to reducing the number of suppliers has led to a worsening of the outlook on future collaboration.

In February 2016, Italtel began important positioning activities within Iranian and South African markets, initiating various commercial relationships and identifying numerous significant opportunities. Though Italtel has gained a privileged position for the conclusion of deals in Iran, international geopolitical developments have complicated matters somewhat. However, the first commercial successes are beginning to blossom in Africa, which, together with progress in the challenging Libyan project, lay the foundations for a more promising 2018.

In 2017, the indirect selling of Italtel technology through indirect channel partners was launched in order to reach geographic areas and market segments not covered by the Italtel direct sales force. Despite significant lead generation activities directed at various system integrators across the world, commercial results have so far been inconsequential, most probably due to underdeveloped Italtel brand awareness outside the domestic market.

LATAM Market

2017, as 2016, proved to be a year of great crisis for Latin America in terms of political, economic and financial instability, affecting Brazil especially, but also various other countries, such as Peru. The political and financial uncertainty had significant effects on exchange rates and inflation, and delayed investment public and private decisions across all sectors, and particularly in ICT markets. The political and financial uncertainty resulted in investment decision delays across all networks. The outlook for 2018 has certainly improved, due to likely changes in the Brazilian political and economic landscape and the continuing need for the development of ICT infrastructure in all LATAM countries.

In general, in all LATAM markets, there is significant pressure on systems integration prices, driven by market stagnation and the entry of 'Made in China' technology in several segments. The fall in unit prices has also impacted volumes, and even more so margins, which fell by around 18%.

In Brazil, the noted crisis had a particularly negative impact, which was added to by significant procedural difficulties, although the growth of the customer Telefonica was decisive and represents a pivotal point in market positioning, as well as in the future growth of the country in general.

In Argentina, a country affected by significant public sector reforms oriented to greater state efficiency, the effect of the pressure on systems integration prices was even more significant, although Italtel's historical positioning in the local market remains unaltered.

In Peru, after a positive start to the year, the evolving deep political crisis, threatening the impeachment of the country's President during the second half of the year, meant that several large public projects were suspended or delayed. The improved but still divided political situation is critical for the foreseeable growth of the country and the ICT market.

In Colombia, the decline in revenues and margins mainly related to the long-standing customer UNE, which, following acquisition by the international group Milicom, suspended several decisions and adopted various new policies for managing historical suppliers. Furthermore, 2017 was a year of transition for the local management team in terms of the implementation of a turnaround plan aimed at transforming business activities.

In Ecuador, the political situation also had significant repercussions on the country, and specific technical problems in the implementation of several projects further negatively impacted growth.

Development and positioning of the Italtel offer: Proprietary Products

The gradual emergence of differing network models, with new generations of fixed and mobile networks, therefore from traditional Telco to Digital Telco networks with multiservice cloud platforms, saw in the 2016-2017 two-year period the emergence of the first examples, still imperfect, of the new networks which are marrying increasing Edge Cloud demand, with the progressive establishment of the Internet of things as a path which is bringing the user "closer", meaning a profound knowledge of "user" production processes with the goal of amending them through the introduction of new technological solutions.

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 Applications, 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. The networks will connect objects and not only people.

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 energy 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. Internet of things is a whole set of technologies behind digital transformation in a great variety of industries. The movement is towards drastically different networks from those of today.

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) Cloud, 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, as there is major stabilization and a high degree of product usability, as well as a greater presence in markets where Italtel has not been historically present and international marketing campaigns to promote new proprietary products.

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.

This development was continuous in 2017, allowing for a significant change to the entire catalogue of proprietary products.

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. The product extends its lifecycle through continuous change under a permanent maintenance contract. This structural aspect is beginning to be reflected also in customer solutions and even in the more strictly contractual aspect.

This is typically a defining feature of network service products, which, as such, must always be ready to integrate change. The development of the Border Layer product has demonstrated this feature as unique on a consistent basis.

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 behaviour 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 2017 that Italtel intends to pursue in the coming years:

1) All IP Communication:
- Border Layer Evolution Netmatch always-becoming Product Line
- Centralized Signaling & Routing iRPS end-Product-Solutions
- IMS functionalities iMCS & iTDS end-Product-Solutions

2) SDN & Automation NetwrapperProduct 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.

1a) NetMatch Product 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)
- Multiaccess 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, NFV technology was used extensively in the Border Layer NM-S Cloud Inside product, already ready to enter into operations with the first customers in Italy and abroad. In the second half of 2017, the P-CSCF component, as an NFV-coherent NM-S-CI embedded module, entered the operational phase. Hardware accelerators for realizing high performance computing services are an integral part of the first supply in Italy and will begin operations at customer premises in the first half of 2018.

During 2017, actions defined by the previous year's EOL policies were substantially completed in relation to customers.

The NM-S LE product line was confirmed as limited to Enterprise and Indirect Channel markets.

The development strategy for 2018 is focused on completing the P-CSCF and aligning NM-S-CI contents in order to proceed with use of the product across all markets.

1b) iRPS ProductCentralized Signaling&Routing

The iRPS product 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) and to tap into new opportunities, given that the competitors are also in this architectural transition phase together with Italtel.
2017 featured a reduced impact from stabilisation activities, allowing a focus on the development of important features, allowing - among other aspects - an improvement of product performances.
The introduction of the NFV paradigm also began for i-RPS, which shall be completed in the initial part of 2018, making the product therefore the second best Centralised Routing Engine on the global market, with opportunities to lead the NetNumber market with regards to a certain number of propositions.

1c) 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) 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 Vodafone Germany.

The same NFV updating process was undertaken in 2017 for the "NGN-IMS/VoLTE" segment iMCS product, paving the way for the initial product modules re-engineered on the basis of the new paradigm.

2) 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, which resulted in the filing of the first patent by Italtel after many years. The process is still in progress and is expected to conclude in the initial months of 2018.

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.

3) i-NEM and OSS Product Management 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 fulfilment 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, 2017 was marked by a significant focus on the identification and development of digital enabler competencies, 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. This process involved evolving the compatibility level towards a virtualisation level where VMware is added to KVM/Openstack, at operating system level, where CentOS assists RedHat, at database level, where Oracle and mySQL are supported by other platforms which open up to the management of structured and non-structured data and finally the presentation layer, in which a panel of platforms with differing levels of complexity and intrinsic functionality scope are selected.

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).

4) 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.

2017 saw significant growth in terms of functionalities dedicated to HealthCare world Use Cases, increasing the capacity for interfacing with various types of patient wearable devices collecting data from an increasing number of sources. The proposal of an advanced system integrated with healthcare databanks was built upon and the technological tools available for this communication system was improved and refined in order to simplify the process of following the patient through all phases of their care from hospitalisation right through to post-treatment care. The proposed solutions were tested through specific Trials in the field and release to the customer of the first commercial version of this platform is in progress.

5) IoT ProductInternet of Things

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. The chatbot technology was part of these developments in 2017, integrating a new person-machine interface based on the paradigms of the most popular social networks.
2017 saw the development of a range of propositions, also in terms of specific PoC's, in order to arrive at the first commercial offers of this platform.
The most promising thread to date concerns the major impetus given to the Italian market from the Industry 4.0 depreciation rules. In partnership with specific Italian industrial players, such as ROLD and Alleantia, the first concrete commercial propositions were developed, bringing commercial opportunities which shall consolidate in the initial months of 2018. In this regard, Italtel focuses on the capacity to process data sources coming from production lines and from company IT systems, which are integrated to improve efficiencies and reduce response times with regards to production time problems.

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 2017, Italtel reconfirmed its extensive expertise in networking, collaboration and data centers, engaging in significant and complex projects with operators and public and private companies.
Particularly relevant in this context was the multi-year TIM Optical Packet Metro (OPM) network transformation project, launched together with Cisco in order to guarantee TIM a better and more effective management and definition of new services, also with a view to 5G. Italtel continued network transformation with TIM on the Decommissioning project to compact high volume telephone lines and dispose of obsolete switching technologies. Furthermore, Italtel played the role of technological partner to TIM in the creation of complex wired and Wi-Fi connectivity solutions for high-visibility events, such as the G7 in Taormina, where Italtel, with considerable speed and precision, implemented the required wired and wireless network, and the 2017 Sanremo Music Festival, where Italtel, together with TIM and Cisco, developed a solution to meet quality requirements for the entire duration of the event. With Fastweb, Italtel engaged in network transformation projects for IP network transformation and technological upgrading through the implementation of a multi-year contract to replace equipment and migrate the infrastructure's IP active to new equipment. Engineering activities in networking, collaboration and data center solution areas were also carried out on a wide variety of projects for customers in Enterprise and Public Sector markets, the most significant of which, in terms of volume of activity, were the Italian state broadcaster RAI, the Italian post office Poste Italiane, the cruise line Costa Crociere, the

bank UniCredit, the Italian Ministry of Defense and several major hospitals in Milan, such as Humanitas and Niguarda.
The reassignment by TIM of the new Multivendor 2017 contract, covering the technologies of the various vendors, with the exception of the mobile network, demonstrated, within the Managed Services area, the effectiveness of the company's technical and organizational resources in guaranteeing the voice and data network Technical Support Service. In detail, the contract covers the maintenance of TIM's landline telephony, transmission, transport and access networks through network care and repair of the equipment of all the various vendor technologies. Particularly important, in 2017, was Italtel's commitment and investment in the execution of the design contract for the Ultra Wide Band passive network in so-called C&D Clusters, as part of the Infratel tenders awarded to Open Fiber. This multi-year project involves civil engineering and optical design of the passive fiber and wireless network, with Fixed Wired Access (FWA) technology, for a total of 6,070 Italian municipalities, affecting approximately 9 million real estate units. In particular, Italtel, in its role as designer for Open Fiber, is responsible for the definitive and executive network design, and has constructed a dedicated Civil Design Competence Center for the purpose, supplementing existing staff with around 50 new engineer hires. This work represents the most important large-scale deployment of UBB FWA in Europe.
Another important result in the scope of Managed Services was the continuation and expansion of the three-year system management contract with the Bank of Italy, signed in 2016 in a joint venture (Riunione Temporanea di Impresa - RTI) with Ericsson, in which Italtel assumed the role of assignee in holding service and contract responsibilities, operating the Bank of Italy's IT infrastructure and providing support through a dedicated team of around 40 adequately certified specialists working at the customer's premises.
Alongside the abovementioned activities, relating to Italtel's historical work on the creation and management of complex networks and infrastructures, Italtel has also simultaneously invested in innovations capable of positioning it, in the eyes of Cisco and others, as a new model of System Integrator. By combining engineering and development competences, Italtel achieved in 2017 interesting successes in the definition of solutions that, thanks to proprietary developments, complete and strengthen the positioning of Cisco solutions, with two important examples in the field being SDN and Managed Collaboration.
The Dynamic Admission Control solution, featuring the fundamental Italtel Netwrapper, Cisco APIC-EM SDN controller and Cisco CUCM Call Control products, allowed Italtel to enter Cisco's official Global Pricing List for the first time. Cisco's recognition came, above all, for Italtel's creation of a cross-technology application, or use case, scenario to clarify what typical SDI abstraction and automation elements can yield, with the same approach also applicable to other areas, such as the IoT.
The other example in the context of Managed Collaboration concerned Hosted Collaboration solutions, resident in Service Provider data centers, which allow the provision of cloud ready services for the small business world. The significant experience of Italtel in UC&C solutions has led to a closer collaboration with Cisco business units, which, in 2017, commissioned Italtel to carry out various testing and development activities for solutions positioned by Cisco on the world market.
A further significant event in 2017 concerned the development and focus that Italtel committed to the two priority areas: Cyber Security and Industry 4.0. Regarding Cyber Security, a series of initiatives were initiated in order to considerably improve positioning among market players, including product catalogue revisions, new multivendor partnership stipulations, technical certification planning and the re-launch of the Security Operations Center (SOC).
Regarding the Internet of Things and Industry 4.0, the first experiences, above all linked to infrastructural and network security adjustments and relations with several industry players, led to the definition of an innovative proposition for interested clientele.
Again regarding the Internet of Things, in 2017, Italtel continued its commitment, together with Cisco, to the Digitaliani project, which provides for the allocation of Euro 100 million over three years for education campaigns and the implementation of digital solutions, mainly in the manufacturing, agriculture and food and smart city sectors. Among the various projects, one particular example is that of the Port of Trieste, where Italtel implemented Wi-Fi coverage and an asset tracking solution.

The Systems Integration Solutions and Services catalogue with which the company presents itself on the market is divided into 8 main lines:

- 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 the quality of life and the productivity of businesses. The main areas are: 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. A particular focus was 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 2017, Italtel S.p.A conducted industrial research and development through projects funded by the European Union for the ICT (Information & Communication Technologies) area of Framework Horizon 2020.

Indeed, 2017 saw the conclusion of SESAME (Small Cells Coordination for Multi-tenancy and Edge services) project activities, which were coordinated by the Greek telecommunications company OTE and involved 20 other industrial partners and European research institutes. The objective of the project was focused on research activities relating to the transformation of physical resources, Small Cells, into virtualized resources, by developing an innovative architecture capable of making a coverage of small cells available to different operators in a 'as a service' manner through a neutral platform based on Edge Cloud and Network Function Virtualization (NFV) technologies.

Following the strong commitment, over the last few years, to European research activities in general, three new research projects were launched under the scope of the Horizon 2020 Framework:

- "5G Essence" (Embedded Network Services for 5G Experiences);
- "5G City" (Enabling Smart Cities through 5G Clouds);
- "MATILDA" (5G-ready applications and network services over sliced programmable infrastructure).

The "5G Essence" project, coordinated by the Greek telecommunications company OTE, involves the participation of 23 industrial partners and European research institutes and focuses on research activities for the development of an innovative highly flexible and scalable platform for the new 5G networks, able to support new business models based on low-latency services at the network edge and high capacity processing services at the center of the network.

Involving 19 partners, the 5G City project is coordinated by Fundacio Privada I2cat - Internet I Innovacio Digital A Catalunya, Catalonia's primary research and innovation center. 5G City focuses on developing a new distributed, open and multi-tenant platform, extending the model of centralized cloud computing at the network edge, with a final demonstration in three different European cities, Barcelona, Bristol and Lucca.
The MATILDA project, coordinated by the Italian National Inter-University Consortium for Telecommunications (CNIT), composed of 17 partners, is a project focused on the development of a holistic end-to-end framework for the management of the life cycle of the new 5G services on programmable infrastructures based on Network Function Virtualization (NFV) technology.

In November, again under the Horizon 2020 Framework, the i-EVS (Enhanced Video Services for Mobile Edge Computing in the 5G Environment) project was launched as part of Open Call 3 in the project Software Defined Networks and Network Function Virtualization Testbed within FIRE + (SOFTFIRE). The project aims to fine-tune new Italtel NFV products on the SOFTFIRE European distributed testbed.

Finally, in 2017 Italtel presented five new Horizon 2020 framework proposals: "UNITED" (Utility Networks Internet of Things for Enhanced threat Detection and tracking – Area: Secure societies), "SAMOA" (Situational Awareness through network Monitoring - Area: Secure societies), "FOGWARE" (Fog computing for loW-latency reActive secuRe IoT sErvices - Area: Cross-cutting activities), "DIWA" (Digital Industry Workers health and safety Analytics - EIT Digital), "5G-VERMONT" (Vertical-tailored Multi-Domain Network Slicing OS – Area: Marie Skłodowska-Curie Actions).

Subsidized loans and grants for Development and Innovation

In 2017, Italtel S.p.A. reported public grant income of approx. Euro 3.9 million. Grants amounted to approx. Euro 3.0 million, while approx. Euro 2.8 million of subsidized loans were received.

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

- Rotating Fund - Ministry for Economic Development Technological Innovation Fund, established by Law 46/82;
- National Operative Program Fund (PON) Research and Competitivity 2007-2013;
- National Operative Program Fund (PON) Enterprise and Competitivity 2014-2020 FESR;
- Cohesion Action Plan Fund (PAC);
- European fund for Regional Development (FESR);
- Competition Agreements Fund - Regional Law "Impresa Lombardia";
- Regional Operative Program Fund - EFRD 2014-2020;
- Rotation Fund (FdR);
- Enacting Regulation of the European Commission on the Seventh Framework Program and Horizon 2020.

Activities concluded in 2017 on the "ADVENT" (ADvanced Virtualization for Enabling Network Technology and applications) project, co-financed by the Lombardy region on the basis of the "LombardyEnterprise" Regional Law - Competitivity Agreements. The project, in collaboration with the Milan Polytechnic and CNR-ITIA, focused on creating new architectures for Data Centers, in particular based on the use of new acceleration technologies and fiber optic connections.

The "Ultra Broadband 339 Development Contract" (Ministry for Economic Development) project activities also concluded, 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 (PA) facility.

Finally, within the scope of MIUR SCN (National Smart Cities), the "Decision Theater" (Strategic planning for smart government) project concluded, which developed a platform for data collection and innovative IT services, available as Cloud computing, capable of supporting the Public Sector's strategic planning.

Activities however continued, launched in previous years, concerning the domestic project "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.

Domestically, we also indicate the launch of two major new projects, co-financed by the Ministry for Economic Development, utilising the Sustainable Development Fund, as per Ministerial Decree of June 1, 2016 "Major R&D Projects": RE-ACTOR (Rich Environment-Appliance and fog Computing platform for internet of Things Optimizer Realtime), as part of Internet of things technology; AGILE-NETWORKS, as part of the Technologies for the innovation of the virtualisation of platforms, infrastructure and digital services.

As part of the initiatives regarding the Sustainable Growth Fund of the Ministry for Economic Development), an "Innovation Agreement" was signed with the Ministry for Economic Development and the Lombardy Region on the basis of a proposal for the development, at the Settimo Milanese research center, of new 5G network products and solutions over the 2018-2020 three-year period. Within the same scope, together with the Sicily Region, a design proposal was presented regarding the development, at the Carini research center, of new Internet of Thins products and solutions over the 2018-2020 three-year period.

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.

In support of the Military Research National Plan, the CORRAL (Cyber Operations for Rapid Realistic Attack and Lab) design proposal was presented for the training of personnel tasked with guaranteeing the safety of infrastructure from cyber attack.

Finally, with regards to MIUR PON "Research and Innovation" 2014-2020 - Technological clusters, in collaboration with leading industrial and scientific partners five new design proposals were presented: SIAM (Area: Sustainable Mobility, with Italtel as lead entity), 3D-CISMA (Area: Smart, Secure and Inclusive Communities), QUANCOM (Area: Smart, Secure and Inclusive Communities), LIFENET (Area: Life Environment Technologies) and BEST4U (Area: Energy).

Open Innovation Program

In order to maintain its positioning in a market affected by perpetual and often disruptive transformation, Italtel has adopted the idea of developing its business as a borderless system in a model of open collaboration exposed to contamination from a variety of emerging and creative forces. Accordingly, Italtel has assumed the mission of an open innovation paradigm, which allows for the mitigation of the main risks of innovation associated with the exclusive use of internal resources, such as high costs, long time-to-market and the need for various vertical competences.

Launched in the second quarter of 2017, the program led, during the year, to the assessment of around 80 companies, including startups and SMEs, and to the first tangible results, particularly in the Industry 4.0 field. Informed by continuous monitoring of the external technological and business world, it was possible to create a well-structured network of relationships in line with the corporate business model. The main benefits of the strategy were: the acquisition of a competitive advantage given by immediate access to emerging technologies, the creation of a network of contacts able to generate new business opportunities, a rapid increase in competences and the development of new ideas and talents able to stimulate key issues for the business.

Through a process of virtuous osmosis and cross-contamination, the company has come into contact with a variety of startups and micro-enterprises, innovation and skills centers, technological centers and university spin-offs, which has led, in collaboration with several, to the development of joint approaches to vertical markets, such as those of Industry 4.0, smart cities, digital healthcare and, more generally, digital transformation. This innovation approach was also applied to collaborations with major partners such as Cisco Systems. A "call for startups" launched on the dedicated website initiated several contacts and contributed to the re-launching of the Italtel brand.

The selected start-ups all passed the early stage and are interested in establishing a stable, lasting and mutually beneficial agreement with a global system integrator such as Italtel. Their goal is to scale up commercially and internationally, through a distributed commercial network, delegating the direct management of end-customer relations and adaptation and integration activities in order to focus on the research and development of their own products and services. All the companies surveyed expressed interest in collaborating with Italtel and releasing their solutions as white-label products.

The second phase of the Italtel Open Innovation process was the development of partnerships through business concept contextualisation and the involvement of various key corporate departments, such as marketing, business development and account units. Finally, the last, more distinctly commercial, phase, entails customer journey and proposal activities (commercial PoCs).

Partnerships

Cisco

In 2017, Italtel - in line with that initiated in previous years - 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. In 2017, competences increasingly focused on Cyber Security and Industry were added.

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

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 in many EMEA and LATAM countries, 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 initiatives of the previous year, and with certification and technical verifications by independent bodies, Italtel qualified, for the first time, as a Solution Partner Plus, enabling it to enter its Netwrapper product in Cisco's official Global Pricing List. Netwrapper is an application that, by making use of the Cisco SDN APIC EM controller, is able to efficiently allocate network resources according to the actual needs of collaboration services.

- Hosted Collaboration Solution: Collaboration with the Cisco Collaboration Business Unit had led Italtel, in 2016, to obtain the globally valid certification of Master HCS Cloud Builder. This important certification, through 2017, strengthened collaboration on two fronts. On the one hand, in synergy with the Cisco HCS BU, an automated on-boarding tool was developed for small and medium-sized businesses. On the other hand, on behalf of the BU itself, testing activities were carried out to support validation of the HCS Shared Architecture solution.
- "Cyber Security": The biennial 'Big Bets' program, signed with Cisco in the previous year, continued in 2017. The purpose of this program is to prepare the right conditions for an expansion of market share and an increase in security certification levels. Simultaneously, assiduous work with Cisco's technical departments facilitated positioning on the Cisco cloud security market, enriched by service components that Italtel is promoting through its Security Operations Center

Furthermore, in 2017, Italtel established a presence in San Jose, California, in order to increase its ability to develop synergies with Cisco Business Units.

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.

Other partnerships

During 2017, Italtel continued to enrich its offerings by initiating new strategic partnerships, by reconfirming existing ones and by creating an ecosystem of start-up business partners through open innovation activities aimed at improving positioning in relation to specific sectors, such as security and industry.

In particular, partnerships were re-confirmed in the Cisco ecosystem, such as with EMC, VMware, KURMI, Imagicle and others in IT sectors relevant to main customer solutions, including IBM, Microsoft, Oracle, Sandvine and RedHat.

Partnerships were re-activated with Checkpoint and Infoblox.

Moreover, as a result of the particular focus on security, collaborations were initiated with other important players, such as F5 and Secure64.

In the Industry field, of particular relevance are open collaborations with manufacturing players, such as Alleantia and ROLD.

Corporate Governance and Social Responsibility

Board of Directors

On December 14, 2017, the new company By-Laws came into effect following the completion of the corporate transaction which, inter alia, led to changes in the company's shareholding structure and share capital.
On the same date, following the resignation of all the members of the Board of Directors and the Board of Statutory Auditors, the Shareholders' Meeting of Italtel S.p.A. was called and the new corporate boards appointed in accordance with the new By-Laws.
With regard to the Board of Directors, the composition and functioning of this corporate board derive, as is known, from the Restructuring Agreement which was approved by a measure issued on November 13, 2017, and governed by the applicable By-Laws and annexed regulations, adopted by resolution of the Extraordinary Shareholders' Meeting of Italtel S.p.A. of November 27, 2017.
The Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the company and has the power to perform all acts, including acts of disposal, that it deems appropriate for the implementation and achievement of corporate goals, with the sole exception of what is expressly reserved to the Shareholders' Meeting by law and the provisions of the By-Laws.
The Chairman and the Chief Executive Officer, respectively having the powers conferred by the Board of Directors, are vested by law and by the By-Laws with the powers of office and, severally, with signatory and legal representation before third parties and in legal proceedings.

