

**ITALTEL GROUP
DIRECTORS' REPORT
CONSOLIDATED FINANCIAL STATEMENTS
ITALTEL SPA
December 31, 2018**



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CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

2018 was the first year in which Exprivia and Italtel jointly operated on the market with complimentary offerings and competences in networks and information technology.

Digital convergence is so crucial because telecommunications once used only for internet access and communication between people are now increasingly being used to connect and gather information from billions of smart objects. The proliferation of data sources, and need for ever more immediate elaboration of such data, is pushing forward a new cloud-based network architecture paradigm, the distributed cloud or "edge computing" model, which sees the generation and elaboration of data distributed widely across the network. Today at their maximum expression, computer science and artificial intelligence are heavily invested in the timely processing of large amounts of smart object generated data in the vicinity of data collection points and in support of the "mission critical" processes essential to many of our economic sectors. In other words, local software analysis of network-generated data is leading the way in new models of business.

The Exprivia Italtel Group, which has extensive expertise in information technology and telecommunications networks, is precisely what this convergent market needs.

The "convergent market" (or digital market) grew a further 2.4% in Italy in 2018 and is expected to grow an additional 2.8% in 2019, while by 3.1% in 2020. However, these latest projections do not account for the continuation of national innovation stimulation plans from here to 2020. Two dynamics are at play, a more sluggish traditional ICT segment and an extremely lively and innovative one, made up of Digital Enablers (+16.5%), with IoT, Cloud, Cyber Security and Mobile Applications. In Italy, Italtel Group's growth beat the market average with a rate of 6% in 2018.

Also in Italy, Government actions to expedite the digital transformation of the country's economy for the benefit of Italian companies and the public sector continued with the execution of the Ultra Broadband (BUL) and Industry 4.0 Strategic Plans. For Telecommunications in particular, the fiber cabling of the country continued, permitting Italy in just a few months to close the Ultra Broadband connectivity gap with our major European partners. Furthermore, the race is taking shape regarding the major technology and marketing challenge of 5G, which is set to launch in 2020 around the world. In Italy alone, competition for 5G frequencies demanded investments amounting to Euro 6.5 billion at the end of 2018. The Ultra-Broadband project is having a particularly significant impact on our business, thanks to our client Open Fiber, which remains crucial in our short to medium term results.

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, the role has expanded of Telecommunications software enabling all network devices to become "virtual", run on "network clouds (or edge computing)" models and requiring very similar orchestration and automation applications to those used in Data Centers, known by the term Software Defined Networks.

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 growth just over 2%, 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 1,180 billion.

The South American ICT market grew by 2.2% for similar reasons, while remaining much smaller than its European counterpart at around USD 460 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. Among the other countries in which we operate, we suffered hyper-inflation in Argentina - with a significantly negative impact on financial results.

Operating results

The Company enjoyed a positive year in 2018 in terms of industrial results, with increases in revenues to approx. Euro 440 million (+2% compared with 2017) and a primary margin of just over Euro 120 million (+7%), with an adjusted EBITDA of Euro 27 million, fully meeting the target set in the Business Plan, for an increase of 35% compared with 2017. Several important elements to emphasize are: 1) The turnaround on the margin percentage which stood at 27.4%, up by 1.2 percentage points on 2017 and indicating a progressive evolution "from hardware to software" which underpins the strategy of the new group Exprivia Italtel, 2) the significant growth in Ebitda despite an "exchange rate effect" in Latin America which, compared to 2017, penalized us overseas for Euro 11 million in revenues and an additional Euro 2 million in margins.

Domestic commercial results

Results continued to be very positive on the Italian domestic market this year, with revenues of Euro 288 million (+6%), while continuing to fall short of our expectations on international markets, with revenues of just over Euro 150 million, down by 5% on 2017. As stated, the currency effect was highly significant in 2018. In the absence of this effect, international market revenues would have slightly grown. Domestic revenues reached 65% of the Group total, confirming the reversal since the end of 2015, when international revenues reached over 40% of total Group volumes. It is our commitment to realign our results as soon as possible to our Business Plan, which aims to balance the Group's domestic and international top lines.

Domestic results feature a number of significant factors: 1) Our main client, TIM, slowed investments significantly, after the acceleration of the first three quarters of 2017, drawing down turnover by 20%; 2) Telecommunications Operators in general also relaxed investments due to further pressure on margins and the need to begin 5G infrastructure development with the purchase of relevant licenses, which competition in Italy saw rise to a value exceeding Euro 6 billion; 3) 2018 saw Open Fiber accelerate the development of Ultra-Broadband, both in large cities and in C and D clusters, involving over 6,500 municipalities, thus implying our involvement in a contract worth over Euro 200 million, comprising a significant share in the development of the Fixed Wireless Access (FWA) network. Consequently, our commitment was significantly increased, with revenues of close to Euro 70 million rising 300% on 2017 and particularly in terms of a strong outlook, although on reducing volumes, for the 2019 and 2020 period.

Regarding TIM, a significant commitment was made to Ultra-Broadband networks, confirmed by the continuous increase in capacity demand on the IP Backbone (i.e. the Optical Packet Metro network - OPM), satisfied in 2018 with the completion of the OPM Project. There are, in any event, certain interesting prospects for the coming years as the evolution towards Edge Cloud, or Edge Computing is set to advance IP technologies from today's approximately 500 POPs to the 4000 expected at full capacity. Furthermore, we expect our participation in TIM's Integrated Decommissioning Project to radically change the architecture of TIM operations centers through the decommissioning of over 6500 and the concentration of operations in the main 4000 so-called Central Office Long Term (COLT) centers. Also of note is the launch of a joint venture with TIM to propose architectures, technologies and services for the transformation of manufacturing and agricultural industries according to the Industry (or Enterprise) 4.0 model, with the network connection of production lines and robots, and the systematic, continuous and secure collection of data useful for improving production processes and time to market. The final result was Euro 114 million, as stated a decrease on 2017 (-20%), although improving on Plan forecasts.

The revenues generated by the other licensed operators (OLOs) segment of the Italian domestic market amounted to Euro 30 million, compared with Euro 35 million in 2017, but with a strong improvement in margin to 39% from 37% in 2017. The contribution from Fastweb came in at Euro 18 million, achieved through further expansion of the IP Backbone, set to be a constant over the coming years, continuation of the development of the Mobile Virtual Operator Project, smart management of IP traffic on the network and the start of our involvement in service platform testing on the nascent 5G infrastructure.

As in 2017, the Ultra-Broadband Development Project for the client Open Fiber, involving C and D clusters of over 6500 small Italian municipalities, took on particular relevance in 2018 in terms of both financial results and technological advancements. As already indicated, revenues rose to over Euro 70 million, making a significant contribution to the gross operating margin. To date, all High-Level Designs have been defined and approximately 1000 executive designs completed, leading to the opening of a similar number of sites across the country. The project has been brought to the attention of all Italian political and economic stakeholders, and is arousing particular interest in Europe, where an expanding role, in the context of European Commission considerations, is being given to Wholesale Only Operators.

The strong progression of our results continued also on the domestic enterprises and public sector market, on which we continue to enjoy sound relationships with many major clients such as Enel, Eni and Terna, in the Energy and Utilities segment, Unicredit, Intesa, Nexi, MPS and Generali in the Banks and Insurance 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 over Euro 72 million, increasing once again (+10%) on the previous year and with the margin performing even stronger (up 25%).

Of particular note is the growth in business in relation to Costa Crociere, with Italtel confirming itself as the go-to company for Cisco technology system integration projects forming the network infrastructure of the company's new ships. There has also been a strengthening of partnerships with Nexi and Leonardo, through the development of Next Generation Data Centers from a Cisco Digital Network Architecture perspective. Finally, among significant projects involving new clients, the Marcegaglia Industry 4.0 automation project is also worth mentioning.

For the Central Public Sector, we indicate the consolidation of market share through direct contracts with major Public Entities (Poste, IPZS, Sogei, Bank of Italy) and with revenues up on 2017. Regarding the local public sector, there have been delays in the contractual development of several significant orders and some uncertainty due to the application of Consip agreements by certain administrations. Strong Healthcare sector results were delivered also, consolidating operations with Hospital Businesses such as Niguarda, the National Tumors Institute, "Ospedale Maggiore Mangiagalli", Azienda Provinciale Sanitaria Trento and with the Humanitas Group.

2018 was the first year of implementation of the Exprivia Synergies project, which was supported by a mapping of the new group offering and the launch of a new group organization model to take full advantage of the complimentary competences and client portfolios of the two companies. In this first year, commercial synergies were consolidated in Italy to the tune of around Euro 3 million.

International commercial results

In EMEA, revenues amounted to Euro 44 million, in line with the previous year although margins rose due to the clear change of business model that is taking place in Spain as a result of the full operations of the NOC project for Telefonica Business Solutions. In Spain, in fact, based on an important contract awarded to provide Network Operations Center and Security Operations Center services, requiring the recruitment of over 100 specialized personnel, is greatly expediting the transition to a model with a stronger service component. The revamping of UK business was also significant due to Virgin Media's selection of Italtel's Intelligent Routing & Policy Server (iRPS) system for its centralized routing technology VoIP services.

2018, as 2017, proved to be a year of crisis for Latin America in terms of political, economic and financial instability, affecting Argentina and Brazil especially, but also various other countries. 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. Argentina's high rate of inflation, at over 40% from the second half of 2017, led to its formal classification as a "Hyper Inflationary Economy". The outlook for 2019 has certainly improved, due to changes in the Brazilian political and economic landscape and the continuing need for the development of ICT infrastructure in all LATAM countries.

Revenues amounted to approx. Euro 110 million, while close to Euro 120 million excluding the currency effect (compared to Euro 115 million in 2017). The margin grew slightly net of the hyper-inflationary effects, while the reported figure reduced to Euro 22 million and therefore contracted on Euro 23 million in 2017. The worst results came from Argentina for the aforementioned reasons, and for losing the historic client Telecom Argentina. The best results came from Peru, where projects performed well for various clients, several of which of significant size.

Product development

On the supply side, much work has been done on the definition, description and identification of *Information Technology and Network* competences in the Group's *Joint Offer*. 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 approx. 60 Offer Lines and approx. 200 Solutions.

For Business Processes – the highest level of applications – solutions were provided relating to the segments Industry 4.0 and *Smart Grids (Energy and Utilities, Aerospace, Healthcare, Smart Cities, Telco & Media & Finance)*. Support Processes include solutions relating to ICT Governance, Supply Chain Management, Human Capital Management, Finance Administration & Control and Business Processes Outsourcing. *Digital Enablers* include the *Cyber Security, Internet of Things, Big Data & Analytics, Digital Channels, Hybrid Cloud Integration & Orchestration* solutions, while finally *Digital Infrastructure* refers to solutions relating to *IT Service Management, Data Center & Virtualization, Collaboration & Communication, IP Ultra Broadband Networks, Control rooms*.

Particularly representative of Italtel product development are the following six proprietary solutions:

- 1) *Intelligent Routing & Policy Server (iRPS)*, dedicated to dynamic VoIP and VideoIP routing, now complete with interfaces for blockchain platform transactions.
- 2) *Intelligent Border Element (NETMATCH)*, dedicated to the edge between corporate networks and public IP networks for signaling and media management.
- 3) *Intelligent Multi-access Edge Computing (iMEC)*, the latest to be developed and dedicated to 5G network edge app management.
- 4) *Intelligent IOT Platform*, dedicated to sensor and intelligent object management in Telemedicine, Industry 4.0 and Smart City segments, with super HD communication components for contextual communication and data management and collection.
- 5) *Smart Operation Framework (iNEM, iTACA)*, dedicated to analyzing network operating and maintenance data with big data technologies.
- 6) *Smart Data Orchestrator (DECO)*, dedicated to the identification of data misalignment in complex frameworks.

In the Professional Services segment, the Group has pushed the development of the three strong specializations of Network Engineering, Network Infrastructure Design and Network Operations.

Our Network Engineering Centers are focused on large IP networks, corporate communications and collaboration networks and cyber security architectures, and boast over 200 certified and qualified specialists across the world driving the development of large and complex networks currently implicated in the transformation to the "Software Defined" model demanded by Cloud, App and IoT applications.

From 2017 we created the UBB and FWA (Fixed Wireless Access) Network Infrastructure Center, currently dedicated to the needs of Open Fiber, which has reached 120 specialists. This center is set to grow further over the next two years to extend its competences to meet infrastructure design needs in major network and computing infrastructure transformations such as: 1) The decommissioning of telecommunications operations centers; 2) The development of coverage for 5G mobile networks; 3) The distribution of infrastructures for mini data centers demanded by the Edge Computing relevant to latest generation networks.

Finally, regarding operations, we have seen significant growth in the distribution of our Network Operation Centers (NOCs), already operative in Italy, Spain and Brazil, and under construction in Peru. These centers boast over 300 specialists performing, in addition to network supervision, control and configuration, also Security Operation Center (SOC) activities.

Personnel and industrial relations

The considerations summarized in this letter indicate that Italtel has continued on the path of growth begun in 2017, and, at the same time, initiated a considerable business transformation that shifts the supply and positioning focus to more sophisticated solutions and services. In this perspective, personnel numbers must increase to cope with the shift to more human intensive services. Accordingly, the workforce grew by 40 personnel from 2017. This trend is set to continue in coming years with the growth in services - such as application software, services management, networks and engineering - making up the company's business system.

Italtel 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. 2018 was again a very busy year in terms of industrial relations. We managed the 200 redundancies declared in January 2017 through redundancy incentives, retirement plans and retraining for reinsertion in the production cycle, thanks to a growth in demand in projects such as the aforementioned BUL Project. Agreement was then reached with unions for a few months' extension to temporary redundancy schemes beyond June 30, 2018, allowing the full resolution of the redundancies in November 2018 and the conclusion of challenging number of years for the company in this regard.

In December, the company announced the end of second-tier institution schemes, including fixed premiums, "allocated portions" and "third element" contributions in accordance with the 2017-2023 Business Plan. This unpleasant but necessary decision ushered in a certain climate of friction among the parties concerned. However, we hope to improve this situation during the first few months of 2019 by focusing actions on a merit-based system, both individually, through performance appraisals, and collectively, with the restoration of Performance Bonuses linked to company performance.

I am convinced that a healthy dialogue will quickly resume to the advantage of all the Group's human resources.

Financial Highlights

Particular attention and commitment were given by the company to financial and treasury management. The Debt stood at Euro 169 million, against Euro 165 million in 2017, due to a deterioration in certain Latin American countries. The retention of Bank Covenants is, however, assured with a 6.35 ratio between the Net Financial Position and EBITDA, well below the required 7.1 limit.

However, financial charges are higher than 2017 due to the effect of exchange rate losses (particularly, the Argentinian Peso and the Brazilian Real).

Cash flow from operating activities was positive for approx. Euro 10 million. The above financial charges and other reimbursements and investments led to a total negative cash flow of approx. Euro 10 million. Therefore, from initial cash and cash equivalents of Euro 23 million, 2018 ended with cash and cash equivalents of approx. Euro 13 million.

Cash flow continues to be an area for improvement, increasingly impacting on costs and on the management of working capital. An important component of cash flow from operating activities stems from the change in working capital, which includes inventory management, trade receivables and trade payables. We were particularly affected by a further increase in inventories of Euro 17 million, predominantly due to invoicing developments of the BUL project (Open Fiber), combined with an increase in trade receivables for Euro 17 million, offset by the increase in the suppliers' item for Euro 50 million. Overdue trade payables, net of those technically overdue (within 30 days), amount to Euro 18 million.

Actions to mitigate the above problem were identified and already implemented in early 2019. Most significant is the transfer of the VAT receivable which matured at December 31, 2018 and the reimbursement claim, equal to Euro 11.4 million, due to the "split payment" rules, the adoption of the Group VAT regime with the parent company, which shall make it possible to avoid the accumulation of the VAT receivable in 2019 and the re-scheduling of the principal agreements with suppliers to take into account the invoicing timeframes of works in progress.

Conclusions

2018 was the company's first year under the new ownership structure, and, in my opinion, brought to the fore interesting opportunities summarized in this letter, but also certain emerging issues to be tackled over the coming years.

I am convinced that we have strengthened the foundations 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 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.

I would also like to express my heartfelt thanks to Exprivia and Cisco shareholders for the trust and support they have always provided us with.

Stefano Pileri

INTRODUCTION

Italtel is an Information and Communications Technology (ICT) sector multinational that has successfully combined traditional positioning in communications networks and services with the ability to innovate and develop solutions and applications for digital transformation.

Italtel designs and 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. Know-how on cutting-edge technologies and the ability to innovate also derive from a constant commitment to industrial research projects in software, telecommunications and IT sectors at a European, national and regional level.

The company focuses on seven vertical markets in which the impact of digital transformation will be crucial: Telecommunications, Finance, Energy, Industry, Smart Cities, Health and Defense.

The Italtel portfolio includes end-to-end solutions for networks, data centers, the digital transformation of key productivity and enterprise business components, company collaboration and digital security. 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 Group

The Italtel Group has its headquarters and R&D facilities in Italy and international offices in 13 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.

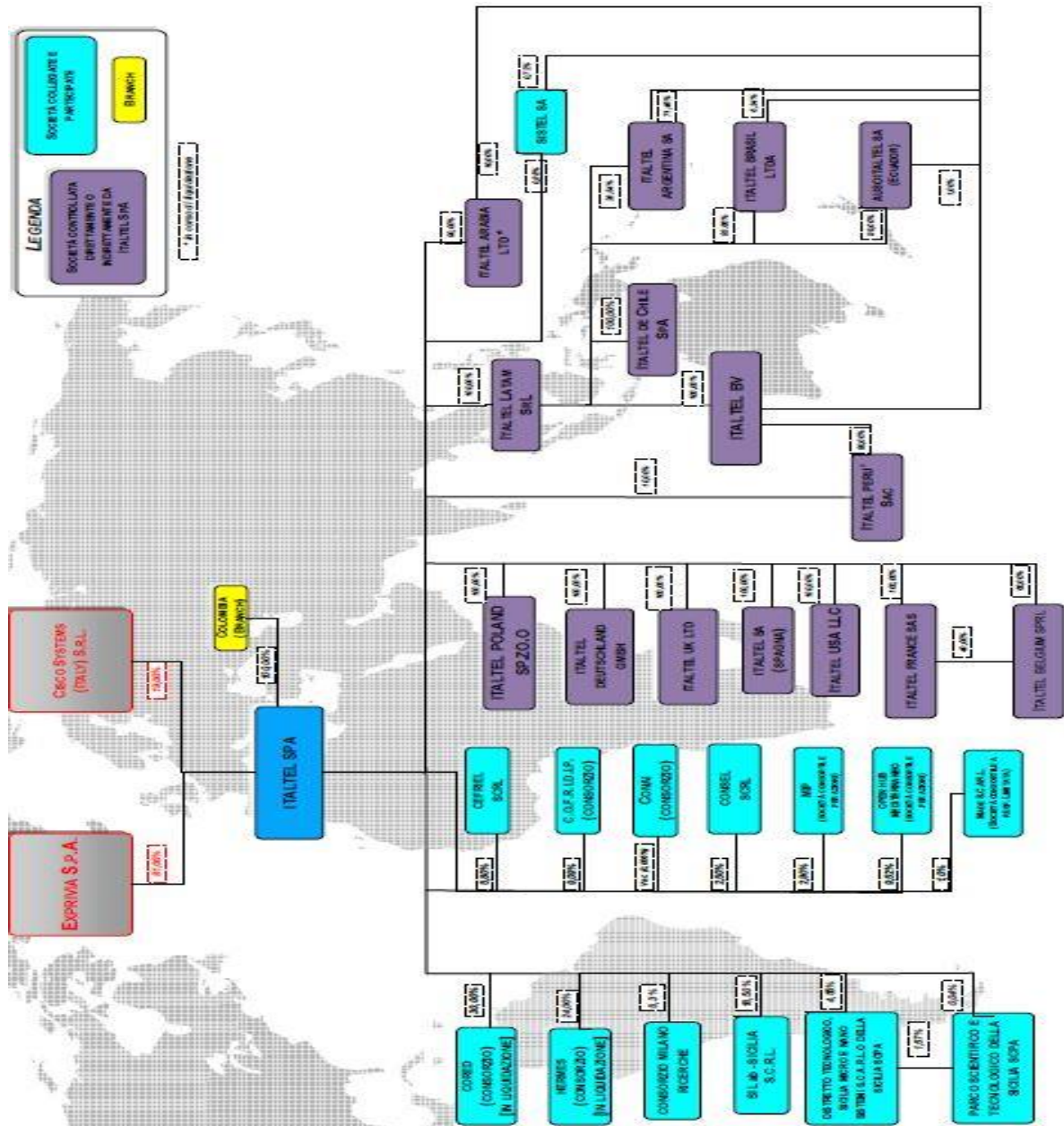
Its client portfolio includes four of the world's largest global service providers (Telefonica, Telecom Italia, Vodafone and Orange), which it serves in multiple countries, most of Italy's fixed-line and mobile communications operators, many of Italy's largest state-owned and private companies and various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

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 almost 20 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. In terms of original products, the offer covers a number of key services, edge and operating level network infrastructure components.

To extend and strengthen its catalogue of solutions, Italtel has established fruitful commercial and technological relationships with a vast network of selected partners and vendors. It has also launched an Open Innovation program to identify start-ups and young companies with which to innovate, develop market-ready technologies and products, and jointly enter vertical markets such as Industry 4.0, Smart Cities, Digital Healthcare and 5G, IoT, Blockchain, and Cyber Security.

Italtel 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, in addition to system integration operations and design for the construction and transformation of complex networks, such as fiber optic ultra-broadband (UBB) infrastructure.

Alongside the Group's leading Italian market positions, a local presence has been established overseas in Europe (Spain, France, Germany, Belgium, UK, Poland), Latin America (Brazil, Argentina, Colombia, Peru, Ecuador) and the USA.



Key Financial Highlights- Consolidated financial statements

(Euro thousands)		
	2018	2017
	IFRS	IFRS
Revenues	438,362	430,211
Value of production	466,145	458,274
Profitability to external costs ⁽¹⁾ %	27.4%	26.2%
Adjusted EBITDA ⁽²⁾	27,443	20,014
<i>Margin %</i>	6.3%	4.6%
EBITDA ⁽³⁾	26,322	14,835
<i>Margin %</i>	6.0%	3.4%
EBIT ⁽⁴⁾	10,636	2,153
<i>Margin %</i>	2.4%	0.5%
Net loss	(4,781)	(10,458)
<i>Margin %</i>	(1.1%)	(2.4%)
	At 31 December 2018	At 31 December 2017
Capex ⁽⁵⁾	13,263	19,050
Net Debt ⁽⁶⁾	169,152	165,133
Equity	29,842	35,618
NCE ⁽⁷⁾	198,994	200,751
Adjusted NCE ⁽⁸⁾	76,779	78,536
Cash flow from operating activities ⁽⁹⁾	10,192	(44,236)
Cash flow from investing activities ⁽⁹⁾	(13,712)	(15,523)
Cash flow from financing activities ⁽⁹⁾	(4,743)	60,372
Number of employees	1,473	1,433
of which Italy	1,061	1,078
of which Overseas	412	355

(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 135

(7) Net Capital Employed (NCE), as described at page 134

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

(9) Cash Flow Statement at page 85

Key Financial Highlights– Italtel S.p.A. separate financial statements

(Euro thousands)

	January 1 - December 31	
	2018	2017
	IFRS	IFRS
Revenues	311,786	299,534
EBITDA ⁽¹⁾	19,623	10,468
<i>Margin %</i>	<i>6.3%</i>	<i>3.5%</i>
EBIT ⁽²⁾	4,401	(1,829)
<i>Margin %</i>	<i>1.4%</i>	<i>(0.6)%</i>
Net Loss	(3,171)	(10,459)
<i>Margin %</i>	<i>(1.0)%</i>	<i>(3.5)%</i>
	December 31	December 31,
	2018	2017
Capex ⁽³⁾	12,540	18,148
Net financial debt	182,691	184,320
Equity	29,842	35,618
NCE	212,533	219,938
Adjusted NCE ⁽⁴⁾	90,318	97,723
Cash flow from operating activities	14,157	(39,710)
Cash flow from investing activities	(14,145)	(17,155)
Cash flow from financing activities	(4,506)	61,107

(2) EBITDA is the operating result before amortization, depreciation and write-downs

(3) EBIT is the operating result

(4) Capex or capital expenditure is the sum of intangible and tangible asset investments

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

Information on Italtel S.p.A. shareholders

The ordinary share capital of Italtel S.p.A. is 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.

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

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 Group significant events and Directors' considerations on the going concern

On May 2, 2018, contractual extensions relating to the Ultra-Broadband network development for the first two "White Area" Infratel tenders were signed with Open Fiber SpA. The first contracts date back to 2016, the year in which Italtel was chosen as the indicated engineer. The total amount of the multi-year activity is of approx. Euro 200 million.

The company Italtel Latam S.r.l. was incorporated on June 5, 2018. As a result of the single contributions from Italtel S.p.A. to Italtel Latam S.r.l., it directly and indirectly holds the entire share capital of the following companies: Italtel Brasil LTDA, Italtel Argentina S.A., Ausoitaltel S.A. (Ecuador) and Italtel B.V., in addition to 90% in Italtel Peru S.A.C.

On June 12, 2018, the company Italtel de Chile S.p.A. was incorporated with a share capital of CLP 1,000,000 entirely held by Italtel S.p.A. The company was registered in the *Rol Unico Tributario* (Chilean Tax Identification Number Registry) on July 6, 2018.

The corporate reorganization operation concerning the Italtel Group equity held in LATAM (the "Latam Reorganization"), referred to hereafter, was completed by the contract expiry date of September 30, 2018, as envisaged by the applicable loan contracts amended at the Closing date. On September 26, 2018, the entire share capital of Italtel Latam S.r.l. was pledged in favor of the Lending Banks.

On December 21, 2018, the company communicated the cancellation of a series of second-level supplementary contracts, some of which dated back to the mid-70s and were therefore excessively onerous and no longer sustainable in the current market and business conditions.

In 2018, the second year of the 2017-2023 Industrial Plan was fully executed as per the new approved Restructuring Agreement pursuant to Article 182-bis of the Bankruptcy Law.

We recall that on December 14, 2017, following the finalization 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 as illustrated below;
- f) Guarantee documents in favor 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.

On the conclusion of the above Italtel S.p.A.'s recapitalization, Italtel Group S.p.A. fully exited the share capital of Italtel S.p.A. as envisaged by the Restructuring Agreement and was subsequently placed into liquidation and removed from the Companies Register on December 21, 2018.

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 already illustrated, the documents regulating the extraordinary transaction are constituted by the Framework Agreement, the New Restructuring Agreement and their associated annexes.

The Framework Agreement was signed by the company and by Italtel Group S.p.A. (subsequently extinguished in 2018), 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.

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 - removed from the Companies Register of Milan on December 21, 2018 due to the completion of the liquidation procedure, 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 authorization 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 95,652,164 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).

Operating results

The year 2018 was a positive year for our company's industrial results, with revenues increasing to Euro 438.4 million compared to Euro 430.2 million in 2017, Ebitda to Euro 26.3 million (equal to 6.0% of revenues) compared to Euro 14.8 in the previous year, and Ebit to Euro 10.6 million (equal to 2.4% of revenues) compared to Euro 2.2 million in 2017. The net loss amounted to Euro 4.8 million, reducing by half when compared to a loss of Euro 10.6 million in 2017.

The net result also includes the effects of the economic instability of Latin American countries and the consequent recognition of exchange rate losses for approx. Euro 5 million.

Furthermore, certain elements worth highlighting are: 1) The turnaround on the margin percentage which stood at 27.4%, up by 1.2 percentage points on 2017 and indicating a progressive evolution "from hardware to software" which underpins the strategy of the new group Exprivia Italtel, 2) the significant growth in Ebitda despite an "exchange rate effect" in Latin America which, compared to 2017, penalized us overseas for Euro 11 million in revenues and an additional Euro 2 million in margins. With reference to the Industrial Plan, the year 2018 showed a decline of approx. 4% in revenues and 12% in Ebitda. This reduction is partly due to the effect deriving from the application of IAS 29 (hyperinflationary economies) to the Italtel Argentina financial statements.

Financial Highlights

Particular attention and commitment were given by the company to financial and treasury management. The Debt stood at Euro 169 million, against Euro 165 million in 2017, due to a deterioration in certain Latin American countries. The retention of Bank Covenants is, however, assured with a 6.35 ratio between the Net Financial Position and EBITDA, well below the required 7.1 limit.

However, financial charges are higher than 2017 due to the effect of exchange rate losses (particularly, the Argentinian Peso and the Brazilian Real).

Cash flow from operating activities was positive for approx. Euro 10 million. The above financial charges and other reimbursements and investments led to a total negative cash flow of approx. Euro 10 million. Therefore, from initial cash and cash equivalents of Euro 23 million, 2018 ended with cash and cash equivalents of approx. Euro 13 million.

Cash flow continues to be an area for improvement, increasingly impacting on costs and on the management of working capital. An important component of cash flow from operating activities stems from the change in working capital, which includes inventory management, trade receivables and trade payables. We were particularly affected by a further increase in inventories of Euro 17 million, predominantly due to invoicing developments of the BUL project (Open Fiber), combined with an increase in trade receivables for Euro 17 million, offset by the increase in the suppliers' item for Euro 50 million. Overdue trade payables, net of those technically overdue (within 30 days), amount to Euro 18 million.

Actions to mitigate the above problem were identified and already implemented in early 2019. Most significant is the transfer of the VAT receivable which matured at December 31, 2018, determined by "split payment" regulations, and the reimbursement claim, equal to Euro 11.4 million, the adoption of the Group VAT regime with the parent company, which shall make it possible to avoid the accumulation of the VAT receivable in 2019 and the re-scheduling of the principal agreements with suppliers to take into account the invoicing timeframes of works in progress.

In view of the above and the actions undertaken, the Directors consider that the objectives set out in the 2017-2023 Industrial Plan are sustainable and that there are currently no elements of uncertainty concerning the Group's status as a going concern.

LATAM Reorganization

In accordance with the company's commitment envisaged in the Restructuring Agreement and in the loan contracts signed between Italtel S.p.A. and the Lending Banks on December 14, 2017, the corporate reorganization operation concerning the Italtel Group equity held in LATAM was completed (the "Latam Reorganization").

On the commencement of the above-mentioned Latam Reorganization operation - which was preparatory to establishing the LATAM pledge in favor of the Lending Banks on the new company's entire share capital (and a direct pledge on the shares held by Italtel S.p.a. in Italtel Peru SAC) - as envisaged in the loan contracts, Italtel Latam S.r.l. was therefore constituted to which - as subsequently occurred - the shares held directly by Italtel S.p.A. in the Italtel Group companies in Latin America, would be transferred or conferred (with the exception of the 10% stake held by Italtel in Italtel Peru S.A.C.).

Italtel Latam S.r.l. is therefore a limited liability company, subject to the management and coordination of the sole shareholder Italtel S.p.A., incorporated on June 5, 2018, administered by a Sole Director since the date of incorporation and whose purpose is the management of corporate equity.

As a result of the above reorganization, the equity held by the Italtel Group in LATAM is now held by the company Italtel Latam S.r.l. The exception is the 10% share capital of Italtel Peru SAC (pledged on September 28, 2018 in favor of the Lending Banks) which shall continue to be owned by Italtel S.p.A.

On September 26, 2018, the entire share capital of Italtel Latam S.r.l. was pledged in favor of the Lending Banks.

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 virtualized 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).
- 5G segment, concerning the development of an extremely diverse set of technologies, services and applications, from mobile network infrastructures and fixed networks, with a particular focus on Multi-access Edge Computing (MEC), up to a wide range of application solutions.
- 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.
- Industry 4.0 segment, wielding the potential of digitalization in manufacturing processes to increase productivity. Particular areas of interest for Italtel are the new digital technologies set to have a profound impact on industrial processes, such as through industrial data collection, analytics to extract value from such data, optimization of man and machine interactions, and support for maintenance and work safety processes making use of innovative augmented reality technologies and the Internet of Things.
- 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.
- Ultra-Broadband segment, concerning the transition of access networks from copper to optical fiber transport, with the potential use of certain radio spectrum frequencies to provide broadband services, such as through Fixed-Wireless Access (FWA). This market opens up new opportunities for operators at various levels to design new networks, applications and services.

The segments analyzed 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 Industry 4.0 and Cyber Security, even in highly fragmented and divergent competitive scenarios with strategic positioning challenges.

VoIP & IMS Market

In 2018, the drop of the previous two years continued: the market contracted 11% in the VoIP and IMS segments, 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 2017.

The market is based on the following main network functionalities: CSCF, HSS, MRF, SBC, IMS Voice Application Servers and Legacy of Italtel, components such as SoftSwitch and Trunk Media Gateway, worth approx. USD 1.0 billion in 2018. The percentage of revenues generated by VNF functionalities (i.e. only SW functionalities installed on commercial hardware) ranges from 56% for MRF, 56% for CSCF, 55% for HSS and 41% for SBC.

The use of enterprise SBC over recent years has seen sustained growth, from USD 452 million in 2017 to over USD 500 million in 2018. 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 dominated by vendors such as Huawei, Ericsson and Nokia, generating more than half of its turnover, each with market shares of around respectively 25%, 22% and 20%, followed by ZTE and Ribbon Communications.

Notwithstanding the poor quarter, Huawei, Metaswitch and Nokia stand out as the only noteworthy manufacturers with YoY revenue growth. On the corporate VoIP gateway side, the market has been and continues to be dominated by Cisco.

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 NFV market generated in 2018 total revenues of USD 16.5 billion (against approx. USD 14 billion in 2017), with growth of 22% 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 2018 of approx. USD 13.2 billion (USD 8.7 billion in 2017) 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 3.5 billion globally, with forecast average growth of 50% 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 2018, 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 6.7 billion, with the NFV-MANO (Management and Orchestration) segment, in which Italtel is principally engaged, reaching USD 529 million. The MANO market grew 80% on 2017, with growth forecast for the coming five years of 22%.

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.

5G Market

5G is no run-of-the-mill technological event, but represents, first of all, an evolution of the ecosystem of technologies, architectures and business models, and therefore of the organization of entire supply chains. The new 5G networks will have to meet all the emerging demands of digital transformation, such as those coming from the Internet of Things (IoT), Machine-to-Machine (M2M) communications, and all the main vertical sectors, including so-called critical applications. The market will spread from East Asia to North America and Europe from 2020 to 2022, with new radio equipment share revenue worth USD 5 billion.

In Italy, in 2018, in addition to 5G frequency allocation tenders, we witnessed the launch of various experimental activities, some of which privately funded and not only linked to the pilot areas identified by the Ministry of Economic Development (MiSE), comprising Milan, Prato-L'Aquila, and Bari-Matera.

In addition to bringing Italy into line Germany and France in the use of the 700 MHz band, the 5G tenders called for offers on millimeter frequencies in the 26 GHz band, representing the real spectral novelty of 5G. In particular, the auction for "Efficient use of the spectrum and transition to 5G technology", concluded at the end of 2018, generated a total of over Euro 6.5 billion and saw telecommunications operators acquire not only frequencies in the 700 MHz band (free from 2022), but also 200 MHz in the 3.6-3.8 GHz band and 1 GHz between 26.5 and 27.5 GHz.

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 risen over recent years, reaching USD 980 million in 2018. This is up slightly from 2017 and with an estimated growth rate for the coming years of 2.7%. 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%.

Industry Market 4.0

The global industry is expected to invest over USD 900 billion a year in 4.0 technologies by 2020. Covering various strategic applications, such technologies range from the Internet of Things (IoT) to artificial intelligence (AI), data analytics, cyber security and software development.

Last year, the global industrial software market was worth approximately USD 400 billion, according to Lucintel estimates. In terms of global corporate and industry spending in 2017's IT market, software received investments totaling USD 357 billion (Gartner).

In particular, the Italian government has earmarked around Euro 18 billion for Industry 4.0 in the period 2017-2020. A report by Polimi in 2018 evidenced how this has facilitated the growth of the Italian Industry market 4.0 to a value of Euro 2.4 billion, and that half of the companies concerned make use of the national plan to invest in technologies.

Cyber Security Market

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 market reached a global value of USD 107 billion in 2018 (source Gartner), and around Euro 1.9 billion in Italy alone, representing a 11% increase over 2017.

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 which continued throughout 2018.

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, CarbonBlack, etc.

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, etc.

Ultra-broadband market

2018's market data suggests profound changes are underfoot in the composition of technologies used to supply Internet connection services, with ultra-broadband fixed lines accounting for close to 40% of the total. From June 2014, copper access fell by six million lines, from a 95% share of total accesses to 65%, in just four years. Over the same period, access grew through improved quality technologies, such as FTTC, FTTH and FWA, with 5 million, 400 thousand and 650 thousand more units respectively.

This dynamism is reflected in the increase in network performance in terms of connection speed:

- in September 2018, lines with speeds ≥ 30 Mbit/s accounted for over 40% of the broadband and ultra-broadband total, showing a quarterly growth of approximately 620,000 units;
- in 2018, accesses with speeds exceeding 100 Mbit/s increased by 1.3 million lines (totaling 2.8 million accesses at September 2018);
- in one year, accesses with speeds from 30 to 100 Mbit/s grew by 1.93 million lines (totaling 4.2 million qt September 2018);
- 10 to 30 Mbit/s access speeds fell by about 1.3 million to 5.4 million units, representing just under 32% of the total;
- Sub 10 Mbit/s accesses fell by almost 1.23 million units, their share of broadband and ultra-broadband lines dropping by over 50% from September 2014 (77.2%) to the end of September 2018 (26.9%).

Italtel, as Ultra-Broadband network designer, is one of the main players alongside Open Fiber.

Domestic market – TIM

The push for Digital Transformation is also making itself felt in Italy with considerable investments being made to implement cutting-edge technological solutions in areas such as Cloud Computing, Mobility, Big Data and Analytics.

This is reflected in the Italian ICT market's 0.7% growth from 2017 to a value of Euro 30 billion in 2018. According to a report by ASSINTEL, this growth is influenced by two main trends. On the one hand, the telecommunications services market is in gradual contraction (down 2.2% from 2017), on the other, the ICT market is experiencing growth (up 1.6% compared to 2018).

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 the economic environment, Telecommunications operators in 2018 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.

With regards to Italian customers, despite significantly heightened competition, development activities resulted in our substantial confirmation as a Top Player, with revenues of Euro 113.9 million, although reducing on previous year.

The business with clients is expanding in terms of Italtel's involvement in major projects. In fact, Italtel is often involved in these areas thanks to its growing know-how and its offer in order to continue to play a central role as a partner and to ensure the success of its clients.

In relation to TIM; in addition to the consolidation of the traditional areas (IP networks, VoIP networks, IT system integration), in 2018 the following innovative projects were implemented:

- Continuation of the project introduced in 2017 to renew and transform the metro network of TIM (OPM) with migration of customers to the new Cisco technology-based nodes
- Network simplification, decommissioning and compaction of TIM's legacy networks to achieve energy saving goals and free up space in operations centers
- Development of innovative Network Management projects for the simplification and automation of the delivery and operation processes, pro-active monitoring of the quality of services based on the QoE (Quality of Experience) paradigm and traffic data analysis (Network Analytics)
- Development of new cases as part of the "Intelligent Pipe" project for the analysis of fixed and mobile network multi-media traffic data and the composition of the relative network analytics
- 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
- Launch of a Joint Go To Market with TIM for the digital transformation of companies supported by three pillars: Industry 4.0, Cloud Communications, Cyber Security;
- Professional services in support of the IP networks conversion processes, also for energy saving, such as Solution Design, Integration & Testing and Network Transformation
- Plans set in motion in 2018 to transform the network by Cloud and Network Function Virtualization logic;

Domestic market – Other Telecommunications Operators

Italtel confirmed itself as a leading player also on the Other Telecommunications Operators domestic market through the acquisition of large strategic projects from the major telecommunications operators, although revenues declined on 2017 to Euro 30.4 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;
- development of Intelligent Traffic management solutions based on Sandvine technology;
- Launch of the first 5G trials on Italtel's IoT platform;
- Implementation of LAN, Wi-Fi and video communication systems infrastructure at the new Milan headquarters.

Wind chose Italtel for the development of its IT Data Centers, for the establishment of an innovative Unified Communication and Collaboration solution for employees and for the security services dedicated to business customers, based on the Cisco Umbrella Cloud solution.

BT chose Italtel for the integration of new intelligent network customer services functions in its "Network Data Center".

Cloudditalia chose Italtel for consolidation and development of its cloud infrastructure with Italtel SW applications (Virtual Network Function) for voice services.

In 2018, Italtel also started a new client collaboration with Irideos for the automation of telecommunications services with Cisco Network Service Orchestrator technology. The solution allows Irideos to provide cloud-based digital services.

Domestic market – Enterprise Banking Finance Insurance and Public Sector

In 2018, the Italian ICT market confirmed its moderate overall growth with profound change in demand in all main sectors, focused ever more on the potential of innovative technologies, solutions and Digital Enablers for digital transformation. The market associated with the main Digital Enablers, including IoT, Cloud, Big Data, Web Services and Mobile Business, is experiencing growth at double-digit rates, as is cyber security. Artificial Intelligence, Cognitive Computing and Blockchain are the emerging trends demanding a renewal of technological infrastructure.

It is a period of profound change for the domestic market, and the key to interpreting and adapting to this change is to focus increasingly on research, new technologies and sustainability, bringing innovation to business processes in order to adopt solutions that promptly respond to the continuously evolving industry.

The market is therefore strongly driven to innovate through the convergence of ICT and digital technologies, such as: Smart Cities, Smart Homes, Smart Metering, IoT, Big Data, Cloud and Industry 4.0 applications.

The progress of 2018 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.

On the enterprise and Public Sector domestic market, Italtel reported in 2018 continued revenue growth to Euro 143.4 million (+61% on the previous year), alongside an expanded margin thanks particularly to the customer Open Fiber.

In the Enterprise segment, Italtel further consolidated its positioning for ICT solutions and services.

Open Fiber activities undertook a particular qualitative and quantitative significance, with Italtel operating as an “indicated engineer” for the construction of the Ultra Broadband Network following the Open Fiber tender award.

For Costa Crociere, Italtel once again confirmed itself as the go-to company for Cisco technology system integration projects forming the network infrastructure of the company’s new ship.

There has also been a strengthening of partnerships with Nexi, ST Microelectronics and Leonardo, through the development of Next Generation Data Centers from a Cisco Digital Network Architecture perspective.

Regarding new clients, Marcegaglia’s industrial automation project is also worth mentioning.

For the Central Public Sector, we indicate the consolidation of market share through direct contracts with major Public Entities (Poste, IPZS, Sogei, Bank of Italy) and with revenues up on 2017.

Regarding the local public sector, there have been delays in the contractual development of several significant orders and some uncertainty due to the application of Consip agreements by certain administrations.

Strong Healthcare sector results were delivered also, consolidating operations with: Niguarda Hospital, the National Tumors Institute, Maggiore Mangiagalli Hospital, Azienda Provinciale Sanitaria Trento and with the Humanitas Group

In 2019, AgID and Consip are set to call tenders for the supply of solutions and services to National Strategic Programs. The positioning of the Exprivia Italtel group in relation to national reference institutions, such as Sogei, IPZS, Inail and Inps, as well as in-house public contracts, will be fundamental in expanding the market perimeter regarding Next Generation Data Centers, Cloud Services, IT Security, Big Data Analytics, and other tools for generating and distributing digital services.

The collaboration with Cisco as part of the technological innovation initiatives within the “Digitaliani” strategic program to speed up the country’s digitalization continued. As regards other joint initiatives, the Milano Più Sicura (Safer Milan) project was launched with the Municipality of Milan, and, after the creation of a Virtual Information and Certificates Office for the Municipality and Region of Liguria, the Liguria Digitale project continued with the construction of a latest generation regional Data Center offering innovative services while guaranteeing the security of citizens’ data and privacy.

EMEA Market - International

The EMEA market in 2018 reported revenues of Euro 43.6 million, substantially in line with the previous year, although with a significant increase in the margin due to the major transformation of the sales mix in the various countries in which Italtel operates.

In Spain, an important project was consolidated 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). The traditional Systems Integration business continued to suffer from strong pressure on margins in recent years. Positioning in relation to other Service Provider and Enterprise customers was maintained. A contract was signed at the end of the year with MásMóvil for an iRPS based network solution.

In Germany, the delivery of the System Integration project for Telefonica O2 Deutschland’s IP Backbone continued. Interesting prospects are evolving for the development of the Regional Service r.

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 and the migration began of the telecommunications services of the airports of Charles de Gaulle and Orly.

In the UK, Virgin Media (part of Liberty Global Group) awarded Italtel a multi-year “Routing Data Base” contract currently being delivered.

LATAM Market - International

2018, as 2017, proved to be a year of significant crisis for Latin America in terms of political, economic and financial instability, affecting Argentina and Brazil especially, but also various other countries. 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. Revenues were Euro 107.0 million, slightly reducing on the previous year. The outlook for 2019 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 drop in unitary prices therefore impacted also volumes (down 6%) and margins (down approx. 3%).

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. Italtel Brazil, while continuing to maintain its presence among the major service providers, is increasingly turning its attention to the medium to large business market, offering both telco solutions and new professional services, such as Cyber Security. Since 2018, this market has been undergoing significant growth expected to continue in the coming years.

In Argentina the worsening political and financial crisis has seen the Peso devalued by almost 80% against the US Dollar, and the inflation rate reaching 50%. The main focus of Italtel has therefore been to renegotiate contracts and conditions.

Peru showed signs of a positive investment dynamic, especially in the second half of the year, with growing general interest in digital transformation projects. Italtel Peru was awarded a major energy systems contract by CORPAC, the Peruvian airport operator. Several contracts were also won in relation to communications and video systems for the Pan American Games to take place in Lima in 2019.

In Colombia, a sharp slowdown in public and private investments followed the presidential elections. Italtel Colombia focused on recovering shares in the Service Provider market, mainly through Telefonica Movistar, and the Enterprise market, through Banco Davivienda.

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 the emergence of the first examples 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 (60% 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. It has now almost become standard practice in Service Provider tenders to request full compliance with the Network Function Virtualization (NFV) paradigm, i.e. the application of the cloud concept to telecommunications networks, in which functions are automatically created according to the service traffic required by customers. 2018 saw the most innovative Service Providers begin to use the first network nodes of this type in a fully operational manner.

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. 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.

Italtel therefore has proposed itself as a company capable of offering a “solution and service” proposal, increasingly shifting from the concept of end-product to a customized solution. 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 Solution-Service products, which as such need always to be ready to integrate change.

An integral part of this development must be the professional services Italtel provides to its customers, as part of or as a consequence of the realization of their networks. Such services have a significant economic importance and, naturally, can act as a common thread linking the sale of a solution, its commissioning and subsequent full life-cycle support. All this fall under a rather traditional business model. However, a new customer solution implementation model is making headway, once that intrinsically requires sophisticated customizations, including coding, and no longer simple finished product configurations. This trend makes high value-added professional services for customers increasingly indivisible from the sold products, or rather platforms, throughout their life-cycles.

The following are the main product lines developed over the course of 2018 that Italtel intends to pursue in the coming years:

1) All IP Communication:

- Border Layer Evolution Netmatch
- Centralized Signaling & Routing iRPS
- IMS functionalities iMCS & iTDS

- 2) SDN & Automation Netwrapper
- 3) Management Layer Evolution iNEM, OSS
- 4) Contextual Communication Evolution Embrace
- 5) Internet of Things IOT

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. Implementations of the NM-S CI (Cloud Inside) product are stable with the first installations fully operational within national and international networks. As often the case with such transitions, the first installations, though already architecturally advanced, are not yet being fully exploited by Service Providers, since the adoption of the NFV paradigm requires a more radical infrastructural and operational renewal than the renewal of a single Network Element. Italtel is, in any case, ready to accompany customers on this development path. The technology is forecast for full maturity and adoption 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 2018, the P-CSCF component, as an NFV-coherent NM-S-CI embedded module, continued the operational phase. Hardware accelerators for realizing high performance computing services are an integral part of the first supply in Italy and have begun operations at customer premises.

During 2018, 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 2019 is focused on completing the P-CSCF and on the evolution of the NM-S-CI contents.

1b) iRPS Product Centralized 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, Virgin Media) and to tap into new opportunities, given that the competitors are also in this architectural transition phase together with Italtel.

2018 saw a focus on the development of important features, which - among other aspects - have permitted an improvement in product performances and the acquisition of a new customer, Virgin Media, with whom Italtel has had no previous relationship, thanks to intrinsic product features and the Agile methodologies on which it was developed.

i-RPS's transition to the NFV paradigm is in full swing and is expected to conclude within the year.

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 was developed 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. At the end of the year, an important TIM order was acquired for the creation of a Telecom Application Server (TAS) for the management of business user telephone services as a future element of the Italian IMS network.

The same NFV updating process continued in 2018 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 procedure successfully concluded during 2018.

In 2018, due to Cisco’s transition of its SDN controller from APIC-EM to DNA, Netwrapper had to be partially re-engineered. Simultaneous joint work with Cisco Business Units continued on the definition of new use cases and on new developments, which provided demos to take to the main global events on the subject. The common thread of the work was expanded interactions with new network components, such as the Webex Teams, in order to generate new experiences for end-users.

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.

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 full developmental support to this new approach to network Operation. A significant aspect of Italtel’s approach, in particular, is consideration of the fact that the traditional separation between management and network control activities is increasingly blurred. This evolution is also referred to as the “management and control continuum”. Indeed, thanks to the use of NFV and SDN technologies, network operation can be accomplished with automatic correlation of assurance and fulfillment procedures, meaning that network monitoring and alarms are immediately exploitable for reconfiguration of the network and instantiation of new functions. Another driver becoming increasingly significant over the past year was the ever-increasing reduction in skills and number of employees that operators manage to allocate in the daily management of their networks. Management practices must therefore also be fully revised and incorporate practices from the Information Technology and DevOps fields.

In light of these principles, 2018 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 virtualization 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.

The program therefore envisages a transition from the current management paradigm to two complementary strategies potentially independent in their proposition towards the market. From a development standpoint towards an end-to-end Service Orchestration approach in hybrid environments and therefore on multiple management domains (e.g. legacy, SDN and NFV). On the other hand is an improvement in instruments and tools, which, although not necessarily complex, continue to be closely related to specific networks, and are aimed at simplifying and speeding up day-to-day operating practices, identifying network issues and related troubleshooting. We have associated the concept of “Smart Operation” with this particular driver.

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.

2018 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.

From this core of tools, Industry 4.0 use cases have been developed combining high quality audio and video with sensor data to provide remote expert support, hazard recognition for critical area operators, and so on.

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 introduced also, integrating a new person-machine interface based on the paradigms of the most popular social networks.

The most promising thread in 2018 concerns the major impetus given to the Italian market from the Industry 4.0 depreciation rules. In partnership with international players such as Cisco and specific Italian industrial players, such as ROLD and Alleantia, the first concrete commercial propositions were developed, bringing the initial commercial opportunities. In this context, the role of Italtel focuses on the capacity to cover all environments which may be a proposition on this market, from the construction of the local IP network, to the always necessary customizations between collection sensors, graphic representation of the various quantities, to the interfaces of the management systems, to 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, beyond today's commercial success, are well proportioned, as flexibility to applicable contexts is a winning competitive strategy.

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

During 2018, Italtel reconfirmed its extensive expertise in networking, collaboration and data centers, engaging in significant and complex projects with operators and public and private companies.

In this environment, the long-term transformation project on the Optical Packet Metro (OPM) network of TIM is significant, continuing operations which began in the previous year together with Cisco and with the goal of creating for TIM better defined and managed new 5G services.

Other long-term projects include the Network Transformation activities that continued in 2018 for Fastweb's IP network technological adaptation and migration to new active IP services infrastructure.

Regarding Deep Packet Inspection (DPI) solutions, Italtel has maintained its key role as System Integrator of Sandvine technology for both TIM and Fastweb. For TIM, Italtel has installed and activated new Sandvine platforms for both fixed and mobile networks and continued the activation of new Business Intelligence use cases. For Fastweb, delivery of new Sandvine platforms for the fixed network continued, including the enabling of business intelligence services. Also for Fastweb, Network Protection Cyber Security and mobile network trials were started.

As regards Enterprise and Public Sector markets, numerous new projects have been implemented in Networking and Data Center areas. Projects particularly worth mentioning concern:

- The Italian State Mint and Polygraphic Institute, for the realization of primary site infrastructure and the delivery of migration and business continuity services;
- Nexi, for Data Center and LAN migration design and engineering activities;
- ENEL, for the implementation of Smart Grid network connectivity solutions between electrical substations and control centers together with national MPLS backbone activities;
- San Raffaele e Humanitas Hospital, for work focused on LAN and WAN technologies;
- RAI, for QoS implementation and production network routing optimization.

2018 also saw the completion of innovative Data Center projects involving migrations to the Cisco ACI infrastructure for ST Microelectronics, Leonardo and Liguria Digitale.

Regarding Collaboration engineering activities, Italtel continued its contractual partnership with TIM for the sale of "TIM Trunking" and "Top Integrated Communication" collaboration solutions. For Unipol-Sai, Italtel implemented the Cisco Business Edition on premises technology solution. Italtel also signed a deal with Unione Industriali Varese for Cisco HCS services activation with Apple mobile devices integration via TIM data centers.

Other major Collaboration projects in 2018 included:

- Fastweb, for an internal adoption project that saw the realization of 200 Cisco video conferencing rooms with Skype for Business integration;
- Costa Crociere, for a Cisco Collaboration project involving 3 ships;
- RAI, for full Cisco and Microsoft technology integration;
- Banca Intesa, for the extension of the Cisco Collaboration project to the Milan finance office and integration of the trading towers;
- Municipality of Udine, for the migration of all municipal buildings to Cisco VoIP technology;
- SARAS, for the commissioning of videoconferencing stations and completion of the telephone solution via TIM (HCS).

More significant in strategic rather than economic terms was the end-of-year's award of a tender for a first batch of telephones for the Italian Army, all with Cisco technology.

This is the first step in the modernization of the Italian Army's entire telephone network set to continue in 2019.

2018 saw the consolidation of several Cisco Cloud Collaboration and WEBEX Meeting and Teams projects, which are of particular relevance since they represent a new OpEx offer paradigm with interesting recurring revenue opportunities for Italtel.

Close collaboration continued throughout 2018 with the Cisco Hosted Collaboration Solution (HCS) Business Unit, which, recognizing Italtel's excellence in Collaboration engineering, continued to make use of its support in the testing and development of Cisco solutions on the world market.

In the Managed Service area, several important multi-year contracts were continued, including:

- Systems Management for Banca d'Italia, involving IT infrastructure systems operation and assistance through an adequately certified team of 40 specialists;
- Multivendor contract with TIM concerning the technologies of its fixed and mobile network vendor customers. The contract saw Italtel demonstrate competent governance of complex projects and technical and organizational effectiveness in guaranteeing Technical Assistance to the networks.

Among notable new Managed Services projects in 2018 is the Enel VoIP project. This aims to remove all existing proprietary backend infrastructures to migrate to the IP-PBX Cloud SaaS service. Italtel, via WindTre, guarantees provisioning and TAC services on the distributed telephone infrastructures (SBC, ATA, SRST, Avaya Gateway, FAR Networks Operator Post, IP-Phone) registered and controlled by IP-PBX Cloud SaaS. The project, launched in 2018, has a timeframe of approx. 3 years.

In 2018, Italtel achieved major results in executing 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 in 2017. In particular, at the beginning of the year, an important extension to the original Open Fiber contract was agreed, including all definitive and executive design work for the passive fiber route and on-site inspection and infrastructure survey activities for a total of 6,700 municipalities, representing around 9 million homes. The contract includes the design of Fixed Wireless Access (FWA) coverage for fiber-unreachable areas and procedures to obtain all related permits. Italtel has therefore implemented a significant investment plan of resources and competences, boosting its Competence Center to a total of 130 personnel, and creating an effective eco-system of partners, all of which translates to a total commitment of approximately 500 dedicated project specialists. In 2018, Italtel successfully completed the definitive design for more than 5,200 municipalities and the executive design for more than 1,000 municipalities, thus enabling Open Fiber to open sites for the start of excavation and fiber laying activities.

Alongside these activities, relating to Italtel's traditional skills in creating and managing complex networks and infrastructures, in 2018, Italtel also made investments to strengthen its market positioning in the most innovative technologies, such as Cyber Security, the Internet of Things and Enterprise Networking.

Regarding the Internet of things and Industry 4.0, the first contracts were signed not only for the adaptation of infrastructures and network security, but also for specific sector services. The contracts were of varying complexity, including the implementation of an edge node connecting industrial machinery with corporate ERP systems for Paglieri, and work for Marcegaglia, which represented Italtel's first real opportunity to take the lead on a large-scale industrial project.

Regarding Cyber Security, Italtel's strategic acceleration project, launched in 2017, saw the recruitment of new talent and the renewal of its offerings with the creation of new multivendor partnerships and the definition of new services, including the re-launch of its Security Operation Center (SOC). This led to important results involving Italtel in Cyber Security projects for various public and private sector clients. Among the clients were Generali, Nexi, Banco Desio, AdrTel, Autostrade per l'Italia, the Italian Ministry of Defense, IPZS, Poste Italiane and various major hospital groups. Security projects also involved Telco clients, such as Security Analytics and Real-Time Forensics projects for TIM and TIS, DDOS Protection for BT and RAI, Customer-Base Malware Protection for Wind3, and Access Control for IRIDEOS.

Also the Systems Integration Solutions and Services catalogue with which the company presents itself on the market was updated and 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.

Research, development and innovation

Research, development and innovation projects funded

In 2018, Italtel S.p.A. conducted research, development and innovation activities through the continuation of funded projects contracted over previous years, and the launch of new projects addressing the themes of Information & Communication Technologies (ICT) and Societal Challenge.

In reference to the European Horizon 2020 Framework, activities relating to the following projects were continued in 2018: “5G Essence” (Embedded Network Services for 5G Experiences), research for the development of a new highly flexible and scalable platform for the new 5G networks; “5G City” (Enabling Smart Cities through 5G Clouds), development of a new distributed, open and multi-tenant platform, extending the centralized cloud computing model to network edge; “MATILDA” (5G-ready Applications and Network Services over Sliced Programmable Infrastructure), development of a holistic end-to-end framework for managing the life cycle of new 5G services on programmable infrastructures through Network Function Virtualization technology (NFV). The i-EVS (Enhanced Video Services for Mobile Edge Computing in the 5G Environment) project concluded as part of the Open Call 3 within the project Software Defined Networks and Network Function Virtualization Testbed within FIRE + (SOFTFIRE). The strong commitment to European collaborative research, development and innovation activities continued in 2018 with the approval of a new European project entitled “GUARD”, which, coordinated by Maggioli and involving 14 partners, aims to develop an open and extensible platform for the protection and security of reliable business chains, both for administrative and heterogeneous infrastructure areas. Finally, during 2018, Italtel presented numerous new project proposals concerning Information & Communication Technologies, Secure Societies, Cyber Security, the European Innovation Council (EIC), Urban Innovative Actions (UIA), Marie Skłodowska-Curie Actions (MSCA), Next Generation Internet, Advanced Manufacturing, Critical Infrastructure, Health & Well-being and Smart Cities & Communities.

Regarding the Italian Ministry of Education, University and Research (MIUR) programs, 2018 saw the conclusion of the nationwide project “Servify” (SERVICE FirstLY), in collaboration with the SI-Lab Consortium. As for MIUR’s November 2017 National Operational Program (PON) call for proposals, entitled “Research and Innovation 2014-2020 - Technological Clusters”, six of the seven proposals submitted are awaiting final assessment and the potential signing of concessions.