The Board of Directors of Italtel S.p.A., as appointed on December 14, 2017, is composed of seven Members, pursuant to Art. 16 of the new By-Laws, who will hold office until the approval of the financial statements at December 31, 2019. They are appointed as follows: 5 (five) members, including the Chairman, are appointed in the Ordinary Shareholders' Meeting with voting rights reserved only to the holders of Class A shares with a majority of the share capital represented by Class A shares;
(a)1 (one) member, who must meet the independence requirements as defined in Article 3 of the Self-Governance Code for Listed Companies, is appointed directly by the owners of the new EFIs by resolution of the Special Shareholders' Meeting of the new EFIs (the "New EFI Director")
(b)1 (one) member, who must meet the independence requirements as defined in Article 3 of the Self-Governance Code for Listed Companies, is appointed by the Ordinary Shareholders Meeting with the majorities provided for by Article 12 on the basis of a slate of candidates submitted by new EFI holders and approved by resolution passed by the relative Special Shareholders' Meeting (the "Independent Director").

In 2017, the Board of Directors of Italtel S.p.A., in office up to the finalisation of the Corporate Transaction, met more often than was required by the law and the By-Laws to consider the matters brought to its attention.
The Board of Directors that took office in the meeting of December 14, 2017, upon the Corporate Transaction's finalisation date, assigned corporate offices immediately upon the appointment of the administrative body by the Shareholders' Meeting. It appointed the Chief Executive Officer, with the consequent conferment of powers to legal representatives and appointed the Internal Committees and the Supervisory Board pursuant to Legislative Decree 231/01.

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

The Shareholders' Meeting of Italtel S.p.A. of December 14, 2017, following the appointment of the Board of Directors and the Board of Statutory Auditors, also passed resolutions on the remuneration due to them. The remuneration devolving to Directors and to Statutory Auditors of Italtel S.p.A. for the discharge of office is therefore as follows:

(Euro thousands)

	2017	2016
Directors [1]	936	1,141
Statutory Auditors [2]	81	86

[1] The Shareholders' Meeting of December 14, 2017 approved the total annual fee (to be paid for each financial year and for the entire duration of the mandate) of Euro 175,000 for the office of Director, in addition to the reimbursement of expenses incurred for reasons of office and the performance of duties, pursuant to Article 2389, paragraph 1 of the Civil Code. The Board of Directors, by resolution of December 14, 2017, (a) divided the annual fee approved by the Shareholders' Meeting among its members and set the gross remuneration payable to each Director at Euro 25,000; (b) granted the Chairman of the Board of Directors, Domenico Favuzzi, the gross emolument of Euro 55,000 for each financial year pursuant to Art. 2389, 3rd paragraph of the Civil Code, in addition to the annual remuneration due to each Director (c) conferred a mandate to the Chairman of the Board of Directors and the Board of Statutory Auditors to determine the remuneration for the role of Chief Executive Officer, pursuant to Art. 2389, 3rd paragraph of the Civil Code (c) appointed the New EFI Director, Tiziano Onesti, as (i) a member and Chairman of the Related Parties Committee, with a remuneration for the role amounting to Euro 7,000 for each financial year, in addition to the Director's emolument, as well as (ii) a member and Chairman of the Remuneration Committee, with a remuneration for the role amounting to Euro 7,000 for each financial year, in addition to the Director's emolument. The succeeding Board of Directors, by resolution of February 15, 2018, appointed the Independent Director Alessandro Cortesi, already a member of both these Internal Committees, as Vice-Chairman of the Related Parties Committee and the Remuneration Committee and, in addition to the Director's emolument, granted a remuneration for the office of Vice-Chairman amounting to Euro 3,500 for each financial year and for each Committee. The Chief Executive Officer has expressly waived remuneration for the Director's office as approved by the Shareholders' Meeting of December 14, 2017, effective from the date of appointment.

[2] Following the appointment of the Board of Statutory Auditors, the Shareholders' Meeting of December 14, 2017, passed a resolution on Board members' remuneration, granting the Chairman of the Board of Statutory Auditors a gross annual remuneration of Euro 30,000 and each Statutory Auditor a gross annual remuneration of Euro 20,000. Each member of the Board of Statutory Auditors is entitled to an annual flat-rate reimbursement of expenses of Euro 1,000, in addition to the reimbursement of expenses against the presentation of supporting documents. The Board of Directors of Italtel S.p.A. of December 14, 2017, following the appointment inter alia of the Supervisory Board, also passed a resolution on the remuneration payable to Statutory Auditor Mauro Romano, granting him an annual emolument of Euro 5,000 for the role of member of the Supervisory Board, in addition to the remuneration of Statutory Auditor. The alternate auditor Anna Lucia Muserra was granted an annual remuneration of Euro 10,000 for the role of Chairman of the Supervisory Board.

Committees

Since the previous Board of Directors ceased office and resigned on the Corporate Transaction's execution date, the following technical and/or advisory committees were dissolved: the Internal Control Committee (which also performed the functions of Related Party Transactions Committee), the Remuneration Committee and the Sales Committee. These committees had been established in accordance with Art. 31.2 of the By-Laws of Italtel S.p.A.
The New By-Laws introduced partial amendments to the previous regulations on committees and/or other advisory bodies. Article 22.1 of the new company By-Laws provides for the obligation of the Board of Directors to establish, *inter alia*:

(a) A "Related Parties Committee" (envisaged by Art. 22.1 (a) of the By-Laws) composed of the New EFIs Director (referred to in Article 16, paragraph 1 (b)), the Independent Director (referred to in Article 16, paragraph 1 (c)), and another Director without operational powers designated by the Board of Directors;

(b) A "Remuneration Committee" (envisaged by Art. 22.1 (b) of the By-Laws) composed of the New EFIs Director (referred to in Article 16, paragraph 1 (b)), the Independent Director referred to in Article 16, paragraph 1 (c), and another Director without operational powers designated by the Board of Directors.

Moreover, should the Exit Procedure be launched, the Board of Directors must establish an "M&A Committee" composed - similarly to the above Committees - of the New EFIs Director, the Independent Director and another Director without operational powers designated by the Board of Directors.

Related Parties Committee

This Committee was established by the Board of Directors of December 14, 2017 and, in accordance with the By-Laws, is composed of three Directors in the persons of Tiziano Onesti (New EFIs Director and the Chairman of this Committee), Alessandro Cortesi (Independent Director and Vice-Chairman of this Committee) and Mario Ferrario (Non-Executive Director).
In accordance with the By-Laws, the Related Parties Committee passes resolutions by a majority of its members and has the role of expressing a reasoned non-binding opinion on the company's interest in carrying out with Related Party Transactions, on the benefit and the substantial correctness of the relative conditions in line with market conditions and also explains its members' supporting and/or opposing grounds. All this in line with regulatory principles on related party transactions applicable to Italian companies listed on the Italian Stock Exchange. The new Related Parties Committee, established at the end of 2017, approved the Related Party Transactions Policy, subsequently approved by the Board of Directors on February 15, 2018.

Remuneration Committee

This Committee was established by the Board of Directors of December 14, 2017 and, in accordance with the By-Laws, is composed of three Directors in the persons of Tiziano Onesti (New EFIs Director and the Chairman of this Committee), Alessandro Cortesi (Independent Director and Vice-Chairman of this Committee) and Mario Ferrario (Non-Executive Director).
The Remuneration Committee passes resolutions by a majority of its members and is tasked with formulating obligatory but non-binding opinions to the Board of Directors on the remuneration of senior directors and senior executives.
The new Remuneration Committee, established at the end of 2017, approved its own Committee Regulations, subsequently approved by the Board of Directors on February 15, 2018. These Regulations, subject to the provisions of the By-Laws and their integration, govern the Remuneration Committee's duties and operating procedures, as set up within the Board of Directors.

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 four.

In 2017, the Internal Control Committee met periodically, approving the Audit plan for 2017 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, the Independent Audit Firm and the Supervisory Board 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.

Organization, Management and Control Model

The Compliance Office initiated a review of the company's current Organisation, Management and Control Model (231 Model), adopted by the Board of Directors on March 29, 2016, in order to incorporate the regulatory changes implemented by Legislative Decree 231/2001 in 2017. Particularly considered were the amendments introduced by Legislative Decree 38/2017 (Decree on the fight against corruption in the private sector), which entered into force on April 14, 2017 and led to the rewriting of Art. 2635 of the Civil Code "Bribery among private individuals" and the addition to Art. 2635-*bis* of the Civil Code Incitement to corruption between private individuals. Furthermore, the review of additional cases introduced in the November Decree also started in relation to:

- Illicit intermediation and labour exploitation (Art. 603-bis of the Criminal Code)
- Transport of foreign nationals and other acts intended to procure their illegal entry and facilitating illegal immigration (Art. 12, paragraphs 3, 3-bis, 3-ter and paragraph 5 of Legislative Decree No. 286/1998)
- Racism and xenophobia (Art. 3, paragraph 3-bis of Law 654/1975)

The above activity forms the basis of the Special Sections' review. Its conclusion in relation to the offences listed above will be completed in 2018.

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.

As a result of changes in the organizational structure of Italtel S.p.A., staff training needs were reassessed for personnel working in 'risk areas' as referenced by Italian Legislative Decree 231/01. A training plan for 46 employees was developed, broken into 5 training module categories.
Finally, training was provided to legal representatives appointed in 2017 for two overseas companies of the Group. Also in this case, 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 respective companies.

In 2017, sensitive process audit activities were aimed at risk areas as referenced by Italian Legislative Decree 231/01 for the crimes against industrial and intellectual property most closely related to the company's business. Three separate but interrelated audits were carried out to address the following risk areas and processes:

- Integration/development of HW and SW computer systems, including the development of SW for proprietary products, integration with non-proprietary SW (open source software) and the integration of HW and SW owned by third parties in the implementation of solutions (Systems Integration);
- Branding and brand management, or methods of selecting and introducing new brands and product names; management of brands and company names;
- Marketing and communications or use of company trademarks and third-party brands in technical documents, presentations, press releases and events.

In the group's subsidiaries, a self-assessment was implemented using a questionnaire developed by the regional industrial association Assolombarda, with professional support from the Italian Association of Internal Auditors (AIIA), in order to estimate the potential risk of criminal infiltration in business activities. The questionnaire, translated into the languages used in Italtel Group, was completed by the companies' legal representatives and resulted in an estimate of risk level below the acceptability threshold.

In 2017, the Legality Rating was renewed by the Anti-trust Authority (AGCM), awarding Italtel S.p.A., on May 17, 2017, the maximum achievable score of three stars.

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 231 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 2018 and the relative budget.

Conflict of Interest Regulation

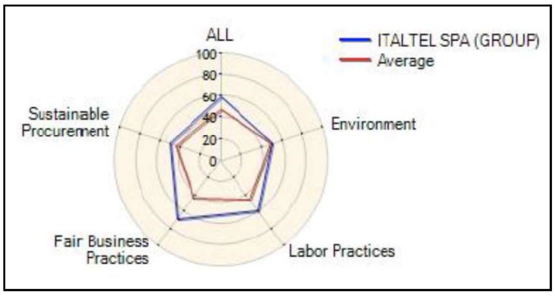
In 2017 the monitoring of cases of conflict of interest of company personnel with legal representative powers and specific roles continued.

Human resources and Sustainability

Continuing on a path set off on many years ago, Italtel consistently commits 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.

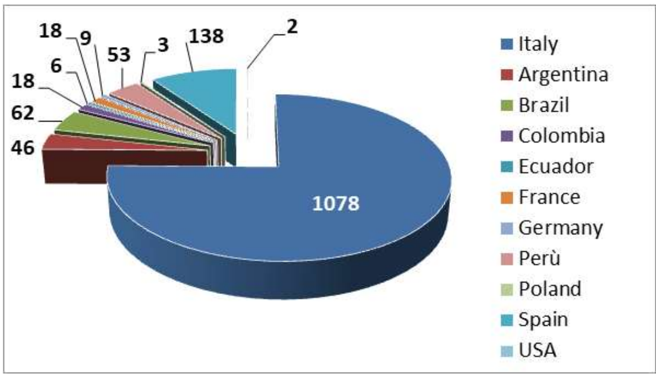
Italtel undertakes a multitude of activities and initiatives directly or indirectly related to environmental and social improvement and innovation. These range from the concept, development, certification, deployment and maintenance phase of our proprietary products and services, through to the research 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 is assessed annually in terms of compliance with Corporate Social Responsibility principles by EcoVadis, an international organisation which has developed a collaborative platform to assess the sustainability of suppliers operating within the global supply chain, receiving also this year - for the third consecutive year - “Silver Recognition”.
In addition, Italtel each year has improved its score and is now within the top 10% of companies assessed across all product categories and in the top 5% of companies within its sector with regards to business ethics aspects.

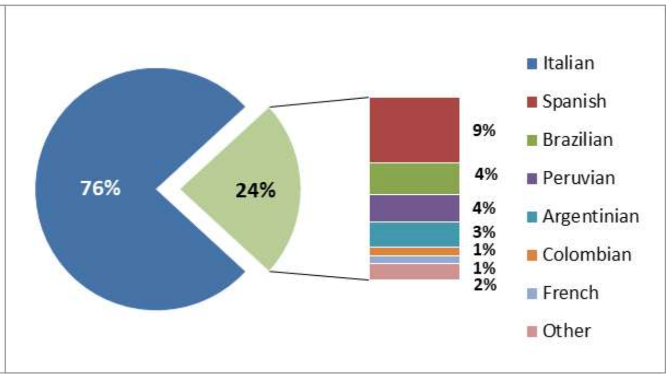


1. Human Rights

Italtel is present in 11 Countries, in Europe, Latin America and the USA. Group employees at December 31, 2017 numbered 1,433, of which 355 overseas (at December 31, 2016 numbering 1,357, of which 254 overseas).



Employees by country

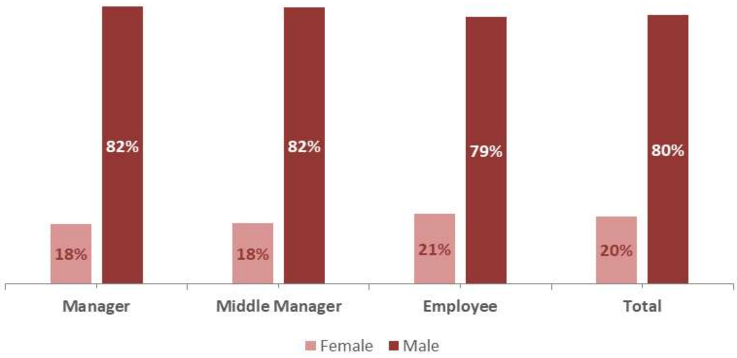


Employees by nationality

Employees by category and age

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

In fact, in Italy women in 2016 accounted for 26% of scientific and engineering faculty graduates, unchanged on the similar figure for 2014, although amid an increase in graduates of 6%. The percentage declines to 15% considering only IT engineering and telecommunications. [Source: *Ministry for University and Scientific Research]*



18%
managerial positions held by women

Employees by category and gender

Women's salaries were 6.3% lower than men's

In terms of average salary levels based on category, at Italtel female Managers earn 0.2% more than their male counterparts; on the other hand, female Middle Managers and Employees earn respectively 3.1% and 3.6% less than their male colleagues.

This figure, known as the *Gender Salary Gap,* at Italtel is better than the average for Italian companies, both overall and in terms of contractual category; in fact, the "Gender Gap Report 2017" (*) indicates a salary gap between men and women at Italtel of 11.2%, and of over 10% for each of the various contractual categories, with the exception of Middle Management, in which females earn 4.2% less than males. Analysing pay on an industry basis (i.e. specific sectors), the Gender Salary Gap for the telecommunications sector in Italy is 11.7%.

(*) [*Source*: *"Gender Gap Report 2017" drawn up by JobPricing*]

1.1 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.

	2017	2016	2015
Accident frequency index Calculated according to the formula: No. of accidents X 1,000,000 / No. work hours (Regulation UNI 7249/2007)	5.34 1.34 (*)	3.78 0.63 (*)	2.46 1.23 (*)
Accident gravity index Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0.17 0.04 (*)	0.06 0.01 (*)	0.05 0.04 (*)

(*) index calculated excluding accidents during commute

Days of absence from work due to accidents in 2017 numbered 125 (due to 8 accidents, of which 6 on commute and excluding 132 days concerning the previous year) against 91 days in 2016 and 84 days in 2015.

Excluding accidents during commute, the days of absence for accidents in 2017 was 54, against 16 in 2016 and 73 in 2015.

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.

+1.3%

days of absence for accidents in 2017 against the average of the previous three-year period 2014 - 2016 (excluding on commute accidents)

1.2 Charity and support activities

For several years, Italtel has participated in solidarity initiatives at both national and international levels and continues to support local initiatives to promote the economic, cultural and social development of the areas of Milan and Palermo, where the two main Italian offices are located.
The main activities aimed at safeguarding individuals, health and social development carried out during 2017 include:

Charitable donations

During 2017, Italtel donated approximately 500 office furniture items, including desks, cupboards of various sizes, tables, chairs, coat hangers, and so on, disused but in a good state of repair, as an alternative to disposal.
The beneficiaries of the donations were 19 different entities in the metropolitan area of Milan, including public bodies (municipalities, the Civil Protection agency, the Italian Red Cross, schools), donation associations (AIDO, AVIS), cultural and sporting associations (ACLI, CAI, etc.), foundations and parish communities.

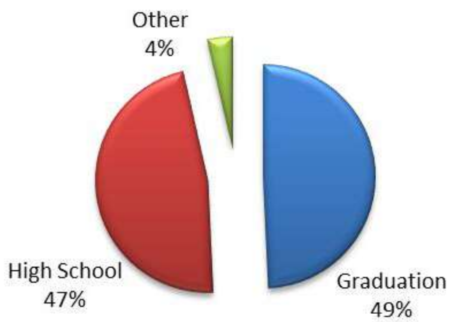
"New Community" Multi-functional Center

In November 2017, Italtel carried out a joint initiative in favor of the non-profit organization Comunità Nuova di Don Gino Rigoldi (http://www.comunitanuova.it), which, for over forty years, and with a secular and non-denominational approach, has made a significant contribution to the rehabilitation of disadvantaged prisoners, families, minors and victims of domestic violence.
The association was founded on the initiative of a group of volunteers associated with the Cesare Beccaria juvenile penal institution in Milan, for which Don Gino Rigoldi, well-known for his great humanity and firm social commitment, is chaplain.
Comunità Nuova has long been involved in a project for the construction of a brand new 4000-square-meter multi-purpose center located in the Bisceglie area of Milan, as a place to welcome diversity and focus on the needs of young people and families.
Following a collaboration proposal initiated by Cisco, which has supported the association for some time and which constructed its LAN network, Italtel donated equipment for the completion of its Wi-Fi and VoIP infrastructure, thus making a concrete and significant contribution to the new structure in terms of wireless and telephone networks.

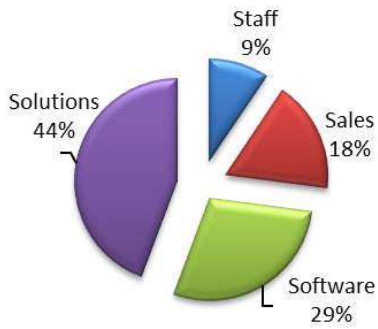
2. Workforce

The Italtel group workforce at December 31, 2017 comprises 74% blue-collar workers, 21% middle managers and 5% 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 function

94%

employees with full-time contracts

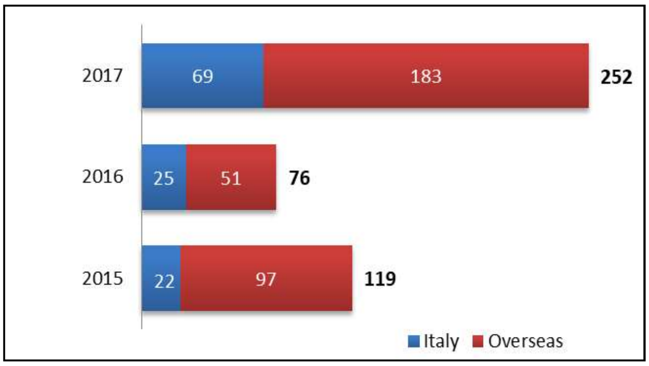
100%

employees in Europe with flexible working hours (^)

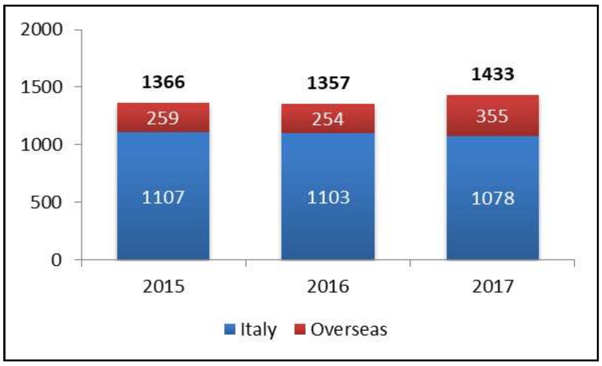
100%

employees in Italy with salaries greater than the contractual minimum

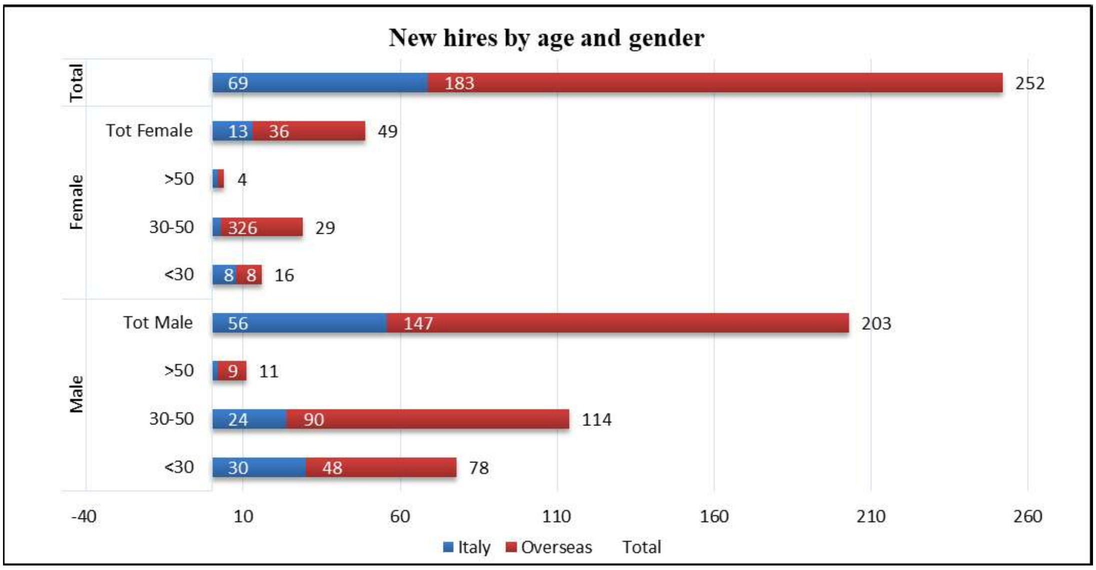
(^) at the Latin American companies work hour flexibility is not available.