Regarding the Italian Ministry of Economic Development (MiSE) programs, work continued on the projects: RE-ACTOR (Rich Environment-Appliance and Fog Computing Platform for Internet of Things Real-time Optimizer), based on Internet of Things technologies; AGILE- NETWORKS, based on innovative platform, infrastructure and digital services virtualization technologies; and TELEION (Transform, Empower and Link Environment, Industry and Objects in Networks), focused on the creation of new platforms, products and solutions to add a new degree of flexibility and automation to future networks (e.g. 5G), co-financed by the Ministry of Economic Development and the Lombardy Region, and under implementation at the Settimo Milanese Research Center. Still at the assessment phase are the following project proposals: SMARTCOM, concerning “Agreements for Innovation”, with the participation of the Region of Sicily, expected to be carried out at the Carini-Palermo Research Center; the “ALL IP” Development Contract, with Italtel as a participant in the wider productive investment project proposed by Telecom Italia Mobile; “Intelligent Factory, Life Sciences, Agrifood” projects focusing on human-centric issues in production processes, new support tools for asthmatic diseases, and precision agriculture.

Finally, as part of the implementation of MiSE’s decree to establish Industry 4.0 specialized Competence Centers under public-private partnerships, Italtel supported the creation of MADE, an institution coordinated by the Polytechnic University of Milan as a national and international reference, in particular for SMEs, on the latest digital technologies for the manufacturing industry. The new institution has an allocated total financial commitment over the next three years of around Euro 22 million, half coming from the Ministry of Economic Development and half from the private sector. The institution involves thirty-nine companies (technology providers, system integrators, consultants, training specialists, industrial manufacturers), four universities (Polytechnic University of Milan, University of Bergamo, University of Brescia and University of Pavia) and INAIL.

In 2018, Italtel S.p.A. reported public grant income of Euro 6.7 million. Grants amounted to approx. Euro 2.6 million, while approx. Euro 5.2 million of subsidized loans were received.

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

- National Operative Program Fund (PON) Research and Competitiveness 2007-2013;
- National Operative Program Fund (PON) Enterprise and Competitiveness 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 Horizon 2020.

Open Innovation Program

For some years now, we have increasingly heard of "open innovation", a new knowledge and innovation management model characterized by openness to the outside, in contrast with the more conventional "closed innovation" model. According to this model, a knowledge exchange ecosystem is formed by various parties, such as clients, partners, research centers, universities, start-ups, and, in general, any public or private entity capable of facilitating technology transfer processes.

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. It therefore constitutes a group dedicated to the research and development of small-scale innovative partnerships.

The Open Innovation approach in Italtel led, in 2018, to active collaborations with several external research centers (e.g. Navacchio Technology Center, Polytechnic University of Milan), innovation bodies (e.g. Elis, Talent Garden), historical clients (e.g. TIM) and consolidated partners (e.g. CISCO).

Recurrent market analyzes by the Open Innovation group of various segments, such as Industry 4.0, IT Security Services, Digital Health, Transport Services and Intelligent Mobility, led to the creation of various new projects and an expansion of the offer catalogue. Indeed, the creation and management of an ecosystem of start-ups and highly innovative enterprises, has allowed Italtel to dynamically extend and strengthen presale activities regarding non-traditional sectors and to achieve several pioneering successes.

One such success came in the form of a collaboration with CISCO and the start-up Alleantia, which introduced the established Italian company Paglieri to the Intelligent Factory paradigm of Connected Manufacturing, thus leveraging the Industry 4.0 and Business Plan 4.0 incentives of the Italian Government, such as "tax hyper-amortization".

Another Connected Factory example, which saw the collaboration of Italtel with CISCO, concerned the client Marcegaglia in a project combining Process Digitalization and Business Intelligence with plant automation and full corporate network integration, to the advantage of infrastructure reliability, flexibility and security.

We can also cite the competence transfer initiative on digital transformation in the manufacturing sector launched by TIM in collaboration with Italtel as end-to-end System Integrator. The initiative was organized as a pan-Italian roadshow entitled "The Italian Road to Industry 4.0", and allowed Italtel to present its new offer catalogue and meet with a large number of potential clients.

Finally, 2018 saw Italtel contribute to the establishment of a new Digital Academy, in collaboration with Ernst & Young, Atos, Cisco, Rockwell Automation and SAS, aimed at pooling expertise and experience as a community at the service of entrepreneurs and top managers, and at promoting corporate digital culture from an Enterprise 4.0 perspective.

Partnerships

Cisco

In 2018, Italtel maintained its position as CISCO partner, expanding its offer catalogue and further consolidating competences.

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 2018, the Cyber Security and Industry technology competences were consolidated through specific programs.

The wealth of Italtel certifications confirms the Specialist Competences, 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, from the Master HCS Cloud Builder specializations, numerous specializations and Advanced level qualifications, Italtel has undertaken specific initiatives to strengthen this relationship, among which:

- “Enterprise SDN” - the Italtel Netwrapper product included in the global CISCO price list from 2017, engineered to transition from a product to a subscription model for better market positioning. Netwrapper is an application that 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 specialization of Master HCS Cloud Builder. This certifies Italtel to provide the same professional services as it did previously under the exclusive domain of Cisco Advanced Services. In 2018, the synergistic collaboration with the Cisco HCS BU continued in the form of paid testing and design projects focused on development of the HCS product.
- “Cyber Security” - developed and launched in 2017, the program continued through 2018 aimed at raising 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. This offer was also presented and sold under a Managed Services License Agreement (MSLA), an advantageous pay-per-use model for Service Providers. In 2018, Italtel received its first Cisco Certified Internetwork Expert (CCIE) Security personnel qualification.
- “Internet of Things” - in 2018, CISCO signed a two-year incentive program with Italtel for IoT skills development and corporate certification. The program is aimed at the expansion of Italtel’s market presence through individual and corporate certifications that allow the company to increase turnover from this extremely promising technology.

Italtel’s presence in San José, California, confirms its commitment to promoting synergies with Cisco Business Units, particularly through Professional Services projects.

Italtel’s capacity to offer a complete Professional Services catalogue and to increase the value of solutions with proprietary developments and products has permitted a repositioning with Cisco as a more competitive provider than traditional System Integrators. Today, those involved in System Integration are asked to complete Cisco solutions with dedicated developments in order to better meet customer demands. Italtel is committed to this paradigm shift.

Other partnerships

During 2018, 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.

In collaboration with Exprivia, Italtel tested the possibility (e.g. with DELL or EMC) of the activation of a common partnership to capitalize on the competences and business results of the companies in a single relationship with the vendor.

Security certifications were strengthened to allow the achievement of partnership levels with vendors such as Checkpoint, Fortinet and F5.

Corporate Governance and Social Responsibility

Board of Directors

Italtel S.p.A.'s updated By-Laws entered into effect on December 14, 2017, following the Corporate Transaction that modified the company's shareholder structure and share capital.

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").

During 2018, the Board of Directors of Italtel S.p.A., taking office at the date of the closing of the corporate transaction on December 14, 2017, met frequently and in compliance with the legal and By-law obligations to examine the matters submitted for their attention.

The Internal Committees and the Supervisory Board are currently in office as per Legislative Decree 231/01, appointed by the Board of Directors - immediately upon the appointment of the administrative body by the

Shareholders' Meeting - which appointed the corporate boards, appointing the Chief Executive Officer, with the consequent conferment of powers to the legal representatives.

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)	
	2018	2017
Directors ⁽¹⁾	743	936
Statutory Auditors ⁽²⁾	81	81

⁽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, in addition to the Director's emolument, 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

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.

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.

In 2018, the Committee examined the Long-Term Incentive (LTI) Plan submitted to the Board of Directors on July 30, 2018, which includes as co-beneficiaries Italtel S.p.A.'s executive directors and CEO.

Organization, Management and Control Model

The new version of the Model, the Special Provisions and Implementing Protocols, modified in response to the previous year's regulatory changes, was approved at the March 12, 2018 meeting of Italtel's Board of Directors. This concerns 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 labor 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)

In 2018, the update to the Model began following the issue of Law No. 179/2017 ("Provisions for the protection of whistleblowers reporting offences or irregularities that become known to them within the bounds of a private or public employment contract") which governs the reporting of irregularities ("Whistleblowing"), amending the existing public sector rules (Article 54 bis of the Consolidated Public Employment Law - Legislative Decree 165/2001) and introducing it to the private sector. This law also amended Article 6 of Legislative Decree 231/2001, introducing paragraphs 2-bis, 2-ter and 2-quater, outlining, in particular: the scope of application, communications channels characteristics, provisions for protecting reporting parties, penalties for intent or gross negligence in unwarranted reporting, conditions for voiding any retaliatory or discriminatory measures (e.g. dismissal, demotion, transfer) adopted by the employer.

Taking into account the requirements of the above-cited law, the Whistleblowing system was revised with specific and exhaustive operational procedures for managing reporting, particularly regarding the protection of the identity and personal data of reporters and application of the new EU General Data Protection Regulation (GDPR).

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

In 2018 personnel training was given on measures for the prevention of industrial and intellectual property and copyright violations in the context of software development and other areas at risk of such violations.

In 2018, sensitive process audits were addressed to corporate “Supplier qualification and monitoring” activities, in reference to all suppliers of products and services whether for internal use as corporate services or for the fulfillment of commercial orders.

The focus of audit activities were process areas with the highest risk of violations concerning corruption, occupational health and safety and environmental regulations.

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 2019 and the relative budget.

Conflict of Interest Regulation

In 2018, the periodic verification of compliance with the rules regarding the recording of potential cases of conflict of interest and the relative treatment for employees of the company with special powers and duties continued.

Human resources and Sustainability

The following paragraphs detail Group initiatives that demonstrate its commitment to natural, social and human resource impact management in pursuit of its business goals.

1. Methodological note

The contents of this section are inspired by the United Nations Global Compact standard. This standard, which is also a reference for Italtel Group’s Ethics Code, aims to promote a sustainable global economy that respects human and labor rights, protects the environment and promotes policies to eliminate corruption. In this context, in order to promote sustainable development, the UN General Assembly defined 17 Sustainable Development Goals (SDGs), from which Italtel draws inspiration, particularly in reference to the following four:

- SDG 8 - *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.*
- SDG 9 - *Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.*
- SDG 11 - *Make cities and human settlements inclusive, safe, resilient and sustainable.*
- SDG 12 - *Ensure sustainable consumption and production patterns.*

The indicators linked to the above-indicated goals and described in this section are based on most widely used sustainability reporting system in the world, the GRI Sustainability Reporting Standards (hereinafter also “GRI Standards”) issued by the Global Reporting Initiative (GRI).

1.1 Scope of reporting

Italtel S.p.A. is the parent company of the Italtel Group, consisting of the following subsidiaries and branches: Italtel Brasil, Italtel Argentina, Italtel Peru, Italtel SA (Spain), Italtel Colombia (Italtel S.p.A. branch), Italtel Deutschland, Italtel France, Ausoitaltel (Ecuador), Italtel USA, Italtel Poland, Italtel UK, Italtel Belgium, Italtel BV (Netherlands).

Given their relatively limited contribution to the overall turnover and workforce of the entire Group, the companies Italtel Poland, Ausoitaltel, Italtel USA, Italtel UK, Italtel Belgium and Italtel BV (Netherlands) have been excluded from this section and the reporting perimeter for the purposes of sustainability. Therefore, unless otherwise stated in individual paragraphs, the information given in this section refers to all the Italian branches of Italtel S.p.A. and the remaining foreign branches included in the perimeter, i.e. Italtel Brasil, Italtel Argentina, Italtel Peru, Italtel SA (Spain), Italtel Colombia (Italtel S.p.A. branch), Italtel Deutschland and Italtel France.

As regards the reporting period, data relating to the parent company are elaborated at a three-year interval, unless otherwise specified. For several Group companies, 2018 was the first reporting year regarding certain reporting topics, for which multi-year trends are therefore not always available.

1.2 Reporting themes

In accordance with the Global Compact standard adopted by the company and referenced in the “Methodological Note”, reporting areas concern the topics of: respect for human rights, working conditions, environmental protection and the fight against corruption. Each of these topics is examined in this section and further analyzed using the opportune indicators suggested by the GRI Standards.

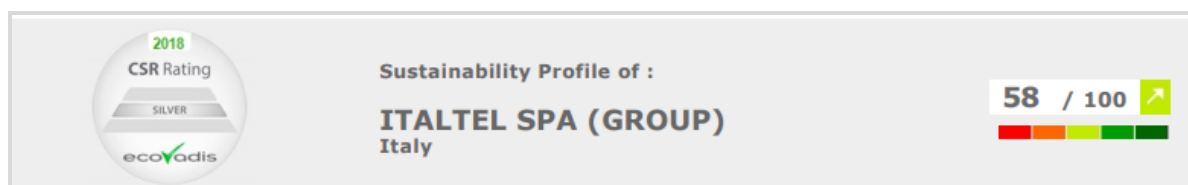
2. Materiality analysis in relation to the business

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.

Italtel carries out numerous activities and initiatives correlated directly or indirectly with sustainability issues. These range from actions to improve and innovate products and services, through intense research activities, to internal corporate initiatives and various participations in consortia, associations and national and international organizations.

Italtel has assessed annually since 2015 compliance with the Corporate Social Responsibility principles by EcoVadis, an international organization which has developed a collaborative platform to assess the sustainability of suppliers operating within the global supply chain, whose system of analysis, founded on internationally recognized standards, is broken down into four areas: The Environment, Work and Human Rights, Business Ethics, and Sustainable Procurement.

In these areas, for the third consecutive year, until the end of 2018, Italtel received “Silver Recognition” from the EcoVadis ratings body, with a score of 58 out of 100 points. 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.

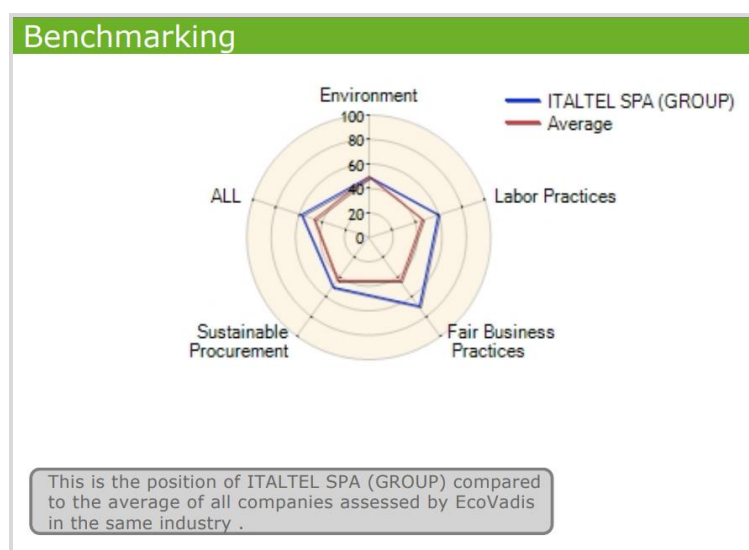


Italtel's “Silver Recognition” from EcoVadis

In November 2018, with the aim of making a contribution to the fight against corruption in the business world by raising awareness through data and statistics on global supply chains, EcoVadis published a report entitled “The Fight Against Corruption: Insights Into Ethical Performance in Global Supply Chains”, which analyzed approximately 20,000 companies in over 100 countries and 150 industrial sectors between January 2017 and June 2018. This report can be considered EcoVadis' first anti-corruption report on a global scale. The analysis

identified an average score for all companies considered of 42.2 out of 100 points on a global scale, and, 45.3 points on a European scale.

Among the companies considered, Italtel therefore scored consistently well above the European average on all areas, and, in particular, as much as 70 out of 100 in Business Ethics, as shown in the following diagram.



Italtel's positioning in EcoVadis benchmarking

Given the above, the materiality analysis for 2018 was performed through the following steps.

- Top management interviews in order to select, among the 17 UN Compact Sustainable Development Goals (SDGs), the four goals most significant to the Group's business (see "Methodological Note").
- Analysis of issues deriving from the choice of the above goals in terms of risks and opportunities.
- Analysis of the main trends in reference sectors, also by consideration of benchmarking.
- Analysis of press sources relating to the company in order to identify the specific interests of stakeholders.

2.1 Material topics

The above-indicated process resulted in the identification of the following topics, for which actions, initiatives and results are detailed in the specific section paragraphs:

➤ HUMAN RIGHTS

- Diversity, inclusion and equal opportunities
- Treatment of personal data

➤ WORK

- Workplace health and safety
- Attraction of talent and development of human capital
- Dignified working conditions
- Training
- Brand reputation
- Development of innovative products and services

➤ ENVIRONMENT

- Energy management
- Environmental protection and responsible use of resources
- Use of suppliers committed to environmental protection and socially responsible
- Relations with the regions

➤ THE FIGHT AGAINST CORRUPTION

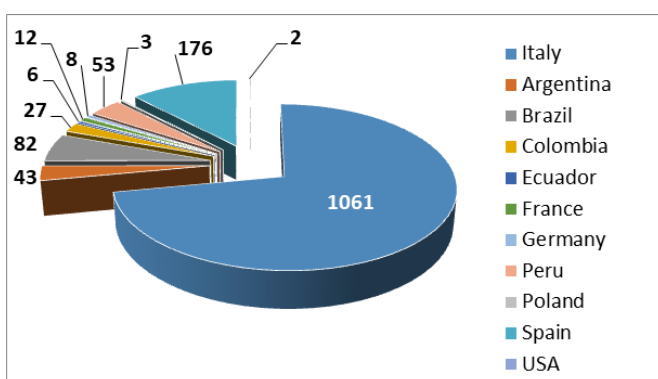
- Business management ethics
- Corruption prevention
- Unfair competition

3. Human Rights

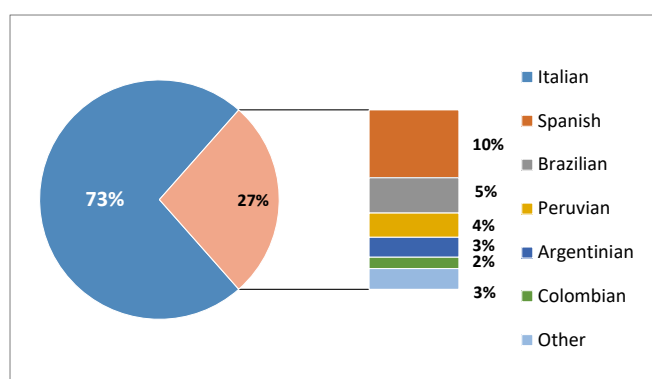
Following is a quantitative overview and analysis of Italtel Group in terms of its workforce, gender pay differences and occupational health and safety initiatives.

3.1 Relevant numbers: geographical distribution, demographic categories and organizational roles

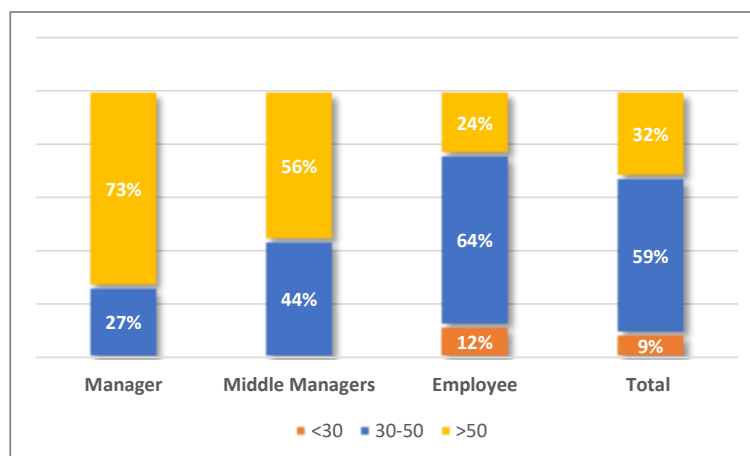
Italtel is present in 11 Countries, in Europe, Latin America and the USA. Group employees at December 31, 2018 numbered **1,473**, of which 412 overseas (at December 31, 2017 numbering 1,433, of which 355 overseas).



Employees by country



Employees by nationality

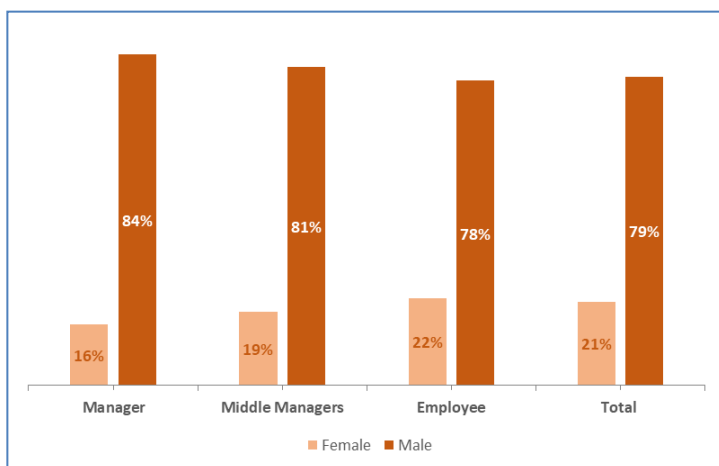


Employees by category and age

3.2 Pay gap by gender

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: MIUR]. However, in comparison with the previous year, at the Group level, there was an increase, albeit a slight one, in the female population in percentage terms (from 20 to 21%).



Employees by category and gender

16%
managerial positions
held by women

Women's salaries
were **5.6%** lower than
men's

In terms of average salary levels based on category, at Italtel female Managers earn 3.1% more than their male counterparts; on the other hand, female Middle Managers and Employees earn respectively 2.7% and 3.7% less than their male colleagues. The overall gap was found to be 5.6%, which, compared to the previous year, indicates a contraction of 6.3%.

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 2018" (*) indicates a salary gap between men and women at Italtel of 10.4%, and of over 9% for each of the various contractual categories, with the exception of Middle Management, in which females earn 4% less than males. Analyzing pay on an industry basis (i.e. specific sectors), the Gender Salary Gap for the telecommunications sector in Italy is 14.2%.

(*) [Source: "Gender Gap Report 2018" drawn up by JobPricing]

3.3 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 abroad for the activities carried out at client offices.

3.3.1 Accident indicators

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

ITALY

Accident frequency index

Calculated according to the formula:

No. of accidents X 1,000,000 / No. work hours
(Regulation UNI 7249/2007)

2018

1,25

0,00 (*)

2017

5,34

1,34 (*)

2016

3,78

0,63 (*)

	2018	2017	2016
Accident gravity index	0,04	0,17	0,06
Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0,00 (*)	0,04 (*)	0,01 (*)

(*) index calculated excluding accidents during commute

Days of absence from work due to accidents in 2018 numbered 70 (2 accidents on commute; there were no accidents at workplaces) against 125 days in 2017 (of which 8 on commute and excluding 132 days concerning the previous year) and 91 days in 2016.

Excluding accidents on commute, in 2018 there were no days of workplace absence for accidents, against 54 days in 2017 and 16 in 2016.

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.

Accident rates for foreign branches, bound by local legislative requirements, are indicated below.

No accident at the workplace in 2018.

Significant reduction of accidents on commute in 2018: 2 compared to 6 in 2017

EUROPE (Germany, France, Poland and Spain)

In Germany, France and Poland, no accidents were reported over the last three years. In Spain, only one workplace accident occurred. The tables with the relative indices are presented below.

GERMANY, FRANCE, POLAND

	2018	2017	2016
Accident frequency index	0,00	0,00	0,00
Calculated according to the formula: No. of accidents X 1,000,000 / No. work hours (Regulation UNI 7249/2007)	0,00 (*)	0,00 (*)	0,00 (*)

	2018	2017	2016
Accident gravity index	0,00	0,00	0,00
Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0,00(*)	0,00 (*)	0,00(*)

(*) index calculated excluding accidents during commute

SPAIN

	2018	2017	2016
Accident frequency index	3,57	0,00	0,00
Calculated according to the formula: No. of accidents X 1,000,000 / No. work hours (Regulation UNI 7249/2007)	3,57 (*)	0,00 (*)	0,00 (*)

	2018	2017	2016
Accident gravity index	0,04	0,00	0,00
Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0,04(*)	0,00 (*)	0,00(*)

(*) index calculated excluding accidents during commute

LATAM (Argentina, Brazil, Colombia and Peru)

In Argentina, Colombia and Peru no accidents were reported over the last three years.

Across all of LATAM, also in the last three years, no workplace accidents were verified. In Brazil, there was one commuting accident in 2016 and one commuting accident in 2018. The tables with the relative indices are presented below.

ARGENTINA, COLOMBIA, PERU

	2018	2017	2016
Accident frequency index	0,00	0,00	0,00
Calculated according to the formula: No. of accidents X 1,000,000 / No. work hours (Regulation UNI 7249/2007)	0,00 (*)	0,00 (*)	0,00 (*)

	2018	2017	2016
Accident gravity index	0,00	0,00	0,00
Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0,00(*)	0,00 (*)	0,00(*)

(*) index calculated excluding accidents during commute

BRAZIL

	2018	2017	2016
Accident frequency index	6,79	0,00	7,31
Calculated according to the formula: No. of accidents X 1,000,000 / No. work hours (Regulation UNI 7249/2007)	0,00 (*)	0,00 (*)	0,00 (*)

	2018	2017	2016
Accident gravity index	0,10	0,00	0,02
Calculated according to the formula: No. absent days X 1,000 / No. work hours (Regulation UNI 7249/2007)	0,00(*)	0,00 (*)	0,00(*)

(*) index calculated excluding accidents during commute

In EUROPE and LATAM regions overall, excluding commuting accidents, there was only one workplace accident in 2018, resulting in 11 days of absence.

**Only one accident
at the workplace
in 2018
in all European areas
(including Italy) and Latin
America.**

3.3.2 Consultations with workers' representatives

Regarding Italian branches, company procedures and practices allow for the consultation of workers' representatives as an operating method provided for by section VII of Italian Legislative Decree 81/2008. The consultations are carried out through periodic meetings, as per Article 35 of the Legislative Decree, which represent a moment of exchange, analysis and formalization of aspects relating to occupational health and at work.

In 2018, three such meetings were held with workers' representatives, one for each Italtel operating office in Italy (in Castelletto, Rome and Palermo).

4. Workforce

Following is a quantitative overview and analysis of Italtel Group in terms of its workforce, focusing, in particular, on turnover, motivational policies and performance appraisals.

4.1 Key numbers: breakdown by category, qualification and department

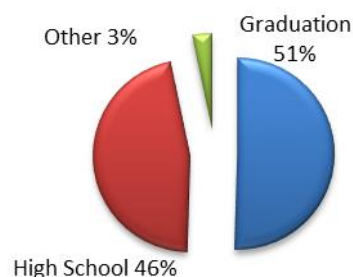
The Italtel Group workforce at December 31, 2018 comprises 75% blue-collar workers, 22% middle managers and 3% managers.

51% possessed Degrees, while approx. 46% 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

93%
employees with full-time contracts employees

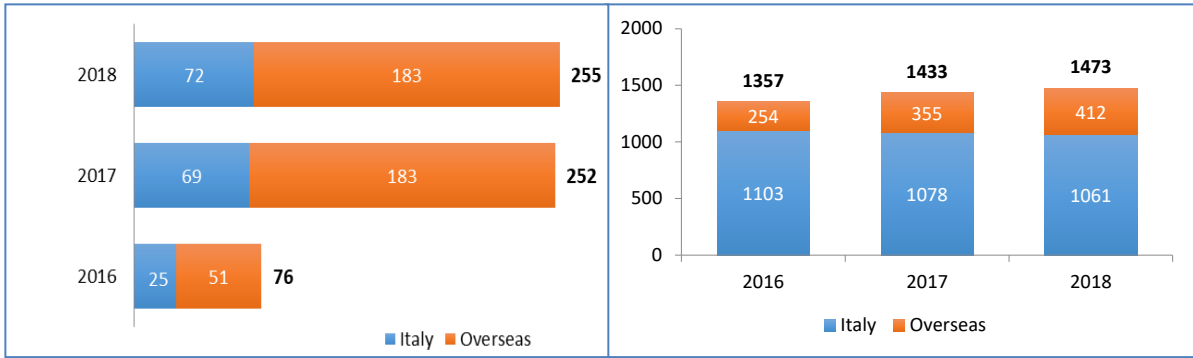
100%
employees in Europe with flexible working hours (*)

100%
employees in Italy with salaries greater than contractual minimum

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

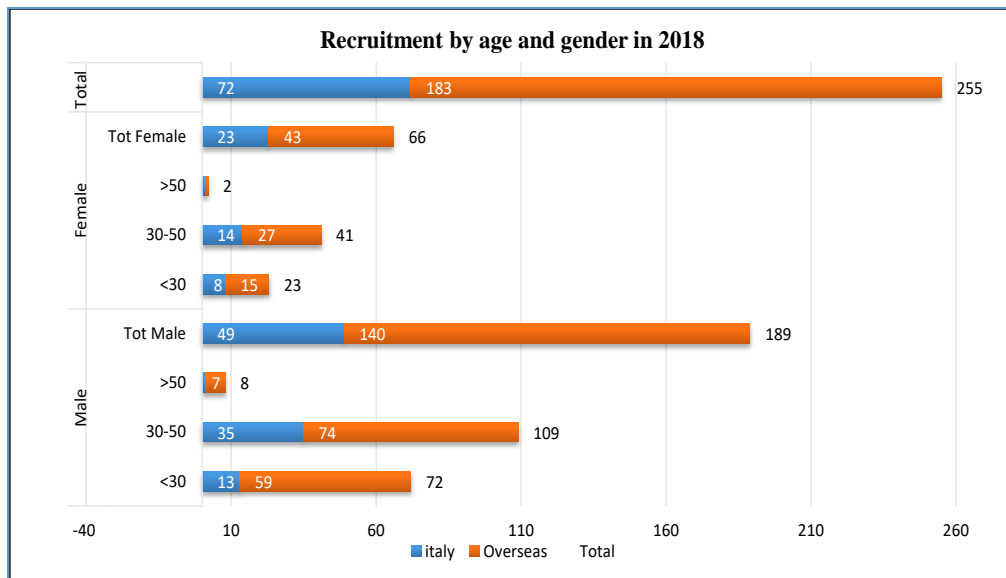
4.2 Turnover

Following are the three-year recruitment trends broken down by age and gender, from which turnover indices have been calculated.

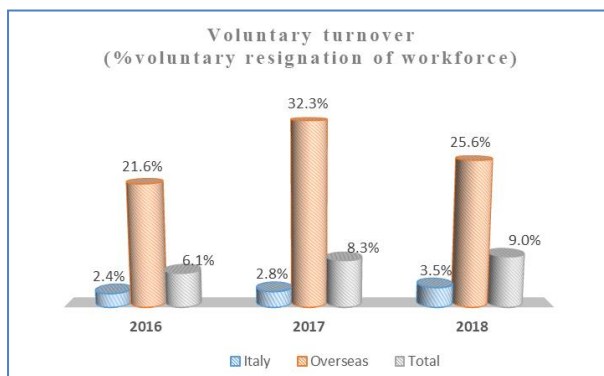


New hires (number)

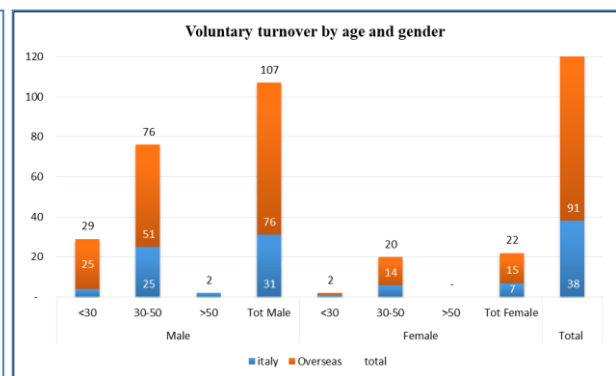
Workforce trend (number)



Recruitment by age and gender in 2018



Voluntary turnover (three years)



Voluntary turnover (2018)

4.3 Motivational policies and engagement

The ongoing profound transformations in the world of Information Technology, driven by innovation in the broadest sense of the term, combined with complex challenges in the integration of Exprivia and Italtel, require a significant cultural and organizational change. In this scenario, one of the many challenges to be faced

undoubtedly concerns the management of skills and the development of new ways of working within the broader paradigm shift of digital transformation.

The development of capacities and competences and the creation of a work environment meritocratically offering every individual the same opportunities are just two of the drivers by which the Group aims to achieve its ambitious growth goals. Acknowledgement of individual contributions and value is indeed a prerequisite of the company's remuneration policy and performance appraisal system, and plays a leading role in selection process and training quality aimed at improving existing skills and developing talent as part of an increasingly integrated management model through which the Group aims to have qualified, motivated and engaged resources able to support the creation of value over the long term.

4.4 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 below, flexitime, part-time, hourly leave), mobility (e.g. company shuttle, 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). Furthermore, almost all personnel are equipped with laptops and approximately 50% with smartphones in support of the "smart working" approach.

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.

4.4.1 Maternity rights and protection

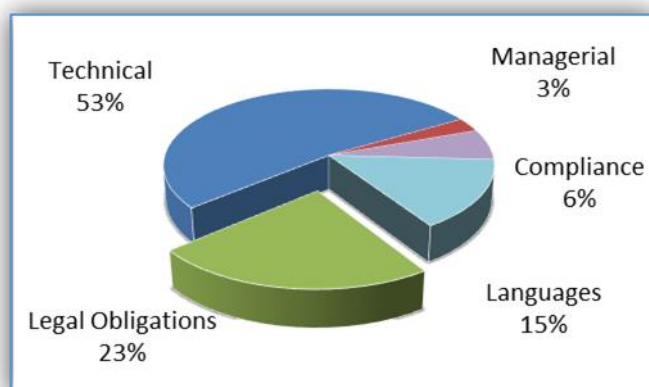
Both in Italy and abroad, all employees entitled to and applying for maternity or paternity leave were able to take advantage of such leave, and regularly returned to work afterwards.

Employees with the right to take advantage of days off for the assistance of disabled family members were also able to exercise that right, as per the various national legislations.

4.5 Training

In 2018, 18,017 hours of training (of which 2,650 at overseas offices) were provided, with 2,480 participations and 176 training events of various types.

Training hours accounted for 1% of hours worked.



+ 8%
increase in number of employees trained in 2018 compared to 2017 (*).

38%
Italian and overseas employees attending at least one training course in 2018 (*).



Average per capita training hours by gender and category

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

During the year training once again focused on technological issues. The training interventions focused on the development of competences regarding:

- Data Centers, Wireless Networking, IP Telephony and Cyber Security on Cisco technology. Regarding Cyber Security, in addition to Cisco technology, certification training continued in relation to other vendors and technology, particularly Infoblox and F5;
- Innovations in Network Programmability on the Cisco platform. The first Network Services Orchestrator “Essentials for Programmers and Network Architects” course was designed and implemented jointly between Exprivia and Italtel on the network transformation Cisco Orchestration platform;
- Internet of Things, Data Analysis and Virtualization on VMWare and Openstack technologies;
- Software development, particularly on Oracle DB Administration, Microsoft Skype for Business, Arduino, Python and Qlik Sense;
- Ultra-Broadband (BUL) networks. A sort of “internal academy” was created to advance the competences and adaptation of senior staff.

Managerial skills development training focused primarily on motivation and engagement through the second consecutive year of the initiative “Vita da Campioni” (Champion’s Life), which aims to stimulate, inspire, guide, raise awareness and develop managerial skills in managers and professionals through a series of meetings with ambassadors of excellence in the worlds of business, sport and art.

A new cultural transformation program was also launched on digital transformation and exponential development by participation in the Positive Impact Disruption Workshop, an immersive, highly experiential workshop on the development of ideas to exploit current and future exponential technologies, organized by Singularity University.

Personnel language skills development was targeted through English group training courses, in addition to continued flexible individual Skype lessons and coaching. Additionally, various training sessions were held on the Italian language at Brazilian branches.

Regarding regulatory compliance, training interventions focused on:

- a) Development of knowledge and awareness of the rules of the Code of Conduct (as per Legislative Decree 231/01). An e-learning course was provided on “Copyright infringement” addressed to product development unit employees;
- b) training to enable smart working at the company: all those involved in the project took part in classroom training which includes sessions on risk assessment, security compliance and general due diligence for out-of-workplace conduct, including rules on data handling and company information.

Regarding compulsory training, interventions focused on:

a) Occupational health and safety (as per Legislative Decree 81/08) courses provided to new managers, supervisors and new hires, high-risk emergency training for works site personnel and refresher courses for first aiders. Legal, technical, methodological and organizational Courses were also provided for the drafting of works site Safety and Coordination Plans.

b) GDPR (General Data Protection Regulation) - Privacy Regulation

As noted, the new EU Regulation 2016/679 entered into effect on May 25, 2018. In preparation, Italtel launched an activity plan to achieve full compliance with the obligations set by the new Regulation, including the following training actions:

- E-learning addressed to the entire company population.
- Specific classroom training aimed at first line managers and company departments heavily impacted by the new regulations (e.g. Human Resources, Marketing & Communications, Sales).

Approximately 30% of training costs were covered by access to Fondimpresa and Fondirigenti financing. Several training events funded by the Lombardy Region, under the "Continuing Education" program, were dedicated to virtualization and the development of foreign language skills.

Italtel has always been committed to technically certifying its personnel in order to guarantee clients fully qualified professionals for each and every project. In 2018, 109 certifications and specialist accreditations were achieved or renewed, particularly in innovative areas in support of Business Plan investments, exceeding the target of over 24% of personnel certified.

4.6 Performance assessment

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 challenges of the present and the future.

Performance is managed in two main ways: a) Performance Appraisals to objectively assess transversal core competences for all employees and individual competences for specific roles; b) Performance Bonuses for reaching annually assigned targets in specific roles.

These key processes are managed via a new Human Capital Management (HCM) platform introduced in 2017 after a significant investment in resources, technology and people considered indispensable for the ongoing Digital Transformation. The platform was initially used to support HR activities and processes exclusively in Italy.

However, in 2018, the appraisal process and HCM platform was gradually rolled out to all Italtel Group companies, including foreign branches, with the aim of consolidating the approach across the whole Group by the end of 2019.

Finally, a Potential Appraisal was activated in 2018 for 30 Sales Managers, both in Italy and abroad. The initiative was carried out as part of a broader Sales Performance Assessment project implemented using various methods according to the specific roles and responsibilities of the managers.

The following tables indicate the distribution of employees involved in the Performance Appraisal process in Italy and abroad over the last three years.

Employees covered by Performance assess. instruments (MbO - Italy)	2016	2017	2018
% of Total Italian workforce	8%	8%	8%
of which Executives	17%	16%	17%
of which Managers	62%	66%	63%
of which White-collar	21%	18%	20%
of which Men	78%	78%	84%
of which Women	22%	22%	16%

Employees covered by Performance assess. instruments (MbO - Overseas)	2016	2017	2018
% of Total Overseas Workforce	65%	46%	42%
of which Managers	5%	7%	7%
Middle Managers	20%	15%	15%
other Employee	75%	78%	78%
of which Men	88%	89%	85%
of which Women	12%	11%	15%

4.7 Smart Working

It is defined as “a new approach to work featuring greater flexibility and independence in terms of work space, hours and tools”. Fundamental to the implementation of this innovative vision is a culture of conduct and attitudes based on individual responsibility and the monitoring of individuals’ results rather than merely their activities.

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. The experiment, to which approx. 150 personnel subscribed between November 2016 and April 2017, concluded positively with the full achievement of the pre-fixed objectives. After this experimentation, the company decided to establish this new working method on a permanent basis and to gradually increase its adoption.

Overall, in 2018, 472 people participated in the smart working program, accounting for approximately 44% of employees in Italy. A total of 11,734 smart working days were completed resulting in an estimated saving of approximately 574,966 kilometers and 16,819 hours commuting (equal to approximately 2,242 working days) and of approximately 98,566 kg in CO₂ emissions.

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, 11 training sessions were delivered during 2018.

4.8 Industrial Relations

On December 6, 2017, an Agreement was signed between the Trade Unions and was subsequently ratified by the Ministry for Economic Development on December 19, 2017, by which the parties agree to a set of departure management instruments for the year 2018, whose principal goal was confirmed also in the Solidarity Contract for a maximum of 1000 persons for the period January 1-June 30, 2018.

In parallel, professional upskilling courses began and subsequent replacements were made both at the company and at Exprivia, after training aimed at acquiring the skills necessary to achieve required operative levels.

Finally, 60 incentivized voluntary redundancies were concluded at the end of the year, and 44 people were redeployed according to the aforementioned requalification scheme. Thus, a total of 104 redundancies were resolved out of 129 excesses recorded at the beginning of 2018. In line with corporate socially responsibility policy, the 25 residual redundancies were managed through the last quarter of 2018 by a new Solidarity Contract, and subsequently reabsorbed into production activities, thus definitively closing the chapter on the program of redundancies begun at the end of 2016.

On December 21, the company communicated the cancellation of a series of second-level supplementary contracts, some of which dated back to the mid-70s and were therefore excessively onerous and no longer sustainable in the current market and business conditions.

After years of social safety nets implemented in coherence with commitments to institutional bodies on adopting only socially non-traumatic solutions to reducing labor costs, the company accompanied news of the cancellation of second-tier contracts with an immediate availability in opening negotiations for Performance Bonuses to partially or totally compensate the effects of the cancellation on the achievement of preset goals.

4.9 Management systems and Certifications

In order to better respond to market demands, ensuring an ongoing drive to improvement, Italtel has certified since 1992 its Quality Management System according to the ISO 9001 standard. This allowed it to define, maintain and improve business processes by gradually identifying new goals consistent with the highest standards defined in the Quality Policy, such as those regarding Innovation, Customer Support, Stakeholder Satisfaction, and Sustainable Development. In this context, Italtel is committed to an intense series of actions on such themes from the year 2000 onwards.

Italtel has operated in pursuit of both incremental and radical innovation, working in close cooperation with clients and stakeholders in order to better understand and meet their needs and expectations in a perspective of Sustainable Development.

Italtel has interpreted innovation not only in terms of products and technologies, but also in terms of processes. Whilst it has played an important role in the transformation of telecommunications networks through the introduction and development of digitalization, IP technology, NFV, SDN and product virtualization technologies, for several years, it has also implemented Agile Scrum product development and an "Open Innovation" process for seeking out radical product and solution development partners.

Attention to customers is articulated in verifying their satisfaction, and listening to their needs throughout numerous day-by-day moments of contact (e.g. marketing actions, tender participations, project alignments), as well as in the organization of "customer days" in which the customer and Italtel can forge a mutual understanding on emerging technological and market issues.

Both ISO 14001 Environmental Certification for the Carini-Palermo site, and ISO 27001 Information Security System Certification for managed services, held since 2001 and 2004 respectively, testify to efforts made by Italtel to minimize environmental impact and to pay attention to the needs of customers, and, more generally, other stakeholders, such as shareholders, employees, and local communities.

Furthermore, Italtel can boast various internal awards and is accredited as one of Cisco's main partners. In this regard, it is worth remembering the numerous Cisco certifications held by Italtel Group companies in Italy and EMEA and Latin American countries, Italtel S.A.'s Quality Management System Certification (Spain), and Italtel Colombia's RUC and OHSAS Health and Safety Certifications.

5.Environment

In 2018, Italtel again undertook a significant commitment to the environment in its headquarters (Italy), 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 particular, in the Carini Industrial District, the Environmental Management System ISO 14001 certification was confirmed, held since 2001. An Environmental Management System (EMS) has been implemented and is active at the Carini-Palermo facility in order to guarantee a systemic approach to continuous environmental performance improvements, and, indirectly, to the reduction of applicable risks.

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 for the preparation of the next 2019 Audit.

An upgrade of the energy monitoring system was launched in 2018 and set to continue in 2019, not only for the purposes of the aforementioned audit, but also to improve the general level of control and management of consumption and waste.

The report includes data on the environmental impact of Italtel Group’s foreign companies in terms of consumption of Tons of Oil Equivalent (TOE), as well as on CO₂ emitted by the entire Group.

The countries included in the reporting are:

- for the EMEA region: Germany, Poland, France and Spain;
- for the LATAM region: Peru, Argentina, Brazil, Colombia.

The result of the analysis is presented in an aggregate model taking into account the overall effect of all companies (EMEA + LATAM).

5.1 Relevance for Italtel operations

Italtel S.p.A. is an IT/TLC service company whose production processes have mainly human-intensive characteristics, but also machine-intensive aspects due to the need to run Research and Development activities on test systems with energy needs comparable to data centers. Therefore, also due to the important electrical loads of such infrastructures, there is a high sensitivity to environmental issues and, in particular, to problems posed by global climate change.

In 2018, the plant consumption education and reduction program at the Settimo Milanese and Carini test rooms continued. The effects of this program resulted in an overall decrease of approximately 20% during the year. Summer and Christmas closing periods were managed with a further lowering of loads to minimum operating levels.

Other electricity savings were achieved through the monitoring and optimization of systems operation and management and a more precise regulation of conditioning in relation to external temperatures and of lighting timing. Indeed, attention is not only focused on test facilities but also on the various infrastructures of the industrial complexes.

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 2014-2018 five-year period.

The environmental performance improvement guidelines adopted 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/Test plant 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)

5.2 Main Risks

Italtel's environmental impacts are similar to those of an office activity, integrated with an important "data center like" component. Adding to these impacts is that of travel to visit customers and general business trips. Therefore, the most significant impacts regard:

- the production of the RAEE (electric and electronic waste equipment);
- Compliance with REACH and RoHS Directives on electronic components;
- Waste production relating to print consumables (toner and cartridges);
- consumption of paper for office use;
- Consumption of electricity and fuels for air conditioning, heating and service cars;
- potable and industrial water consumption;
- impacts from travel in terms of CO₂ emissions.

Specific environmental performance indicators have been defined in order to monitor several of these environmental impacts and the achievement of specific improvement goals.

In particular, typical environmental impacts of the Group's foreign companies are similar to those of an office activity. Adding to these impacts is that of travel to visit customers and general business trips. Therefore, the most significant impacts regard:

- Electricity consumption for air conditioning and office use;
- Fuel consumption for service cars;
- potable water consumption for civil use;
- Waste production relating to print consumables (toner and cartridges);
- consumption of paper for office use;
- impacts from travel in terms of CO₂ emissions.

5.3 Environmental policy

In realizing its business model and carrying out its activities, Italtel considers it paramount to protect the environment and occupational health and safety, according to the needs of employees, customers, shareholders, partners and the entire community of which it forms a part, and to facilitate the evolution of a sustainable development model.

Protecting people's health and safety and the environment helps us maintain the esteem and respect of our stakeholders, as well as be a successfully competitive, healthy and sustainable Group.

In conducting processes and within each of its branches, in Italy and abroad, Italtel is committed to continuing the implementation of the principles set forth in its environmental policy, according to the following guidelines:

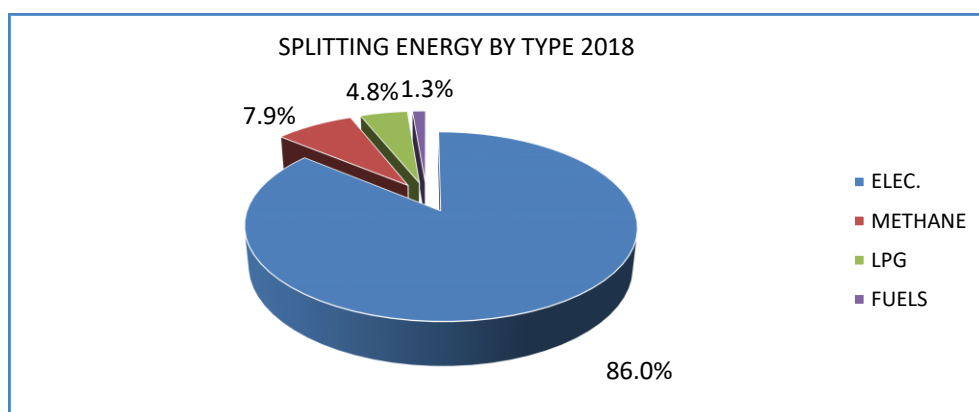
- ensure full compliance with European Community regulations and with national and local legislation on the environment and occupational health and safety, in accordance with the Ethics Code and sustainable management of environmental issues relating to the products and services of all business areas;
- minimize risks by providing for the human, technical and economic resources necessary for safeguarding the environment and occupational health and safety;
- assess, in every activity, in advance and in a documented way, environmental impacts and occupational health and safety issues;
- research and develop innovative technologies and solutions capable of responding to the most significant challenges of the moment, such as easy access to services to protect the health of citizens, the safeguarding and improvement of our environment and continuous professional training;
- deliver products and solutions that offer the best guarantees and least impacts for the environment and the health and safety of those who install and use them up until their end-of-life;
- promote sustainable consumption through increased use of renewable resources and efficient and rational uses of energy;
- minimize greenhouse gas (GHG) emissions, also by favoring alternative work methods that reduce commuting and business travel, such as smart working and videoconferencing;
- reduce waste production and encourage recycling and safe and responsible waste disposal;
- favor suppliers and partners also on the basis of respect for the principles expressed by the policy;
- adequately inform employees and provide them with moments of engagement and consultation to the benefit of training, awareness raising and knowledge on the relevant issues.

5.4 Operating results and consumption trends

The following data is subdivided by Italtel's Italian and foreign branches.

5.4.1 Energy consumption and trends concerning Italian branches

Electrical Energy (EE) is the principal source, accounting for 86%, corresponding to 10.68 GWh in 2018. Combustibles (methane gas and LPG) and, finally, fuels follow.



Energy Splitting by type year 2018

The total Energy consumption five-year trend follows.

Non-renewable fuels	2014	2015	2016	2017	2018
METHANE (Kmc)	328	220	202	221	219
LPG (Kliters)	225	229	246	212	180
FUELS (Kliters)	52	44	37	36	34
Total Non Renewable FUELS (Tep)	460	364	353	348	324
Changes%		-20.8%	-3.1%	-1.5%	-6.7%
Cge.% cumulative		-20.8%	-23.2%	-24.4%	-29.5%

Electricity acquired	2014	2015	2016	2017	2018
ELEC. (GWh)	21.65	20.50	20.11	18.10	16.83
Changes%		-5.3%	-1.9%	-10.0%	-7.0%
Cge.% cumulative		-5.3%	-7.1%	-16.4%	-22.3%

Electricity sold	2014	2015	2016	2017	2017
ELEC. (GWh)	6.58	6.28	6.61	6.49	6.15
Changes%		-4.5%	5.1%	-1.8%	-5.2%
Cge.% cumulative		-4.5%	0.4%	-1.3%	-6.5%

Net Electricity ITALTEL	2014	2015	2016	2017	2018
ELEC. (GWh)	15.08	14.22	13.51	11.61	10.68
ELECTRICITY (Tep)	2,819	2,658	2,526	2,170	1,997
Changes%		-5.7%	-5.0%	-14.1%	-8.0%
Cge.% cumulative		-5.7%	-10.4%	-23.0%	-29.2%

Total energy consumption	2014	2015	2016	2017	2018
TOTAL TEP	3,279	3,022	2,879	2,518	2,321
Changes%		-7.8%	-4.8%	-12.5%	-7.8%
Cge.% cumulative		-7.8%	-12.2%	-23.2%	-29.2%

NOTE - Reference Standards: Conversion Table of the Italian Federation for the Rational Use of Energy.

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

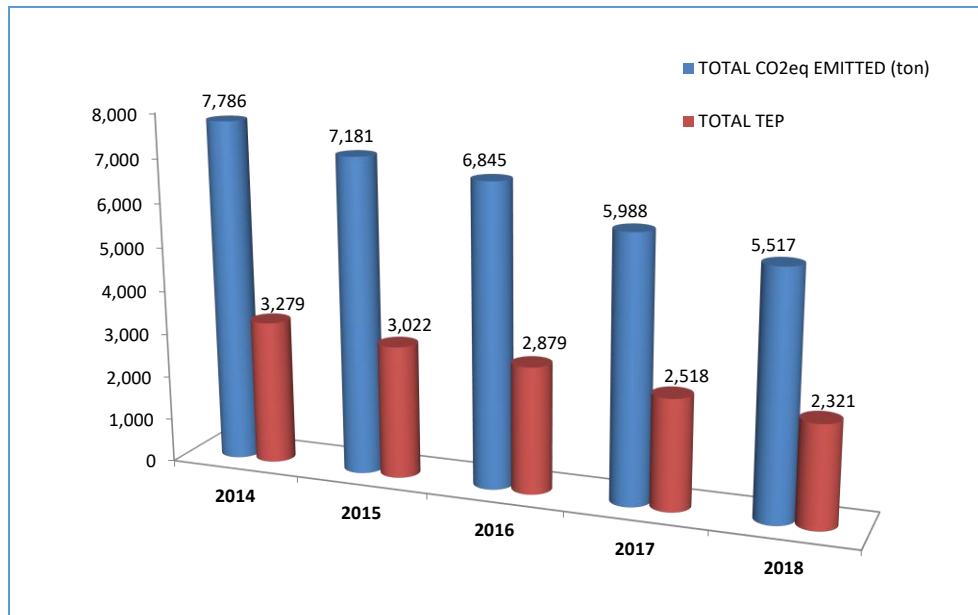
DIRECT EMISSIONS	2014	2015	2016	2017	2018
TOTAL CO ₂ eq EMITTED (ton)	1,152	926	902	881	818
Changes%		-19.6%	-2.7%	-2.3%	-7.2%
Cge.% cumulative		-19.6%	-21.7%	-23.5%	-29.0%
CO ₂ eq METHANE (ton)	642	430	395	432	430
CO ₂ eq LPG (ton)	382	388	416	359	304
CO ₂ eq FUELS (ton)	129	109	91	90	84

INDIRECT EMISSIONS	2014	2015	2016	2017	2018
CO ₂ eq ELECTRICITY (ton)	6,634	6,255	5,943	5,107	4,699
Changes%		-5.7%	-5.0%	-14.1%	-8.0%
Cge.% cumulative		-5.7%	-10.4%	-23.0%	-29.2%

DIRECT AND INDIRECT EMISSIONS	2014	2015	2016	2017	2018
CO ₂ eq TOTAL (ton)	7,786	7,181	6,845	5,988	5,517
Changes%		-7.8%	-4.7%	-12.5%	-7.9%
Cge.% cumulative		-7.8%	-12.1%	-23.1%	-29.1%

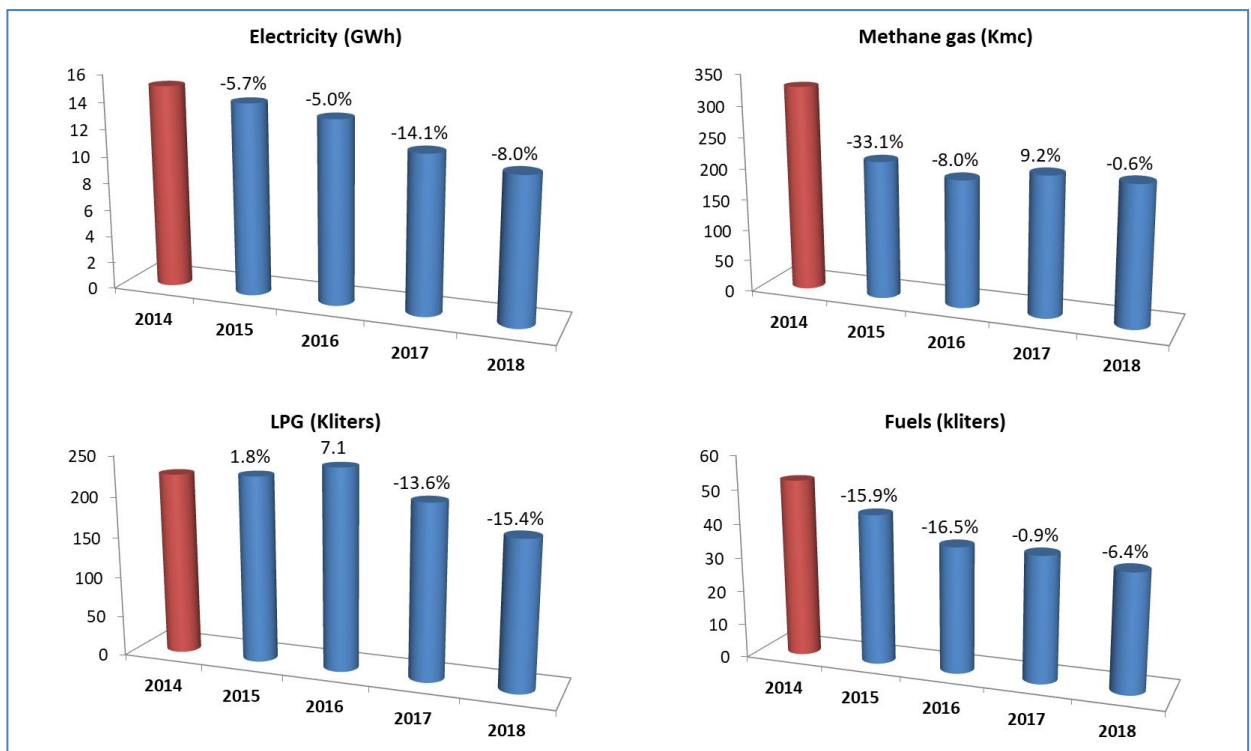
NOTE - References used: a) Standard parameters taken from the national inventory of the United Nations Framework Convention on Climate Change for methane and LPG conversions; b) Mix of car emissions estimated on the average of the current fuel card equipped car fleet, emissions stated in g/km and converted 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.

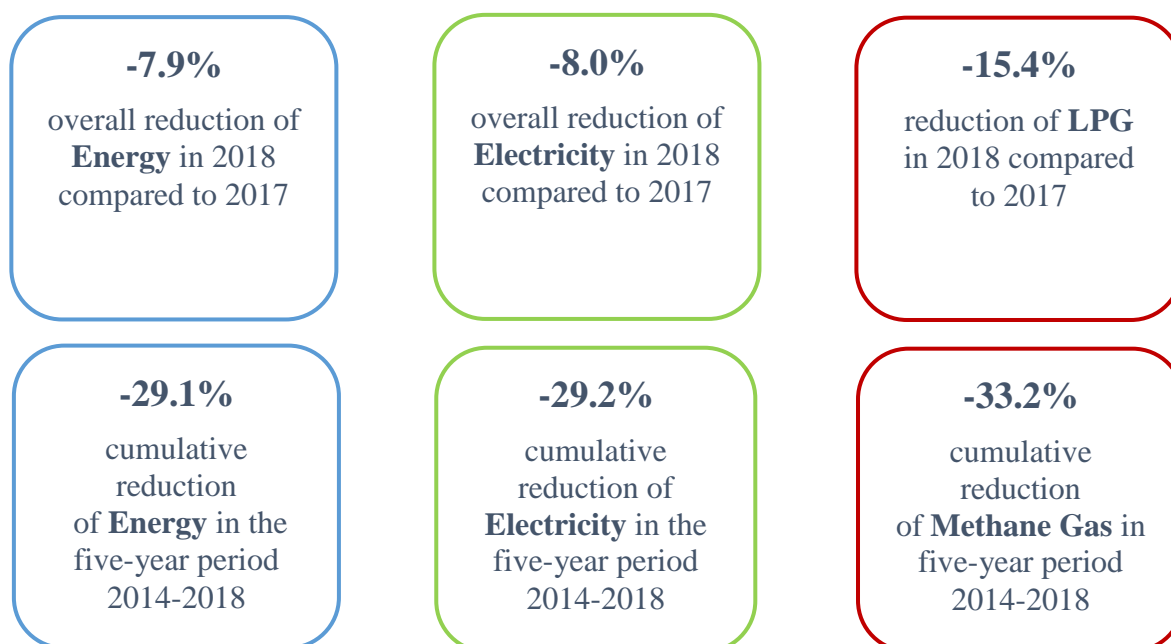
Indicated below is the five-year trend in total emissions of CO₂ equivalent, and its relative impact in Tons of Oil Equivalent (TOE), with results on a yearly basis underlining the constantly positive trend in reducing emissions and impact.