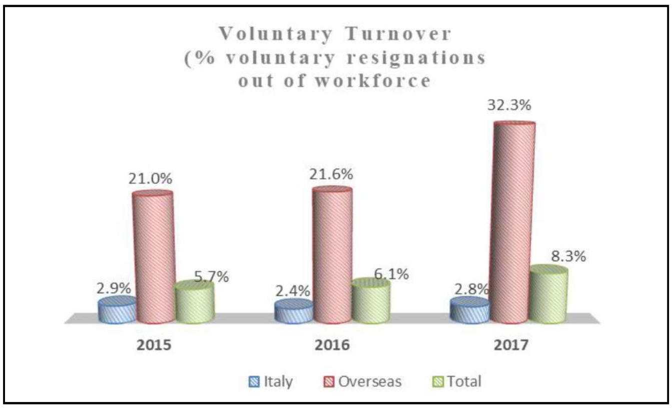


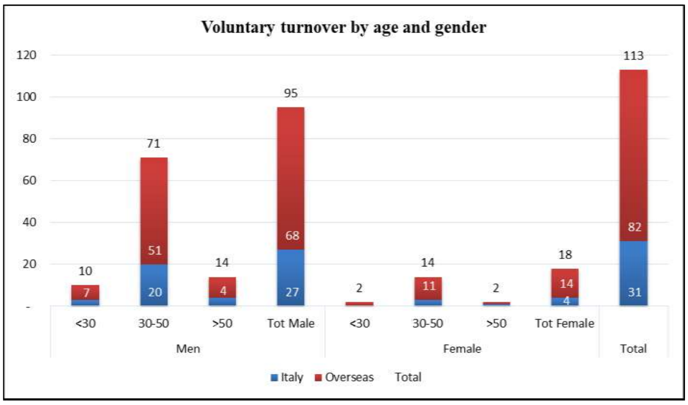
New hires (number)



Workforce trend (number)

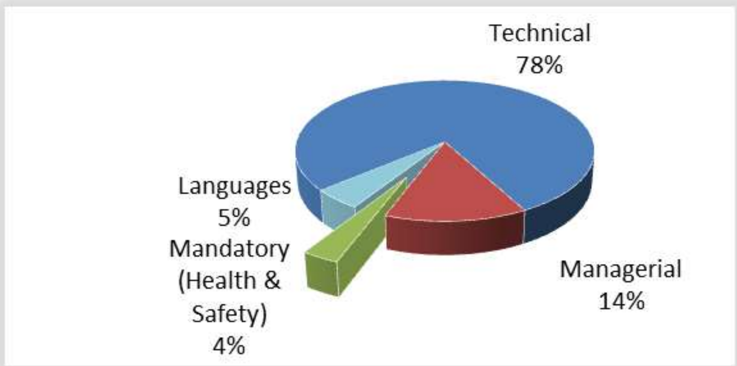






2.1 Training

In 2017, 11,600 hours of training were provided, with 529 participations and 77 training events of various types. Training hours accounted for 1% of hours worked.



+8%

increase in training hours in 2017 compared to 2016 (*).

35%

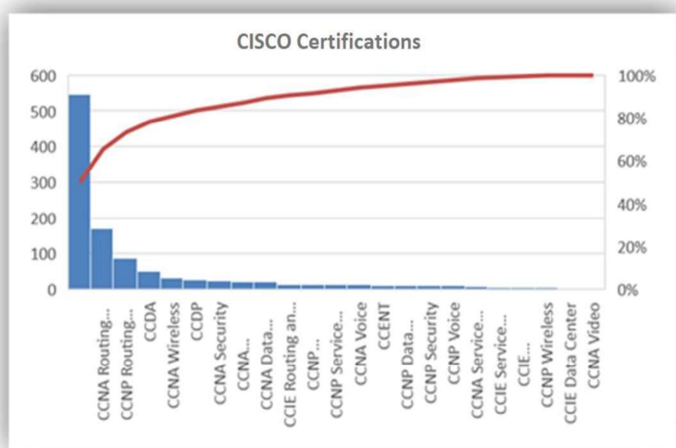
employees attending at least one training course in 2017 (*).

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

Average per capita training hours by gender and category

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 was ensured. A training course was provided to develop security expertise both in terms of Cisco CCIE and on a more comprehensive basis, providing a wide range of competences, acquiring the certifications of other vendors such as Infoblox, Fortinet and F5. Cisco Continuous Learning was further consolidated, involving training and updating on a wide range of Cisco related issues. A significant focus was placed on Ultra-broadband training. 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.



In terms of managerial training, an experimental project called "Knowledge Building & Sharing" was introduced to create a learning, sharing and transfer of expertise community in specific departments, thanks to the use of MOOC (Massive Open Online Courses). The "Vita da Campioni (Life of Champions)" project was tried out, allowing a number of managers and staff to witness testimonials of excellence in the worlds of business, sport and the arts.

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

554 Cisco certifications and 477 Cisco specializations worldwide

Finally, with regards to workplace health and safety, updates were provided for the RLS and RSPP and the training of a new RSPP was carried out. Fire protection update courses and first aid courses were held, and training provided to a new group of "managers" in terms of Legislative Decree 81/08.

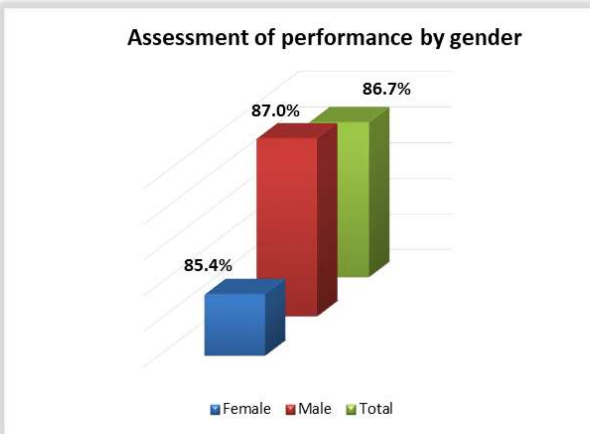
Also in 2017 Training Financing was availed of, which covered 32% of the operating expenses required through Fondimpresa, Fondirigenti and Cisco funds for the Cloud Mdf Project. In addition, funding was acquired from the Lombardy Region for ongoing training regarding technical issues and foreign language skills.

398 others certifications

2.2 Performance assessment

In Italtel, the process of assigning qualitative and quantitative personal goals and assessing relevant organizational conduct, in order to guide attitudes in improving individual and corporate performance, is implemented under the Performance Evaluation program.

This is an appraisal process intended as an opportunity for everyone, managers and subordinates alike, to have in-depth and constructive exchanges for the definition of activities and commitments to be measured during the year, to appraise results achieved and to review overall performance. It is therefore a moment for highlighting strengths and opportunities for improvement of each individual and for identifying needs for professional development and training, in order to prepare the employee for the future.



The appraisal process also constitutes, for a defined group of staff, such as managers and Sales & Account Management personnel, both in Italy and abroad, the method for determining short-term performance incentives based on economic and financial indicators.

For the management of this important activity, Italtel makes use of a Human Capital Management tool, a technological aid considered essential in supporting this key process in personnel development, open to all employees in Italy and gradually being extended to the various group companies.

In 2017, 100% of employees in Italy and 46.2% of those overseas received a performance assessment. The percentage for the Group as a whole was 86.7%.

2.3 Industrial Relations

In 2017, the management of surpluses continued in order to achieve the labour cost targets set out in the Business Plan. The discussion forum established with trade union organizations concluded with an agreement, signed on December 20, 2016, at the Ministry of Economic Development, and subsequently formalized on December 28, 2016 at the industrial association Assolombarda, given the declared surplus of 200 workers, as an alternative instrument to collective redundancy (as per Italian Law 223/1991). The agreement between the parties stipulated a 'Defensive Solidarity Contract', as per Article 21, Paragraph 5. Letter c) of Italian Legislative Decree No. 148/2015 and of Italian Ministerial Decree No. 46448 of 10/7/2009, which makes it possible to allocate surpluses over a larger number of workers.

The agreement provides for the implementation of the Solidarity Contract from January 1 to December 31, 2017 concerning a total of 1,071 employees, of which 114 with a 3% reduction in working time, 741 with a 13% reduction in working time, 200 with a 35% reduction in working time and 16 with a 50% reduction in working time.

The parties also agreed to continue, in 2017, support for the company's development and revitalization program, in line with the new Business Plan, through a collective staff reduction procedure of a maximum number of 200 redundancies on conditions of 'no objection', on the extension until December 31, 2017 of the suspension of non-contractual holidays, Fixed Provisions (Quota Accantonata Fissa), Fixed Monthly Premiums (Premio Fisso Mensile), reductions in availability and travel compensation and the continuation of the monthly contributions of former One Ans and STI personnel;

In particular, the recourse to the collective staff reduction procedure led to a reduction from 200 to 130 redundancies at the end of 2017.

In light of this result, the company signed a new agreement with the trade unions on December 6, 2017, subsequently ratified by the Ministry of Economic Development on December 19, 2017 with which redundancy management instruments for the year 2018 were agreed:

1) Application of the Solidarity Contract (CdS) for a maximum of 1000 people for the period January 1 to June 30, 2018;
2) Application of the procedure pursuant to Articles 4 and 24 of Italian Law 223/1991 concerning 'no objection' conditions, with priority given to personnel who during the period of application of the New Provision for Employment Social Insurance (NASPI) mature the pension requirements;
3) Extension until 31/12/2018 of the suspension of second-tier credit institutions, already implemented by Point 3 'Extension of the suspension of credit institutions' of the agreement of December 28, 2016;
4) Outplacement of personnel to the company Exprivia, after training aimed at acquiring skills necessary to achieve required operative levels;
5) Compatibly with the technical and organizational needs, recourse to the blocking of turnover for interchangeable professional profiles;
6) Reassignment of redundant personnel, accompanied by specific specialized training plans, following the full execution of new orders that generate additional staff needs with respect to the provisions of the Industrial Plan.

2.4 Company Welfare

Corporate welfare comprises all non-monetary benefits, services and assistance that Italtel provides to supplement the income of its employees in order to increase well-being in their work and personal lives.

Various initiatives are implemented in Italtel to improve work-life balance (e.g. smart working - see next paragraph, flexitime, part-time, hourly leave), mobility (e.g. company shuttle, reimbursement of 50% of the train travel pass for the Carini-Palermo rail section, free reserved parking lots, company car for mixed use) and daily life (e.g. company canteen, luncheon vouchers, discounts and concessions, company mail room services).

In addition, plans are in place for flexible benefits, both of a contractual nature, aimed at employees referenced by the provisions of the renewed metalworking collective labor contract (CCNL), and of a voluntary nature, intended for managerial staff. These plans allow the employee to independently choose benefits and welfare credits from the range made available by the company, in line with their specific needs.

2.5 Smart Working

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 in Italy, 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.

Smart working experimentation took place from November 2016 to April 2017 involving 149 personnel, of which 77% men, 61% graduates and 84% over 40, and led to the full achievement of the set objectives.

Following the experimentation, it was decided to permanently implement this innovative and sustainable working methodology within the company, extending its application to the maximum possible number of employees. To date, 35% of company personnel in Italy has joined the smart working group.

A total of 4,492 smart working days were completed in 2017, resulting in an estimated saving of approximately 220,100 kilometres and 6,439 hours commuting (equal to approximately 859 working days) and of approximately 37,733 kg in CO2 emissions, equal to the amount of carbon dioxide absorbed in a year by 1,258 trees.

The company policy provides for compulsory training sessions on risk assessment, security compliance and general due diligence for out-of-workplace conduct, including rules on data handling and company information. In accordance with the policy, 13 training sessions were delivered in the three locations during 2017.

2.6 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 certifications and specializations achieved over the years, making Italtel a leading Cisco partner on the Italian, EMEA and LATAM markets. The Cisco Gold certifications that the Group companies in Italy, Spain, Brazil, Argentina and Colombia have received over the years are considered in this regard.
The drive towards innovation is seen also in the network innovation model ("OPEN-INNOVATION") which Italtel has developed in 2017 for start-ups and innovative SME's.
Also with a view towards innovation, we consider the adoption by Italtel of an agile approach to the development of products, in order to increasingly meet client's demand.
Italtel S.p.A. has been ISO 9001 certified since 1992 and in 2017 obtained certification for its Quality Management System according to the latest edition of the standard (ISO 9001:2015), reflecting a further recognition of its capacity to improve over time. The Quality Management System of Italtel S.A.: (Spain) has also been ISO 9001 certified since 2001.

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 provision and management of professional services for telecommunications operators areas, which more than others need to guarantee the correct management of data and information processed, according to the ISO 27001 certification.
A focus on sustainable development has driven Italtel to consider respect for the environment in its operating cycle, obtaining from 2001 the Environmental Management System certification (for the Carini industrial complex) as per the ISO 14001 standard.

3.Environment

In 2017, 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 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 and the functional monitoring of the 2019 Audit.

Since 2016, the Consolidated Environmental Authorisation has been valid for the Carini complex (15-year duration).

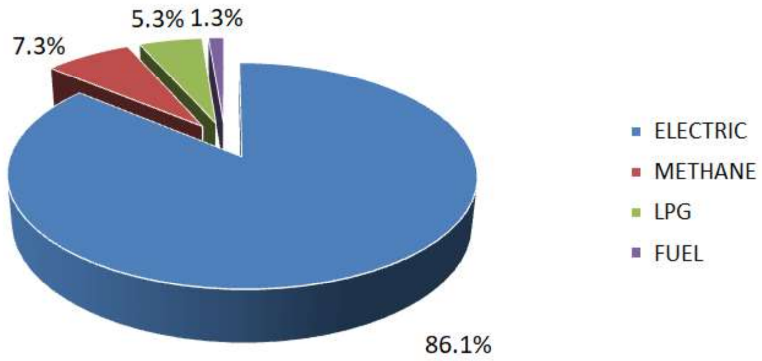
A focus on consumption containment, energy efficiency and the consequent environmental impact has translated into the continual decline of direct and indirect atmospheric emissions during the 2013-2017 five-year period.

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, paper and toner consumption
- Preferential use of rail instead of air transport domestically (lower emissions)

3.1 Results and Consumption Trends

Electrical Energy is the principal source, accounting for 86.1%, corresponding to 11.61 GWh in 2017. Combustibles (methane gas and LPG) and fuels follow.



Energy Splitting by type, year 2017

The total Energy consumption five-year trend follows.

Non Renewable Fuel	2012	2013	2014	2015	2016	2017
METHANE (Kmc)	506	485	328	220	202	221
LPG (Liters)	314	271	225	229	246	217
FUEL (Liters)	67	58	52	44	37	36
Total Non Renewable FUEL (Tep)	676	624	460	364	353	351
Change%		-7.7%	-26.3%	-20.8%	-3.1%	**-0.7%**
Cge.% cumulative		-7.7%	-32.0%	-46.1%	-47.8%	**-48.1%**

Electric Energy Purchased	2012	2013	2014	2015	2016	2017
Electric Energy (GWh)	25.91	22.28	21.65	20.50	20.11	18.10
Change%		-14.0%	-2.8%	-5.3%	-1.9%	**-10.0%**
Cge.% cumulative		-14.0%	-16.4%	-20.9%	-22.4%	**-30.1%**

Electric Energy Sold	2012	2013	2014	2015	2016	2017
Electric Energy (GWh)	8.00	6.75	6.58	6.28	6.61	6.49
Change%		-15.6%	-2.5%	-4.5%	5.1%	**-1.8%**
Cge.% cumulative		-15.6%	-17.7%	-21.4%	-17.4%	**-18.8%**

Net Electric Energy ITALTEL	2012	2013	2014	2015	2016	2017
Electric Energy (GWh)	17.91	15.54	15.08	14.22	13.51	11.61
Electric Energy (Tep)	3,349	2,906	2,819	2,658	2,526	2,170
Change%		-13.2%	-3.0%	-5.7%	-5.0%	**-14.1%**
Cge.% cumulative		-13.2%	-15.8%	-20.6%	-24.6%	**-35.2%**

Total Energy Consumption	2012	2013	2014	2015	2016	2017
TOTAL TEP	4,025	3,529	3,279	3,022	2,879	2,521
Change%		-12.3%	-7.1%	-7.8%	-4.8%	**-12.4%**
Cge.% cumulative		-12.3%	-18.5%	-24.9%	-28.5%	**-37.4%**

Reference standard used: Conversion Table of the Italian Federation for the Rational Use of Energy.

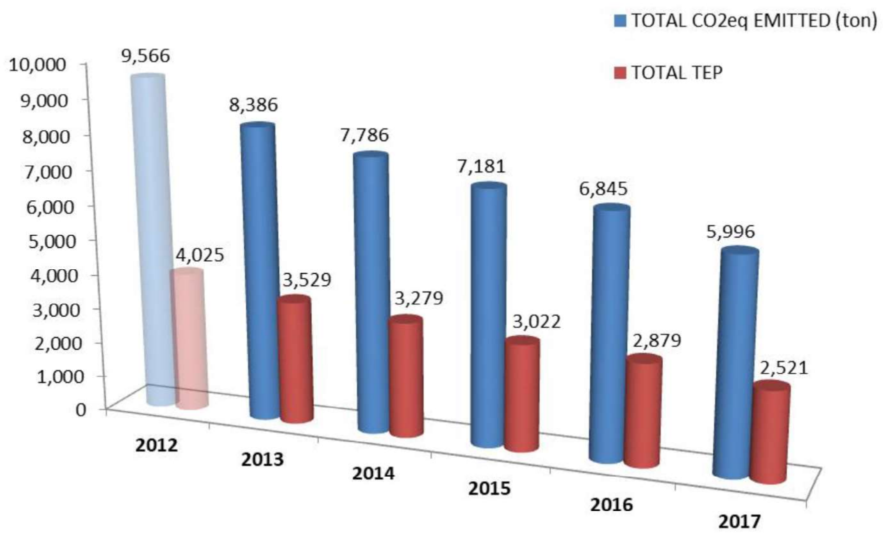
The five-year trend for direct and indirect emissions follows:

DIRECT EMISSIONS	2012	2013	2014	2015	2016	2017
TOTAL CO2eq EMITTED (ton)	1,686	1,549	1,152	926	902	890
Change%		-8.1%	-25.6%	-19.6%	-2.7%	**-1.3%**
Cge.% cumulative		-8.1%	-31.6%	-45.0%	-46.5%	**-47.2%**
METHANE CO2eq (ton)	988	948	642	430	395	432
LPG CO2eq (ton)	532	458	382	388	416	368
FUEL CO2eq (ton)	165	143	129	109	91	90

INDIRECT EMISSIONS	2012	2013	2014	2015	2016	2017
ELECTRIC ENERGY CO2eq (ton)	7,880	6,837	6,634	6,255	5,943	5,107
Change%		-13.2%	-3.0%	-5.7%	-5.0%	**-14.1%**
Cge.% cumulative		-13.2%	-15.8%	-20.6%	-24.6%	**-35.2%**

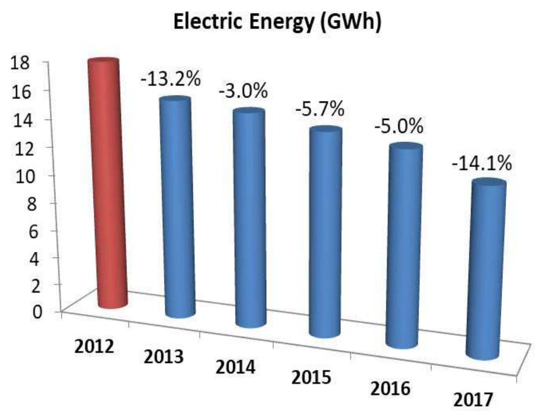
DIRECT and INDIRECT EMISSIONS	2012	2013	2014	2015	2016	2017
TOTAL CO2eq (ton)	9,566	8,386	7,786	7,181	6,845	5,996
Change%		-12.3%	-7.2%	-7.8%	-4.7%	**-12.4%**
Cge.% cumulative		-12.3%	-18.6%	-24.9%	-28.4%	**-37.3%**

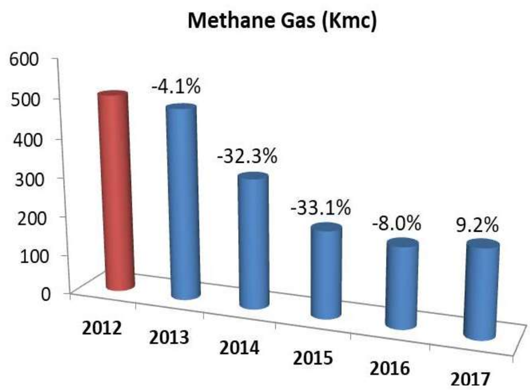
References used: a) Standard parameters taken from the national inventory of the United Nations Framework Convention on Climate Change for methane and LPG conversions; b) Mix of car emissions estimated on the average of the current fuel card equipped car fleet, emissions stated in g/km and converted into kgCO2eq per liter, considering average consumption; c) Direct emissions are due to consumption of fuel and gas, while indirect emissions are due to the consumption of electricity energy.

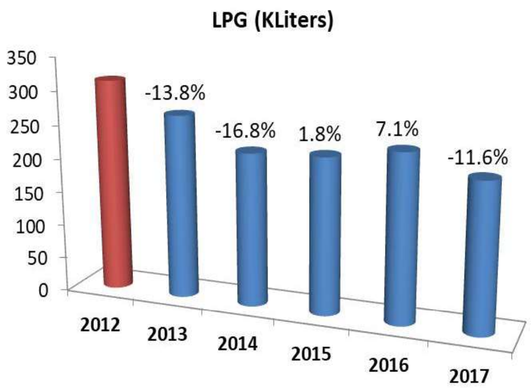


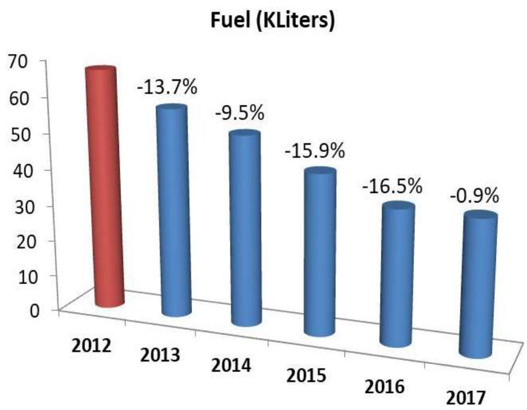
CO2 eq. trend and TEP 2013-2017

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









-12.4%
overall reduction of Energy in 2017 compared to 2016

-14.1%
overall reduction of Electricity in 2017 compared to 2016

-30.8%
cumulative reduction of LPG in the five-year period 2013-2017

-37.4%
cumulative reduction of Energy in the five-year period 2013-2017

-35.2%
cumulative reduction of Electricity in the five-year period 2013-2017

-56.4%
cumulative reduction of Gas in the five-year period 2013-2017

In 2017, the program to raise awareness on and reduce consumption relating to operational testing room equipment in Settimo Milanese continued. This program had produced an IT load reduction of 18.6% over the previous year and, during the year, this was reduced by a further 10.2% over a considerably longer period of around 9 months. Other electricity savings were achieved through the monitoring and optimization of systems operation and management, focused on a more precise regulation of conditioning in relation to external temperatures and of lighting timing. The new condensing thermal power plant, installed at the Settimo Milanese facility in 2014, confirmed a reduction in methane consumption of over 50% over the thermal year in comparison with the old plant (reference 2012). The reduction in methane consumption was also achieved by improving the management of the Castelletto canteen's LPG utilities, which allowed a saving of 11.6% of fuel compared to the previous year.

Following is the five-year trend in energy indicators and specific emissions. The total quantity of the various energy sources converted into TOE and tons of CO2eq for relative direct and indirect emissions, for the total net perimeter of Italtel, relates to both the average workforce and the total active square meters of the Castelletto, Carini and Rome facilities.

ENERGY INTENSITY RATIO	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Average Workforce	1,573	1,490	1,297	1,072	1,105	1,100
Change%		-5.3%	-13.0%	-17.3%	3.1%	**-0.5%**
Cge.% cumulative		-5.3%	-17.5%	-31.8%	-29.8%	**-30.1%**
Active developed surface	65,133	62,956	60,578	55,049	54,339	53,956
Change%		-3.3%	-3.8%	-9.1%	-1.3%	**-0.7%**
Cge.% cumulative		-3.3%	-7.0%	-15.5%	-16.6%	**-17.2%**
TOTAL TEP	4,025	3,529	3,279	3,022	2,879	2,521
Energy intensity RATIO 1 TEP/FTE	2.56	2.37	2.53	2.82	2.61	2.29
TEP/FTE		-7.4%	6.7%	11.5%	-7.6%	**-12.0%**
Cge.% cumulative		-7.4%	-1.2%	10.2%	1.8%	**-10.4%**
Energy intensity RATIO 2 TEP/mq	0.062	0.056	0.054	0.055	0.053	0.047
TEP/mq		-9.3%	-3.4%	1.4%	-3.5%	**-11.8%**
Change%		-9.3%	-12.4%	-11.1%	-14.3%	**-24.4%**

GHG INTENSITY RATIO	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
CO2eq TOTAL (ton)	9,566	8,386	7,786	7,181	6,845	5,996
GHG intensity RATIO 1 TON CO2/mq	6.08	5.63	6.00	6.70	6.19	5.45
TonCO2eq/FTE		-7.5%	6.7%	11.6%	-7.5%	**-12.0%**
Cge.% cumulative		-7.5%	-1.3%	10.2%	1.9%	**-10.4%**
GHG intensity RATIO 2 TON CO2/mq	0.147	0.133	0.129	0.130	0.126	0.111
TonCO2eq/mq		-9.3%	-3.5%	1.5%	-3.4%	**-11.8%**
Cge.% cumulative		-9.3%	-12.5%	-11.2%	-14.2%	**-24.3%**

The specific indicators show a decreasing trend in relation to both the workforce and the active square meters of the various facilities, which demonstrates improving global management effectiveness. The coherence of the indicators also demonstrates that workspace and space reductions are well-balanced.

-11.8% / -12%

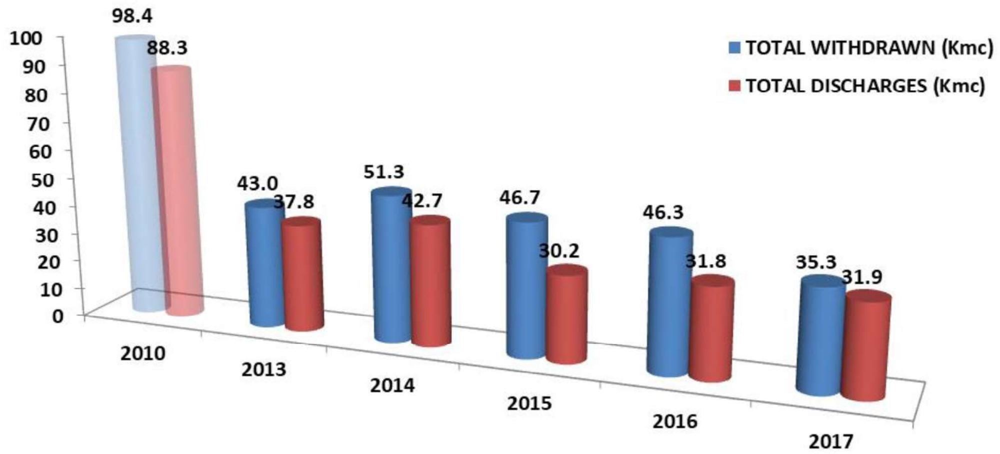
Improvement in specific Energy/Emissions indicators per mq and per capita in 2012

-10.4% / -24.4%

Improvement in specific Energy/Emissions indicators per mq and per capita cumulative since 2012

3.2 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. Compared to 2016, total withdrawal and discharge in relation to Italtel's net flows fell respectively by 23.8% and 0.5%. The following charts include data for 2010, as the most important improvement initiatives, over the various company facilities, have been in place since that year.

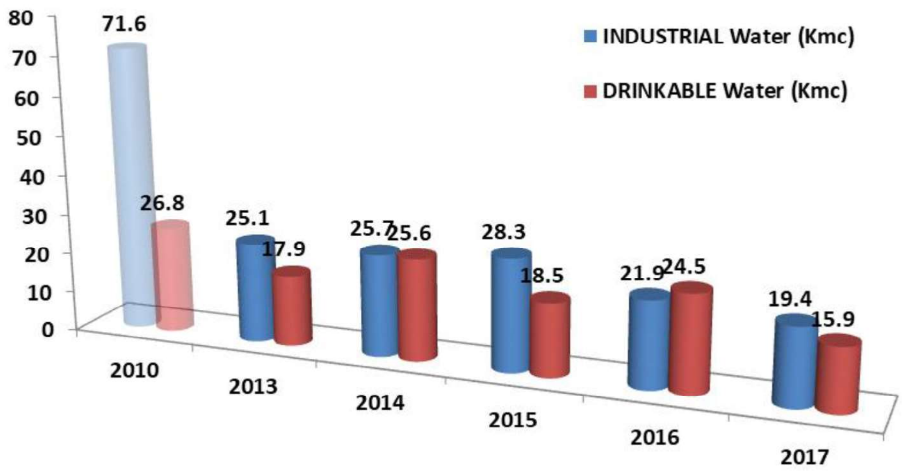


Use/Discharge Water 2013-2017

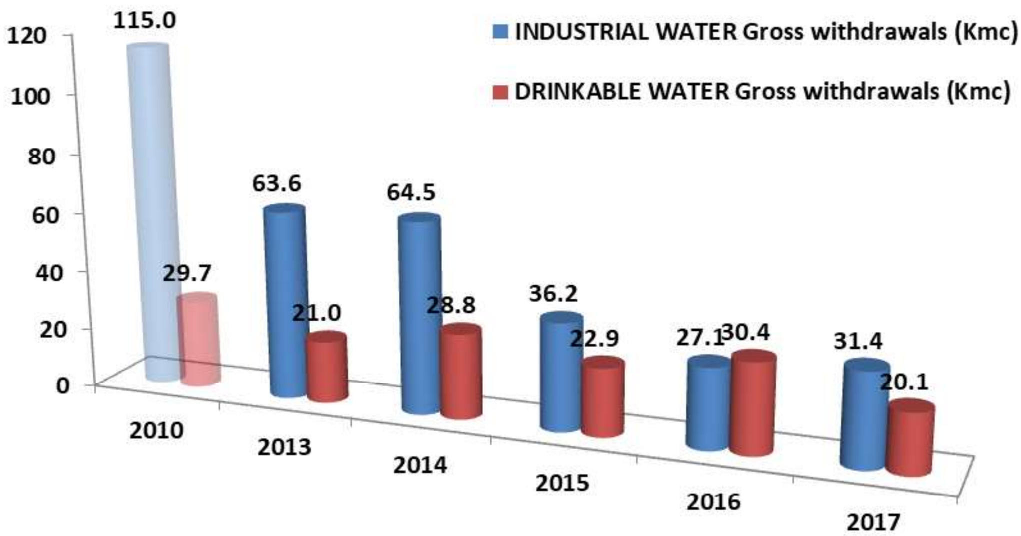
-100%	-64.1% / -63.8%
Reduction use/discharge Castelletto industrial towers since 2012	Reduction use/discharge overall since 2010

Data on incoming water flow shows a positive five-year trend. The withdrawal trend by supply source type is indicated below. In Castelletto, drinking water is withdrawn from the municipal mains network managed by Amiacque (CAP Group), while industrial water is withdrawn from private wells.

In Carini, drinking water and industrial water is withdrawn from a private water supply network managed by SORI S.p.A.. The data for 2017, compared to 2016, showed a reduction in industrial water withdrawal of 11.2% and in drinking water withdrawal of 35.1%.



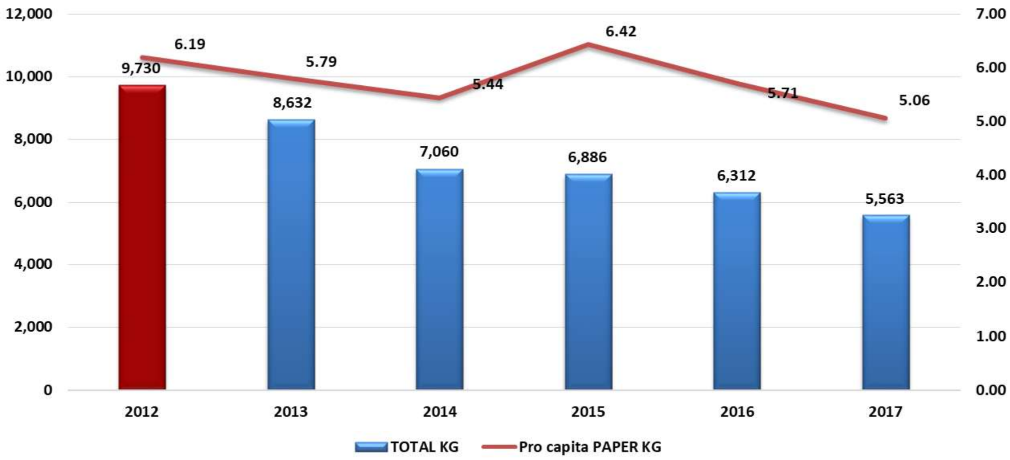
The gross water withdrawal data, including the share transferred to companies located in the district area, indicate a positive five-year trend, with a reduction in the relative environmental impact.



-72.9% / -40.7%	-72.7% / -32.2%
Reduction net withdrawal of industrial and drinkable water since 2010	Reduction gross withdrawal of industrial and drinkable water since 2010

3.3 Office Paper Use - Printing Volumes

Total paper and per capita consumption are steadily declining. The reduction in consumption is partly due to refinements in the management of high-performance cross-departmental print centers brought in from 2007 onwards. In 2017, compared to 2016, total consumption decreased by 11.9% and per capita consumption decreased by 11.5%. This result was obtained by reducing and optimizing printing points across the various offices, affecting both individual devices (-54.5%) and cross-departmental devices (-48.5%).
The reduction in the volume of paper used is consistent with the reduction in electronically-traced print volumes (-8.6%), which is an indirect measure of the amount of toner used.



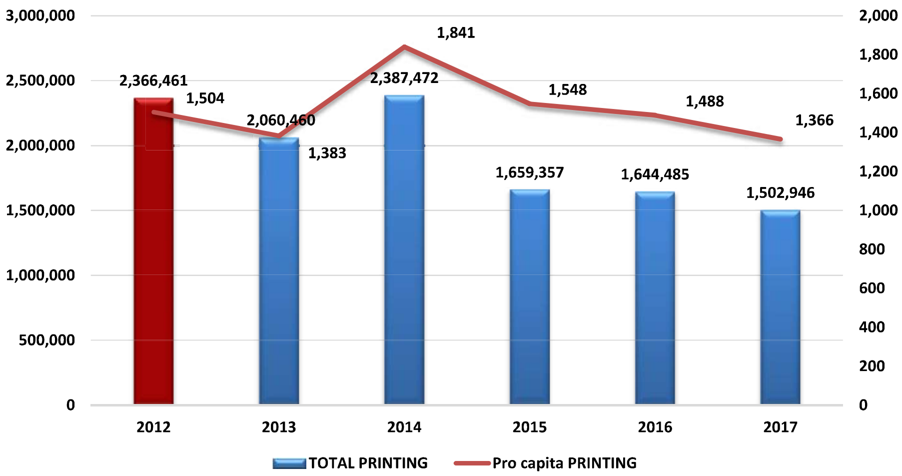
Consumption of Paper for office use 2013-2017

-42.8%

Cumulative reduction of paper consumption in the five-year period 2013-2017

-18.2%

Pro-capita reduction of paper consumption in the five-year period 2013-2017



Printing volumes 2013-2017

-36.5%

Cumulative reduction of paper consumption in the five-year period 2013-2017

-9.5%

Reduction in per capita printing volumes in the five-year period 2013-2017

3.4 Regulatory compliance

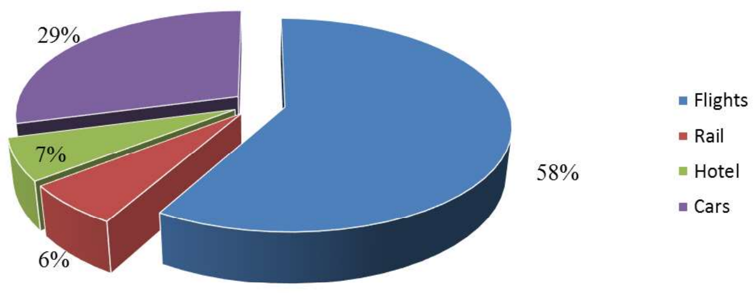
Italtel's proprietary products, in their various configurations, are certified according to the electromagnetic safety compatibility standards and created in accordance with environmental impact minimisation criteria (e.g.: The RoHS - Restrictions of Hazardous Substances Directives); the Company – enrolled in the Manufactures of Electrical and Electronic Equipment Register - guarantees that established by the European Union (WEEE - Waste Electrical and Electronic Equipment, enacted by Legs. Decree 49/2014) in relation to the disposal of products at the end of their life cycle.

Italtel S.p.A. declares on a quarterly basis the quantity of product packaging released to the Italian market, paying to CONAI (National Packaging Consortium) Companies the Environmental Contribution as per Legislative Decree 152/06.Finally, with regards to the European "REACH" 1906/2007 (Registration, Evaluation, Authorization and Restriction of Chemicals) Regulation, Italtel declares that its suppliers comply with this regulation, requesting proof of concentrations of highly dangerous substances and the relative usage Authorization from the European Agency for chemical substances (ECHA).

3.5 Travel

The company promotes a policy for the reduction of travel and promotes among its employees the use of distance communication and working options. However, specific demands require employees to undertake journeys both in Italy and overseas, producing CO_2 emissions of approx. 1,354 tons in 2017, representing approx. 18.4% of all direct and indirect emissions related to company activities.

The majority of CO_2 emissions concern flights (58% of the total).



Breakdown of CO_2 emissions from work related journeys in 2017

The details are presented in the table below.

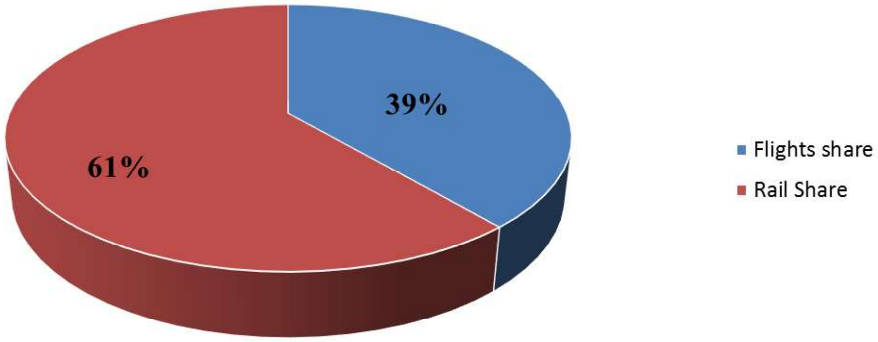
JOURNEYS	2014	2015	2016	2017
TOTAL CO2 emitted (ton)	902	849	1,136	1,354
Change%		-5.9%	33.8%	**19.2%**
Cge.% cumulative		-5.9%	25.9%	**50.1%**
Flights	432	385	619	789
Change%		-10.9%	61.0%	**27.4%**
Cge.% cumulative		-10.9%	43.4%	**82.7%**
Rail	49.73	44.32	66.84	84.20
Change%		-10.9%	50.8%	**26.0%**
Cge.% cumulative		-10.9%	34.4%	**69.3%**
Hotel	60	55	62	86
Change%		-6.9%	11.8%	**39.3%**
Cge.% cumulative		-6.9%	4.1%	**44.9%**
Cars	361	365	387	394
Change%		1.1%	6.2%	**1.9%**
Cge.% cumulative		1.1%	7.4%	**9.4%**

Calculations were made by integrating reporting provided by the travel agency used, based on the emission and conversion factors published on www.ghgprotocol.org and www.acriss.org. ***Car*** *data includes the share due both to rental car use and to work use of the employee's own car, multiplied by an average emission factor.*

The company policy on work travel promotes rail use on domestic routes in order to minimize CO_2 emissions. For the same distance travelled, rail travel implies lower emissions than those of air travel, as specific train emissions for the distances travelled indicate 76% less emissions.
The growth in rail over air travel on domestic journeys, with an associated reduction in CO_2 emissions, is illustrated by the data in the following table.

ITALY JOURNEYS	2014	2015	2016	2017
TOTAL (thousandKM)	1,169	1,147	1,627	1,768
Change%		-1.9%	41.9%	**8.6%**
Flights share	549	592	750	684
Change%		7.9%	26.7%	**-8.8%**
Share%	46.9%	51.6%	46.1%	**38.7%**
Rail Share	620	555	876	1,083
Change%		-10.6%	58.0%	**23.6%**
Share%	53.1%	48.4%	53.9%	**61.3%**
Flights (ton CO2)	134	141	190	222
Change%		5.4%	33.9%	**17.1%**
Rail (ton CO2)	50	44	67	84
Change%		-11.1%	51.1%	**26.0%**
CO2 Saving for train use (ton)	107	88	153	261
Change%		-17.6%	73.0%	**70.7%**

Emissions relating to rail travel totalled 84 tons of CO_2. If air travel had been used instead of rail travel on domestic routes, for the same distance travelled, approximately 345 tons of CO_2 would have been emitted.
Therefore, the total savings in terms of emissions due to train over air travel, in 2017, was in the order of 261 tons of CO_2.



Domestic journeys 2017

3.6 Suppliers

In 2017, the company implemented the new Italtel Group Procurement Policy issued in 2016 and drew up the general criteria, responsibilities and operating measures 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

In summary, Italtel is committed to applying the "Buy Well" policy, with a focus on quality, techniques, environmental and ethical/social aspects in terms of purchases.
Suppliers attentive to Corporate Social Responsibility (CSR) continue to be favoured, with such qualified suppliers increasing from 18% in 2015 to 28% in 2017, and the value purchased from them increasing from 69% in 2015 to 84% in 2017.
In 2016, the purchase volume from such suppliers was slightly down on the previous year due to business needs that forced Italtel to implement a change in the mix of supply, with an increase in purchases of merchandise classes relating to several suppliers that had not yet fully adhered to CSR policies. This change was mainly due to a market downturn that produced a 12% reduction in total purchases compared to 2015.

Suppliers declaring implementation of CSR policies

(Total number CSR suppliers/Total number Registered suppliers) (*)

2017	2016	2015
28%	28%	18%

Procurement volumes from Suppliers declaring implementation of CSR policies

(Total value acquired from CSR suppliers/ total procurement value) (*)

2017	2016	2015
84%	60%	69%

(*) Indicator calculated neglecting suppliers considered insignificant in relation to the total annual volume of purchases of Italtel S.p.A., i.e. those for which the order value was less than Euro 100,000.

4. Business ethics

4.1 Integrity, loyalty, conflicts of interest

Italtel for many years has had an internal system which highlights irregularities, available to employees and all those operating on behalf or in favour of the Company. This system comprises dedicated telephone lines and an e-mail address to which any violations of the Ethics Code may be communicated or, more in general, unlawful activity during the course of work. In 2017, as in the two previous years, no violations of the Ethics Code were reported, nor unlawful acts.
Italtel undertakes relations with politicians and trade union representatives exclusively through official channels and for institutional purposes. It does not fund or support in any way political parties or political or trade union organisations.
In relation to conflicts of interest, the Italtel Group utilizes an internal procedure to identify and handle situations of potential conflict. In 2017, as was the case in the two preceding years, no cases of conflict of interest arose.

None reporting of violations of the Ethics Code in the three-year period 2015 - 2017

None unlawful acts in the workplace in the three-year period 2015-2017

None conflicts of interest encountered in the three-year period 2015 - 2017

4.2 Fair competition and legal compliance

The Italtel Group operates with a wide range of parties (clients, suppliers, partners, ...), maintaining highly transparent and fair relations.
Italtel S.p.A. has circulated its Ethics Code to all its business partners and expressly requests compliance with contractual documents entered into with suppliers.

In accordance with Legislative Decree 231/2001, Italtel S.p.A. adopted an Organisation, Management and Control Model in 2002, which it constantly updates and implements.
As of 2013, the *Principles for Prevention and Conduct Guidelines* for the prevention of offences included in the same decree were circulated and adopted by all Group companies, in line with Italtel S.p.A.'s 231 Model.
A description of the main activities carried out in 2017 to ensure the updating of the 231 Model and the Principles for Prevention and Guidelines for Group companies, and their practical implementation, may be viewed in this report's Organisation, Management and Control Model section. These Principles and Guidelines are communicated and disseminated by means of e-mail and the company intranet to senior managers and all employees of the Italtel Group.

The Legality Rating, which was allocated to Italtel S.p.A. for the first time in 2015, was renewed in 2017. The score awarded by the Anti-Trust Authority (AGCM) has been increased from two "stars" and a "plus", to the maximum score of three "stars". This major achievement places Italtel among those companies most committed to adopting ethical conduct principles and operating in compliance with law.

"Legality Rating"
allocated by the
AGCM
2015

★★+

"Legality Rating"
allocated by the
AGCM
2017

★★★

In confirmation of this commitment, in 2017 - as in the two previous years - no disputes concerning legal violations by company personnel in the exercise of their duties were recorded, nor sanctions, issued to Italtel S.p.A. or the Group companies, for violation of the regulations upon product security, industrial and intellectual property, misleading advertising, with regards to information on products in the relative communications and, in general, marketing activities, or for anti-competitive conduct.

No dispute
for violations of the law imposed
on company personnel in the
exercise of their duties
for the period 2015 - 2017

No penalty
for violation of regulations, for
misleading advertising or for anti-
competitive conduct in the period
2015 - 2017

Moreover, as in the two previous years, no non-compliance with laws and environmental regulations were registered in 2017.
There were also no complaints from customers or other interested parties in 2017 in relation to privacy, and nor did any incidents, such as disclosure, theft or loss of data, occur. For Italtel, information security is essential to ensure the efficiency and service continuity of all corporate departments. Italtel obtained the ISO/IEC 27001 (formerly BS7799) Certification in 2004 in respect of the Information Security Management System for the provision and management of professional services to telecom operators.