CO2 eq. trend and TEP 2014-2018

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





The new condensing thermal plant installed in Settimo Milanese in 2014 continue to bring benefits, which led to a 33% reduction in methane consumption in the thermal reference year, and an annual saving of 15.4% in LPG and 6.4% in other fuels.

In 2018, the project for the gasification of the Castelletto facilities became operative promising positive economic and environmental effects in 2019.

Following is the five-year trend in specific energy indicators, according to the GRI Standards. The total quantity of the various energy sources converted into TOE 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	2014	2015	2016	2017	2018
Average workforce	1,297	1,072	1,105	1,100	1,170
Changes%		-17.3%	3.1%	-0.5%	6.4%
Cge.% cumulative		-17.3%	-14.8%	-15.2%	-9.8%
Developed active areas	60,578	55,049	54,339	53,956	50,756
Changes%		-9.1%	-1.3%	-0.7%	-5.9%
Cge.% cumulative		-9.1%	-10.3%	-10.9%	-16.2%
Energy intensity RATIO 1 TEP/FTE	2.53	2.82	2.61	2.29	1.98
TEP/FTE		11.5%	-7.6%	-12.1%	-13.3%
Cge.% cumulative		11.5%	3.0%	-9.5%	-21.5%
Energy intensity RATIO 2 TEP/mq	0.054	0.055	0.053	0.047	0.046
TEP/mq		1.4%	-3.5%	-11.9%	-2.0%
Cge.% cumulative		1.4%	-2.1%	-13.8%	-15.5%

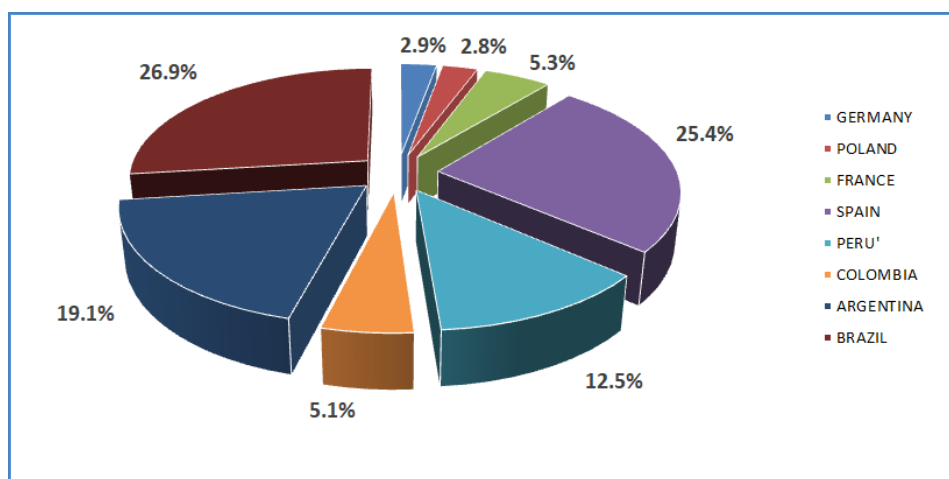
Similarly, following is the five-year trend in specific emission indicators. The total quantity of direct and indirect emissions on the total net perimeter of Italtel in Italy relates to both the average workforce and the total active square meters of the Castelletto and Carini facilities.

GHG INTENSITY RATIO (Scope 1 and 2)	2014	2015	2016	2017	2018
GHG intensity RATIO 1 TON CO ₂ /mq	6.00	6.70	6.19	5.44	4.72
TEP/FTE		11.6%	-7.5%	-12.1%	-13.4%
Cge.% cumulative		11.6%	3.2%	-9.3%	-21.5%
GHG intensity RATIO 2 TON CO ₂ /mq	0.129	0.130	0.126	0.111	0.109
TEP/mq		1.5%	-3.4%	-11.9%	-2.1%
Cge.% cumulative		1.5%	-2.0%	-13.7%	-15.4%

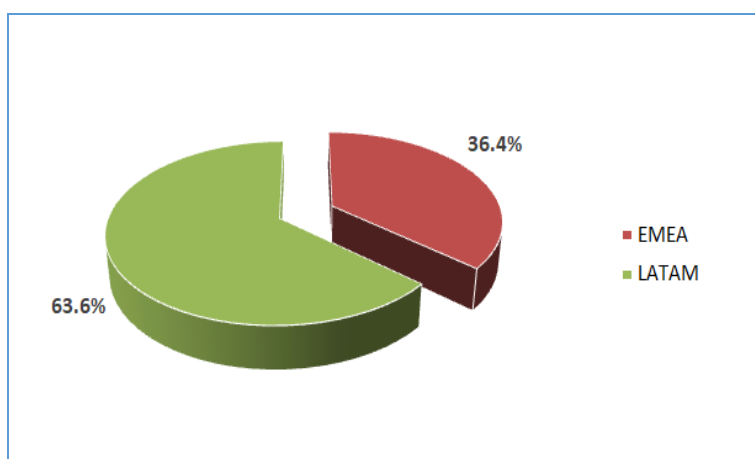
The specific indicators, Energy Intensity Ratio and GHG Intensity Ratio, significantly improved both in the reference year and over the five-year period.

5.4.2 Energy consumption and trends concerning foreign branches

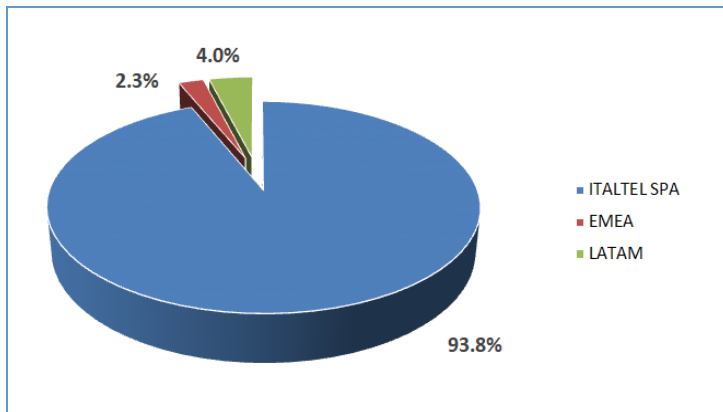
Indicated below is the percentage impact of the various foreign branches on relative direct and indirect emissions, excluding travel impacts.



Percentage impact on TOE/CO₂ in 2018

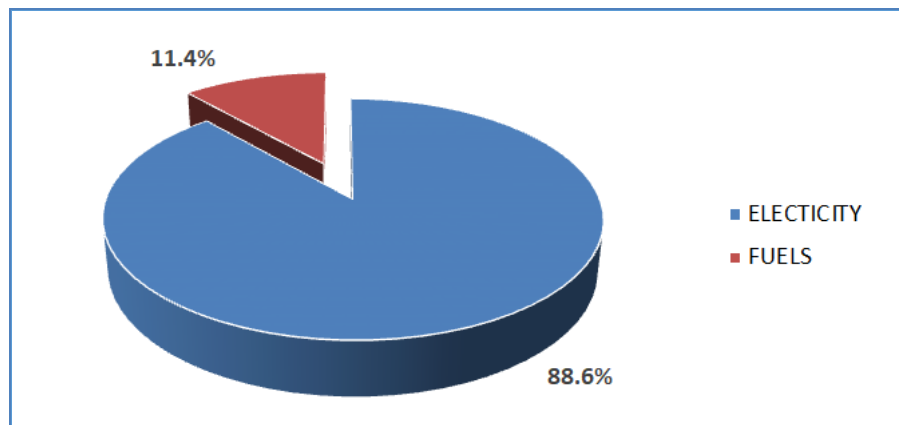


Percentage impact on TOE/CO₂ in EMEA and LATAM regions in 2018



Percentage impact on TOE/CO₂ in 2018

Below is an analysis of the trends and results concerning the foreign branches. Electrical Energy is the principal source, accounting for 89%, corresponding to 0.73 GWh in 2018. Following are fuels for service cars.



Energy Splitting of the overseas offices by type year 2018

The total Energy consumption five-year trend follows.

Non-renewable fuels	2014	2015	2016	2017	2018
Fuels (Kliters)	15.5	16.1	18.1	18.8	19.8
Total Fuels (TEP)	13.9	14.3	16.1	16.8	17.6
Change%		3.4%	12.5%	4.0%	5.1%
Cge.% cumulative		3.4%	16.4%	21.0%	27.3%

Net Electric Energy Subsidiary	2014	2015	2016	2017	2018
Electric (MWh)	657	665	683	718	731
Electric (TEP)	122.8	124.3	127.6	134.2	136.7
Change%		1.2%	2.7%	5.1%	1.8%
Cge.% cumulative		1.2%	4.0%	9.3%	11.3%

Total energy consumption	2014	2015	2016	2017	2018
TOTAL TEP	136.6	138.6	143.7	150.9	154.3
Change%		1.5%	3.7%	5.0%	2.2%
Cge.% cumulative		1.5%	5.2%	10.5%	12.9%

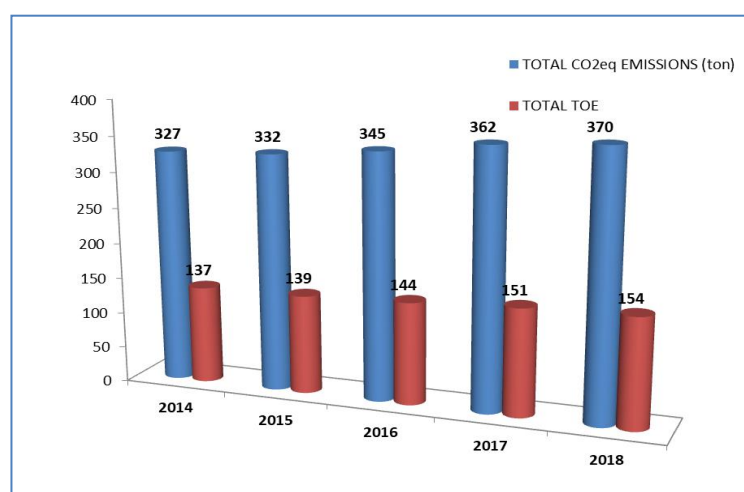
The five-year trend for direct and indirect emissions follows.

DIRECT EMISSIONS	2014	2015	2016	2017	2018
TOTAL CO ₂ eq (ton)	38.2	39.6	44.5	46.3	48.7
Change%		3.4%	12.5%	4.0%	5.1%
Cge.% cumulative		3.4%	16.4%	21.0%	27.3%

INDIRECT EMISSIONS	2014	2015	2016	2017	2018
TOTAL CO ₂ eq (ton)	288.9	292.5	300.3	315.7	321.5
Change%		1.2%	2.7%	5.1%	1.8%
Cge.% cumulative		1.2%	4.0%	9.3%	11.3%

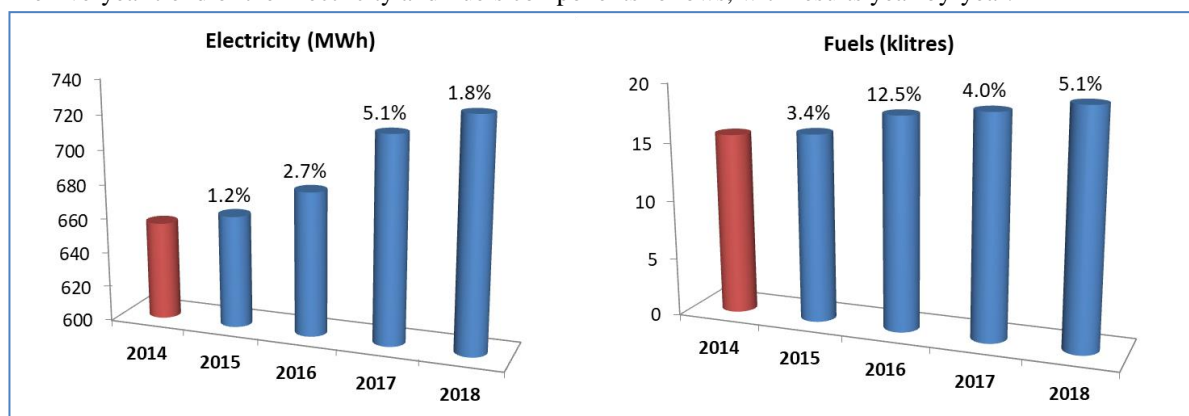
TOTAL EMISSIONS (Scope 1+2)	2014	2015	2016	2017	2018
TOTAL CO ₂ eq (ton)	327.1	332.0	344.8	362.0	370.2
Change%		1.5%	3.9%	5.0%	2.3%
Cge.% cumulative		1.5%	5.4%	10.7%	13.2%

Indicated below is the five-year trend in total emissions of CO₂ equivalent, and its relative impact in Tons of Oil Equivalent (TOE).



CO₂ eq. trend and TEP 2014-2018

The five-year trend of the Electricity and Fuels components follows, with results year-by-year.



The overall trend represents an increase in impact linked to the growth dynamics of the foreign branches.

However, in relation to the branches' average workforce and total active square meters, the five-year trend in specific energy and emission indicators shows an overall improvement (see table below).

ENERGY INTENSITY RATIO	2014	2015	2016	2017	2018
Average workforce	262	282	284	352	451
Changes%		7.8%	0.8%	23.6%	28.3%
Cge.% cumulativa		7.8%	8.7%	34.4%	72.5%
Superficie Sviluppata attiva (mq)	3,919	3,936	3,936	4,547	5,088
Changes%		0.00	0.00	0.16	0.12
Var.% cumulata		0.4%	0.4%	16.0%	29.8%
Energy intensity RATIO 1	0.52	0.49	0.51	0.43	0.34
TEP/FTE		-5.9%	2.9%	-15.1%	-20.4%
Var.% cumulata		-5.9%	-3.2%	-17.8%	-34.5%
Energy intensity RATIO 2	0.035	0.035	0.037	0.033	0.030
TEP/mq		1.0%	3.7%	-9.1%	-8.7%
Var.% cumulata		1.0%	4.8%	-4.8%	-13.0%

GHG INTENSITY RATIO (Scope1+2)	2014	2015	2016	2017	2018
GHG intensity RATIO 1	1.25	1.18	1.21	1.03	0.82
TEP/FTE		-5.9%	3.0%	-15.1%	-20.3%
Var.% cumulata		-5.9%	-3.0%	-17.6%	-34.4%
GHG intensity RATIO 2	0.083	0.084	0.088	0.080	0.073
TEP/mq		1.1%	3.9%	-9.1%	-8.6%
Var.% cumulata		1.1%	4.9%	-4.6%	-12.8%

The specific indicators, Energy Intensity Ratio and GHG Intensity Ratio, showed a significant improvement in the reference year and over the five-year period in relation to both the workforce and active square meters.

-20.3%
**GHG Intensity
 Ratio improvement
 in 2018
 compared to 2017**

-8.6%
**GHG Intensity
 Ratio improvement
 in 2018
 compared to 2017**

5.5 Paper for office use

The following data is subdivided by Italtel's Italian and foreign branches.

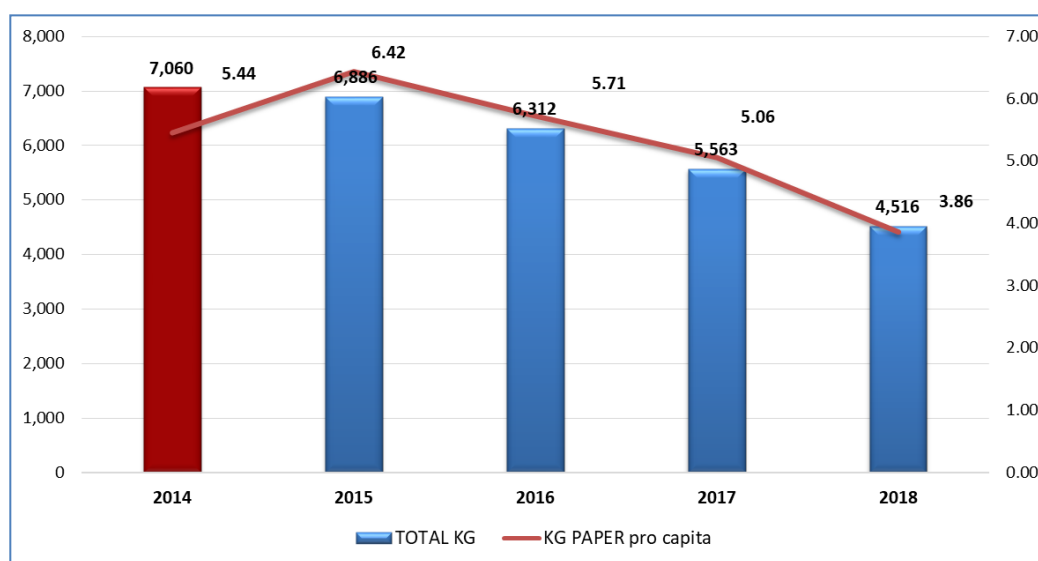
5.5.1 Paper for office use - Printing Volumes (Italian offices)

Paper consumption has reduced both in absolute terms and in pro-capita terms.

Lower consumption is related also to the development of the multifunctional printing center project shared with other services, in place since 2007.

Compared to 2017, absolute and pro-capita consumption declined to a consistent and significant extent. This result consolidates on action in 2017 to reduce and optimize printing stations in the various branches, both in terms of individual devices (-54.5%) and shared devices (-48.5%).

The reduction in the volume of paper ordered and used is consistent with the reduction in electronically traced print volumes, with the same percentage impact and a benefit also in terms of the lesser amount of toner utilized.



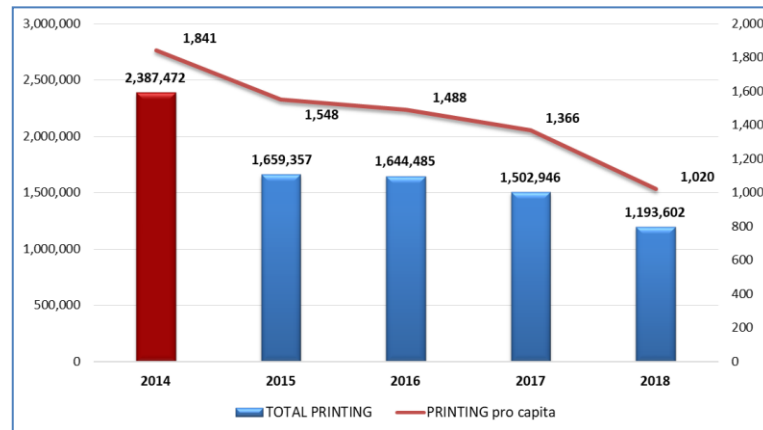
Consumption of paper for office use 2014-2018

-18.8%

Reduction of
paper consumption in
2018 compared to
2017

-23.7%

Reduction of
paper consumption
pro-capita in 2018
compared to 2017



Printing volumes 2014-2018

-20.6%
Reduction of printing volumes accumulated in 2018 compared to 2017

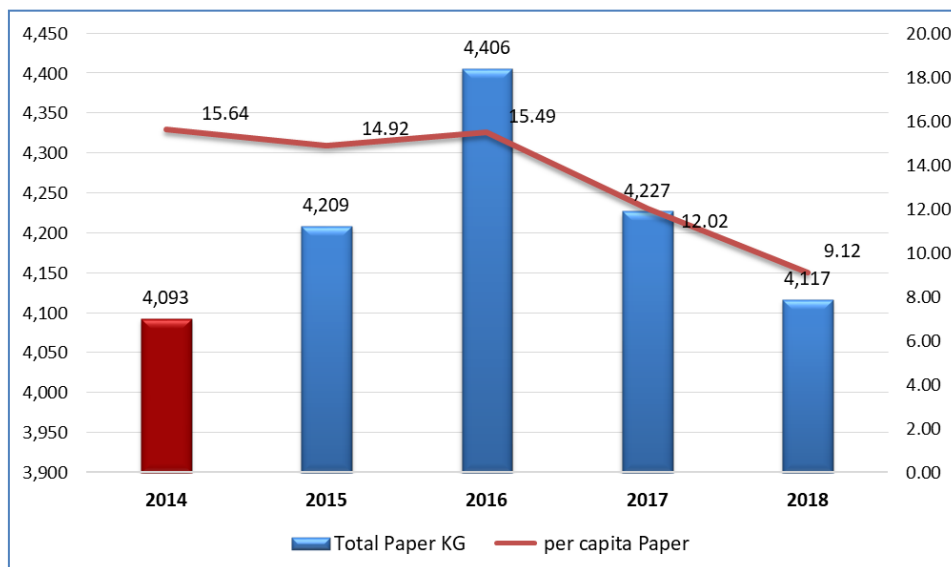
-25.3%
Reduction of printing volumes pro-capita in 2018 compared to 2017

5.5.2 Paper for office use - Print volumes (foreign branches)

Paper consumption has reduced both in absolute terms and in pro-capita terms.

The lower consumptions were achieved by following the same logic of optimizing printing stations as applied in Italian branches.

The reduction in the volume of paper ordered and used is consistent with the reduction in electronically traced print volumes, with the same percentage impact and a benefit also in terms of the lesser amount of toner utilized.



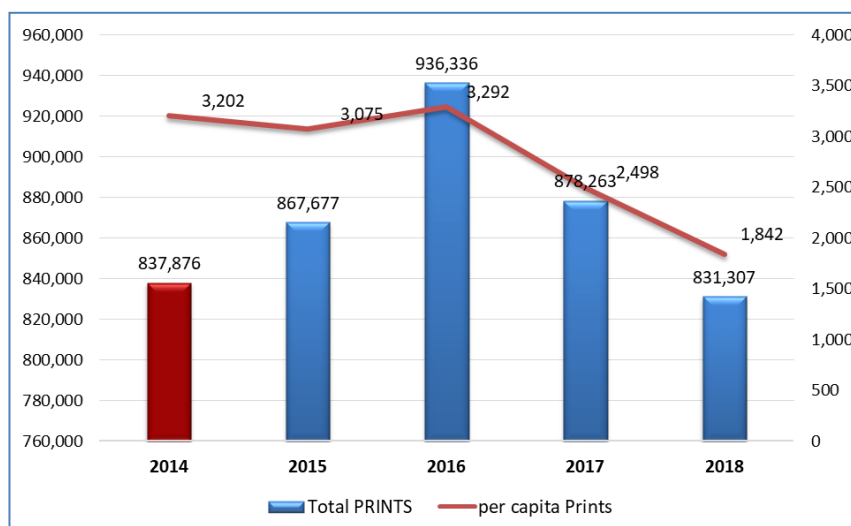
Consumption of paper for office use 2014-2018

-2.6%

Reduction of
paper consumption in
2018 compared to
2017

-24.1%

Reduction of
paper consumption
pro capita in 2018
compared to 2017



Printing volumes 2014-2018

-5.3%

Reduction of
printing volumes
accumulated in 2018
compared to 2017

-26.3%

Reduction of
printing volumes
pro-capita in 2018
compared to 2017

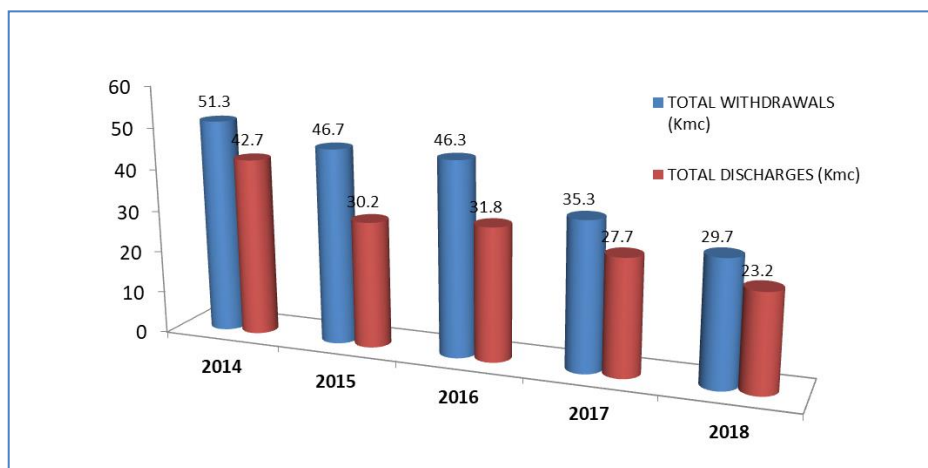
5.6 Water

Detailed below are initiatives regarding the containment of water resources and relative consumptions recorded in the reference periods and areas, subdivided by Italian and foreign branches.

5.6.1 Water - Italian branches

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 (100% 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. Due to its small size, the Rome office is not included in the water balance.



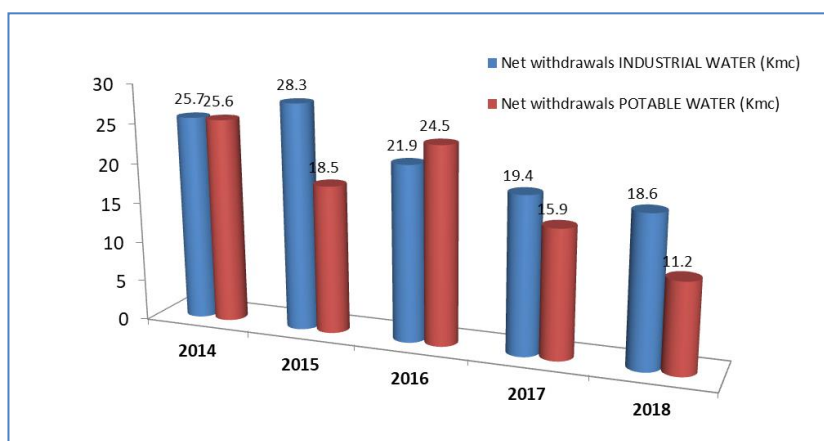
Use/Discharge Water 2014-2018 (Italy)

-15.8% / -16.1%
 Reduction withdrawal/discharge overall in 2018 compared to 2017

-42.1% / -45.5%
 Reduction use/discharge compared to 2014 reference

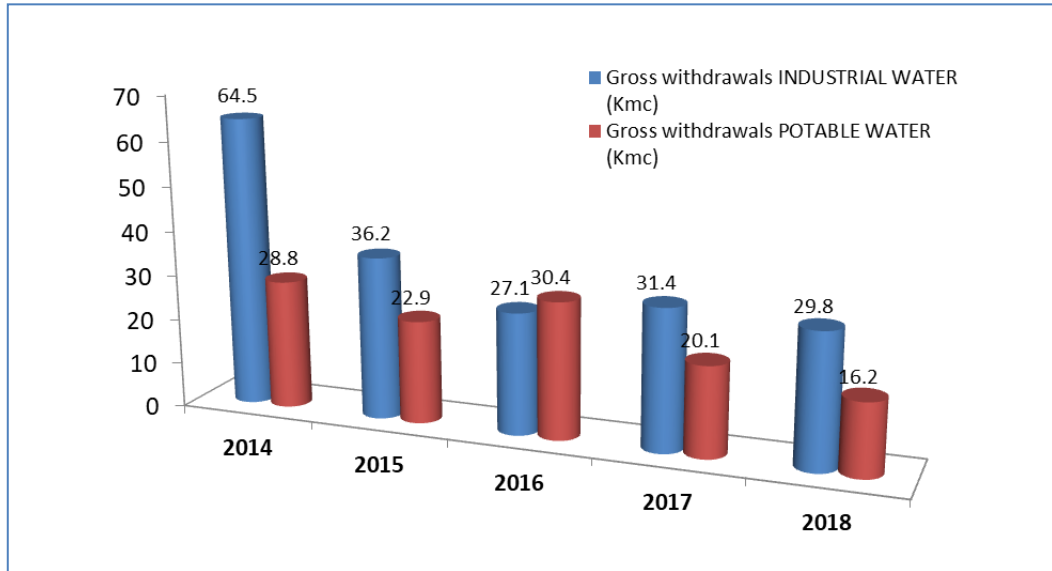
With regards to incoming water flows, the five-year trend is positive. The performance of Italtel withdrawals by type of source is presented below. In Castelletto, drinking water is withdrawn from the municipal mains network managed by Amiacque (CAP Group), while industrial water is withdrawn from private wells. In Carini, drinking water and industrial water is withdrawn from a private water supply network managed by SORI S.p.A..

The results for Italy compared to 2017 were positive: -4.4% industrial water withdrawal, -29.6% potable water withdrawal (see graph below).



2014-2018 net water withdrawals (Italy)

Also considering gross water withdrawal data in the global environmental system, thus including the share lost, the five-year trend indicates a decidedly positive trend in terms of environmental impacts (see chart below).



2014-2018 gross water withdrawals (Italy)

-5.1% / -19.5%

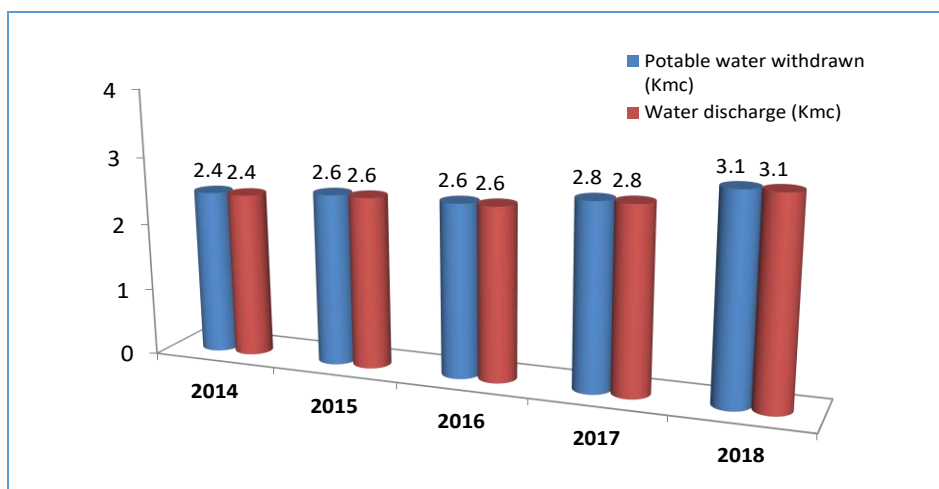
Reduction gross withdrawal of industrial and potable water in 2018 compared to 2017

-53.8% / -43.7%

Reduction gross withdrawal of industrial and potable water since 2014

5.6.2 Water - Foreign branches

Water consumption shows an aggregate increasing trend directly related to the increase in the workforce. Since foreign business operations are typical office-like activities and therefore comparable to civil use, all withdrawn water has been considered as completely discharged, without any significant dispersion.