Finally, in 2017, Italtel launched the project to improve the management procedure and protection of personal data in business activities to make them compliant with the new EU Regulation 2016/679 (GDPR - General Data Protection Regulation) which came into effect May 24, 2016 and which will become applicable as of May 25, 2018.

4.3 Business ethics training

Systematic training of personnel operating in at risk areas has been undertaken since 2013. 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 new 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.

In 2017, training was focused on staff who, as a result of changes in the company's organisational structure, found themselves working in at-risk areas pursuant to Legislative Decree 231/01.

In conclusion, 282 employees in Italtel S.p.A. were trained in business ethics, while staff employed with overseas Group companies numbered 214. Moreover, 13 senior managers underwent training, equal to 80% of those who hold corporate offices in at least one overseas Group company.

Employee training by category - Italtel S.p.A.

Employee training by category - Overseas companies

4.4 Internal controls

Italtel carries out systematic internal auditing, part of which concerns business ethics. In 2017, 11 internal audits in this regard were carried out. In 2016, 10 internal business ethics audits were carried out, with 10 in 2015.

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

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Internal audits on business ethics in the period 2015 - 2017

Italtel was subject to external audits carried out by third parties with whom it undertakes business relations; in 2017, 3 were held, with 5 in 2016 and 3 in 2015; they concerned intellectual property rights in the use of third party software and information security. All audits had positive outcomes.

4.5 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 2017 Italtel received grants worth Euro 2.90 million and subsidised rate loans for a value of Euro 2.76 million.

Grants
of Euro 13.15 million in the 2015-2017 three-year period

Subsidized rate loans Euro 29.0M in the three-year period 2015-2017

In addition, Italtel is among 48 entities included in the Italian Public Sector suppliers list.

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Inclusion on Public Sector Suppliers list in 2017

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.

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 Related Party Transactions Policy, approved by the Board of Directors of the company on February 15, 2018.

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

Subsequent events

On February 1, 2018, Italtel and the Trade Unions at Assolombarda, commenced and completed, to all legal effects, a personnel reduction procedure as per Law 223/91, combined provisions of Articles 4 and 24, for a maximum number of 80 employees at the Settimo Milanese, Rome and Carini sites.
The Parties, pursuant to and in accordance with Art. 5, paragraph 1 of the aforementioned law, have agreed that the identification of workers whose employment will be terminated, as an alternative to the selection criteria laid down by the abovementioned legislation, will take technical, production and organisational requirements into account, giving priority to those workers who have achieved or will achieve the requirements for retirement, however, without prejudice to the criterion of no opposition from the worker, as provided for by Art. 4, paragraph 4 of Ministerial Decree 94033/2016.
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Outlook

Italtel expects to meet the strategic objectives outlined in the 2017-2023 Industrial Plan.

Settimo Milanese, March 12, 2018

For the Board of Directors

The Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated Balance Sheet at December 31, 2017 and 2016

(Euro thousands)

	Note	31/12/2017	31/12/2016
Assets			
Non-current assets			
Property, plant and equipment	(7)	12,875	13,553
Goodwill	(8)	122,215	122,215
Other intangible assets	(9)	24,192	17,394
Investments valued under the equity method	(10)	194	194
Medium/long term financial assets	(11)	373	10,435
Other assets	(12)	3,087	3,249
Deferred tax assets	(13)	63,045	63,352
Total non-current assets		**225,981**	**230,392**
Current assets			
Inventories	(14)	40,112	40,379
Contract work-in-progress	(15)	20,469	-
Trade receivables	(16)	90,519	125,296
Tax receivables	(17)	2,864	3,185
Other receivables and assets	(18)	21,225	17,362
Short-term financial assets	(19)	948	4,398
Cash and cash equivalents	(20)	23,215	25,998
Total current assets		**199,352**	**216,618**
Discontinued non-current assets	(41)	**215**	**12**
Total assets		**425,548**	**447,022**
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital	(21)	20,000	2,000
Reserves	(22)	22,616	98,728
Other reserves including the loss for the year	(23)	(6,998)	(164,888)
Group Shareholders' equity		**35,618**	**(64,160)**
Share capital and reserves pertaining to minority interest		-	-
Total Shareholders' Equity		**35,618**	**(64,160)**
Liabilities			
Non-current liabilities			
Employee provisions	(24)	19,321	20,360
Provisions for risks and charges	(25)	14,249	20,668
Deferred tax liabilities	(13)	1,070	-
Medium/long term financial liabilities	(26)	147,266	20,300
Other liabilities	(27)	225	486
Total non-current liabilities		**182,131**	**61,814**
Current liabilities			
Trade payables	(28)	124,392	163,262
Current tax payables	(29)	635	127
Other payables and liabilities	(30)	40,207	50,614
Current financial liabilities	(26)	42,176	234,979
Total current liabilities		**207,410**	**448,982**
Discontinued non-current liabilities	(41)	**389**	**386**
Total liabilities		**389,930**	**511,182**
Total shareholders' equity and liabilities		**425,548**	**447,022**

2017 and 2016 Consolidated Income Statement

(Euro thousands)

	Note	2017	2016
Revenues from sales and services	(31)	430,211	405,411
Other income	(32)	17,610	16,581
Purchase of materials and services	(33)	(350,734)	(338,056)
Personnel costs	(34)	(85,037)	(101,061)
Amortisation, depreciation & write-downs	(35)	(12,682)	(72,268)
Other operating costs	(36)	(8,820)	(7,224)
Change in inventories	(37)	1,152	9,702
Increase in internal work capitalised	(38)	10,453	13,534
Operating profit		**2,153**	**(73,381)**
Financial income	(39)	14,520	21,682
Financial charges	(39)	(25,496)	(32,377)
Net investment gains/(losses) under the equity method:		-	-
Loss before taxes		**(8,823)**	**(84,076)**
Income taxes	(40)	(1,349)	(13,795)
Loss from normal operations		**(10,172)**	**(97,871)**
Discontinued operations loss	(41)	(286)	(63)
NET LOSS FOR THE YEAR		**(10,458)**	**(97,934)**
Group share		(10,458)	(97,934)
Minority interest share		-	-

2017 and 2016 Consolidated Comprehensive Income Statement

(Euro thousands)

	2017	2016
Net loss for the year	**(10,458)**	**(97,934)**
Profit/(losses) which will reverse to the income statement in future:		
Gains/(losses) on the effective portion of the Cash Flow Hedge:		
CFH Profit/(loss)	(783)	-
Tax effect	188	-
Losses from conversion of accounts of overseas companies	(3,027)	(178)
Profit/(losses) which will not reverse to the income statement in future:		
Re-measuring of employee plan (IAS 19):		
Actuarial profits/(losses)	72	(950)
Tax effect	(17)	228
Total other profits/(losses) directly recorded to net equity	**(3,567)**	**(900)**
Total comprehensive loss	**(14,025)**	**(98,834)**
Group share	(14,025)	(98,834)
Minority interest share	-	-

Consolidated Cash Flow Statement at December 31, 2017 and 2016

(Euro thousands)

	2017	2016
A - Opening cash and cash equivalents (net short-term debt)	**25,998**	**61,666**
B – Cash flow from operating activities		
Loss for the year	(10,458)	(97,934)
Amortisation, depreciation & write-downs	12,682	72,268
(Gains)/losses on disposed assets	(30)	1
Elimination of financial liabilities	(2,369)	-
(Increase)/ Decrease in deferred tax assets	1,360	10,892
Increase/(Decrease) of employee benefits provisions and Restructuring Provision	(967)	(13)
Changes in other provisions	(6,419)	14,091
Cash flow from activities before changes in working capital	**(6,201)**	**(695)**
Change in working capital		
(Increase) / Decrease in receivables	14,105	(37,808)
(Increase) / Decrease in inventories	267	(5,692)
(Increase) / Decrease of other assets	(3,380)	7,782
Increase / (Decrease) in trade and other payables	(49,027)	12,662
Total changes in working capital	**(38,035)**	**(23,056)**
Total (B) (1)	**(44,236)**	**(23,751)**
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	2,053	152
(Increase) / Decrease in other financial assets	1,420	5,034
Divestment of fixed assets	54	5
Investments in tangible assets	(2,356)	(2,398)
Investments in intangible assets	(16,694)	(17,742)
Total (C)	**(15,523)**	**(14,949)**
D - Cash flow from financing activities (2)		
Granting and repayments of short-term loans	2,589	10,224
New medium/long term loans	6,278	3,997
Repayment of loans to third parties	(9,088)	(8,783)
Share capital increase	31,000	-
Conferment of special shares	16,000	-
Repayment of c/c Escrow Deposits	8,009	-
Granting of finance leases	-	224
Repayment of finance leases	(88)	(58)
Change in financial transactions with Italtel Group S.p.A.	(618)	(117)
Increase / (Decrease) in other financial assets and liabilities	6,290	(2,248)
Total (D)	**60,372**	**3,239**
E – Cash flow for the year (B+C+D)	**613**	**(35,461)**
Other shareholders' equity changes	(3,396)	(207)
F – Closing cash and cash equivalents	**23,215**	**25,998**

(1) This amount includes the payment of current taxes for Euro 1,400 thousand and Euro 5,469 thousand, respectively in 2017 and 2016.
(2) The Net result includes net interest charges of Euro 3,496 thousand in 2017 (Euro 4,338 thousand in 2016) not paid at year-end.

Statement of changes in shareholders' equity at December 31, 2016 and 2017

(Euro thousands)

	Group Share				Minority interest share	Total Shareholders' Equity
	Share capital	Reserves	Other reserves including the result	Total		
January 1, 2016	**2,000**	**98,728**	**(66,054)**	**34,674**	**-**	**34,674**
Comprehensive Loss	-	-	(98,834)	(98,834)	-	(98,834)
December 31, 2016	**2,000**	**98,728**	**(164,888)**	**(64,160)**	**-**	**(64,160)**
Italtel S.p.A. Recapitalisation at December 14, 2017:						
Covering of losses carried forward of Italtel S.p.A.	(2,000)	(98,728)	100,728	-	-	-
New EFIs contrib. constit. reserve	-	66,803	-	66,803	-	66,803
Utilisation New EFIs Reserve covering residual cumulative losses at September 30, 2017 of Italtel S.p.A.	-	(57,432)	57,432	-	-	-
Share Capital Increase Ordinary Shares	20,000	-	-	20,000	-	20,000
Share Premium Ordinary Reserve	-	11,000	-	11,000	-	11,000
Share Capital increase - Special Shares (Preferred) and rel. share premium reserve	-	16,000	-	16,000	-	16,000
Share premium reserve allocation Special Shares covering residual cumulative losses at September 30, 2017 of Italtel S.p.A.		(13,755)	13,755	-	-	-
2017 Comprehensive Loss	-	-	(14,025)	(14,025)	-	(14,025)
December 31, 2017	**20,000**	**22,616**	**(6,998)**	**35,618**	**-**	**35,618**

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). The ordinary share capital is held 81% by Exprivia S.p.A. and 19% by Cisco Systems (Italy) S.r.l.
The chapter "Information on the shareholders of Italtel S.p.A." in the Directors' Report provides further details on the shareholders of the Parent Company.

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.

The Italtel S.p.A. Group's primary reporting is based on operating segments. In relation to the operating segments only one segment was identified as the benefits deriving from the sale of goods and provision of services which characterises the activities of the Group are not significantly different based on the goods sold and services provided.

These annual consolidated financial statements, relating to the year ended December 31, 2017, 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.

Compared to December 31, 2016 there were no changes in the consolidation scope. Based on the resolution of March 31, 2017 and with effect from April 7, 2017, the company Italtel Telecommunication Hellas EPE was placed in liquidation and is recorded in the consolidated financial statements as held for sale.

Financial Statement Presentation

The Company for the 2017 financial statements prepared the financial statements in compliance with IFRS issued by the IASB and approved by the European Commission. IFRS also include all the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The principal changes to International Accounting Standards are outlined below.

Changes to accounting standards, interpretations and amendments applied from January 1, 2017:

- Regulation (EU) No. 2017/1989 of the European Commission of November 6, 2017, published in the Official Gazette L 291 of November 9, 2017, adopted the Amendments to IAS 12 "Income taxes - Recognition of deferred tax assets on unrealised losses" issued by the IASB on January 19, 2016. The amendments clarify the recognition of deferred tax assets on debt instruments measured at fair value. Companies must apply the amendments at the latest from the initial date of their first reporting period subsequent to January 1, 2017 or thereafter.

- Regulation (EU) No. 2017/1990 of the European Commission of November 6, 2017, published in the Official Gazette L 291 of November 9, 2017, adopted the Amendments to IAS 7 "Cash flow statement - Disclosure initiative", issued by the IASB on January 29, 2016, to clarify IAS 7 in order to improve disclosures on financial assets of an entity for the readers of the financial statements. Companies must apply the amendments at the latest from the initial date of their first reporting period subsequent to January 1, 2017 or thereafter.

The application of the amendments to IAS 12 and IAS 7 did not generate any impacts on the consolidated financial statements of Italtel S.p.A.

Changes to accounting standards, interpretations and amendments applied 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.

- Regulation (EU) No. 2017/1987 of the European Commission of October 31, 2017, published in the Official Gazette L 291 of November 9, 2017, adopted *Clarifications to IFRS 15 “Revenues from contracts with customers”.* The amendment provides some clarifications and an additional transitory option for entities which apply the Standard. Companies must apply the amendments at the latest from the initial date of their first reporting period subsequent to January 1, 2018 or thereafter.

- 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. These provisions are applied from January 1, 2018.

- Regulation (EC) No. 2017/1986 of the European Commission of October 31, 2017, published in the Official Gazette L 291 of November 9, 2017, adopted IFRS 16 (Leases), issued by the IASB on January 13, 2016 which replaces IAS 17 and the relative interpretations in order to improve reporting on leasing contracts. 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, the recognition of an asset in terms 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, is required. These provisions are obligatory from January 1, 2019 and advance application is permitted together with the adoption of IFRS 15 “Revenues from contracts with customers”.

During 2017 analysis was undertaken for the identification of areas implicated by the new provisions and in order to determine the relative impact.
On first-time application Italtel S.p.A. has chosen to apply the new IFRS 15 and IFRS 9 from January 1, 2018.

The effects from the application of IFRS 15 in relation to the measurement of revenues and of IFRS 9 in relation to the measurement of receivables were analysed and no significant impacts emerged.

Changes to accounting standards, interpretations and amendments applied from January 1, 2019:

- Regulation (EC) No. 2017/1986 of the European Commission of October 31, 2017, published in the Official Gazette L 291 of November 9, 2017, adopted IFRS 16 (Leases), issued by the IASB on January 13, 2016 which replaces IAS 17 and the relative interpretations in order to improve reporting on leasing contracts. 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, the recognition of an asset in terms 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, is required. These provisions are obligatory from January 1, 2019 and advance application is permitted together with the adoption of IFRS 15 "Revenues from contracts with customers".

The accounting standards and interpretations issued by the IASB/IFRIC, not yet endorsed by the European Commission, are as follows:

- 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. The endorsement process is expected by 2018.

- 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, which is expected to be endorsed in 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 and which is expected to be endorsed in 2018.

- Improvements to IFRS 2: Classification and Measurement of Share-Based Payment Transactions, issued by the IASB on June 20, 2016; endorsement is expected in the first quarter of 2018.

- Improvements to IAS 40: Transfer of Investment Property, issued by the IASB on December 8, 2016; endorsement is expected in the first quarter of 2018.

- Improvements to IFRS 9: (Prepayment Features with Negative Compensation, issued by the IASB on October 12, 2017; endorsement is expected in 2018.

- Improvements to IAS 28: Long-term Interests in Associates and Joint Ventures, issued by the IASB on October 12, 2017; endorsement is expected in 2018.

- Improvements to IFRS Standards (2015-2017 cycle), issued by the IASB on December 12, 2017; endorsement is expected in 2018.

Note 2 - Accounting policies adopted

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 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”).

Following the approval decree, all of the necessary acts and deeds were completed for the execution of the 2012 Restructuring Agreement, including in particular the underwriting of new loan contracts and the issue, pursuant to Article 2346 of the Civil Code and against the conversion of the respective receivables, Class A and B Equity Financial Instruments (“EFI”) in favour of the lending banks, Cisco and Telecom Italia Finance. The share capital of Italtel S.p.A, subscribed and paid-in, amounted to Euro 2,000,000, comprising 2,000,000 shares of a nominal value of Euro 1 each, all held by the sole shareholder Italtel Group S.p.A. and committed in guarantee to the lending banks.

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. For this purpose, Italtel Group S.p.A., with the support of a financial advisor, 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. Italtel 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 reflects the altered economic and market environment and the completion of a new debt restructuring agreement and the consequent Investment.

According to the 2017-2023 Industrial Plan, in the first months of 2017 an impairment test was carried out 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, capitalised development costs, prior operating losses and the 2016 net loss, resulted in negative shareholders’ equity of approx. Euro 64 million 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”) as commented upon below.

ITALTEL EXTRAORDINARY TRANSACTION

In the above context, the following were signed on July 27, 2017:

(iv) A new debt restructuring agreement with the Banks and Cisco in implementation of the 2017-2023 Industrial Plan (the "Banks and Cisco Restructuring Agreement"), as per Article 182-*bis* of the Bankruptcy Law (L.F.). This was the result of negotiations to define the refinancing and extension of the debt.

(v) An additional restructuring agreement - submitted for the approving decision together with the Banks and Cisco Restructuring Agreement, as part of the same procedure and the same negotiations - with Intesa Sanpaolo, Mediocredito Italiano and Cassa Depositi e Prestiti (the "Intesa Restructuring Agreement"), (the Banks and Cisco Restructuring Agreement and the Intesa Restructuring Agreement, jointly the "New Restructuring Agreement").

(vi) A framework agreement (the "Framework Agreement") to define the terms and conditions of the Investment with Exprivia, Cisco, Telecom Italia Finance and the Banks, in their capacity as Holders of A and B EFIs and the main creditors of the company.

The documents regulating the extraordinary transaction are, therefore, particularly constituted by the Framework Agreement, the New Restructuring Agreement and their associated annexes.

FRAMEWORK AGREEMENT

The Framework Agreement was signed by the company and by Italtel Group S.p.A., on the one part, and by Exprivia, Cisco Systems International BV, Cisco Systems (Italy) S.r.l., Telecom Italia Finance S.A. (the latter, limited to the obligation to sell the existing A and B EFIs which will be discussed below) and the company's lending bank syndicate, on the other.

The Framework Agreement has, therefore, regulated the extraordinary transaction's procedure and the terms and conditions consisting of a series of interrelated legal and economic transactions, which can be summarised as follows:

h) The signing of the New Restructuring Agreement
i) The signing of Loan Contracts (as defined below)
j) The lending banks' purchase of A and B EFIs held by Cisco and Telecom Italia Finance and their underwriting of new Class C Equity Financial Instruments ("C EFIs"), through the conversion of receivables totalling approximately Euro 66.8 million
k) The subscription and full release of ordinary shares by Exprivia for a total amount of Euro 25 million, equivalent to 81% of the company's new ordinary share capital, of which Euro 16.2 million as nominal share capital and Euro 8.8 million as share premium
l) The subscription and full release by Cisco of:
   (iii) Ordinary shares for a total amount of Euro 6 million, equivalent to 19% of the company's new ordinary share capital, of which Euro 3.8 million as nominal share capital and Euro 2.2 million as share premium, and
   (iv) Preference shares for a total amount of Euro 16 million, of which Euro 1.00 as nominal share capital and Euro 15.9 million as share premium
m) The granting and disbursement of new bridge financing pursuant to Art. 182 *quinquies* of the L.F.
n) The adoption by the company's Shareholders' Meeting of a new By-Laws, new rules for the governance of A and B EFIs and rules for the newly issued C EFIs.

NEW RESTRUCTURING AGREEMENT

Certain transactions envisaged in the Framework Agreement and, in particular, transactions related to the restructuring and refinancing of the company's debt were regulated by the New Restructuring Agreement signed on July 27, 2017 and submitted for the approval of the Court of Milan pursuant to Art. 182-*bis* of the L.F.
Parties to this Agreement, in addition to the company as the proponent, and Italtel Group, are the lending banks, Cisco Systems (Italy) S.r.l. and Cisco Systems International BV, in the capacity of subscribing creditors, and the subsidiaries Italtel Deutschland Gmbh and Italtel S.A., also as subscribing creditors.

More specifically, in addition to the transactions relating to the conversion of receivables from lending banks into C EFIs, the New Restructuring Agreement also envisaged the signing of the following medium/long-term loan contracts (the "Loan Contracts"):

- A loan contract for a maximum total amount of Euro 77,183,451 concerning the granting of new credit lines as an overdraft or performance guarantee, to support the company's financial requirements during the period of the 2017-2023 Industrial Plan. Part of this amount can be used for the issue of guarantees and other unsecured guarantees during the period between the date of the filing of the appeal and the approval date, once authorisation is received by the Court pursuant to Art. 182-*quinquies* of the L.F.
- An amendment to the existing loan contract, for a maximum amount of Euro 36,352,867, for the deferment of exposures arising from the loan contract granted in execution of the debt restructuring agreement approved in 2013; and
- A loan contract for a maximum total amount of Euro 95,652,163.66 for the consolidation and deferment of residual exposures (following the conversion) arising from the TERM loan contract and the existing RCF loan contract. The final maturity date of these loan contracts is December 31, 2024 (although some of the new financing lines will mature on December 31, 2023).

The New Restructuring Agreement involved a report, drawn up by Mr. Papa, declaring the correctness of company data and the implementation of the agreement pursuant to Article 182-*bis* of the L.F. Furthermore, for the purposes of the granting of new financing during the period between the date of filing the appeal and the approval date, Mr. Papa issued a specific attestation pursuant to Article 182-*quinquies* of the L.F., which attested that the granting of this new financing is functional to the best satisfaction of creditors.

On July 28, 2017, the New Restructuring Agreement, together with the Appeal as per Art. 182-*bis* of the L.F. the Application as per Art. 182-*quinquies* of the L.F. for the bridge financing, and the associated documentation required by law, were filed at the Court of Milan for the purposes of obtaining the approval decree.
On August 3, 2017, the Court authorised Italtel by decree to take out new bridge financing pursuant to Art. 182-*quinquies*. Thereafter, on August 22, 2017, the New Restructuring Agreement was entered in the Companies Register of Milan and on November 13, 2017, the Milan Court issued the approval decree.
On November 30, 2017, after the 15-day period provided for by Article 182-*bis*, paragraph V, the Court of Appeal of Milan declared the absence of objections against the approval decree which then became final.

OBLIGATIONS PRELIMINARY TO CLOSING AND THE CLOSING

Since the provisions of Articles 2446 and 2447 of the Civil Code do not apply with effect from the date of the filing of the appeal as per Article 182-*bis* of the L.F. for the approval of the New Restructuring Agreement and up to its approval – pursuant to Article 182-*sexies* of the L.F. - the 2447 Shareholders' Meeting, during its last session of July 28, 2017 was closed without the adoption of any measure in view of the New Restructuring Agreement having been filed by that date.

A new Extraordinary Shareholders' Meeting of Italtel S.p.A. was therefore held on November 27, 2017 which, *inter alia*:

- Approved the balance sheet at September 30, 2017
- Resolved to cover losses, subject to the subscription of Class C EFIs and the share capital increase referred to below
- Approved the increase of ordinary share capital for a total of Euro 31,000,000 (of which Euro 20,000,000 as nominal share capital and Euro 11,000,000 as share premium) to be offered in subscription to Exprivia S.p.A. for Euro 25,000,000 (of which Euro 16,200,000 as nominal share capital and Euro 8,800,000 as share premium) and to Cisco Systems (Italy) S.r.l. for Euro 6,000,000 (of which Euro 3,800,000 as nominal share capital and Euro 2,200,000 as share premium)
- Approved a further increase in share capital for a total of Euro 16,000,000 (of which Euro 1.00 as nominal share capital and Euro 15,999,999 as share premium) to be offered in subscription to Cisco Systems (Italy) S.r.l.
- Approved the issue of 66,803,260 Class C EFIs
- With effect from the full subscription of the Class C EFIs, passed a resolution on (a) the adoption of a new By-Laws, (b) the amendment of Class A and B EFI rules, and (c) the adoption of rules for the new Class C EFIs.

On December 14, 2017, following the finalisation of the approval decree, the closing of the transaction took place during which the resolutions passed by the Extraordinary Shareholders' Meeting on November 27, 2017 were executed, particularly:

g) Exprivia S.p.A. subscribed to 25,000,000 Class A ordinary shares without nominal value (of which Euro 2,000,000 through the conversion of undisputed receivables from Italtel S.p.A.)

h) Cisco Systems (Italy) S.r.l. subscribed to 6,000,000 Class B ordinary shares without nominal value (entirely through the conversion of undisputed receivables from Italtel S.p.A.)
i) Cisco Systems (Italy) S.r.l. subscribed to 16,000,000 special shares without nominal value (entirely through the conversion of undisputed receivables from Italtel S.p.A.)
j) The lending banks (UniCredit S.p.A., Banco BPM S.p.A., Banca Popolare di Milano S.p.A., Banca IFIS S.p.A. and UBI Banca S.p.A.) subscribed to a total of 66,803,260 Class C EFIs without nominal value (through the partial conversion of an equal amount of financial receivables from Italtel S.p.A.)
k) The Loan Contracts were signed
l) Guarantee documents in favour of the lending banks were signed (a pledge on newly issued shares, mortgage and privilege) and guarantees previously offered by Italtel Group S.p.A. and by its shareholders released.

The share capital of Italtel S.p.A. therefore amounts to Euro 20,000,001.00, while the Class C EFIs were subscribed as follows:

Lending Bank	Number Equity Financial Instruments Class C	Percentage
UniCredit S.p.A.	42,782,579	64.0
Banca Popolare di Milano S.p.A.	13,284,283	19.9
Banca IFIS S.p.A.	7,730,401	11.6
Unione di Banche Italiane S.p.A.	2,003,998	3.0
Banco BPM S.p.A.	1,001,999	1.5
Total	**66,803,260**	**100.00**

On the conclusion of Italtel S.p.A.’s recapitalisation as described above, Italtel Group S.p.A. fully exited the share capital of Italtel S.p.A. as envisaged by the Restructuring Agreement.
The new shareholders of the company are, therefore, Exprivia S.p.A. with a holding of 81% of the share capital, and Cisco Systems (Italy) S.r.l. with a holding of 19%.

Also held on the same date, December 14, 2017, in execution of the agreements signed in July: (i) the Ordinary Shareholders’ Meeting of Italtel S.p.A. which, inter alia, appointed the new Board of Directors and the new Board of Statutory Auditors and (ii) the meeting of the Board of Directors for the assignment of offices and the conferral of powers to the Directors.

As a result of the extraordinary transaction’s positive conclusion and the recapitalisation of Italtel S.p.A., the Directors believe that the previous uncertainties regarding business continuity have been completely overcome and that the company has sufficient resources to continue its operational activity.
Results achieved in financial year 2017 have confirmed the projections of the first year of the Industrial Plan and, in 2018, the Company is also operating in accordance with the strategic guidelines established by the Industrial Plan.
For this reason, the Directors have drawn up the financial statements of Italtel S.p.A. at December 31, 2017 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, 2017 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.

	2017 average	At December 31, 2017	2016 average	At December 31, 2016
Argentinean Peso	18.726	22.931	16.342	16.7488
Brazilian Real	3.6041	3.9729	3.85614	3.4305
UK Sterling	0.87615	0.88723	0.819483	0.85618
US Dollar	1.1293	1.1993	1.1069	1.0541
Polish Zloty	4.2563	4.177	4.36321	4.4103
Peruvian Nuevo Sol	3.6815	3.8854	3.73563	3.5402
Saudi Arabian Riyal	4.2351	4.4974	4.15167	3.95446

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 is 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 analysed to identify the existence of any indicators, either internally or externally to the Italtel Group, of impairment. Where these indications exist, an estimate of the recoverable value of the above-mentioned assets is made, recording any write-down in the income statement. The recoverable value of an asset is the higher between the fair value less costs to sell and its value in use, where this latter is the fair value of the estimated future cash flows from the use of the asset and those from its disposal at the end of the useful life. In defining the Recoverable Value, the expected future cash flows are discounted 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 is 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 Contract work-in-progress

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, in which the costs, revenues and margins are recognised based on the advancement of the activities, determined with reference to the ratio between the costs incurred at the measurement date and the total expected costs. The measurement of contract work-in-progress reflects the current best estimate of the programmes on the individual contracts. Periodically the estimates are updated. Any economic effects are recognised in the period in which the updates are made. Where the completion of an order may give rise to a loss, such will be recognised in its entirety in the period in which such is reasonably forecast. The contract work-in-progress is stated, net of any write-downs and/or losses on completion, in addition to advances concerning the contract in course of execution. This analysis is carried out contract by contract: where a positive differential emerges (due to works in progress greater than the amount of advances), the differences are classified to the account assets for works in progress; where this difference is negative the difference is classified among liabilities to the account advances on works in progress.

H - 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.

I - 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.

J - 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.

K - 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.

L - 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 is 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.

M - 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.

N - Recognition of sales and services revenues

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

Revenues from the supply of products and 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.

O - 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”.

P - 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.

R - 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.

S - 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 requires 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 constitute 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 Finance Office, 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, 2017 amounted to Euro 8.9 million, net of those technically overdue (within 30 days) and any disputes.
Of these, Euro 3.3 million within 60 days, Euro 1.0 million within 90 days and Euro 4.6 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, 2017 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 138,994 thousand (Euro 176,303 thousand at December 31, 2016).

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, 2017, trade receivables for Euro 110,296 thousand (Euro 125,296 thousand at December 31, 2016) were recorded, net of write-downs of Euro 4,353 thousand (Euro 9,843 thousand at December 31, 2016).

At December 31, 2017 trade receivables, net of the doubtful debt provision, amounted to Euro 20.16 million (Euro 16.68 million at December 31, 2016), of which Euro 5.93 million may be offset against supplier payables and Euro 6.92 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, undertakes 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, 2017	57,212	-	57,212
December 31, 2016	37,947	-	37,947

(*) At exchange rate of December 31

At December 31, 2017 and 2016 the fair value of the derivative contracts was as follows:

	31/12/2017	**31/12/2016**
Exchange risk hedges	(3,209)	1,344

The company has undertaken derivative contracts to hedge the net exposure in US Dollars for a notional amount of Euro 22,404 thousand at the exchange rate at December 31, 2017. Losses were recorded in the income statement for Euro 268 thousand in relation to these transactions. In the previous year gains were recorded of Euro 1,344 thousand.

Derivative contracts were also underwritten in May 2017 to hedge the exchange risk on the OPM sales contract signed with the client TIM. In accordance with IAS 39 these hedging transactions, relating to future cash flows of an asset or liability recorded in the financial statements, are measured in the financial statements in accordance with the Cash Flow Hedge method.

In relation to these hedging transactions at December 31, 2017, with a notional value of Euro 34,808 thousand at the year-end exchange rate, the company recognised exchange losses in the income statement of Euro 2,158 thousand and a negative Equity reserve of Euro 783 thousand, before the tax effect of Euro 188 thousand.

The exchange risk hedges open at December 31, 2017 all mature between January and October 2018.

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:

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**

2017	Land	Industrial buildings	Plant & machinery	Industrial equipment	Other assets	Assets in progress	Total
Historic cost							
Balance at January 1, 2017	327	24,337	26,574	52,112	77,515	236	181,101
Increases	-	297	98	670	1,187	104	2,356
Write-downs/write-backs	-	-	-	-		(3)	(3)
Disposals	-	-	(88)	(2,275)	(2,279)	(1)	(4,643)
Translation difference	-	-	(21)	-	(262)	(10)	(293)
Reclassifications	-	5	-	41	29	(194)	(119)
Balance at December 31, 2017	**327**	**24,639**	**26,563**	**50,548**	**76,190**	**132**	**178,399**
Accumulated depreciation							
Balance at January 1, 2017	-	(17,054)	(24,772)	(50,738)	(74,984)	-	(167,548)
Depreciation	-	(483)	(591)	(728)	(991)	-	(2,793)
Write-downs/write-backs	-	-		-	-	-	-
Disposals	-	-	88	2,275	2,256	-	4,619
Translation difference	-	-	23	-	175	-	198
Reclassifications	-	-	-	-	-	-	-
Balance at December 31, 2017	**-**	**(17,537)**	**(25,252)**	**(49,191)**	**(73,544)**	**-**	**(165,524)**
Net book value							
Balance at January 1, 2017	327	7,283	1,802	1,374	2,531	236	13,553
Balance at December 31, 2017	**327**	**7,102**	**1,311**	**1,357**	**2,646**	**132**	**12,875**

Investments in property, plant & equipment amounted to Euro 2,356 thousand.

During the year, investments were made in industrial equipment, principally regarding that used for the development of software solutions and for the test plant of products launched on the market, for a total of Euro 670 thousand. In addition, Euro 1,187 thousand was invested in EDP and computers for the technological updating of IT systems, upgrading the data network and, of these Euro 539 thousand for equipment at the new Brazil offices and Euro 297 thousand for the extraordinary maintenance of the Carini office building. Work-in-progress includes investments in the year for Euro 104 thousand.

At December 31, 2017, 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:

	31/12/2017	31/12/2016
Value at January 1	**122,215**	**167,215**
Increases	-	-
Write-downs	-	(45,000)
Value at December 31	**122,215**	**122,215**

Goodwill at January 1, 2017 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-downs of December 31, 2009, December 31, 2011 and December 31, 2016.

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, 2017 was undertaken by the company utilising a leading consultancy firm for the financial parameters (WACC and G-rate beyond the explicit period) utilised in the impairment tests.

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.

Regarding the methodologies, the estimates of the Recoverable Value were carried out in relation to 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 forecasts for the 2017-2023 Plan of the Italtel Group. For the impairment test, only the years 2018-2022 were considered, in line with the accounting standards. This Plan was approved by the Board of Directors on July 19, 2017 and was reviewed and approved by Mr. Carlo Franco Papa within the debt restructuring transaction pursuant to Article 182 *bis* of the Bankruptcy Law. This Plan, utilised for the impairment test at December 31, 2016, was also considered appropriate for the impairment test at December 31, 2017 in consideration of the following:

- the Plan and the verifications on its reasonableness by independent experts for the debt restructuring transaction was undertaken quite recently (May-July 2017);
- the actual results for the year 2017 and the updated 2018 outlook are in line with the corresponding periods of the Plan;
- management still consider as valid the assumptions of the Plan relating to subsequent years.

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 financial rates utilised in the preparation of the impairment test for the DCF method of the Recoverable Value of the assets of the CGU on a consolidated basis were as follows:

- cost of risk capital (KE) estimated using the Capital Asset Pricing Model was 11.37% and including an Execution Premium of 2.4%;
- weighted average cost of capital corresponding to the KE rate, based on the financial structure entirely comprising own capital, and therefore equal to 11.37% (2016 WACC was 11.5%);
- nominal growth rate of perpetual cash flows (G-Rate) in line with the long-term expected inflation rate within the eight principal countries in which the Italtel Group operates and equal to 2.1%.

Based on the above methodology, the recoverable value of the Group operational assets was Euro 216.4 million (Value in use), against a carrying amount, net of Tax Assets, of approx. Euro 158 million.

Therefore, the Directors confirmed the value of the goodwill recorded in the financial statements, equivalent to Euro 122.2 million.

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 2016	**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**

Increases	1,006	11,984	3,704	-	16,694
Write-downs	-	-	(12)	-	(12)
Disposals	-	-	-	-	-
Translation differences	(4)	-	-	-	(4)
Amortization	(1,404)	(8,485)	-	-	(9,889)
Reclassifications	195	350	(536)	-	9
Balance at December 31, 2017	**1,743**	**18,705**	**3,744**	-	**24,192**

The investments in intangible assets amount to Euro 16,694 thousand. In particular, Euro 11,984 thousand was invested in research and innovation activities and Euro 1,006 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 addition to Euro 3,704 thousand investments in progress relating for Euro 3,695 thousand to software projects and Euro 9 thousand external development costs.

Assets in progress at December 31, 2017 include Euro 3,735 thousand relating to investments in software and Euro 9 thousand in development and innovation activities.

In 2017 and 2016, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2017	31/12/2016
Research and Development activities carried out	28,162	31,755
of which:		
- capitalized	12,334	15,647
- recognized to the Income statement	15,828	16,108
Write-down of Development costs	-	8,261
Amortization in the year of development costs	8,485	14,972

The net value of intangible assets concerning Development Costs was Euro 18,705 thousand and Euro 14,856 thousand, respectively at December 31, 2017 and 2016.

Development Costs were capitalised as the company considers these investments recoverable through revenues from the sale of the related products, forecast for 2018 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.

Note 10 - Investments valued at equity

The account investments valued at equity reported the following movements:

	31/12/2017	31/12/2016
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, 2017 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, 2016	**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**
Acquisitions / movements in the year	-	-	(10,011)	(51)	(10,062)
Balance at December 31, 2017	**227**	-	-	**146**	**373**

The equity investments in other companies are all valued at cost.
No changes in investments in other companies are reported. The list is reported at Note 46.

The decrease in Non-current financial assets derives from the closure of the restricted current accounts of the company Italtel S.p.A. The restricted current account held at Banco Popolare of Euro 2,000 thousand related to the agreements with the owner of the building rented at Castelletto and was released on October 23, 2017 following the presentation of a surety issued by Unicredit S.p.A. which guarantees compliance with the contract. The restricted current account held by Banca Intesasanpaolo, amounting to Euro 8,009 thousand at December 31, 2016, guaranteed the loans issued by Banca Intesasanpaolo S.p.A. and Cassa Depositi e Prestiti S.p.A. for the research and development activities on the PA_IMS and SIS projects and was released on October 17, 2017 and replaced by two sureties from Unicredit S.p.A.

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:

	31/12/2017	31/12/2016
Guarantee deposits	646	288
Income tax receivables	5,803	6,165
Tax reimbursements requested	111	111
Other	1,252	1,410
Other non-current receivables doubtful debt provision	(4,725)	(4,725)
Total	**3,087**	**3,249**

Tax Receivables include Euro 4,872 thousand of Tax Receivables for withholding taxes incurred abroad by Italtel S.p.A., 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).

The Others account includes long-term prepayments for the suspension of costs accrued beyond 12 months. The balance principally concerns rental paid in advance in 2016 of Euro 1,000 thousand for the Castelletto offices on the basis of the agreement 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:

	31/12/2017	31/12/2016
Deferred tax assets	63,045	65,643
Deferred tax liabilities	(1,070)	(2,291)
Total	**61,975**	**63,352**

Until December 31, 2016 the Group compensated the deferred tax assets and liabilities, as the legal right to compensation exists. From December 31, 2017 the deferred tax assets and the deferred tax liabilities are recorded separately.

The breakdown of deferred taxes by type was as follows:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Temporary differences originate from:				
- Capital grants and operating grants	-	-	215	1,615
- Doubtful debts provision	624	2,198	-	-
- Inventory obsolescence provision	12,754	12,502	-	-
- Amortization and depreciation	21	24	-	-
- Other provisions for risks and charges	741	526	-	-
- Other	12	172	126	-
- For temporary differences concerning the Columbian branch in accordance with local tax laws	358	539	50	-
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	2,629	3,800	-	-
- 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	405	551	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	679	664
- Discounting of revised post-employment benefit provision [(1)]	934	952	-	-
- Adjustment in measurement of amortization and depreciation of fixed assets	-	-	-	12
- Cash Flow Hedge recorded under other comprehensive income	188	-	-	-
Total	**63,045**	**65,643**	**1,070**	**2,291**

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

At December 31, 2017, the financial statements of Italtel S.p.A. present temporary differences and tax losses of Euro 240,662 thousand (Euro 241,041 thousand at December 31, 2016), with total deferred taxes of Euro 58,941 thousand (Euro 59,001 thousand in 2016), of which Euro 44,379 thousand concerning tax losses and Euro 14,562 thousand concerning other items. The expectations of recoverability of the net deferred tax assets are based on the expected future assessable income which until 2023 derive from the 2017-2023 Industrial Plan approved by the Board of Directors on January 9, 2017, subsequently updated with Board resolution on July 19, 2017.

At December 31, 2017, the company Italtel S.p.A. presents deferred tax assets not recognised to the financial statements, relating to temporary differences and tax losses, of Euro 22,964 thousand (Euro 38,206 thousand at December 31, 2016). The decrease is mainly due to the utilisation of prior year losses following the tax profit reported in 2017.

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 of the Group relate to Brazil for Euro 369 thousand and Germany for Euro 36 thousand. At December 31, 2016 these related to Brazil for Euro 427 thousand, Ecuador for Euro 82 thousand and Germany for Euro 42 thousand.

Note 14 - Inventories

The account inventories and the related movements were as follows:

	31/12/2017	31/12/2016
Contract work-in-progress	11,450	26,100
Contract work-in-progress obsolescence provision	(2,199)	(10,347)
	9,251	15,753
Finished products and goods	78,853	63,234
Finished products and goods obsolescence provision	(47,992)	(38,608)
	30,861	24,626
Total net receivables	**40,112**	**40,379**

The contract work-in-progress represents the costs suspended relating to the provision of goods and services on contracts stipulated with clients.

Note 15 - Contract work-in-progress

The contract wok-in-progress amounts to Euro 20,469 thousand at December 31, 2017.

The breakdown of contract work-in-progress by business area is follows:

	31/12/2017	31/12/2016
Telco & Media	367	
Public sector	5,870	
Open Fiber	14,232	-
Total Contract work-in-progress	**20,469**	-

Contract work-in-progress at December 31, 2017 represents the valuation of the contracts principally with the clients Open Fiber and Istituto Poligrafico dello Stato based on the advancement of the activities.

Note 16 - Trade receivables

The account Trade receivables is composed as follows:

	31/12/2017	31/12/2016
Trade receivables	93,945	135,053
Receivables from associated companies	86	86
Receivables from parent companies	841	-
Cumulative write-down of receivables	(4,353)	(9,843)
Total net receivables	**90,519**	**125,296**

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

	31/12/2017	31/12/2016
Balance at January 1	**9,843**	**9,198**
Changes in the year:		
- Increases	2,225	1,072
- Utilizations	(7,700)	(436)
- Translation differences of foreign currencies	(15)	9
Balance at December 31	**4,353**	**9,843**

The increases in the cumulative write-downs of receivables were recognized to the income statement to the account Other operating costs.
The utilisation of the doubtful debt provision relates for Euro 7,662 thousand to Italtel S.p.A. for losses on receivables generated in the year and which based on their aging profile will be difficult to recover, although recovery actions will continue.

Receivables from parent companies relate to Exprivia S.p.A.

The receivables from the Cisco Group are broken down in Note 42 – Transactions with related parties.

The without recourse factoring operations in place at December 31, 2017 totalled Euro 74.1 million (at December 31, 2016 Euro 72.2 million).

The book value of the trade receivables approximates their Fair Value.

Below the trade receivables in currencies other than the Euro are listed, the functional currency of the Group:

(thousands)

	31/12/2017		31/12/2016
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	20,669	17,235	38,645
UK Sterling	5	6	33
Brazilian Real	37,881	9,535	45,734
Peruvian Nuevo Sol	17,491	4,502	9,954
Polish Zloty	1,561	374	3,239
Colombian Peso	3,069,135	857	3,646,828
Argentinean Peso	14,909	650	18,383

Note 17 - Income tax receivables

The account receivables for current taxes at December 31, 2017 amounted to Euro 2,864 thousand (at December 31, 2016 totalling Euro 3,185 thousand), representing the excess of the taxes paid by some foreign companies.

Note 18 - Other receivables and assets

This account Other receivables and assets is comprised of:

	31/12/2017	31/12/2016
Employee receivables	1,439	1,881
Social security institution receivables	1,188	599
Prepayments and accrued income	1,398	1,450
Short-term tax receivable	5,312	2,518
Receivables from the state for subventions and grants	10,741	9,685
Other various receivables	1,193	1,706
Cumulative write-down of receivables	(46)	(477)
Total	**21,225**	**17,362**

The employee receivables relate principally to advances provided for work transport (Euro 599 thousand) and employee advances for the Solidarity Contract in December and for adjustment in January 2018 (Euro 493 thousand).

Receivables from social security institutions mainly relate to receivables of Italtel S.p.A. from INPS for amounts advanced by the company for salary supplementary payments in accordance with the solidarity contract for the period January 1, 2017 - December 31, 2017. In 2017 these receivables increased Euro 306 thousand following the delay in the authorisation of the reconciliation statements by INPS Palermo, which occurred on December 18, 2017.

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

Current tax receivables mainly relate to VAT receivables at December 31, 2017.

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

Other receivables total Euro 1,193 thousand and decreased Euro 513 thousand on December 31, 2016. The decrease principally concerns the closure of old receivables considered not recoverable and entirely written down in previous years.

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

Note 19 - Short-term financial assets

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

	31/12/2017	31/12/2016
Other financial receivables	7	2,655
Short-term financial prepayments and accrued income	66	125
Monetary funds / Securities	875	274
Assets for hedging contracts	-	1,344
Total	**948**	**4,398**

Other financial receivables at December 31, 2016 included the receivable from a factoring company against the transfer of trade receivables at year-end and collected on January 2, 2017.

The Euro 875 thousand of Monetary Funds at December 31 concerns investments in funds comprising Argentinian government securities liquefiable and due in the very short-term.

The derivative hedging assets, which at December 31, 2016 totalled Euro 1,344 thousand, are based on the valuation of exchange rate hedging contracts. The valuation at December 31, 2017 resulted in the recognition of a payable of Euro 3,209 thousand.

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

Note 20 - Cash and cash equivalents and restricted current accounts

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

	31/12/2017	31/12/2016
Cash at banks, financial institutions and post offices	22,353	18,641
Cheques	839	7,254
Cash	23	103
Total cash and cash equivalents	**23,215**	**25,998**

The checks are principally held by the company Italtel Argentina S.A., for Euro 839 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 21 – Share capital

At December 31, 2017 the share capital of Italtel S.p.A. amounts to Euro 20,000,001 divided into 31,000,000 ordinary shares without nominal value and 16,000,000 preferred shares without nominal value. At December 31, 2016 the share capital amounted to Euro 2,000,000 (2,000,000 ordinary shares of a value of Euro 1.00 each).