Use/Discharge Water 2014-2018

5.7. *Effluents and waste*

The only discharges produced by Italtel S.p.A. are of toilet waste water to sewerage.

The estimated number of liters of wastewater discharged into civil sewerage from the Castelletto and Carini sites in 2018 were 7,091 and 6,595 cubic meters respectively. A small amount of industrial water waste at the Carini site (430 cubic meters) is attributable to water desalination treatments.

The discharges relating to foreign branches are attributable to civil use, and therefore, accounting for site workforce numbers and quantities measured, the total was considered negligible in comparison with data from the Italian branches.

Hazardous waste produced by Italtel is mainly WEEE waste from the use of IT equipment (e.g. monitors, PCs), electrical and electronic equipment (e.g. UPS) and company infrastructure and furnishings (e.g. neon lamps for lighting).

In 2018, approximately 152kg of special hazardous waste were removed from Italtel, due to the dismantling of an obsolete Telecom Application Server. The opportunity was also taken to dispose of obsolete electronic equipment and ferrous materials from obsolete racks (4,500kg).

The special waste was submitted to qualified suppliers for dismantling, removal and disposal (including the recovery of metals) by a dedicated disposal procedure with accompanying relative documentation.

Ordinary waste was disposed of by specialist companies, with quantities tracked in the relative documentation.

Regarding waste produced by foreign branches, accounting for individual site workforce numbers and activity volumes, the total was considered negligible in comparison with data from the Italian branches.

5.8 *Regulatory compliance*

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

5.9 *Travel*

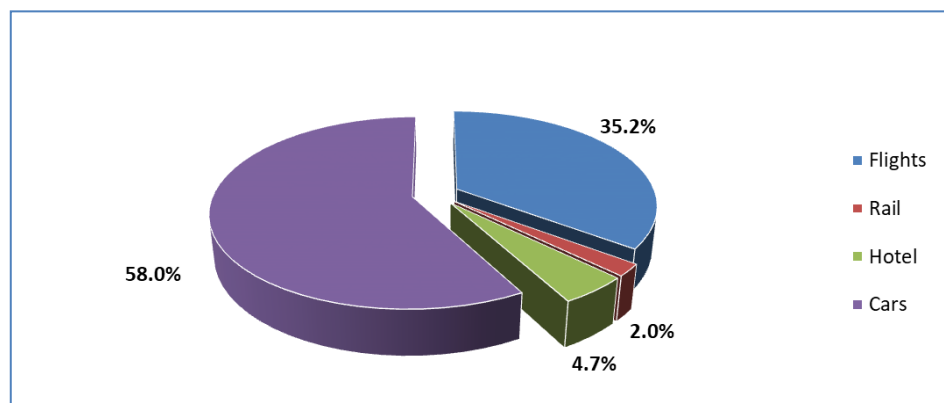
The following data relating to business trips is subdivided by Italtel's Italian and foreign branches.

5.9.1 *Travel - Italian branches*

Although specific demands require company personnel to make trips both in Italy and overseas, Italtel promotes the reduction of travel among its employees through distance communication and working options. The CO₂ emissions from work related journeys was approx. 975 tons in 2018, representing approx. 21.5% of all direct and indirect emissions related to company activities.

The majority of CO₂ emissions concern flights (45% of the total); this percentage is in line with the impact of car journeys.

Air travel emissions fell so significantly (-44.1%) that overall emissions fell by as much as 30.3% compared to 2017.



Breakdown of CO₂ emissions from work related journeys in 2018

The breakdown for the Company is as follows:

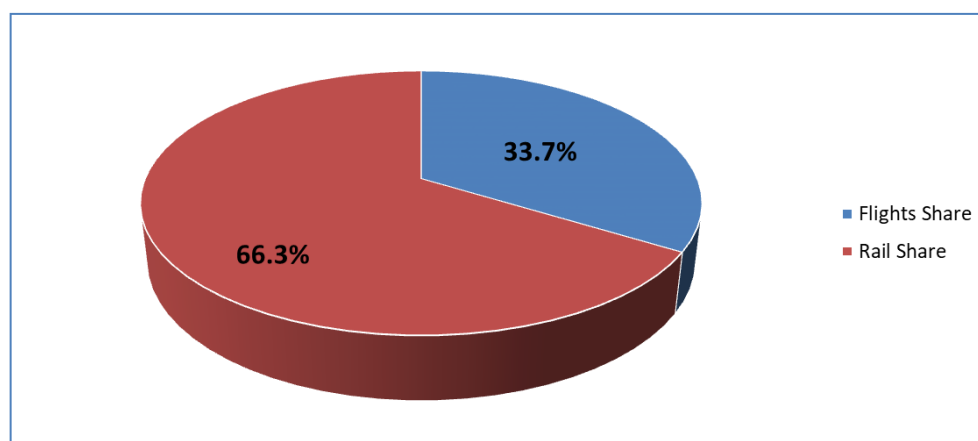
TRIPS	2014	2015	2016	2017	2018
TOTAL CO ₂ emissions (ton)	942	888	1,168	1,398	975
Changes%		-5.7%	31.5%	19.6%	-30.3%
Cge.% cumulative		-5.7%	24.1%	48.4%	3.5%
Flights	432	385	619	789	441
Changes%		-10.9%	61.0%	27.4%	-44.1%
Cge.% cumulative		-10.9%	43.4%	82.7%	2.1%
Rail	49.73	44.32	66.84	84.20	83.19
Changes%		-10.9%	50.8%	26.0%	-1.2%
Cge.% cumulative		-10.9%	34.4%	69.3%	67.3%
Hotel	60	55	62	86	59
Changes%		-6.9%	11.8%	39.3%	-31.3%
Cge.% cumulative		-6.9%	4.1%	44.9%	-0.5%
Cars	400	404	420	438	392
Changes%		0.9%	4.0%	4.3%	-10.6%
Cge.% cumulative		0.9%	4.9%	9.4%	-2.2%

NOTE - Calculation method: integrated UVET reporting based on the emission and conversion factors published on www.ghgprotocol.org and www.acriss.org. Added to the rental figure are the number of kilometers of own car travel multiplied by an average emission factor.

The company policy for work related travel in Italy promotes the use of rail. Rail use for domestic journeys in fact reduces CO₂ emissions, as at like-for-like distance train journeys entail 27% less emissions than air travel. The following data shows an improvement in the domestic travel share percentage for the use of trains over planes. In particular, the table shows a significant improvement in share, which in 2018 reached 66.3%.

TRIPS ITALY	2014	2015	2016	2017	2018
TOTAL (Kmiles)	1,169	1,147	1,627	1,768	1,670
Changes%		-1.9%	41.9%	8.6%	-5.5%
Flights Share	549	592	750	684	563
Changes%		7.9%	26.7%	-8.8%	-17.7%
Share%	46.9%	51.6%	46.1%	38.7%	33.7%
Rail Share	620	555	876	1,083	1,107
Changes%		-10.6%	58.0%	23.6%	2.2%
Share%	53.1%	48.4%	53.9%	61.3%	66.3%
Air flights (ton CO2)	134	141	190	222	153
Changes%		5.4%	33.9%	17.1%	-31.0%
Rail (ton CO2)	50	44	67	84	83
Changes%		-11.1%	51.1%	26.0%	-1.0%
CO2 saving by train use (ton)	107	88	153	261	216
Changes%		-17.6%	73.0%	70.7%	-17.0%
Equivalent air (ton CO2)	157	132	219	345	299

Emissions relating to rail travel totaled 83 tons of CO₂ equivalent, against approx. 299 tons of CO₂ which would have been emitted for an equivalent distance travelled on domestic flights. Therefore, the total savings in terms of emissions due to train over air travel, in 2018, was in the order of 216 tons of CO₂.



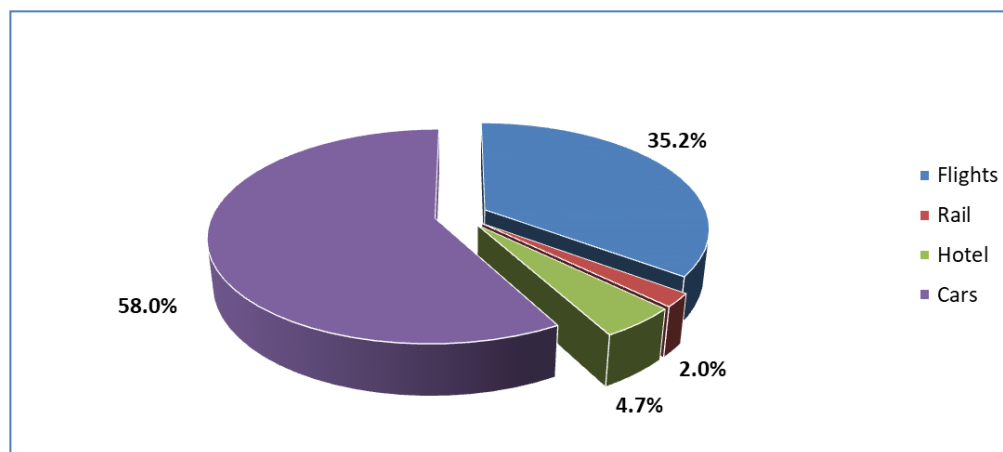
Domestic journeys 2018

5.9.2 Travel - Foreign branches

Approximately 416 tons of CO₂ were emitted in relation to travel in 2018, a value similar to previous direct and indirect emissions.

The higher portion of CO₂ emitted related to car journeys, representing 58% of the total; a lower portion relates to air travel (35%).

Air travel emissions fell by about 2.7% in comparison with 2017, yet grew overall over the five-year period in line with the growth of business.



Breakdown of CO₂ emissions from work related journeys in 2018 - Foreign offices

The breakdown for the Company is as follows:

TRAVELS	2014	2015	2016	2017	2018
TOTAL CO ₂ emissions (ton)	293	343	354	408	416
Change%		17.0%	3.3%	15.1%	2.1%
Cge.% cumulative		17.0%	20.9%	39.2%	42.1%
Flights	90	105	114	150	146
Change%		15.7%	9.1%	31.8%	-2.7%
Cge.% cumulative		15.7%	26.2%	66.4%	62.0%
Rail	2	3	3	9	9
Change%		18.9%	9.4%	169.7%	-2.4%
Cge.% cumulative		18.9%	30.0%	250.7%	242.2%
Hotel	11	13	9	17	20
Change%		18.0%	-31.0%	96.2%	15.9%
Cge.% cumulative		18.0%	-18.5%	59.8%	85.3%
Cars	189	223	228	232	241
Change%		17.5%	2.5%	1.5%	4.3%
Cge.% cumulative		17.5%	20.5%	22.3%	27.5%

NOTE - Calculation method: based on the emission and conversion factors published on www.ghgprotocol.org and www.acriss.org. In the absence of direct data from Travel Agencies, quantities of CO₂ have been indirectly calculated by travel type numbers and country.

5.10 Suppliers

In 2018, Italtel issued an update of its Guidelines for the Selection and Qualification of Suppliers, following the introduction of Italtel Group's new Purchasing Policy. This Policy, issued in 2016, 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

5.10.1 Guidelines for the selection and assessment of suppliers

The Procurement department searches for new suppliers to qualify, and potential alternatives to those already used, according to the company's needs for products, services or suppliers to fulfill projects under development. First of all, it performs a preliminary check on suppliers, supported, if deemed necessary, by the Finance & Administration department in relation to economic and financial aspects. Potential suppliers passing this preliminary check then pass on to a subsequent assessment and qualification phase. The suppliers then submit a qualification form and supporting documentation (e.g. Chamber of Commerce extract, last financial statement data, quality, technical and sustainability certifications).

If the information submitted in the form is sufficient to indicate that the supplier is able to guarantee supply of the goods or services as required, the supplier is deemed qualified by indirect assessment.

The assessment is made by determining the degree of compliance with the provisions of the:

- 1.Environmental Management System
- 2.Quality Management System
- 3.Information Security Management System (required for suppliers of repair, installation, TAC1 and other services at any customer or Italtel's sites)
- 4.Financial solidity
- 5.Supplier company and administrative information contained in the Chamber of Commerce extract or equivalent documentation
- 6.Social Accountability

Each supplier is associated with a numerical value to determine a ranking. Qualified suppliers are registered on a dedicated information system that enables orders to be sent to them.

All of the documentation submitted during the qualification process is stored digitally on a dedicated web portal in folders associated with the assessed suppliers.

When the qualification requirements of suppliers' lapse, they are suspended from the register, blocked in the information system and included in a list of non-active suppliers to which orders cannot be sent.

The Procurement department observes the performance of qualified suppliers, assessing, over time, their suitability as active suppliers, revoking their qualification, inhibiting orders and eliminating them from the register in case of unsuitability.

In order to guarantee that suppliers continue to meet requirements, the Procurement department updates individual supplier assessment forms typically once every year, and, in any case, no fewer than once every three years.

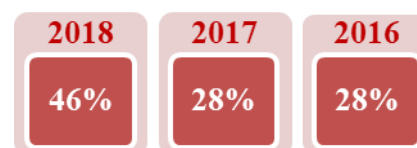
5.10.2 Supplier sustainability indicators

Applying the guidelines outlined in the previous paragraph, Italtel is committed to applying the "Buy Well" policy, with a focus on quality, techniques, environmental and ethical/social aspects in terms of purchases.

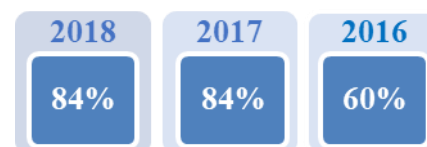
Suppliers attentive to Corporate Social Responsibility (CSR) continue to be favored, with such qualified suppliers increasing to 46% to 2018, compared to 28% in 2016 and 2017. In terms of procurement value percentages, suppliers attentive to CSR accounted for 84%.

The following data relates to Italtel's Italian branches.

Suppliers declaring implementation of CSR policies
(Total number CSR suppliers/Total number Registered suppliers) (*)



Procurement volumes from Suppliers declaring implementation of CSR policies
(Total value acquired from CSR suppliers/
total procurement value) (*)



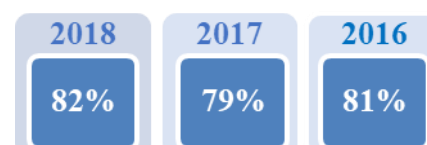
(*) Indicator calculated considering suppliers significant in relation to the total annual volume of purchases of Italtel S.p.A. (Italy), i.e. those for which the order value was above Euro 100,000.

The Guidelines for the Selection and Qualification of Suppliers were also distributed to Italtel's foreign branches, which therefore applied the same criteria to guarantee quality, cost, time and reliability requirements in relation to their customers. Indicated below are aggregate figures relating to significant foreign branches, i.e. those with a 2018 turnover representing no less than 5% of the total turnover for the Group: Italtel SA (Spain), Italtel Argentina, Italtel Brasil and Italtel Peru.

Suppliers declaring implementation of
of CSR policies
(Total number CSR suppliers/Total number
Registered suppliers) (*)



Procurement volumes from Suppliers declaring implementation of CSR policies
(Total value acquired from CSR suppliers/
total procurement value) (*)



(*) Indicator calculated considering suppliers significant in relation to the total annual volume of purchases of each foreign branch, i.e. those for which the order value was above Euro 100,000.

The following table reports additional indicators, considering suppliers significant in relation to the total annual volume of purchases of Italtel S.p.A. (Italy), i.e. those for which the order value was above Euro 100,000.

Use of suppliers submitting a requested Risk Assessment Document (RAD)		100%
New suppliers that have submitted RADs		100%
Suppliers that have accepted Italtel's Ethics Code		100%
Supplier mapping by purchase category (consulting, hardware, software, other purchases) in %	consulting	28%
	Hardware	63%
	software	1%
	other purchases	8%
Suppliers with environmental certifications		46%
New suppliers with environmental certifications		26%
Suppliers, compared to the total used in 2018, forming part of this analysis		22%
Total ordered from suppliers referred to in the previous indicator		97%

6. The fight against corruption

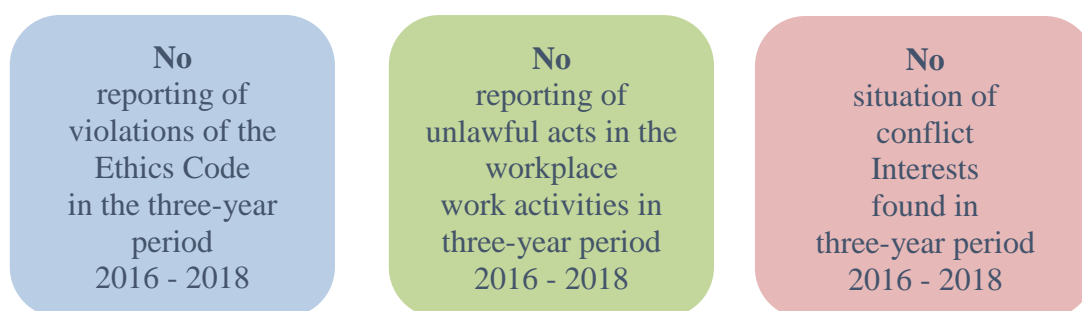
Detailed below are anti-corruption initiatives carried out by Italian and foreign branches and related results.

6.1 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 favor of each Group 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 2018, as in the two previous years, no violations of the Ethics Code were reported, nor unlawful acts.

The Italtel Group 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 organizations.

In relation to conflicts of interest, the Italtel Group utilizes an internal procedure to identify and handle situations of potential conflict. In 2018, as was the case in the two preceding years, no cases of conflict of interest arose.



6.2 Fair competition and legal compliance

The Italtel Group operates with a wide range of parties (clients, suppliers, partners, ...), maintaining highly transparent and fair relations.

In accordance with Legislative Decree 231/2001, the Parent Italtel S.p.A. (Italy) adopted an Organization, Management and Control Model in 2002, which it constantly updates and implements. It has also circulated its Ethics Code to all its business partners and expressly requests compliance with contractual documents entered into with suppliers.

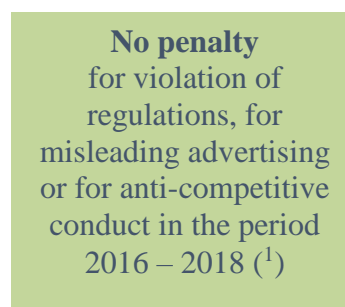
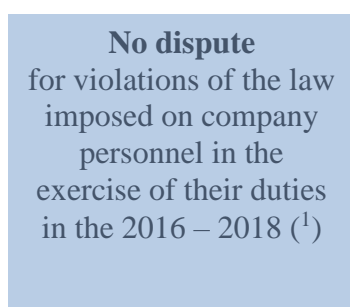
Another Italtel Group company, Italtel SA (Spain), has, since 2013, implemented and duly updated an Organizational and Management Model, in accordance with Spanish Organic Law 5/2010, concerning the penal liability of legal persons.

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 Italtel Group companies, in line with Italtel S.p.A.'s 231 Model. A description of the main activities carried out in 2018 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 present report's Organization, Management and Control Model section. These Principles and Guidelines are communicated to the top managers of all the companies, who distribute them to all their respective employees.

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. The Legality Rating is valid for two years.



In confirmation of this commitment, in 2018, as in the two previous years¹, for the companies of the Italtel Group, 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.



Moreover, as in the two previous years, no non-compliance with laws and environmental regulations were registered in 2018.

There were also no complaints from customers or other interested parties in 2018 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. Since 2004 the Parent Italtel S.p.A. 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 2018, the Parent completed 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.

Article 25 of European Regulation No.676/2016 (GDPR) requires that personal data processing systems apply adequate technical and security measures to guarantee protection of the data and rights of data subjects. Furthermore, according to the principles of “privacy by design” and “privacy by default”, such systems must apply technical measures to guarantee by default that only personal data necessary for each specific purpose of

¹ The Italtel Brasil figure refers to 2018.

processing is processed, and that such obligation also applies to the amount of personal data collected, the extent of its processing, the period of its storage and its accessibility.

In order to provide clients with a guarantee of GDPR compliance, Italtel has submitted its products and solutions to internal assessment structured according to the requirements of the GDPR (as per Articles 24, 32, and Articles 15 to 21). The assessment concluded that all the assessed systems and solutions were fully compliant with the

GDPR for their intended applications, and have been designed and implemented to incorporate the above-mentioned technical measures.

To effectively communicate to clients its compliance with the principles of “privacy by design” and “privacy by default”, Italtel has developed a “Italtel GDPR ready” logo in accordance with corporate representation standards safeguarding brand identity consistency and recognizability.



The new “Italtel GDPR ready” logo has been designed for use in corporate presentations, brochures and, more generally, the promotional documentation of verified systems.

6.3 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.

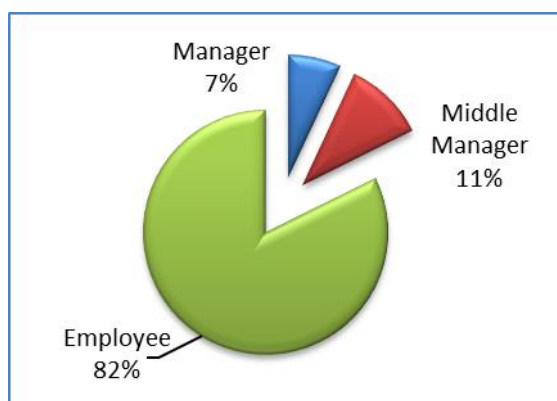
In 2016, a new training program for the prevention of offenses against the Public Sector was held, involving approx. 200 Italian-based employees involved in areas potentially at risk for these offenses.

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

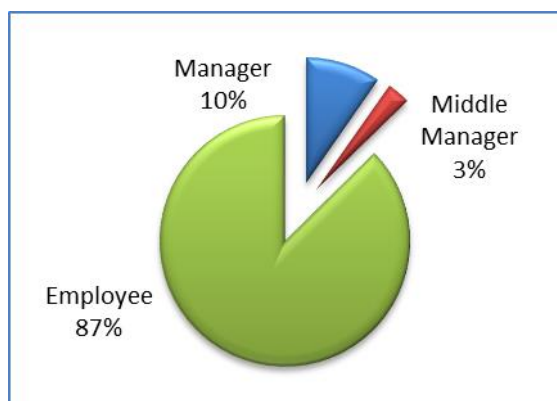
In 2018, training was given to raise personnel awareness of issues of copyright protection and open source software use. The training was addressed to 190 personnel in Italy working in software development area. In conclusion, 447 employees in Italy (Italtel S.p.A.) were trained in business ethics, with staff employed with overseas Group companies undertaking business ethics training numbering approx. 237.

In 2018, 100% of Italtel SA (Spain) employees are reported to have received training in business ethics.

Finally, 14 senior managers underwent training, equal to 93% of those who hold corporate offices in at least one overseas Group company.



Employees trained by category - Italian branches



Employees trained by category - Foreign branches

6.4 Internal controls

The Parent Italtel S.p.A. (Italy) carries out systematic internal auditing, part of which concerns business ethics. A total of 14 internal audits referring to this area were carried out in 2018, concerning, in particular, environmental management, information security, protection and privacy of personal data, anti-corruption measures, occupational health and safety, and financial resources management. In 2017, 12 internal business ethics audits were carried out, with 11 in 2016.

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

Upon request, Italtel Group companies also submit to external audits by third parties with which they have business relations, typically clients.

The parent company Italtel S.p.A. (Italy), in 2018, submitted to 6 external audits (from clients, suppliers and certification bodies; in 2017 and 2016 there were 4 and 6 external audits respectively. The issues considered in these audits concerned intellectual property rights and the use of third-party software, information security and environmental management. All audits had positive outcomes.

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Internal audits
on business ethics
in the period
2016 - 2018

6.5 Relations with the Public Sector

Among the Italtel Group companies, only the parent company Italtel S.p.A. (Italy) 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 2018 Italtel S.p.A. received grants worth Euro 2.8 million and subsidized rate loans for a value of Euro 5.2 million.

Non-refundable
grants: **Euro 7.75
million**
in the three-year
period
2016-2018

Subsidized rate
loans: **Euro 7.96
million**
in the three-year
period
2016-2018

In addition, Italtel S.p.A. is among 36 entities included in the Italian Public Sector suppliers list.

36
Presence in
Register of
Suppliers of
Public Sector
entities in 2018

Finally, Italtel S.p.A. 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 2018, Italtel was re-certified for another three years.

7. Relations with the regions

Italtel has always maintained a close bond with the local communities of its main sites in Settimo Milanese and Carini-Palermo and its other branch sites. The company has long-standing relationships with local institutional, cultural and social communities, and has initiated collaborations with schools, associations and local universities.

7.1 Main related risks

The risk associated with local community and area relations is substantially reputational.

The risk is of an emerging negative reputation in relation to third parties (e.g. customers, suppliers, partners, counterparties, the public administration) that may influence the company's ability to maintain and develop, above all, its customer base.

7.2 Reputation protection policies

Every year, Italtel defines and implements specific action plans to improve its brand reputation locally, nationally and internationally. These plans include activities ranging from participation in or sponsorship of local initiatives, such as events, conferences and seminars, to participation in local development projects promoted by local administrations, and solidarity initiatives in collaboration with local institutions and associations.

7.3 Charity and support activities and results

In 2018, Italtel's social responsibility program continued in Italy with various participations in solidarity actions, and began in Latin America. As in previous years, the majority of participations were connected to the local areas and communities hosting Italian and foreign branches. In addition to such collaborations, Italtel has implemented initiatives to facilitate research and innovation in multiple areas, as detailed below.

MANIFESTA 12

In the local area of Palermo, Italtel contributed Wi-Fi coverage to several event locations of the twelfth edition of Manifesta, an international project aimed at reinterpreting relations between culture and society, which takes place every two years in a different country. Italtel designed and installed the antenna infrastructure, which, at the end of the event, remained in the service of the municipality.

EUCENTRE

Italtel sponsored two events organized by Eucentre, a foundation studying the effects of earthquakes on structures (e.g. buildings, bridges, infrastructure and constructions in general) and on non-structural components of buildings. On the occasion of the European Researchers' Night, Italtel created a corner display and vibrating simulation table experience at Milan's Museum of Science and Technology to illustrate the dynamics of an earthquake, its effects and how to limit its damage. The project was also presented at the Old Port of Genoa.

INSTITUTE INCLUDING VIA PALESTRO

In October 2018, Italtel donated 10 laptop computers to IT classrooms of the Via Palestro in Abbiategrosso Comprehensive Institute, in Milan, which provides education to children from nursery school to lower secondary level.

NON-PROFIT SOLARIS ASSOCIATION

In September, Italtel donated 7 laptop computers to the Solaris Association, a Rome-based non-profit organization promoting community support for the rehabilitation and societal reintegration of psychiatric patients. The computers will be used to set up a multimedia room to help people overcome the Digital Divide, nowadays a key element to any reintegration project.

PRO GENOVA FOUNDATION

Italtel made a charitable donation following the tragedy of the collapse of the Morandi bridge in Genoa. The sum was transferred to the Costa Crociere Foundation, which has supported the Municipality and Region in local projects to support disadvantaged people for a number of years.

PRO-ICYC ASSOCIATION OF ADOPTIVE FAMILIES

This year, Italtel also wanted to contribute to an international solidarity initiative in the Latin American countries where Italtel is present: Brazil, Colombia, Peru, and Ecuador. After years of supporting the development of this geographical region through for-profit initiatives in terms of modern telecommunications networks and large data center projects, Italtel decided to launch a non-profit initiative through support for the Pro-ICYC Association of Adoptive Families. The association is an Italian NGO active in the field of international adoptions and sponsorship projects for minors. Founded 18 years ago, the association is now part of Relac-Adop, a network of the most important adoption organizations active in Latin America.

G. MARCONI MUSEUM

For the second consecutive year, Italtel renewed its commitment as a sponsor of activities at the Marconi Museum in Villa Grifone, which promotes study and research on telecommunications and initiatives in memory of Guglielmo Marconi.

ELIS

Italtel is a member of the Elis Consortium, a Rome-based training institution that aims to connect young people to the corporate world through vocational training courses. In particular, in 2018 it contributed in two ways:

- Awarding a scholarship for the "Innovation Hub" course, developed in partnership with the Polytechnic University of Milan, and collaborating in the award-winner's final project;
- Collaborating in the "School-enterprise system" project, which aims to reform the model of education today according to the jobs and skills that will be needed by companies in the future.

WELFARE

In addition to solidarity initiatives, another extremely important aspect for Italtel is individual welfare. For this reason, Italtel is also committed to corporate welfare initiatives such as its collaboration with the University of Milano-Bicocca for the creation of “WBR-Lab”, a research laboratory that aims to define a methodology for measuring economic value creation deriving from the adoption of corporate welfare programs.

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

There were no significant events after the end of the year.

Outlook

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

Settimo Milanese, March 14, 2019

For the Board of Directors

The Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet at December 31, 2018 and 2017

		(Euro thousands)	
	Note	31/12/2018	31/12/2017
Assets			
Non-current assets			
Property, plant and equipment	(7)	12,653	12,875
Goodwill	(8)	122,215	122,215
Other intangible assets	(9)	21,824	24,192
Investments valued under the equity method	(10)	76	194
Medium/long term financial assets	(11)	324	373
Other assets	(12)	1,900	3,087
Deferred tax assets	(13)	60,756	63,045
Total non-current assets		219,748	225,981
Current assets			
Inventories	(14)	33,180	40,112
Contract work-in-progress	(15)	44,270	20,469
Trade receivables	(16)	107,491	90,519
Tax receivables	(17)	760	2,864
Other receivables and assets	(18)	34,152	21,225
Short-term financial assets	(19)	1,679	948
Cash and cash equivalents	(20)	13,772	23,215
Total current assets		235,304	199,352
Discontinued non-current assets	(41)	106	215
Total assets		455,158	425,548
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital	(21)	20,000	20,000
Reserves	(22)	26,104	22,616
Other reserves including the loss for the year	(23)	(16,262)	(6,998)
Group Shareholders' equity		29,842	35,618
Share capital and reserves pertaining to minority interest		-	-
Total Shareholders' Equity		29,842	35,618
Liabilities			
Non-current liabilities			
Employee provisions	(24)	15,839	19,321
Provisions for risks and charges	(25)	5,530	14,249
Deferred tax liabilities	(13)	-	1,070
Medium/long term financial liabilities	(26)	142,827	147,266
Other liabilities	(27)	441	225
Total non-current liabilities		164,637	182,131
Current liabilities			
Advances on contract work-in-progress	(15)	2,143	-
Trade payables	(28)	174,275	124,392
Current tax payables	(29)	614	635
Other payables and liabilities	(30)	41,388	40,207
Current financial liabilities	(26)	41,873	42,176
Total current liabilities		260,293	207,410
Discontinued non-current liabilities	(41)	386	389
Total liabilities		425,316	389,930
Total shareholders' equity and liabilities		455,158	425,548

2018 and 2017 Consolidated Income Statement

		(Euro thousands)	
	Note	2018	2017
Revenue from sales and services	(31)	438,362	430,211
Other income	(32)	19,468	17,610
Purchase of materials and services	(33)	(342,703)	(350,734)
Personnel costs	(34)	(86,069)	(85,037)
Amortization, depreciation & write-downs	(35)	(15,686)	(12,682)
Other operating charges	(36)	(4,870)	(8,820)
Change in inventories	(37)	(6,181)	1,152
Increase in internal work capitalized	(38)	8,315	10,453
Operating profit		10,636	2,153
Financial income	(39)	8,034	14,520
Financial charges	(39)	(23,634)	(25,496)
Loss before taxes		(4,964)	(8,823)
Income taxes	(40)	219	(1,349)
Loss from normal operations		(4,745)	(10,172)
Discontinued operations loss	(41)	(36)	(286)
NET LOSS FOR THE YEAR		(4,781)	(10,458)
Group share		(4,781)	(10,458)
Minority interest share		-	-

2018 and 2017 Consolidated Comprehensive Income Statement

	(Euro thousands)	
	2018	2017
Net loss for the year	(4,781)	(10,458)
<i>Profit/(losses) which will reverse to the income statement in future:</i>		
Gains/(losses) on the effective portion of the Cash Flow Hedge:		
CFH Profit/(loss)	783	(783)
Tax effect	(188)	188
Losses from conversion of accounts of overseas companies	(2,962)	(3,027)
<i>Profit/(losses) which will not reverse to the income statement in future:</i>		
Re-measuring of employee plan (IAS 19):		
Actuarial profits/(losses)	379	72
Tax effect	(91)	(17)
Total other losses directly recorded to net equity	(2,079)	(3,567)
Total comprehensive loss	(6,860)	(14,025)
Group share	(6,860)	(14,025)
Minority interest share	-	-

Further information on the comprehensive income items is reported in Note 23 Other reserves including profit/(loss) and minority interest reserves

Consolidated Cash Flow Statement at December 31, 2018 and 2017

	(Euro thousands)	
	2018	2017
A - Opening cash and cash equivalents (net short-term debt)	23,215	25,998
B – Cash flow from operating activities		
Loss for the year	(4,781)	(10,458)
Amortization, depreciation & write-downs	15,686	12,682
(Gains)/losses on disposed assets	(50)	(30)
Elimination of financial liabilities	-	(2,369)
(Increase)/Decrease in deferred tax assets	1,128	1,360
Increase/(Decrease) of employee benefits provisions and Restructuring Provision	(3,103)	(967)
Changes in other provisions	(8,263)	(6,419)
Cash flow from activities before changes in working capital	617	(6,201)
Change in working capital		
(Increase) / Decrease in receivables	(40,664)	14,105
(Increase) / Decrease in inventories	6,932	267
(Increase) / Decrease of other assets	(9,636)	(3,380)
Increase / (Decrease) in trade and other payables	52,943	(49,027)
Total changes in working capital	9,575	(38,035)
Total (B) ⁽¹⁾	10,192	(44,236)
C – Cash flow from investing activities		
(Investments) and divestments in holdings and securities	167	2,053
(Increase) / Decrease in other financial assets	(731)	1,420
Divestment of fixed assets	115	54
Investments in tangible assets	(2,749)	(2,356)
Investments in intangible assets	(10,514)	(16,694)
Total (C)	(13,712)	(15,523)
D - Cash flow from financing activities ⁽²⁾		
Granting and repayments of short-term loans	(4,645)	2,589
New medium/long term loans	8,045	6,278
Repayment of loans to third parties	(7,737)	(9,088)
Share capital increase	-	31,000
Conferment of special shares	-	16,000
Repayment of c/c Escrow Deposits	-	8,009
Repayment of finance leases	(76)	(88)
Change in financial transactions with Italtel Group S.p.A.	-	(618)
Increase / (Decrease) in other financial assets and liabilities	(330)	6,290
Total (D)	(4,743)	60,372
E – Cash flow for the year (B+C+D)	(8,263)	613
Other shareholders' equity changes	(1,180)	(3,396)
F – Closing cash and cash equivalents	13,772	23,215
A - Opening cash and cash equivalents	23,215	25,998
F – Closing cash and cash equivalents	13,772	23,215
G - Net cash flow for the year (A-F)	(9,443)	(2,783)

(1) This amount includes the payment of current taxes for Euro 2,167 thousand and Euro 1,400 thousand, respectively in 2018 and 2017.

(2) The Net result includes net interest charges of Euro 3,005 thousand in 2018 (Euro 3,496 thousand in 2017) not paid at year-end.

(3) Further information on cash flows is reported in Note 26 - Financial Liabilities

Statement of changes in shareholders' equity at December 31, 2017 and 2018

(Euro thousands)						
	Group Share			Total	Minori ty interest share	Total Shareholders' Equity
	Share capital	Reserves	Other reserves including the result			
January 1, 2017	2,000	98,728	(164,888)	(64,160)	-	(64,160)
Italtel S.p.A. Recapitalization 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
Utilization 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 Profit/(Loss)	-	-	(14,025)	(14,025)	-	(14,025)
December 31, 2017	20,000	22,616	(6,998)	35,618	-	35,618
Effect of first-time application of IFRS 9 on the valuation of receivables at January 1, 2018						
	-	-	(625)	(625)	-	(625)
Effect of the application of IAS 29 on the equity items of Italtel Argentina SA at January 1						
	-	-	27	27	-	27
Total changes at January 1, 2018						
	-	-	(598)	(598)	-	(598)
Shareholders' Meeting April 23, 2018 Allocation to the legal reserve of the residual Special Shares Reserve to cover the losses at September 30, 2017 of Italtel S.p.A.						
	-	3,488	(3,488)	-	-	-
2018 Comprehensive Profit/(Loss)	-	-	(6,860)	(6,860)	-	(6,860)

Effect of the application of IAS 29 on the equity items of Italtel Argentina SA at December 31	-	-	1,583	1,583	-	1,583
Stock option plan reserve	-	-	99	99	-	99
Balance at December 31, 2018	20,000	26,104	(16,262)	29,842	-	29,842

Further information on net equity items is reported in Notes 21, 22 and 23

Notes to the consolidated financial statements

Note 1 - Introduction

Introduction

Italtel S.p.A. (hereafter the “Parent Company” or the “Company” or the Parent”) 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” or the “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 Group’s primary reporting is based on operating segments. With regard to the operating segments, only a single segment was identified as the benefits deriving from the sale of goods and provision of services, which characterizes the activities of the Group, are not significantly different based on the goods sold and services provided.

These consolidated financial statements, relating to the year ended December 31, 2018, 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 and are audited by PWC S.p.A. in accordance with Article 14 of Legislative Decree No. 39 of January 27, 2010.

These financial statements were approved by the Board of Directors on March 14, 2019 and authorized for publication in accordance with law.

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

Italtel Latam S.r.l. was incorporated with the deed of incorporation of June 5, 2018, with its registered office in Settimo Milanese (MI), via Reiss Romoli, Località Castelletto, share capital of Euro 10,000, in accordance with a commitment of the sole shareholder Italtel S.p.A., envisaged by the Restructuring Agreement and the loan contracts, as per the “Corporate Transaction” which in 2017 concerned - with closing on December 14, 2017 - Italtel S.p.A., subject to a Restructuring Agreement pursuant to Article 182-bis of the Bankruptcy Law (L.F.).

In particular, in fulfilment of the obligations under the loan contracts signed between Italtel S.p.A. and the Lending Banks on December 14, 2017, the corporate reorganization concerning Italtel Group equity held in LATAM was completed (the “Latam Reorganization”).

On the commencement of this Latam Reorganization - which was preparatory to establishing the LATAM pledge in favor of the Lending Banks on the new company's entire share capital (and a direct pledge on the shares held by Italtel S.p.a. in Italtel Peru SAC) - as envisaged in the signed loan agreements, Italtel Latam S.r.l. was therefore constituted to which - as subsequently occurred - the shares held by Italtel S.p.A., directly and indirectly through the subsidiary Italtel B.V., in the Italtel Group companies in Latin America, would be transferred or conferred (with the exception of the 10% stake held by Italtel S.p.A. in Italtel Peru S.A.C.).

As a result of the above reorganization, the equity held by the Italtel Group in LATAM is now held by the company Italtel Latam S.r.l., directly or indirectly through the subsidiary Italtel B.V.

On September 26, 2018, the entire share capital of Italtel Latam S.r.l. was pledged in favor of the Lending Banks.

At December 31, 2017, the incorporation of the company Italtel de Chile S.p.A. with a share capital of CLP 1,000,000, is also recorded as a change in the consolidation scope.

Italtel Group significant events and Directors' considerations on the going concern

On May 2, 2018, contractual extensions relating to the Ultra-Broadband network development for the first two "White Area" Infratel tenders were signed with Open Fiber SpA. The first contracts date back to 2016, the year in which Italtel was chosen as the indicated engineer. The total amount of the multi-year activity is of approx. Euro 200 million.

The company Italtel Latam S.r.l. was incorporated on June 5, 2018. As a result of the single contributions from Italtel S.p.A. to Italtel Latam S.r.l., it directly and indirectly holds the entire share capital of the following companies: Italtel Brasil LTDA, Italtel Argentina S.A., Ausoitaltel S.A. (Ecuador) and Italtel B.V., in addition to 90% in Italtel Peru S.A.C.

On June 12, 2018, the company Italtel de Chile S.p.A. was incorporated with a share capital of CLP 1,000,000 entirely held by Italtel S.p.A. The company was registered in the *Rol Unico Tributario* (Chilean Tax Identification Number Registry) on July 6, 2018.

The corporate reorganization operation concerning the Italtel Group equity held in LATAM (the "Latam Reorganization"), referred to hereafter, was completed by the contract expiry date of September 30, 2018, as envisaged by the applicable loan contracts amended at the Closing date. On September 26, 2018, the entire share capital of Italtel Latam S.r.l. was pledged in favor of the Lending Banks.

On December 21, 2018, the company communicated the cancellation of a series of second-level supplementary contracts, some of which dated back to the mid-70s and were therefore excessively onerous and no longer sustainable in the current market and business conditions.

In 2018, the second year of the 2017-2023 Industrial Plan was fully executed as per the new approved Restructuring Agreement pursuant to Article 182-bis of the Bankruptcy Law.

We recall that on December 14, 2017, following the finalization 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 as illustrated below;
- l) Guarantee documents in favor 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.

On the conclusion of the above Italtel S.p.A.'s recapitalization, Italtel Group S.p.A. fully exited the share capital of Italtel S.p.A. as envisaged by the Restructuring Agreement and was subsequently placed into liquidation and removed from the Companies Register on December 21, 2018.

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 already illustrated, the documents regulating the corporate transaction are constituted by the Framework Agreement, the New Restructuring Agreement and their associated annexes.

The Framework Agreement was signed by the company and by Italtel Group S.p.A. (subsequently extinguished in 2018), on the one hand, 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 corporate transaction's procedure and the terms and conditions consisting of a series of interrelated legal and economic transactions.

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 - removed from the Companies Register of Milan on December 21, 2018 due to the completion of the liquidation procedure, 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 authorization 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 95,652,164 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).

Operating results

The year 2018 was a positive year for our company's industrial results, with revenues increasing to Euro 438.4 million compared to Euro 430.2 million in 2017, Ebitda to Euro 26.3 million (equal to 6.0% of revenues) compared to Euro 14.8 in the previous year, and Ebit to Euro 10.6 million (equal to 2.4% of revenues) compared to Euro 2.2 million in 2017. The net loss amounted to Euro 4.8 million, reducing by half when compared to a loss of Euro 10.6 million in 2017.

The net result also includes the effects of the economic instability of Latin American countries and the consequent recognition of exchange rate losses for approx. Euro 5 million.

Furthermore, certain elements worth highlighting are: 1) The turnaround on the margin percentage which stood at 27.4%, up by 1.2 percentage points on 2017 and indicating a progressive evolution "from hardware to software" which underpins the strategy of the new group Exprivia Italtel, 2) the significant growth in Ebitda despite an "exchange rate effect" in Latin America which, compared to 2017, penalized us overseas for Euro 11 million in revenues and an additional Euro 2 million in margins. With reference to the Industrial Plan, the year 2018 showed a decline of approx. 4% in revenues and 12% in Ebitda. This reduction is partly due to the effect deriving from the application of IAS 29 (hyperinflationary economies) to the Italtel Argentina financial statements.

Financial Highlights

Particular attention and commitment were given by the company to financial and treasury management. The Debt stood at Euro 169 million, against Euro 165 million in 2017, due to a deterioration in certain Latin American countries. The retention of Bank Covenants is, however, assured with a 6.35 ratio between the Net Financial Position and EBITDA, well below the required 7.1 limit.

However, financial charges are higher than 2017 due to the effect of exchange rate losses (particularly, the Argentinian Peso and the Brazilian Real).

Cash flow from operating activities was positive for approx. Euro 10 million. The above financial charges and other reimbursements and investments led to a total negative cash flow of approx. Euro 10 million. Therefore, from initial cash and cash equivalents of Euro 23 million, 2018 ended with cash and cash equivalents of approx. Euro 13 million.

Cash flow continues to be an area for improvement, increasingly impacting on costs and on the management of working capital. An important component of cash flow from operating activities stems from the change in working capital, which includes inventory management, trade receivables and trade payables. We were particularly affected by a further increase in inventories of Euro 17 million, predominantly due to invoicing developments of the BUL project (Open Fiber), combined with an increase in trade receivables for Euro 17 million, offset by the increase in the suppliers' item for Euro 50 million. Overdue trade payables, net of those technically overdue (within 30 days), amount to Euro 18 million.

Actions to mitigate the above problem were identified and already implemented in early 2019. Most significant is the transfer of the VAT receivable which matured at December 31, 2018, determined by "split payment" regulations, and the reimbursement claim, equal to Euro 11.4 million, the adoption of the Group VAT regime with the parent company, which shall make it possible to avoid the accumulation of the VAT receivable in 2019 and the re-scheduling of the principal agreements with suppliers to take into account the invoicing timeframes of works in progress.

In view of the above and the actions undertaken, the Directors consider that the objectives set out in the 2017-2023 Industrial Plan are sustainable and that there are currently no elements of uncertainty concerning the Group's status as a going concern.

LATAM Reorganization

In accordance with the company's commitment envisaged in the Restructuring Agreement and in the loan contracts signed between Italtel S.p.A. and the Lending Banks on December 14, 2017, the corporate reorganization operation concerning the Italtel Group equity held in LATAM was completed (the "Latam Reorganization").

On the commencement of the above-mentioned Latam Reorganization operation - which was preparatory to establishing the LATAM pledge in favor of the Lending Banks on the new company's entire share capital (and a direct pledge on the shares held by Italtel S.p.a. in Italtel Peru SAC) - as envisaged in the loan contracts, Italtel Latam S.r.l. was therefore constituted to which - as subsequently occurred - the shares held directly by Italtel S.p.A. in the Italtel Group companies in Latin America, would be transferred or conferred (with the exception of the 10% stake held by Italtel in Italtel Peru S.A.C.).

Italtel Latam S.r.l. is therefore a limited liability company, subject to the management and coordination of the sole shareholder Italtel S.p.A., incorporated on June 5, 2018, administered by a Sole Director since the date of incorporation and whose purpose is the management of corporate equity.

As a result of the above reorganization, the equity held by the Italtel Group in LATAM is now held by the company Italtel Latam S.r.l. The exception is the 10% share capital of Italtel Peru SAC (pledged on September 28, 2018 in favor of the Lending Banks) which shall continue to be owned by Italtel S.p.A.

On September 26, 2018, the entire share capital of Italtel Latam S.r.l. was pledged in favor of the Lending Banks.

Financial Statement Presentation

With reference to December 31, 2018, the Company prepared the consolidated and separate 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").

In the preparation of the present financial statements, the same criteria and accounting standards adopted are those utilized, where applicable, in the preparation of the consolidated financial statements at December 31, 2017 and the annual financial statements at December 31, 2018, with the exception of the following main changes introduced to international accounting standards.

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 (EU) No. 2016/2067 issued by the European Commission on November 22, 2016 and published on the Official Gazette L 323 of November 29, 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 (EU) No. 2018/519 of March 28, 2018, published on Official Gazette L 87 of April 3, 2018, introduced at Community level IFRIC 22 “Foreign Currency Transactions and Advance Consideration”, issued by the IASB on December 8, 2016 and 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.
- Regulation (EU) No. 2018/289 issued by the European Commission on February 26, 2018 and published on Official Gazette L 55 of February 27, 2018, introduced certain amendments to IFRS 2 "Share-Based Payments". The amendments relate to the fair value calculation methods of cash-settled share-based payment transactions at the valuation date; the accounting treatment of equity-settled share-based payment transactions regulated with equity instruments; the recognition of the changes according to the terms and conditions that determine the change of classification from "cash-settled" share-based payments to "equity-settled" share-based payments".
- Regulation (EU) No. 2018/182 of February 7, 2018, published on Official Gazette L 34 of February 8, 2018, introduced improvements to IFRS (2014-2016 cycle) at Community level. The amendments refer to IAS 28 "Investments in Associates and Joint Ventures", IFRS 1 "First-Time Adoption of International Financial Reporting Standards" and IFRS 12 "Disclosure on Investments in Other Entities".
- Regulation (EU) No. 2018/400 of March 14, 2018, published in Official Gazette L 72 of March 15, 2018, introduced certain amendments to IAS 40 "Transfers on Investment Property" providing clarifications on transfers to, or from, investment property which shall be made when there is a change in use.

Reference should be made to the specific note "Adoption of new IFRS 15 and IFRS 9 standards" for an explanation of the impact on the company's consolidated financial statements, while the adoption of other standards and first application interpretations in the year did not have a material impact in the valuation of assets, liabilities, costs and revenues of the Group.

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 of the usage right, and of a financial liability, as the obligation to pay that established by the contract and equal to the present value of future leases, is required. These provisions are obligatory from January 1, 2019 and an advance application is permitted together with the adoption of IFRS 15 “Revenues from Contracts with Customers”.
- Regulation (EU) No. 2018/498 of March 22, 2018, published in Official Gazette L 82 of March 26, 2018, introduced amendments at the Community level to IFRS 9 "Prepayment Features with Negative Compensation", issued by the IASB on October 12, 2017.
- The amendments clarify the classification of certain financial assets reimbursable in advance in the case of applying IFRS 9.

- Commission Regulation (EU) No. 2018/1595 of October 23, 2018, published on Official Gazette L 265 of October 24, 2018 adopted the IFRIC 23 Interpretation “Uncertainty over Income Tax Treatments”, a document issued by the IASB on June 7, 2017. The Interpretation specifies how to reflect the effects of uncertainty in the accounting of income taxes.
- Commission Regulation (EU) No. 2019/237 of February 11, 2019, published on Official Gazette L 39 of February 11, 2019, introduced the Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" issued by the IASB on October 12, 2017. The amendments clarify that provisions concerning the impairment of IFRS 9 *Financial Instruments* apply to long-term interests in associates and joint ventures.

As regards the adoption of IFRS 16, the quantitative effects deriving from this standard's application were estimated by the Group and, based on the contracts in place at December 31, 2018, involve an increase in financial liabilities of approx. Euro 18 million, a decrease in trade payables of approx. Euro 0.3 million, an increase in Property and Other Assets of approx. Euro 18 million and a reduction in financial prepayments of Euro 1.0 million. The impact on shareholders' equity, net of the related tax effect, is not significant.

With reference to the other standards and interpretations applicable from January 1, 2019, no significant impacts are envisaged in the valuation of assets, liabilities, costs and revenues of the company.

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

- Improvements to IFRS Standards (2015-2017 cycle), issued by the IASB on December 12, 2017 to be applied as from January 1, 2019.
The rules introduced concern the following standards:
 - IAS 12 Income Taxes: accounting treatment of the tax effects of dividends on financial instruments classified as capital instruments;
 - IAS 23 Borrowing Costs: classification of specific loans relating to qualifying assets at the time in which related assets are ready for use or for sale;
 - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: accounting for obtaining control of a business which is classified as a joint operation.
- Amendments to IAS 19 "Amendment, Curtailment or Settlement of a Plan", issued by the IASB in February 2018 concerning the accounting of benefit plans defined in the presence of an amendment, curtailment or settlement of the plan. This is to be applied from January 1, 2019.
- *Amendments to IAS 28 - "Long-term interests in associates and joint ventures"* approved by the IASB on October 12, 2017. These amendments clarify the applicability of IFRS 9 in the accounting of long-term receivables from an associate or joint venture which, in substance, are part of the net investment in the associate or joint venture. This is to be applied from January 1, 2019.
- Amendments to the "Conceptual Framework" in IFRS approved by the IASB on March 29, 2018 and applicable to businesses from January 1, 2020. The aim of the document is to improve financial disclosure, thus providing a more complete, clear and updated range of conceptual elements. Unlike accounting standards, this document does not require the approval of the European Commission.
- Amendments to IFRS 3 "*Business Combinations*" approved by the IASB on October 22, 2018. The IASB issued the definition of "business" in order to resolve the difficulties arising when an entity needs to establish whether it has acquired a business or a group of assets. This is to be applied from January 1, 2020.
- Amendments to IAS 1 and IAS 18 "*Definition of material*" approved by the IASB on October 31, 2018. The IASB issued the definition of "material" in order to align the definition used in the Conceptual Framework and the standards. This is to be applied from January 1, 2020.

- The issue of IFRS 17 "Insurance Contracts", approved by the IASB on May 18, 2017, for which approval from the EFRAG is expected at the end of 2018. This is to be applied from January 1, 2021.

Adoption of the new IFRS 15 and IFRS 9 standards

A description of the impact of the accounting standards adopted by the company from January 1, 2018 is provided below.

IFRS 15 - Revenues from Contracts with Customers

The Italtel Group adopted the standard IFRS 15 "Revenues from Contracts with Customers" for the first time on January 1, 2018, applying the standard retroactively and accounting for the cumulative effect from the initial application date (modified retrospective approach).

The new standard improves the quality and uniformity of revenue recognition, in addition to the comparability of financial statements prepared according to IFRS and US GAAP.

IFRS 15 requires the recognition of revenues according to the 5 following steps: (i) identification of the contract with the customer; (ii) identification of the separate 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.

The allocation of the price between the various performance obligations is carried out on the basis of the relative performance obligations' "standalone selling prices".

When the price established by the contract for the single good or service does not represent the standalone sales price, this is derived from the market if directly observable, or estimated using the Expected Cost Plus a Margin Method when not derived from the market. For a good or service where the price applied by the company is highly variable or for which a price is not set as it is never sold separately, the standalone price is calculated as the difference between the total price less the sum of standalone prices derived from other goods and services.

The company finalized the analysis of its revenue valuation model based on the new standard's rules. The analysis carried out did not identify types of complex contracts and differences linked to the determination of when revenues are recognized: there was therefore no impact on the overall financial results of the company arising from the change in methodology.

Obligations are classified among liabilities to the account "Advances on contract work in progress".

There were no impacts on opening net equity at January 1, 2018, arising from the adoption of IFRS 15.

IFRS 9 - Impairment (write-down)

IFRS 9 replaces the impairment model of IAS 39 and is based on the 'incurred loss' with an 'expected credit loss' ('ECL') forecast model. With reference to these new provisions, it is not necessary that an impairment trigger event occurs for consequent recognition to the financial statements, although immediate recognition of the expected future loss is required, utilizing past and present data, in addition to forward looking information.

The Company has reviewed its impairment verification process for recognized assets, applying, with regards to trade receivables, the simplified method according to which the probability of loss deriving from all possible defaults through the expected life of the financial instrument ("lifetime expected credit losses") is considered.

Deteriorated receivables are analyzed on the basis of the reliability and capacity of the debtor to pay the sums due, in addition to the effective level of coverage of any secured and unsecured underlying guarantees. With regards to all the other trade receivables, the company has developed two approaches to estimate impairment, by reason of the existing specificity. The first approach is a matrix and the second is based on the application of the probability of default ('PD') obtained from specialized external sources, specifically concerning the country where each subsidiary is based.

A financial asset is considered to be deteriorated when internal or external information indicates it is improbable that the company shall receive the full sum of the contractual amount.

The application of IFRS 9 concerning the measurement of receivables resulted in a negative adjustment to Net Equity at January 1, 2018 and to the account "Trade Receivables" amounting to Euro 625 thousand.

Finally, the other financial assets valued at amortized cost and in particular cash and cash equivalents, were measured according to the new rules, although the impact, in terms of expected losses, was not considered material and for this reason no adjustments were made to the balances published at December 31, 2017.

Note 2 Basis of Presentation and Accounting Policies adopted

Basis of presentation

The consolidated financial statements of Italtel S.p.A. at December 31, 2018 were prepared in accordance with International Financial Reporting Standards (IFRS) in force at December 31, 2018, 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.

Deferred tax liabilities which were classified among liabilities in the balance sheet in the previous year, were reclassified to a single account as assets in the balance sheet at December 31, 2018.

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

Consolidation method

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

The financial statements used for the consolidation were prepared at December 31, 2018 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, charges and income are recorded line-by-line, attributing to minority shareholders, where applicable, the relative share of net equity and net result owing to them, 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 reporting 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.

	2018 average	At December 31, 2018	2017 average	At December 31, 2017
Argentinean Peso (*)	32.9094	43.1593	18.726	22.931
Brazilian Real	4.3085	4.444	3.6041	3.9729
UK Sterling	0.88471	0.89453	0.87615	0.88723
US Dollar	1.181	1.145	1.1293	1.1993
Polish Zloty	4.2615	4.3014	4.2563	4.177
Peruvian Nuevo Sol	3.8793	3.863	3.6815	3.8854
Saudi Arabian Riyal	4.4286	4.2938	4.2351	4.4974
Chilean Peso	756.94	794.37	-	-

(*) The above table reports the average exchange rate of the Argentinian Peso for information purposes only. In the conversion of the Argentinian company's income statement, the year-end rate at December 31, 2018 was used and applied to the financial statements restated at current values in accordance with IAS 29 - Financial Reporting in Hyperinflationary Economies.

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

Hyperinflation in Argentina - Application of IAS 29 - Financial Reporting in Hyperinflationary Economies.

In Argentina, as a result of a long observation period on inflation rates and other indicators, global consensus was reached on the verification of the conditions that determine the presence of hyperinflation in accordance with international accounting standards (IFRS International Financial Reporting Standards). It follows that, as from July 1, 2018, all companies operating in Argentina were required to apply the standard IAS 29 - Financial Reporting in Hyperinflationary Economies when preparing financial reports.

With reference to the Group, consolidated financial results at December 31, 2018 include the effects deriving from the application of the above-mentioned accounting standard, with effect from January 1, 2018.

The Group presents consolidated financial data in Euro and, therefore, it was not considered necessary to restate the values presented in 2017. With regard to the year 2018, consolidated results reflect the impacts deriving from the above re-measurements.

In accordance with the standard IAS 29, the restatement of values in the entire financial statements requires the application of certain procedures and a valuation process which the Group initiated in Q4-2018.

In particular:

- in relation to the income statement, costs and revenues were revalued by applying the general consumer price index in order to reflect the loss of the local currency's purchasing power at December 31, 2018. In order to restate the income statement into Euro, the year-end rate at December 31, 2018 was consistently applied instead of the average exchange rate for the period. The effect of IAS 29's application resulted in a decrease in Ebitda amounting to Euro 1,121 thousand;

- As regards the balance sheet, monetary items were not restated since they are already expressed in the measuring unit current at the end of the year; non-monetary assets and liabilities were instead revalued to reflect the local currency's loss of purchasing power from the date on which the assets and liabilities were initially recorded, to year-end at December 31, 2018;
- the effect restated on the net monetary position for the part generated in 2018 was a charge of Euro 757 million and was recognized in the income statement among financial charges, while the effects of the standard's first application at January 1, 2018 were recorded directly as net equity items.

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

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

(ii) Goodwill and assets with indefinite life

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

IAS 36 defines the criteria and the rules to be followed to carry out impairment tests, indicating that these criteria are applied both to individual assets and to group of assets called Cash-Generating Units or CGU's.