Within the extraordinary debt restructuring transaction and recapitalisation a new Extraordinary Shareholders' Meeting of Italtel S.p.A. was held on November 27, 2017, which *inter alia:*

- approved the balance sheet at September 30, 2017;
- subject to the subscription of Class C EFIs and the share capital increase referred to below, resolved to cover the accumulated losses at December 31, 2016, equivalent to Euro 157,968,733.72 and the further loss for the period January 1 - September 30, 2017, equivalent to Euro 13,947,222.00; and therefore a total amount of Euro 171,915,955.72,
  - wrote down the share capital of Euro 2,000,000.00;
  - utilising completely the Equity Financial Instruments Reserve of Euro 98,728,489.00;
  - utilising the New EFI Reserve for a total amount of Euro 57,431,976.78, and residually therefore a value of Euro 9,371,283.22;
  - Utilising the preferred share premium reserve for a total value of Euro 13,755,489.94;
- Approved the increase of ordinary share capital for a total of Euro 31,000,000 (of which Euro 20,000,000 as nominal share capital and Euro 11,000,000 as share premium) to be offered in subscription to Exprivia S.p.A. for Euro 25,000,000 (of which Euro 16,200,000 as nominal share capital and Euro 8,800,000 as share premium) and to Cisco Systems (Italy) S.r.l. for Euro 6,000,000 (of which Euro 3,800,000 as nominal share capital and Euro 2,200,000 as share premium);
- Approved a further increase in share capital for a total of Euro 16,000,000 (of which Euro 1.00 as nominal share capital and Euro 15,999,999 as share premium) to be offered in subscription to Cisco Systems (Italy) S.r.l.;
- Approved the issue of 66,803,260 Class C EFI's for a value of Euro 66,803,260.00;
- With effect from the full subscription of the Class C EFIs, passed a resolution on (a) the adoption of a new By-Laws, (b) the amendment of Class A and B EFI rules, and (c) the adoption of rules for the new Class C EFIs.

On December 14, 2017, following the finalisation of the approval decree, the closing of the transaction took place during which the resolutions passed by the Extraordinary Shareholders' Meeting on November 27, 2017 were executed, particularly:

a) Exprivia S.p.A. subscribed to 25,000,000 Class A ordinary shares without nominal value (of which Euro 2,000,000 through the conversion of undisputed receivables from Italtel S.p.A.)
b) Cisco Systems (Italy) S.r.l. subscribed to 6,000,000 Class B ordinary shares without nominal value (entirely through the conversion of Euro 6,000,000 undisputed receivables from Italtel S.p.A.)
c) Cisco Systems (Italy) S.r.l. subscribed to 16,000,000 special shares without nominal value (entirely through the conversion of Euro 16,000,000 undisputed receivables from Italtel S.p.A.)
d) The lending banks (UniCredit S.p.A., Banco BPM S.p.A., Banca Popolare di Milano S.p.A., Banca IFIS S.p.A. and UBI Banca S.p.A.) subscribed to a total of 66,803,260 Class C EFIs without nominal value (through the partial conversion of Euro 66,803,260 financial receivables from Italtel S.p.A.)
e) The Loan Contracts were signed;
f) Guarantee documents in favour of the lending banks were signed (a pledge on newly issued shares, mortgage and privilege) and guarantees previously offered by Italtel Group S.p.A. and by its shareholders released.

The share capital of Italtel S.p.A. therefore amounts to Euro 20,000,001.00, while the Class C EFIs were subscribed as follows:

Lending Bank	Number Equity Financial Instruments Class C	Percentage
UniCredit S.p.A.	42,782,579	64.0
Banca Popolare di Milano S.p.A.	13,284,283	19.9
Banca IFIS S.p.A.	7,730,401	11.6
Unione di Banche Italiane S.p.A.	2,003,998	3.0
Banco BPM S.p.A.	1,001,999	1.5
Total	**66,803,260**	**100.00**

On the conclusion of Italtel S.p.A.'s recapitalisation as described above, Italtel Group S.p.A. fully exited the share capital of Italtel S.p.A. as envisaged by the Restructuring Agreement.
The new company shareholders are, therefore, Exprivia S.p.A. with 81% of the share capital, and Cisco Systems (Italy) S.r.l. with 19%.

At December 31, 2017, all shares issued had been subscribed and paid-in.

At December 31, 2017 the Company did not hold treasury shares.

For further details on the extraordinary transaction described above, reference should be made to the chapter "Significant events relating to the company Italtel S.p.A. and consideration of the Directors on the going concern", in the Directors' Report.

Note 22 Reserves

The account Reserves is composed as follows:

	31/12/2017	31/12/2016
Equity financial instruments Contribution Reserve	-	98,728
Share Premium Reserve	13,245	
New Equity Financial Instruments Reserve	9,371	
Total	**22,616**	**98,728**

The changes in the Reserves are described above in Note 20 Share Capital.

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

The breakdown of the account is as follows:

	31/12/2017	31/12/2016
Prior year losses carried forward	2,985	(57,049)
Employee benefits remeasurement reserve IAS 19	(2,959)	(3,014)
Cash Flow Hedge reserve recognised in other comprehensive income	(595)	-
Translation reserve	(9,918)	(6,891)
Reserve for coverage of Italtel S.p.A. losses January 1 - September 30, 2017	13,947	-
Loss for the year	(10,458)	(97,934)
Total	**(6,998)**	**(164,888)**

The coverage of the prior year losses, within the extraordinary restructuring and recapitalisation transaction of the parent company Italtel S.p.A. are described above in Note 20 Share Capital.

Other reserves include Euro (2,959) generated from the employee benefits remeasurement in application of IAS 19 revised which provides, from January 1, 2013, for the elimination of the corridor method and the immediate recognition of the actuarial gains and losses in the comprehensive income statement. At December 31, 2017 actuarial gains were recorded in the comprehensive income statement totalling Euro 55 thousand, net of the tax effect. At December 31, 2016 actuarial losses were recorded for Euro 721 thousand.

The movements in the Employee benefits remeasurement reserve IAS 19 were as follows:

	2017	2016
Balance at January 1	**(3,014)**	**(2,292)**
Post-employment benefits actuarial gains(losses)	55	(722)
Balance at December 31	**(2,959)**	**(3,014)**

The Cash Flow Hedge Reserve relates to derivative contracts to hedge the exchange risk on the OPM sales contract signed with the client TIM. In accordance with IAS 39 these hedging transactions, relating to future cash flows of an asset or liability recorded in the financial statements, are recorded in accordance with the Cash Flow Hedge method. This accounting treatment provides that: 1) the future cash flows subject of the hedge are not recorded; 2) the derivative (hedge instrument) is recorded in the financial statements at fair value; 3) the changes in the fair value of the derivative which are effective to hedge the risk of change in future cash flows are recorded in an Equity reserve while the ineffective part is immediately recorded through profit or loss. The Reserve must be reversed through profit or loss when the cash flows relating to the instrument hedged are realised and will be recognised in the results. In relation to these hedging transactions at December 31, 2017, Italtel S.p.A recognised exchange losses in the income statement of Euro 2,426 thousand and a negative Equity reserve of Euro 783 thousand, before the tax effect of Euro 188 thousand.

The movements in the Cash Flow Hedge Reserve are as follows:

	2017	2016
Balance at January 1	-	-
Gains/(losses) on the effective portion of the Cash Flow Hedge:	(783)	-
Tax effect	188	-
Balance at December 31	**(595)**	-

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:

	2017	2016
Balance at January 1	**(6,891)**	**(6,713)**
Conversion of opening net equity and consolidation adjustments	(2,985)	(189)
Conversion of Profit/(loss)	(42)	11
Balance at December 31	**(9,918)**	**(6,891)**

The loss recorded in the year in the translation of the opening net equity balances is principally attributable to the operating companies in Argentina for Euro 2,171 thousand, in Brazil for Euro 563 thousand and in Peru for Euro 223 thousand.

Note 24 Employee benefit provisions

The employee benefits provisions are broken down as follows:

	31/12/2017	31/12/2016
Post-employment benefits	18,868	19,680
Indemnity for the advanced settlement of contract	450	550
Deferred employee benefits provisions for foreign companies	3	130
Total	**19,321**	**20,360**

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:

	31/12/2017	31/12/2016
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	1.5% annual	1.5% annual
Discount rate	1.30% annual	1.31% annual
Salary increases	-	-
Annual increase in post-employment benefit	2.63% annual	2.63% 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:

	31/12/2017	31/12/2016
Balance at January 1	**19,810**	**18,862**
IFRS adjustment – actuarial losses/(profits) Italtel S.p.A.	(72)	950
Increase in the year Italtel S.p.A.	250	377
Increase in the year - foreign companies	3	82
Utilizations in the year Italtel S.p.A.	(990)	(461)
Utilizations in the year - foreign companies	(130)	-
Balance at December 31	**18,871**	**19,810**

The actuarial gain calculated for 2017 is Euro 72 thousand, while in the previous year actuarial losses of Euro 950 thousand were reported.

The increase in the year is essentially due to "Interest costs" for Euro 250 thousand in 2017 (Euro 377 thousand in 2016).
From the financial statements for the year ended December 31, 2017 Interest costs are classified under financial charges, while in the previous year these were classified under personnel costs.

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

	31/12/2017	31/12/2016
Balance at January 1	**550**	**561**
Provisions in the year	-	-
Utilizations in the year	(100)	(11)
Balance at December 31	**450**	**550**

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, 2016	**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**
Changes in the year:			
- Increases	25	1,118	1,143
- Utilizations/Releases	-	(1,680)	(1,680)
- Utilisations personnel restructuring costs	-	(5,836)	(5,836)
- Translation differences	(7)	(39)	(46)
December 31, 2017	**90**	**14,159**	**14,249**

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 14,159 thousand at December 31, 2017 (Euro 20,596 thousand at December 31, 2016) concerns risks related to disputes in progress for Euro 770 thousand, future losses on work in progress for Euro 1,110 thousand and tax risks relating to foreign companies for Euro 910 thousand. The account includes in addition Euro 400 thousand concerning risks of various types concerning previous years and the clients' supplementary indemnity provision for Euro 5 thousand.

In 2016, Euro 16,800 thousand was in addition provisioned for personnel as part of the restructuring under the 2017-2023 Industrial Plan. In 2017 utilisations were Euro 5,836 thousand and the provision amounted to Euro 10,964 thousand at December 31, 2017.

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:

	31/12/2017			31/12/2016		
	Short-term	**Medium/long-term**	**Total**	**Short-term**	**Medium/long-term**	**Total**
Secured bank loans	-	132,005	132,005	126,750	-	126,750
Unsecured loans	359	2,781	3,140	179	2,862	3,041
Unsecured loans at subsidized rates	7,378	12,409	19,787	8,491	17,283	25,774
Loans from other lenders	-	-	-	-	-	-
Liabilities for finance leases	103	71	174	107	155	262
Medium/long term loans	**7,840**	**147,266**	**155,106**	**135,527**	**20,300**	**155,827**
Short-term bank loans	29,961	-	29,961	98,722	-	98,722
Total payables to financial institutions	**37,801**	**147,266**	**185,067**	**234,249**	**20,300**	**254,549**
Other payables	4,111	-	4,111	618	-	618
Accrued liabilities and deferred income	264	-	264	112	-	112
Total	**42,176**	**147,266**	**189,442**	**234,979**	**20,300**	**255,279**

Following the formal approval of the New Debt Restructuring Agreement, as reported in Note 2 in the paragraph "Considerations of directors on going concern", on December 14, 2017 the company Italtel S.p.A. signed the Loan Contracts resulting in changes in the maturity dates and loan conditions. In addition, the lending banks signed equity financial instruments through the partial conversion of financial receivables with Italtel S.p.A.
The above Agreement amended the parameters and the terms and conditions which are considered in the calculation of the financial restrictions.

For greater clarity, the movements in the short-term and medium/long-term loans at December 31 2017 are outlined below:

	Balance at 31.12.2016	Granted	Repayments	Convert. EFI	Rescheduling Payable	Reclass.	Balance at 31.12.2017
Secured loans							
- Short-term portion	126,750	-	(2,787)	(36,836)	(87,127)	-	-
- Long term portion	-	3,496	-	-	128,509	-	132,005
Total	*126,750*	*3,496*	*(2,787)*	*(36,836)*	*41,382*	-	*132,005*
Unsecured loans							
- Short-term portion	179	-	(179)	-	-	359	359
- Long term portion	2,862	278	-	-	-	(359)	2,781
Total	*3,041*	*278*	*(179)*	-	-	-	*3,140*
Unsecured loans at subsidised rates							
- Short-term portion	8,491	-	(8,491)	-	-	7,378	7,378
- Long term portion	17,283	2,504	-	-	-	(7,378)	12,409
Total	*25,774*	*2,504*	*(8,491)*	-	-	-	*19,787*
Liabilities for finance leases							
- Short-term portion	107	-	(88)	-	-	84	103
- Long term portion	155	-	-	-	-	(84)	71
Total	*262*	-	*(88)*	-	-	-	*174*
Non-current bank loans and borrowings	**155,827**	**6,278**	**(11,545)**	**(36,836)**	**41,382**	-	**155,106**
Short-term bank loans	98,722	29,961	(27,373)	(29,967)	(41,382)	-	29,961
Total payables to financial institutions	**254,549**	**36,239**	**(38,918)**	**(66,803)**	-	-	**185,067**
Other short-term payables	618	4,110	(618)	-	-	-	4,111
Current accrued expenses and deferred income	112	272	(120)	-	-	-	264
Total	**255,279**	**40,621**	**(39,656)**	**(66,803)**	-	-	**189,442**

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

	31/12/2017	31/12/2016
- within one year	7,840	135,527
- between one and two years	11,188	6,977
- between two and three years	17,578	6,630
- between three and four years	-	6,679
- between four and five years	-	14
- over five years	118,500	-
Total	**155,106**	**155,827**

At December 31, 2017, the medium/long term loans, including the short-term portion, were as follows:

	Variable rate	Fixed rate	31/12/2017
- within one year	-	7,840	7,840
- between one and two years	5,000	6,188	11,188
- between two and three years	10,000	7,578	17,578
- between three and four years	-	-	-
- between four and five years	-	-	-
- over five years	110,889	7,611	118,500
Total	**125,889**	**30,217**	**155.106**

The original contractual maturities of these loans are outlined below.

The loans with secured guarantees, totalling Euro 132,005 thousand and with interest rate of 2.5% + Euribor 12M (floor zero) are broken down as follows:

- Euro 36,353 thousand for the Restructuring line, fully utilized, granted by a bank syndicate led by UniCredit S.p.A. (hereafter the “Lending Banks”), following the refinancing operation agreed on December 14, 2017.

  The Restructuring line will be repaid as follows:
  a. Euro 2,110 thousand at 31/12/2019;
  b. Euro 4,220 thousand at 31/12/2020;
  c. Euro 3,377 thousand at 31/12/2023;
  d. Euro 26,645 thousand at 31/12/2024.

- Euro 6,700 thousand for the TERM - E line, fully utilized, granted by a bank syndicate led by UniCredit S.p.A. (hereafter the “Lending Banks”), following the refinancing operation agreed on December 14, 2017.

  The Term - E line will be repaid as follows:
  - Euro 390 thousand at 31/12/2019;
  - Euro 780 thousand at 31/12/2020;
  - Euro 622 thousand at 31/12/2023;
  - Euro 4,908 thousand at 31/12/2024.

- Euro 88,952 thousand for the TERM - D/E line, fully utilized, granted by a bank syndicate led by UniCredit S.p.A. (hereafter the “Lending Banks”), following the refinancing operation agreed on December 14, 2017.

  The Term - D/E line will be repaid as follows:
  a. Euro 2,500 thousand at 31/12/2019;
  b. Euro 5,000 thousand at 31/12/2020;
  c. Euro 81,452 thousand at 31/12/2024.

The above-stated loans with secured guarantees include Euro 3,496 thousand for interest due to the Lending Banks and capitalized on the medium/long-term credit lines, as established by the Restructuring Agreement of 2017.

The medium/long-term loans reduced for the repayment of Euro 2,787 thousand relating to the settlement of the debt with ABC International Bank paid for an amount of 15% of the capital value in accordance with the Framework Agreement and the New Restructuring Agreement. Following the write-down of the debt prior year financial income was recognised amounting to Euro 2,396 thousand.

The lending banks also signed equity financial instruments totalling Euro 66,803 thousand of which Euro 36,836 thousand through the conversion of medium/long-term loans and Euro 29,967 thousand through the conversion of short-term bank loans.

Within the New Restructuring Agreement short-term bank loans were rescheduled for Euro 41,382 thousand resulting in a reclassification of a similar amount under medium/long-term loans.

The unsecured loans at standard rates for Euro 3,140 thousand comprise:

- Euro 359 thousand issued by Banca Intesa Sanpaolo S.p.A. for a total Euro 1,578 thousand for research activities concerning the "Asic" project, of which Euro 1,219 thousand at subsidized rates;
- Euro 2,781 thousand issued by the Intesa Sanpaolo Group for a total of Euro 18,870 thousand for research activities on the PAIMS and SIS projects, of which Euro 16,088 thousand at subsidized rates.

The unsecured loans at subsidized rates of Euro 19,787 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 5,987 thousand due to payments in accordance with the repayment plans (Euro 8,491 thousand short-term at December 31, 2016) in addition to new drawdowns in October 2017 amounting to Euro 2,504 thousand.

The account Short-term bank loans, totalling Euro 29,962 thousand at December 31, 2017 (Euro 98,722 thousand at December 31 2016), includes the use of the short-term Revolving credit lines and the new Revolving Credit A line (Hot Money). The reduction of Euro 68,760 thousand is mainly due to the underwriting of new EFIs by the Lending banks for Euro 29,967 thousand, through the partial conversion of the financial receivables with Italtel S.p.A., a further Euro 41,382 thousand for the rescheduling of financial payables beyond 12 months, repayments of Euro 27,373 thousand and offset by new loan drawdowns of Euro 29,962 thousand.

Other financial payables increased Euro 3,493 thousand from Euro 618 thousand at December 31, 2016 to Euro 4,111 thousand at December 31, 2017. This increase is mainly due to the recognition of the liability arising from the fair value measurement of the currency hedging contracts for Euro 3,209 thousand (in the previous year an asset was recorded of Euro 1,344 thousand).

The covenants to be complied with as per the loan contracts in force are as per the dates below:

- At June 30, 2018, the covenant parametres concern:
  - Leverage Ratio: ratio between Net Financial Position and EBITDA;
  - Interest Cover Ratio: ratio between EBITDA and Net Financial Charges.
- At December 31, 2018, the covenant parametres 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.

Liquidity

Net liquidity at December 31, 2017 and 2016 was broken down as follows:

	31/12/2017	31/12/2016
Cash and cash equivalents	862	7,357
On demand bank current accounts	22,353	18,641
Restricted current accounts	-	-
Total	**23,215**	**25,998**

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

	31/12/2017	31/12/2016
Cash generated/(absorbed) by operating activities	(44,236)	(23,751)
Cash generated/(absorbed) by investing activities	(15,523)	(14,949)
Cash generated/(absorbed) by financing activities	60,372	3,239
Other equity changes	(3,396)	(207)
Changes in the year	**(2,783)**	**(35,668)**

In 2017 the Group absorbed liquidity of Euro 2,783 thousand compared to liquidity absorbed in the previous year of Euro 35,668 thousand, as follows:

Cash generated by operating activities

The cash flow absorbed by operating activities totalled Euro 44,236 thousand.
Cash flow absorbed from operating activities before working capital changes of Euro 6,201 thousand is accompanied by the change in net working capital, with the absorption of cash of Euro 38,035 thousand also due to the conversion into equity of the payables to the supplier Cisco for Euro 22,000 thousand and to Exprivia S.p.A. for Euro 2,000 thousand.

Cash absorbed by investing activities

In 2017, investing activities absorbed cash of Euro 15,523 thousand, principally due to investment in property, plant and equipment for Euro 2,356 thousand and in intangible assets for Euro 16,694 thousand.

Cash generated by financing activities

Financing activities in 2017 generated liquidity of Euro 60,372 thousand.
During the year, the net balance of short-term loan issues was Euro 2,589 thousand, with the repayment also of medium/long-term loans for Euro 9,088 thousand, while new medium/long-term loans were issued for Euro 6,278 thousand; the recapitalisation transaction resulted in liquidity injected between capital and preferred shares of Euro 47,000 thousand. In addition, the release of the restricted current accounts contributed Euro 8,009 thousand and other positive changes contributed Euro 5,584 thousand.

Condensed Balance Sheet

The condensed balance sheet at December 31, 2017 and 2016 is reported below.

(Euro thousands)

	31/12/2017	31/12/2016	Changes
Non-current assets and liabilities:			
+ Goodwill	122,215	122,215	-
+ Property, plant and machinery and other intangible assets	37,067	30,947	6,120
+ Other assets	3,508	5,672	(2,164)
+ Deferred tax assets	61,975	63,352	(1,377)
- Employee provisions	(19,321)	(20,360)	1,039
- Provision for contingencies and charges	(14,249)	(20,668)	6,419
- Other liabilities	(225)	(486)	261
Non-current assets and liabilities	**190,970**	**180,672**	**10,298**
Working capital:			
+ Inventories	40,112	40,379	(267)
+ Trade receivables	110,988	125,296	(14,308)
+ Other receivables	24,089	20,547	3,542
+ Assets held-for-sale	215	12	203
- Trade payables	(124,392)	(163,262)	38,870
- Other payables	(40,842)	(50,741)	9,899
- Liabilities related to assets held-for-sale	(389)	(386)	(3)
Working capital	**9,781**	**(28,155)**	**37,936**
Total net capital employed	**200,751**	**152,517**	**48,234**
Net financial debt	**165,133**	**216,677**	**(51,544)**
of which cash	(23,215)	(25,998)	2,783
Consolidated shareholders' equity	**35,618**	**(64,160)**	**99,778**
Share capital	20,000	2,000	18,000
Other reserves including the net result	15,618	(66,160)	81,778
Total Debt and Net Equity	**200,751**	**152,517**	**48,234**

Financial Highlights

The net debt was as follows:

(Euro thousands)

	31/12/2017	31/12/2016	Changes
Short-term bank loans	37,872	234,249	(196,377)
Medium/long-term loans (bank and subsidized)	147,195	20,300	126,895
Other financial payables	4,111	618	3,493
Accrued liabilities and deferred income	264	112	152
Gross debt	**189,442**	**255,279**	**(65,837)**
Cash in hand and similar	(862)	(7,357)	6,495
On demand bank current accounts	(22,353)	(18,641)	(3,712)
Restricted current accounts	-	(8,009)	8,009
Short-term financial receivables	(7)	(3,999)	3,992
Prepayments and accrued income	(212)	(322)	110
Other working capital securities	(875)	(274)	(601)
Net debt	**165,133**	**216,677**	**(51,544)**

The net debt at December 31, 2017 totalled Euro 165,133 thousand and decreased Euro 51,544 thousand compared to Euro 216,677 thousand at December 31, 2016, due to the reduction in the gross debt of Euro 65,837 thousand, offset by the release of the restricted current accounts for Euro 8,009 thousand and the decrease in liquidity and other financial receivables.

The short-term bank loans reduced Euro 196,377 thousand mainly due to the repayment of the subsidised loans of Euro 8,670 thousand offset by the reclassification from long-term to short-term of the portion which will be repaid in 2018 of Euro 7,737 thousand, the reclassification to medium/long-term financial liabilities of the loans renegotiated with the lending banks totalling Euro 132,005 thousand, in addition to the conversion by the Lending banks of part of their receivables into new Equity Financial Instruments for Euro 66,803 thousand, and the settlement of the payable to ABC International Bank for Euro 2,786 thousand.
The medium/long-term loans of Euro 132,005 thousand include Euro 3,496 thousand in terms of interest matured in the year and capitalised on medium/long-term credit lines as per the Restructuring Agreement and classified under other short-term payables in the previous year.

Medium/long-term loans increased Euro 126,895 thousand from the reclassifications cited in the previous paragraph for Euro 132,005 thousand and new subsidised and bank loans for Euro 2,781 thousand offset by the reclassification from long to short-term of the portion of the loans due within 12 months for Euro 7,820 thousand.

Other financial payables increased Euro 3,493 thousand, while accrued liabilities and deferred income increased Euro 152 thousand.

The decrease in medium/long term assets derives from the release of the restricted current account held by Banca Intesasanpaolo, amounting to Euro 8,009 thousand at December 31, 2016, as guarantee of the loans issued by Banca Intesasanpaolo S.p.A. and Cassa Depositi e Prestiti S.p.A. for the research and development activities on the PA_IMS and SIS projects and was released on October 17, 2017 and replaced by two sureties from Unicredit S.p.A.

Financial receivables decreased Euro 3,992 thousand, while prepayments and accrued income decreased Euro 110 thousand. Other current securities increased Euro 601 thousand.

Note 27 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2017	31/12/2016
Medium/long term accrued liabilities and deferred income	113	239
Deposits	112	112
Other Italtel S.p.A. payables	-	135
Total	**225**	**486**

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".

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

Note 28 - Trade payables

The account is composed as follows:

	31/12/2017	31/12/2016
Trade payables	122,056	163,080
Payables to associated companies	185	182
Payables to parent companies	2,151	-
Total	**124,392**	**163,262**

The payables to the Cisco Group are broken down in Note 42 – Transactions with related parties.

The payables to parent companies relate to the payables to Exprivia S.p.A. and are detailed 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)

	31/12/2017		31/12/2016
	Foreign currency	**Euro**	**Foreign currency**
US Dollar	16,787	13,997	71,849
UK Sterling	4	4	177
Argentinean Peso	32,290	1,408	12,364
Brazilian Real	21,431	5,394	13,184
Polish Zloty	361	87	447
Colombian Peso	2,559,819	715	3.018299
Peruvian Nuevo Sol	28,518	7,340	16,327
Swiss Franc	-	-	32

Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 635 thousand and Euro 127 thousand at December 31, 2017 and December 31, 2016 respectively, representing the Income tax payables:

	31/12/2017	31/12/2016
IRES	-	-
IRAP	-	-
Income taxes – foreign countries	635	127
Total	**635**	**127**

Note 30 - Other payables and liabilities

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

	31/12/2017	31/12/2016
Employee payables	18,521	14,180
Social security institutions	3,295	3,739
Accrued liabilities and deferred income	8,817	16,622
VAT	1,313	4,586
Withholding taxes to be paid	2,288	2,592
Other taxes	681	1,688
Customer advances	1,489	3,647
Other liabilities	3,803	3,560
Total	**40,207**	**50,614**

The increase in employee payables is mainly due to the payables for employee leaving incentives at December 31, 2017 and paid in January 2018 and deferred remuneration matured in 2017 which will be paid after the year-end.

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

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 2017 and 2016, broken down by client and region. The account includes revenues from sales of Euro 409,742 thousand and changes in contract work-in-progress of Euro 20,469 thousand.

i) Revenues from sales and services broken down by client

	2017	2016
Telecom Italia Group	145,808	118,017
Other local operators	35,359	40,148
Large enterprises and Public Sector	89,048	79,270
Overseas Operators	159,996	167,976
Total	**430,211**	**405,411**

ii) Revenues from sales and services broken down by region

	2017	2016
Italy	268,521	233,128
Other European countries	45,012	52,565
Central and South America	115,107	118,811
USA	119	603
Africa	1,172	-
Asia	280	304
Total	**430,211**	**405,411**

Revenues from companies of the Exprivia S.p.A. Group are detailed in Note 42 - Transactions with related parties.

Note 32 – Other income

This account Other income is comprised of:

	2017	2016
Grants	3,887	4,900
Gains on disposals	30	2
Other	13,693	11,679
Total	**17,610**	**16,581**

Operating grants for Euro 3,887 thousand concern contributions for costs incurred for research and development activities (Euro 4,900 thousand in 2016).

The account Others concerns prior year income for Euro 3,626 thousand (Euro 1,389 thousand in 2016), Euro 5,159 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 5,361 thousand in 2016) and the release of provisions for Euro 803 thousand (Euro 2,176 thousand in the previous year).

Income from companies of the Exprivia S.p.A. Group are detailed in Note 42 - Transactions with related parties.

Note 33 - Purchase of materials and services

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

	2017	2016
Purchases of materials	232,223	204,259
Purchases of services	118,511	133,797
Total	**350,734**	**338,056**

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

Purchases of services includes non-recurring charges for corporate consultancy and notary fees relating to the extraordinary transactions described in Note 2 totalling Euro 5,179 thousand.

Note 34 - Personnel costs

The account Personnel costs is broken down as follows:

	2017	2016
Wages and salaries	63,212	61,844
Social security charges	17,873	17,193
Post-employment benefits	3,024	3,574
Other non-recurring costs and Restructuring provision accruals	-	17,514
Other	928	936
Total	**85,037**	**101,061**

Personnel costs in the previous year included non-recurring charges totalling Euro 17,200 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.

The average workforce increased from 1,357 in 2016 to 1,399 in 2017.

Note 35 - Amortization, depreciation and write-downs

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

	2017	2016
Development Costs	8,485	14,972
Write-downs Development costs	-	8,261
Other intangible assets	1,404	1,103
Other intangible asset write-downs	-	-
Industrial buildings	483	617
Plant and machinery	591	618
Industrial and commercial equipment	728	825
Other assets	991	872
Other tangible asset write-downs	-	-
Goodwill	-	45,000
Total	**12,682**	**72,268**

Note 36 - Other operating costs

This account Other operating costs is comprised of:

	2017	2016
Other operating expenses	5,362	5,675
Provisions for risks	1,143	477
Write-down of receivables	2,315	1,072
Total	**8,820**	**7,224**

The account miscellaneous operating costs includes prior year charges of Euro 577 thousand (Euro 707 thousand in 2016).

Note 37 - Change in inventories

The following table highlights the principle components of the account:

	2017	2016
Raw material, ancillaries and consumables	-	-
Contract work-in-progress and products in work in progress	(5,328)	4,177
Finished products and goods	6,480	5,525
Total	**1,152**	**9,702**

Note 38 - Increases on internal works capitalized

The account increases on internal works capitalised amounted to Euro 10,453 thousand in 2017 (Euro 13,534 thousand in 2016) and concerns the capitalisations of tangible and intangible fixed assets of the production or acquisition costs, not including financing charges.
In 2017, the account concerned for Euro 10,402 thousand (Euro 12,995 thousand in 2016) 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.

	2017			2016		
	Charges	Income	Net charges/(income)	Charges	Income	Net charges/(income)
Exchange rate differences	14,515	11,918	2,597	19,027	18,685	342
Bank interest	7,258	138	7,120	7,784	330	7,454
Other	3,723	2,464	1,259	5,566	2,667	2,899
Total	**25,496**	**14,520**	**10,976**	**32,377**	**21,682**	**10,695**

Net financial charges total Euro 10,976 thousand, compared to Euro 10,695 thousand in the previous year, increasing Euro 281 thousand.

Net exchange losses of Euro 342 thousand in 2016 compare to losses of Euro 2,597 thousand in 2017, an increase in losses of Euro 2,255 thousand, mainly reflecting the net change deriving from the currency risk hedges which increased from Euro 1,266 thousand at December 31, 2016 to Euro 3,770 thousand at December 31, 2017.

Net interest charges decreased from Euro 7,454 thousand in 2016 to Euro 7,120 thousand in 2017, decreasing therefore Euro 334 thousand.

Other net charges were Euro 2,899 thousand in 2016 compared to other net charges of Euro 1,259 thousand in 2017, improving therefore Euro 1,640 thousand.
Other financial income includes financial income of Euro 2,369 thousand deriving from the transaction with ABC International Bank, one of the Lending banks, which within the debt restructuring transaction settled the debt with an amount equal to 15% of the capital value.

In 2017 and 2016, the Italtel Group recognized net financial charges from transactions undertaken with holders of EFI, as follows:

	2017	2016
Unicredit	5,375	5,725
GE Capital	35	37
Banco di Brescia	46	362
Total	**5,456**	**6,124**

Note 40 - Income taxes

The income tax account in 2017 reports a charge of Euro 1,349 thousand, compared to Euro 13,795 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 295 thousand (Euro 1,367 thousand in 2016), lower taxes relating to previous years for Euro 26 thousand (lower taxes for Euro 21 thousand in 2016), in addition to deferred tax income of Euro 1,080 thousand (charge of Euro 607 thousand in the previous year).

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

	2017	2016
Theoretical taxes [(a)]	(2,118)	(23,121)
IRAP	-	-
Colombia expected taxes	14	-
Withholding taxes foreign currencies	-	1,842
Deferred tax assets write-down	76	10,000
Write-down of non-deductible Italtel S.p.A. goodwill	-	12,375
Difference between the tax rate on foreign entities	(1,129)	355
Non-deductible (exempt) tax components	1,227	1,019
Deferred taxes not recorded on tax losses and temporary differences	3,469	11,539
Positive components not subject to taxation	(130)	(632)
Other changes	(60)	418
Effective tax	**1,349**	**13,795**

(a) Determined applying the theoretical tax rate of 24% to the pre-tax result

Note 41 – Discontinued operations

Discontinued assets and liabilities at December 31, 2017 concern the company Italtel Telecommunication Hellas EPE in liquidation and the company Italtel Arabia Ltd in liquidation, while at December 31, 2016 the account referred only to the company Italtel Arabia Ltd in liquidation.

Based on the resolution of March 31, 2017 and with effect from April 7, 2017, the company Italtel Telecommunication Hellas EPE was placed in liquidation and is recorded in the consolidated financial statements as held for sale. The previous director of the company was appointed liquidator.

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 215 thousand (Euro 12 thousand at December 31, 2016) comprise liquidity of Euro 206 thousand (Euro 12 thousand at December 31, 2016) and other receivables of Euro 9 thousand.

The liabilities of Euro 389 thousand (Euro 386 thousand at December 31, 2016) concern miscellaneous payables for Euro 65 thousand (Euro 62 thousand at December 31, 2016) and for Euro 324 thousand tax payables (Euro 324 thousand at December 31, 2016).

The net loss from discontinued operations in 2017 amounts to Euro 286 thousand and represents the net loss of only Italtel Hellas Epe, while in the previous year amounting to Euro 63 thousand, concerning the company Italtel Arabia Ltd.
The loss concerned the company’s liquidation operations.
The company Italtel Arabia Ltd did not undertake any activities in 2017.

Note 42 - Transactions with related parties

Transactions with the related parties were as follows:

December 31, 2016	Trade receivables	Financial receivables	Trade payables	Financial payables	Other receiv./payables
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)	-
Cisco Systems Group	2,908	-	(66,258)	-	-
Total	**2,994**	-	**(66,258)**	**(618)**	**(182)**

December 31, 2017	Trade receivables	Financial receivables	Trade payables	Financial payables	Other receiv./payables
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(78)
Hermes consortium in liquidation	27	-	-	-	(107)
Other related parties:					
Exprivia Group	841	-	(2,151)	-	-
Italtel Group S.p.A.	-	-	-	-	-
Cisco Systems Group	4,162	-	(46,629)	-	-
Total	**5,089**	-	**(48,780)**	-	**(185)**

In 2016 and 2017, the Italtel Group reports transactions with related parties as follows:

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:				
Exprivia Group	-	-	-	-
Italtel Group S.p.A.	-	-	(7)	1
Cisco Systems Group	25,929	(185,575)	-	5,361
Total	**25,929**	**(185,575)**	**2**	**5,359**

December 31, 2017	**Sales**	**Purchases**	**Financial income /(charges)**	**Other**
Subsidiaries not consolidated:				
Italtel Telesis Consortium in liquidation	-	-	-	-
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(2)
Hermes consortium in liquidation	-	-	-	-
Other related parties:				
Exprivia Group	1,130	(5,423)	-	115
Italtel Group S.p.A.	-	-	(8)	165
Cisco Systems Group	4,793	(218,488)	-	5,159
Total	**5,923**	**(223,911)**	**(8)**	**5,437**

Transactions 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.

As already described, on December 14, 2017 a new majority shareholder - Exprivia S.p.A. - acquired control of Italtel S.p.A., which holds 81% of the ordinary share capital. The remaining 19% of the share capital is held by Cisco Systems (Italy) S.r.l. (indirectly controlled by Cisco Systems Inc.).
Following this transaction and subsequently, Italtel Group S.p.A. no longer holds a stake in Italtel S.p.A. and, consequently, this latter is no longer indirectly related to any of the previous shareholders of Italtel Group S.p.A., among which Telecom Italia Finance SA (company indirectly controlled by TIM S.p.A.).
Therefore, from this date there are no longer any relations between Italtel S.p.A. and the TIM S.p.A. Group, and which are therefore no longer a related party of Italtel S.p.A.

In relation to senior executives, in 2017 and in 2016 emoluments were matured for a total amount respectively of Euro 2,035 thousand and Euro 2,349 thousand. These emoluments were as follows:

	2017	**2016**
Current Emoluments	1,950	2,244
Post-employment benefits	85	105
Total	**2,035**	**2,349**

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.

	31/12/2017	31/12/2016
To be repaid		
- within one year	5,036	4,772
- between one and two years	4,929	4,617
- between two and three years	4,683	4,557
- between three and four years	4,420	4,470
- between four and five years	3,371	3,298
- over five years	5,846	8,431
Total	**28,285**	**30,145**

The Italtel Group has in place commercial guarantees for Euro 22,962 thousand, of which Euro 799 thousand concerning the client Telecom Italia S.p.A., broken down into bank guarantees for Euro 10,812 thousand and insurance guarantees for Euro 12,150 thousand. These guarantees have differing maturities until May 2022.

A further bank surety is in place of Euro 8,000 thousand, issued in favour of the lessor and with maturity of December 31, 2024, guaranteeing rental payments on the Castelletto - Settimo Milanese complex.

Addition financial sureties were granted for Euro 15,100 thousand in guarantee of the research and development loans issued of which Euro 2,000 thousand with maturity of June 30, 2018, Euro 5,100 thousand with maturity of December 31, 2019 and Euro 8,000 thousand with maturity of December 20, 2021.

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 2017 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	282	522
Other services	148	15	163
Total 2017 costs for auditing and other services	**388**	**297**	**685**

Note 45 – Subsequent events

Reference should be made to the Directors' Report for further detail.

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	
Italian subsidiaries						
1)	Italtel S.p.A. (telecommunications systems and services)	Settimo Milanese	Euro	20,000,001	81 19	Exprivia S.p.A. Cisco Systmes (Italy) S.r.l. *With effect from 14.12.2017*
Overseas subsidiaries						
2)	Italtel BV (commercial and finance)	Amsterdam (Netherlands)	Euro	6,000,000	100	Italtel S.p.A.
3)	Italtel S.A. (telecommunication systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel BV
4)	Italtel Argentina S.A. (telecommunication systems)	Buenos Aires (Argentina)	P.A.	4,030,000	71.46 28.54	Italtel BV Italtel S.p.A.
5)	Italtel Brasil Ltda (telecommunication systems)	Sao Paolo (Brazil)	Real Brazilian	6,586,636	85.12 14.88	Italtel S.p.A. Italtel BV
6)	Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	60 40	Italtel S.p.A. Italtel BV
7)	Italtel France Sas (commercial)	Courbevoie (France)	Euro	40,000	100	Italtel S.p.A.
8)	Italtel Telecommunication Hellas EPE (commercial) in liquidation with effect 7/4/2017 (following motion of 31/3/2017)	Athens (Greece)	Euro	729,750	100	Italtel S.p.A.
9)	Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	60 40	Italtel S.p.A. Italtel BV
10)	Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	500,000 (Euro 200,000 paid-in)	60 40	Italtel S.p.A. Italtel BV
11)	Italtel Poland Sp.Zo.O. (commercial)	Warsaw (Poland)	Zloty	400,000	100	Italtel S.p.A.
12)	Italtel Arabia Ltd (commercial) in liquidation	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV
13)	Italtel Perù S.a.c. (commercial)	Lima (Peru)	Nuevo Sol	3,028,000	90 10	Italtel BV Italtel S.p.A.
14)	Ausoitaltel S.A. (commercial)	Quito (Ecuador)	USD	500,000	1 99	Italtel BV Italtel S.p.A.
15)	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							
16)	Cored - Consorzio Reti 2000 in liquidation	Milan	Euro	260,000	30	Italtel S.p.A.	76

	(broadband networks)						
17)	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						
18)	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.	-

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						
19)	Cefriel - S.c.r.l. (training and research)	Milan	Euro	1,115,596	5.1809	Italtel S.p.A.	36
20)	Consorzio Milano Ricerche (Milan Research Consortium) (design and research)	Milan	Euro	172,456	8.3	Italtel S.p.A.	15
21)	Consel - Consorzio Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A.	1
22)	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
23)	Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	7,626,733	0.04	Italtel S.p.A.	2
24)	MIP – Politecnico di Milano S.c.r.l. With effect from 30.1.2018 Share capital Euro 402,000 and percentage 2.98	Milan	Euro	390,000	3.08	Italtel S.p.A.	-
25)	CONAI National Packaging Consortium (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A.	1
26)	COFRIDIP Consortium	Padua	Euro	28,402	9.09	Italtel S.p.A.	3
27)	Technology District, Sicily Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	4.55	Italtel S.p.A.	27
28)	SI-LAB Sicilia S.c.a.r.l	Palermo	Euro	30,000	18.50	Italtel S.p.A.	6
29)	Open Hub Med S.c.a.r.l (*)	Milan	Euro	1,050,000	9.82	Italtel S.p.A.	100

(**) 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	11,627	-	-	5	21
Goodwill	122,215	-	-	-	-
Other intangible assets	24,057	-	-	-	-
Investments valued under the equity method	194	-	-	-	-
Medium/long term financial assets	25,476	10,745	-	-	-
Other assets	1,910	-	-	-	507
Deferred tax assets	58,941	-	-	36	-
Total non-current assets	**244,420**	**10,745**	**-**	**41**	**529**
Current assets					
Inventories	27,350	-	-	-	254
Trade receivables and advances	98,031	-	694	3,139	1,329
Tax receivables	-	-	-	37	2
Other receivables and assets	17,268	-	-	36	111
Short-term financial assets	790	616	-	5,687	903
Cash and cash equivalents	11,269	25	7	611	965
Total current assets	**154,708**	**641**	**701**	**9,510**	**3,564**
AFS non-current assets	-	-	-	-	-
Total assets	**399,128**	**11,386**	**701**	**9,551**	**4,093**
Shareholders' Equity and Liabilities					
Shareholders' Equity					
Share capital	20,000	6,000	500	40	40
Reserves	22,616	3,802	12	2,769	4
Treasury shares	-	-	-	-	-
Other reserves including the net result	(6,997)	1,238	188	(169)	(795)
Total Shareholders' Equity	**35,619**	**11,040**	**700**	**2,640**	**(751)**
Liabilities					
Non-current liabilities					
Employee benefit provisions	19,318	-	-	-	-
Provisions for risks and charges	17,092	18	-	44	80
Medium/long term financial liabilities	147,266	-	-	-	-
Other liabilities	225	-	-	-	-
Total non-current liabilities	**183,901**	**18**	**-**	**44**	**80**
Current liabilities					
Trade payables	99,740	-	-	6,548	2,660
Current tax payables	12	-	-	-	-
Other payables and liabilities	30,597	10	1	319	1,181
Current financial liabilities	49,259	318	-	-	923
Total current liabilities	**179,608**	**328**	**1**	**6,867**	**4,764**
AFS non-current liabilities	-	-	-	-	-
Total liabilities	**363,509**	**346**	**1**	**6,911**	**4,844**
Total shareholders' equity and liabilities	**399,128**	**11,386**	**701**	**9,511**	**4,093**
Income Statement					
Revenues from sales and services	299,534	-	-	8,672	6,173
EBITDA	10,468	(135)	(6)	76	(736)
EBIT	(1,829)	(135)	(6)	74	(745)
Net financial result	(8,434)	676	-	54	(34)
Income before tax	(10,263)	541	(6)	20	(779)
Net income/loss for the year	(10,458)	541	(6)	11	(779)

(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
167	-	-	-	95	779	107	67	7	-
-	-	-	-	-	-	-	-	-	-
83	-	-	-	-	45	-	6	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
45	-	-	21	10	550	35	5	4	-
-	-	-	-	969	802	1,226	-	1	-
295	**-**	**-**	**21**	**1,074**	**2,176**	**1,368**	**78**	**12**	**-**
2,655	-	-	-	757	6,894	1,920	824	-	-
6,465	-	-	397	4,599	9,909	4,502	634	167	-
-	-	-	-	2,178	-	647	-	-	-
76	-	4	-	1,577	1,274	611	351	-	-
8,275	-	-	-	1,083	-	-	-	-	-
1,462	-	-	232	1,417	2,294	4,718	178	37	-
18,933	**-**	**4**	**629**	**11,611**	**20,371**	**12,398**	**1,987**	**204**	**-**
-	**203**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
19,228	**203**	**4**	**650**	**12,685**	**22,547**	**13,766**	**2,065**	**216**	**12**
7,353	730	29	96	176	1,658	779	417	125	831
1,196	6	-	-	5,707	270	1,467	-	-	-
-	-	-	-	-	-	-	-	-	-
838	(607)	(57)	(229)	763	591	373	(1,115)	31	(2,407)
9,387	**129**	**(28)**	**(133)**	**6,646**	**2,519**	**2,619**	**(698)**	**156**	**(1,576)**
-	-	-	-	-	-	-	3	-	-
-	-	-	-	103	47	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**103**	**47**	**-**	**3**	**-**	**-**
4,769	60	4	665	5,146	12,560	7,780	1,987	1	1,202
235	-	-	-	124	-	260	-	4	-
4,837	5	7	118	528	2,121	891	139	-	-
-	6	21	-	138	5,300	2,216	634	55	-
9,841	**71**	**32**	**783**	**5,936**	**19,981**	**11,147**	**2,760**	**60**	**1,202**
-	3	-	-	-	-	-	-	-	**386**
9,841	**74**	**32**	**783**	**6,039**	**20,028**	**11,147**	**2,763**	**60**	**1,588**
19,228	**203**	**4**	**650**	**12,685**	**22,547**	**13,766**	**2,065**	**216**	**12**
24,466	-	-	1,070	42,937	32,642	29,540	2,831	-	-
1,361	-	(11)	(224)	2,306	1,573	733	(628)	36	-
1,299	-	(11)	(224)	2,286	1,327	703	(642)	34	-
(188)	-	-	(1)	(546)	(2,481)	(372)	(58)	(13)	-
1,111	-	(11)	(225)	1,740	(1,154)	331	(700)	21	-
836	(286)	(11)	(225)	934	(1,154)	347	(776)	17	-

Settimo Milanese, March 12, 2018

For the Board of Directors

The Chief Executive Officer

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of Italtel SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Italtel SpA and its subsidiaries (Italtel Group), which comprise the consolidated balance sheet as of 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity, consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Italtel SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the

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European Union and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Italtel SpA and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit 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 Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

Management of Italtel SpA is responsible for preparing a report on operations of the Italtel Group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Italtel Group as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of Italtel Group as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 6 April 2018

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

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