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

The Recoverable Value of an asset is the higher between the Fair Value Net of Sales Costs and its Value in Use. The Value in Use is defined by IAS 36 as the present value of the future cash flows expected to be derived from an asset. The calculation of the Value in Use of an asset involves an estimate of the future cash inflows and outflows which will derive from the continuous use of the asset and its final disposal and the application of an appropriate discount rate. The estimate of future cash flows is based on the most recent budget and forecasts approved by management. The cash flows refer to an asset in the conditions of its current use, without including expected affects from restructuring not committed to or from improvements in the conditions of use expected in

the future. The discount rate reflects the current market valuations and the risks specifically connected to the businesses assets.

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

E - Financial Instruments

Financial assets

The investments in other minor companies where the fair value is not available are recorded at cost less any write-down in value.

The investment in associated companies are measured at equity.

All the other financial assets are classified into the following categories:

- financial assets at fair value with counter-entry to the income statement: financial assets acquired principally with the intent of making a profit from short-term price fluctuations (a period not exceeding 3 months) or designated as such from the outset;
- financial assets held to maturity: investments in financial assets with pre-fixed maturities and fixed or determinable payments which the Group has the intention and capacity to hold until maturity;
- loans and other financial receivables: financial assets with fixed or determinable payments, not listed on an active market and different to those classified from the outset as financial assets at fair value with counter-entry to the income statement or available-for-sale financial assets;
- Available-for-sale financial assets: financial assets other than those indicated in the preceding sections or those designated as such from the outset.

The Group determines the classification of financial assets on acquisition. Initial recognition is made at their fair value at the acquisition date.

After the initial recognition, financial assets at fair value with counter-entry to the income statement and available-for-sale assets (if there is no "active" reference market) are valued at fair value. Financial assets held to maturity, loans and other financial receivables are valued at amortized cost.

Gains and losses deriving from the fair value variations of financial assets at fair value with counter-entry to the income statement are recognized in the income statement of the year in which they occur. Non-realized gains and losses deriving from the fair value variations of assets classified as available-for-sale assets are recognized under equity.

The fair value of financial assets is calculated on the basis of the listed offer prices or through the use of financial models. The fair value of non-listed financial assets are estimated using appropriate valuation techniques adapted to the company's specific situation. Financial assets for which the current value cannot be calculated in a reliable manner, as there is no active market, are recorded at reduced cost for any impairments.

Indicators of the existence of a loss in value are identified at each reporting date. The recognition of the write-down to the income statement or net equity, mirrors the valuation criterion of financial assets. The loss in value previously recorded is reversed when the circumstances giving rise to the impairment no longer exist, except in the case of assets valued at cost.

Financial liabilities

Loans, payables and other financial and/or trade liabilities with fixed or determinable maturity are initially recorded at their fair value, net of costs incurred to take out these payables. The valuation criterion subsequent to the initial recording is at amortized cost, using the effective interest rate method. The long-term payables for which no interest rate is applied are recorded through the discounting of future cash flows at the market rate if the increase of the payables is due to the passing of time, and the interest is then recognized in the income statement to the account "Financial income and charges and other investments". A financial liability is derecognized when the underlying obligation of the liability is extinguished, settled or cancelled.

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 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.

Fair value hierarchy levels

The above financial instruments, with reference to loans, receivables, payables and investments, were measured at book value since this amount approximates the fair value.

Derivative financial instruments and those available-for-sale are measured at Level 2 fair value.

In relation to the financial instruments recorded in the balance sheet at fair value, IFRS 7 requires that these values are classified based on the hierarchy levels which reflects the significance of the input utilized in the determination of fair value. The following levels are used:

Level 1 - assets or liabilities subject to valuation listed on an active market;

Level 2 - input based on prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;

Level 3 - input which is not based on observable market data.

F – Inventories

Inventories are recorded at the lower of purchase or production cost and realizable value represented by the amount that the Company expects to obtain from their sale in the normal course of operations. The cost of raw material, consumables, finished products and goods is calculated applying the FIFO method.

G 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, in which the costs, revenues and margins are recognized 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 program on the individual contracts. Periodically the estimates are updated. Any economic effects are recognized in the period in which the updates are made. Where the completion of an order may give rise to a loss, such will be recognized 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 work-in-progress".

H - Trade and other receivables

Receivables are initially recognized at fair value.

At each reporting date, valuations are made in order to assess whether there is objective evidence that these receivables have incurred a loss in value. The impairment of financial assets is based on the expected credit loss model. In particular: the loss in value on trade receivables is made through the simplified approach which estimates the lifetime expected loss of the receivable on its initial recognition and in subsequent valuations. For each customer segment, the estimate is principally made through the calculation of the average expected non-recoverability of receivables, based on historical-statistical indicators, which are eventually adjusted using prospective elements. For certain categories of receivables characterized by specific elements of risk, specific valuations are instead made on the individual credit positions.

Receivables transferred without recourse, for which all the risks and benefits are substantially transferred to the factoring company, result in the elimination of the receivables from the balance sheet where the requirements of IFRS 9 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.

(v) Other reserves including the net result

These include the results for the period and 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 - Share-based payments

The parent company Exprivia S.p.A. recognizes additional benefits to certain executives of Italtel S.p.A. through share-based payment plans involving the free assignment of shares. The above-mentioned plans are recognized in accordance with IFRS 2 (Share-based payments). In accordance with IFRS 2, these plans represent a remuneration component of the beneficiaries; therefore, for the equity participation plans, the cost is represented by the fair value of these instruments at the granting date, and recognized in the consolidated income statement under "Personnel costs" over the period between the granting date and that of maturity, and in the "Other equity instruments reserve" under equity. Changes subsequent to the granting date in the fair value do not have an effect on the initial value. At the end of each year the estimate is updated on the number of rights which will mature on maturity. The change in estimate is posted as an adjustment in the account "Other equity instruments" with counter-entry under "Personnel costs". The part of the plans that includes monetary payments is recorded under liabilities with counter-entry in "Personnel costs"; at the end of each year, this liability is measured at its fair value.

M - Provisions for risks & 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 Group 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.

N - 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.

O - Recognition of sales and services revenues

In accordance with IFRS 15, revenues are recognized on the transfer of control of goods or services to the customer, for an amount which reflects the payment which the company deems it is entitled to in exchange for the transfer of goods or services to the customer. The process underlying revenue recognition follows the stages contained in IFRS 15:

- 1) Contract identification: takes place when the parties approve the contract (with commercial substance) and identify the respective rights and obligations: that is, the contract must be legally enforceable and the rights to receive goods and/or services and the terms of payment can be clearly identified, and the company considers it probable that the payment will be collected;
- 2) Identifying performance obligations: the principal performance obligations are identified, that is, the commitment to transfer goods and services that are distinct;
- 3) Determining the transaction price: this is the overall amount contractualised with the counterparty for the entire contractual duration; the company has established that the contractual duration is that deriving from the contractual obligations between the parties;
- 4) Allocating the transaction price to the performance obligation: the allocation takes place proportionally to the respective standalone sales price, determined on the basis of price lists (where present) or estimated by applying an appropriate margin to the purchase/production cost of the good/service.
- 5) Revenue recognition: revenues are recognized net of returns, discounts and allowances and recorded in relation to revenue-type characteristics:

- Services revenue

- Services revenue is recognized in a separate income statement with reference to the service's stage of completion. Revenues from contract work-in-progress are recorded with reference to the advancement of the work (completion method percentage).

- Sales revenue

- Sales revenue is recognized on delivery when the control of the goods is transferred to the customers. Equipment that is sold separately to services is invoiced on delivery.

The recognition of revenues may generate the recording of an asset or liability deriving from contracts. In particular:

- Assets deriving from a contract represent the right to payment in exchange of goods or services which have been transferred to the customer, when the right is conditional on something other than the passage of time;
- Liabilities deriving from a contract represent the obligation to transfer goods or services to the customer, for which the company has received (or is owed) a payment from the customer.

P - Government 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".

Q - 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.

R - 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.

S - 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.

T - 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's consolidated financial statements.

Note 5 Disclosure on financial risks

Liquidity risk

Liquidity risk occurs when the Group does not hold or meets difficulties in sourcing the necessary funds to meet future financial commitments. The Group risk concerns resources generated or absorbed by operating and investing activities and the potential difficulties in attaining financing to support the operating activities in a timely manner.

The cash flows, financing requirements and the liquidity of the companies of the Group are monitored and managed centrally under the control of the Group 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, 2018 amounted to Euro 18.3 million, net of those technically overdue (within 30 days) and any disputes.

Of these, Euro 7.3 million within 60 days, Euro 1.8 million within 90 days and Euro 9.2 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, 2018 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 158,994 thousand (Euro 138,994 thousand at December 31, 2017).

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. This risk is determined by considering the information available on the clients' solvency and by estimating the lifetime expected credit loss from the time of its initial recording and subsequent valuations, based on historical-statistical indicators.

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, 2018, trade receivables for Euro 111,068 thousand (Euro 93,945 thousand at December 31, 2017) were recorded, net of write-downs of Euro 4,810 thousand (Euro 4,353 thousand at December 31, 2017).

At December 31, 2018 trade receivables, net of the doubtful debt provision, amounted to Euro 12.56 million (Euro 20.16 million at December 31, 2017), of which Euro 0.70 million may be offset against supplier payables and Euro 2.56 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 operation 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, 2018	57,026	-	57,026
December 31, 2017	57,212	-	57,212

(*) At exchange rate of December 31

At December 31, 2018 and 2017 the fair value of the derivative contracts was as follows:

	31/12/2018	31/12/2017
Exchange risk hedges	(119)	(3,209)

The company has undertaken derivative contracts to hedge the net exposure in US Dollars for a notional amount of Euro 57,026 thousand at the exchange rate at December 31, 2018. Losses of Euro 119 thousand were recorded in the income statement in relation to these transactions. Last year, derivative contracts in place at December 31 generated a loss of Euro 268 thousand against a notional amount of Euro 22,404 thousand at the exchange rate at December 31, 2017.

Derivative contracts were 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. At December 31, 2017, for these hedging transactions with a notional value of Euro 34,808 thousand at the year-end exchange rate, the company recognized 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. At December 31, 2018, there were no derivative contracts to hedge the net exposure in US Dollars in respect of the OPM contract. The last contract expired on September 30, 2018.

The exchange risk hedges open at December 31, 2018 all mature between January and June 2019.

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 standards adopted, the effects of these changes are recorded directly in the net equity, in the account "Translation reserve".

Reconciliation of financial assets and liabilities in accordance with IFRS 7

In addition to the disclosure on financial risks, the following is a reconciliation between the financial assets and liabilities included in the balance sheet and financial situation of the Group and the classes of financial assets and liabilities envisaged by IFRS 9 (amounts in Euro thousands):

	Loans and Receivables “Amortized Cost”	Investments valued at Fair Value (FVPL) and (FVOCI)	Derivative fin. instruments and fin. assets at FV to the income statement (FVPL)	Hedge accounting derivatives and fin. assets at FV to the OCI (FVOCI)	Available- for-sale financial instruments (FVOCI)	Total
Non-current assets						
Investments valued under the equity method	-	76	-	-	-	76
Medium/long term financial assets	97	227	-	-	-	324
Other assets	1,900	-	-	-	-	1,900
Total non-current assets	1,997	303	-	-	-	2,300
Current assets						
Trade receivables	107,491	-	-	-	-	107,491
Tax receivables	760	-	-	-	-	760
Other receivables and assets	34,152	-	-	-	-	34,152
Short-term financial assets	1,679	-	-	-	-	1,679
Cash and cash equivalents	13,772	-	-	-	-	13,772
Total current assets	157,854	-	-	-	-	157,854
Discontinued non-current assets	106	-	-	-	-	106
Total assets	159,957	303	-	-	-	160,260
	Loans and payables “Amortized Cost”		Derivative fin. instruments and fin. liabilities at FV to the income statement (FVPL)	Derivative fin. instruments and fin. liabilities at FV to net equity	Available- for-sale financial instruments	Total
Non-current liabilities						
Medium/long term financial liabilities	142,827	-	-	-	-	142,827
Other liabilities	441	-	-	-	-	441
Total non-current liabilities	143,268	-	-	-	-	143,268
Current liabilities						
Advances on contract work-in-progress	2,143	-	-	-	-	2,143
Trade payables	174,275	-	-	-	-	174,275
Current tax payables	614	-	-	-	-	614
Other payables and liabilities	41,388	-	-	-	-	41,388
Current financial liabilities	41,754	-	119	-	-	41,873
Total current liabilities	260,174	-	119	-	-	260,293
Discontinued non-current liabilities	386	-	-	-	-	386
Total liabilities	403,828	-	119	-	-	403,947

Note 6 - Criteria utilized for the transition from Italian GAAP to IFRS approved by the European Commission

Format for the presentation of the financial statements

For the Balance Sheet the “non-current/current” criteria were 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.

ASSETS

Note 7 - Property, plant and equipment

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

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
2018							
Historic cost							
Balance at January 1, 2018	327	24,639	26,563	50,548	76,190	132	178,399
Increases	-	46	257	1,099	1,001	346	2,749
Write-downs/write-backs	-	-	-	-	-	(2)	(2)
Disposals	-	-	(222)	(1,151)	(2,721)	-	(4,094)
Translation difference	-	-	(29)	1	(240)	-	(268)
Reclassifications	-	-	169	22	233	(118)	306
Balance at December 31, 2018	327	24,685	26,738	50,519	74,463	358	177,090
Accumulated depreciation							
Balance at January 1, 2018	-	(17,537)	(25,252)	(49,191)	(73,544)	-	(165,524)
Depreciation	-	(490)	(581)	(709)	(1,031)	-	(2,811)
Write-downs/write-backs	-	-	-	-	-	-	-
Disposals	-	-	217	1,151	2,657	-	4,025
Translation difference	-	-	28	(1)	124	-	151
Reclassifications	-	-	(169)	-	(109)	-	(278)
Balance at December 31, 2018	-	(18,027)	(25,757)	(48,750)	(71,903)	-	(164,437)
Net book value							
Balance at January 1, 2018	327	7,102	1,311	1,357	2,646	132	12,875
Balance at December 31, 2017	327	6,658	981	1,769	2,560	358	12,653

Investments in property, plant & equipment amounted to Euro 2,749 thousand.

Investments in industrial equipment amounted to Euro 1,099 thousand and principally relate to equipment utilized for the development of software solutions for products to be launched on the market. An additional Euro 1,001 thousand was principally invested in EDP and computers for the technological upgrading of IT systems and the updating of the companies' data network. Assets in progress, amounting to Euro 358 thousand, include investments in the year for Euro 346 thousand, principally relating to: the new methane gas network for the Settimo Milanese facility for Euro 83 thousand, instruments for research activities for Euro 48 thousand, IT equipment for Euro 97 thousand and the extraordinary maintenance of the building and plants of the Settimo Milanese and Carini facilities for a total of Euro 118 thousand.

The account Industrial Buildings, amounting to Euro 6,658 thousand at December 31, 2018, includes the buildings owned which are located at Settimo Milanese (Euro 4,338 thousand) and Carini (for Euro 2,320 thousand). At December 31, 2018, 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:

	31/12/2018	31/12/2017
Value at January 1	122,215	122,215
Increases	-	-
Write-downs	-	-
Value at December 31	122,215	122,215

Goodwill originated following the assumption of full control of the ex-Italtel S.p.A by the previous parent company Italtel Acquisition S.p.A, called Italtel S.p.A., after the merger by incorporation and represents the difference between the acquisition cost and the consolidated net equity at December 31, 2000, net of the accumulated amortization at December 31, 2003 and the write-downs of December 31, 2009, December 31, 2011 and December 31, 2016.

Scope of application

The international accounting standard IAS 36 requires the assessment of impairments to tangible and intangible fixed assets amid indicators that such a loss may exist.

In the case of goodwill, as in all the other intangible assets with an indefinite useful life, the value must be tested annually or more frequently through the "impairment test" process if extraordinary negative events occur involving a presumption of loss of value.

Identification of the CGUs (Cash Generating Units)

In accordance with international accounting standards, a standalone asset not representing goodwill and incapable of generating cash flows independently from other assets or groups of assets, cannot be subjected to a separate impairment test in respect of the assets it is linked to.

For these purposes, goodwill must be allocated to a CGU or groups of CGUs, in accordance with the maximum aggregation constraint coinciding with the operating segment notion indicated in IFRS 8.

Impairment testing process and evaluation system

The recoverability of the goodwill value recorded in the financial statements is tested through the comparison between the book value of the CGU and the relative recoverable value, that is, the value in use. This latter is identifiable as the present value, at the analysis date, of future financial cash flows which are expected to be generated by the CGUs. In order to calculate the value in use, the "DCF Discounted Cash Flow" model is utilized which discounts estimated future cash flows by applying an appropriate discount rate.

For the purposes of projections, as required by IAS 36, the CGU's current conditions of use were rigorously referred to, irrespective of the cash flows obtainable from any incremental investment plans and interventions of an extraordinary nature which may represent a "discontinuity" in respect of normal business operations.

Operating cash flow projections for the explicit period of 5 years utilized for the purposes of value assessments are based on plans submitted to the approval of the Board of Directors.

The terminal value was calculated as the present value of the perpetual income obtained by capitalizing the cash flow generated in the last analytical forecast period to a long-term growth rate (G-rate) equal to the average expected long-term inflation rates for the main countries in which the Group operates.

WACC discount rates (Weighted Average Cost of Capital) utilized for the discounting of each CGU's cash flows were determined as the average of the specific discount rates for the main countries in which the Group operates, weighted on the basis of the respective weight envisaged in the last year of the plan.

Beta coefficients were estimated on the basis of a panel of comparable companies.

The average weighted cost of capital was increased to incorporate a plan execution risk, calculated on the basis of the average percentage difference between the Ebitda obtained and the Ebitda forecast in the last three years.

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 2019-2023 Plan of the Italtel Group. 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. The Board of Directors meeting of March 14, 2019 also considered the Plan appropriate for the impairment test at December 31, 2018 in consideration of the following:

- the Plan and the verifications on its reasonableness by independent experts for the debt restructuring transaction was undertaken in the period May-July 2017;
- the actual results for the year 2018 report a small decrease compared to the Plan and the updated 2019 outlook is in line with the corresponding periods of the Plan;
- management still consider as valid the assumptions of the Plan relating to subsequent years;
- The differences in net working capital compared to the Plan recorded at December 31, 2018 were not considered to be re-absorbable in subsequent years.

The valuation parameters utilized for the calculation of the value in use are reported below:

Parameters	Italy	Brazil	France	Argentina	Peru	Colombia	Spain	Germany
Risk free rate	2,73%	0,24%	0,71%	0,24%	0,24%	0,24%	1,41%	0,24%
Market risk premium	6%	6%	6%	6%	6%	6%	6%	6%
D/E	11%	11%	11%	11%	11%	11%	11%	11%
Beta unlevered	95%	95%	95%	95%	95%	95%	95%	95%
Beta levered	103%	102%	102%	102%	102%	104%	103%	102%
Risk Premium	6,2%	6,1%	6,1%	6,1%	6,1%	6,2%	6,2%	6,1%
Country Risk Premium	0,0%	5,97%	0,0%	7,64%	1,67%	2,64%	0,0%	0,0%
Additional risk premium	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%
Cost of Own Capital (Ke)	10,70%	14,12%	8,62%	15,79%	9,82%	10,90%	9,38%	8,17%
Kd (IRS 10 years)	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%	0,8%
Spread	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%
Cost of debt (Kd Pre tax)	6,21%	6,21%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%
Tax rate	24,0%	34,0%	25,0%	25,0%	29,5%	33,0%	25,0%	30,0%
Cost of debt (Kd after Tax)	4,72%	4,10%	4,66%	4,66%	4,38%	6,21%	4,66%	4,35%
D/D+E	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%
E/D+E	89,8%	89,8%	89,8%	89,8%	89,8%	89,8%	89,8%	89,8%
WACC	10,09%	13,09%	8,21%	14,64%	9,26%	10,42%	8,89%	7,78%
Weighting factor (EBITDA by country)	60,5%	8,5%	1,2%	13,1%	6,9%	1,9%	4,2%	3,7%
WACC Average weighted by country	10,73%							

Parameters	Italy	Brazil	France	Argentina	Peru	Colombia	Spain	Germany
G Rate (CPI long-term by country)	1.9%	3.8%	1.9%	5.0%	2.5%	3.0%	1.8%	2.0%
Weighting factor (EBITDA by country)	60.5%	8.5%	1.2%	13.1%	6.9%	1.9%	4.2%	3.7%
G rate average weighted with age. EBITDA by country	2.53%							

Sensitivity Analysis

Sensitivity analyses on impairment test results were carried out by assuming the following variations:

- an ebitda variation of up to 25% estimated in the projections
- an increase of up to 3 percentage points in the average weighted cost of capital and a decrease of up to 1.5 percentage points in the "G" growth rate;
- the Terminal Value was calculated as the average of the five explicit years of the plan (instead of the last explicit year)
- the reabsorption of the differences in net working capital recorded at December 31, 2018 in respect of the Plan, was considered during the explicit year.

The sensitivity analysis shows that values in use are in any case higher than book values.

Conclusions

The impairment test did not result in any loss in value, which must be reflected in the financial statements.

Note 9 - Other intangible assets

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

	Industrial patents and intellectual property rights, licenses and similar rights	Development costs	Assets in progress	Others	Total
Balance at January 1, 2017	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
Increases	1,197	9,030	287	-	10,514
Write-downs	-	-	(6)	-	(6)
Disposals	-	-	-	-	-
Translation differences	(2)	-	-	-	(2)
Amortization	(1,440)	(11,435)	-	-	(12,875)
Reclassifications	231	-	(230)	-	1
Balance at December 31, 2018	1,729	16,300	3,795	-	21,824

Investments in intangible assets amount to Euro 10,514 thousand. In particular, Euro 9,030 thousand was invested in research and innovation activities and Euro 1,197 thousand in industrial patents and intellectual property rights, licenses and similar rights which principally concerned software applications acquired under license for unlimited time periods and software development projects, in addition to Euro 287 thousand of investments underway.

In 2018 and 2017, the Research and Development activities carried out by the Italtel Group were as follows:

	31/12/2018	31/12/2017
Research and Development activities carried out	24,297	28,162
of which:		
- capitalized	9,030	12,334
- recognized to the Income statement	15,267	15,828
Write-down of Development costs	-	-
Amortization in the year of development costs	11,435	8,485

The net value of intangible assets concerning Development Costs was Euro 16,300 thousand and Euro 18,705 thousand, respectively at December 31, 2018 and 2017.

Development Costs were capitalized as the company considers these investments recoverable through revenues from the sale of the related products, forecast for 2019 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:

	31/12/2018	31/12/2017
Value at January 1	194	194
Adjustments in the year	-	-
Dissolution of the Hermes Consortium at the close of liquidation	(118)	-
Value at December 31	76	194

On December 3, 2018, the Hermes Consortium under liquidation (in which Italtel S.p.A. held 24% of share capital) was deleted off the Companies Register.

At December 31, 2017 and 2018 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, 2017	227	-	10,011	197	10,435
Acquisitions / movements in the year	-	-	(10,011)	(51)	(10,062)
Balance at December 31, 2017	227	-	-	146	373
Acquisitions / movements in the year	-	-	-	(49)	(49)
Balance at December 31, 2018	227	-	-	97	324

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.

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:

	31/12/2018	31/12/2017
Guarantee deposits	278	646
Receivables from tax authorities	2,471	5,803
Tax reimbursements requested	111	111
Other	1,140	1,252
Other non-current receivables doubtful debt provision	(2,100)	(4,725)
Total	1,900	3,087

Tax Receivables totaled Euro 2,471 thousand and include Euro 2,048 thousand of Tax Receivables for withholding taxes incurred abroad, with payment due in the medium/long-term, in a period of between 2 and 8

years. Doubtful tax receivables were entirely written down for Euro 2,100 thousand (of which Euro 1,727 thousand concerning foreign withholding tax receivables).

The decrease in tax receivables is due to Euro 2,844 thousand on the cancellation of withholding tax receivables sustained overseas, as the eight-year period envisaged by tax law for their recovery in the income tax declaration has passed. In view of this loss, the doubtful debt provision in previous years for Euro 2,625 thousand was utilized.

The Others account includes long-term prepayments for the suspension of costs accrued beyond 12 months. The balance principally concerns rent prepayments in 2017 of Euro 833 thousand for the Castelletto offices, in accordance with the agreement signed with the building owner for the 2017-2024 period, and the prepayment of insurance premiums for a value of Euro 234 thousand for the 2020-2023 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:

	31/12/2018	31/12/2017
Deferred tax assets	66,575	63,045
Deferred tax liabilities	(5,819)	(1,070)
Total	60,756	61,975

The Group compensated the deferred tax assets and liabilities as the legal right to compensation exists.

The breakdown of deferred taxes by type was as follows:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Temporary differences originate from:				
- Capital grants and operating grants	-	-	5,103	215
- Doubtful debts provision	624	624	-	-
- Inventory obsolescence provision	12,455	12,754	-	-
- Amortization and depreciation	21	21	-	-
- Other provisions for risks and charges	1,256	741	-	-
- Interest charges carried forward	2,412	-	-	-
- Other	17	12	-	126
- For temporary differences concerning the Colombian branch in accordance with local tax laws	325	358	17	50
- For temporary differences concerning foreign subsidiaries in accordance with local tax laws	1,765	2,629	1	-
- Deferred tax asset relating to tax losses of Italtel S.p.A.	46,527	44,379	-	-
- Deferred tax asset relating to tax losses of the foreign subsidiaries	330	405	-	-
Changes on adoption of IFRS				
- Discounting employee leaving indemnity provision	-	-	698	679
- Discounting of revised post-employment benefit provision ⁽¹⁾	843	934	-	-
- Cash Flow Hedge recorded under other comprehensive income	-	188	-	-
Total	66,575	63,045	5,819	1,070

⁽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, 2018, the financial statements of Italtel S.p.A. present temporary differences and tax losses of Euro 239,368 thousand (Euro 240,662 thousand at December 31, 2017), with total deferred taxes of Euro 58,661 thousand (Euro 58,941 thousand in 2017), of which Euro 46,527 thousand concerning tax losses and Euro 12,134 thousand concerning other items. Recoverability expectations of the net deferred tax assets are based on

the expected future taxable income which until 2023 derive from the 2017-2023 Industrial Plan approved by the Board of Directors on January 9, 2017, subsequently amended with Board resolution on July 19, 2017 and from the "probability test" projected over a time horizon of a further 14 years.

At December 31, 2018, the company Italtel S.p.A. presents deferred tax assets not recognized to the financial statements, relating to temporary differences and tax losses, of Euro 22,078 thousand (Euro 22,964 thousand at December 31, 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 related to Brazil. At December 31, 2017 these related to Brazil for Euro 369 thousand and Germany for Euro 36 thousand.

Note 14 - Inventories

The account inventories and the related movements were as follows:

	31/12/2018	31/12/2017
Contract work-in-progress	9,581	11,450
Contract work-in-progress obsolescence provision	(2,199)	(2,199)
	7,382	9,251
Finished products and goods	73,111	78,853
Finished products and goods obsolescence provision	(47,313)	(47,992)
	25,798	30,861
Total inventories	33,180	40,112

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 work-in-progress amounts to Euro 44,270 thousand at December 31, 2018 (Euro 20,469 thousand at December 31, 2017).

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

	31/12/2018	31/12/2017
Telco & Media - gross value	3,535	367
Telco & Media - advances invoiced	(3,357)	-
Telco & Media - net value	178	367
Enterprise - gross value	436	-
Enterprise - advances invoiced	(410)	-
Enterprise - net value	26	-
Public sector - gross value	12,964	5,870
Public sector - advances invoiced	(10,905)	-
Public sector - net value	2,059	5,870

Open Fiber - gross value	84,983	14,232
Open Fiber – advances invoiced	(42,976)	-
Open Fiber - net value	42,007	14,232
Total Contract work-in-progress	44,270	20,469

Contract work-in-progress at December 31, 2018 represents the valuation of the contracts principally with the clients Open Fiber and Istituto Poligrafico dello Stato based on the advancement of the activities.

The net balance of advances received on contract work-in-progress amounts to Euro 2,143 thousand and comprises:

	31/12/2018	31/12/2017
Telco & Media - gross value	1,056	-
Telco & Media - advances invoiced	(3,094)	-
Telco & Media - net value	(2,038)	-
Enterprise - gross value	24	-
Enterprise - advances invoiced	(112)	-
Enterprise - net value	(88)	-
Public sector - gross value	176	-
Public sector - advances invoiced	(193)	-
Public sector - net value	(17)	-
Total Contract work-in-progress	(2,143)	-

Note 16 - Trade receivables

The account trade receivables is composed as follows:

	31/12/2018	31/12/2017
Trade receivables	111,068	93,945
Receivables from associated companies	59	86
Receivables from parent companies	1,078	841
Receivables from associated companies	96	-
Cumulative write-down of receivables	(4,810)	(4,353)
Total net receivables	107,491	90,519

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

	31/12/2018	31/12/2017
Balance at January 1	4,353	9,843
Changes in the year:		
- Recognition at January 1, 2018 due to the first application of IFRS 9	625	-
- Increases	463	2,225
- Utilizations	(642)	(7,700)
- Translation differences of foreign currencies	11	(15)
Balance at December 31	4,810	4,353

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

The cumulative effect of the new standard's application was recorded following the entry into force of IFRS 9 on January 1, 2018, resulting in the increase of Euro 625 thousand in the doubtful debt provision of Italtel S.p.A.

The increases in cumulative write-downs of receivables relate solely to Italtel S.p.A. and include the reclassification of the provision for risks and charges which vary from the provision recorded in previous years of Euro 400 thousand, relating to the recoverability risk of the balance recognized in trade receivables and the provision for the year of Euro 63 thousand. Utilizations of the doubtful debt provision, also relating solely to Italtel S.p.A., amount to Euro 642 thousand, of which Euro 268 thousand represents the quota of the surplus provision concerning the receivables written-down in previous years and collected in the year 2018, and the Euro 374 thousand adjustment of the write-down provision deriving from the application of the standard IFRS 9.

Receivables from parent companies relate to Exprivia S.p.A. and receivables from associated companies to Exprivia do Brasil.

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, 2018 totaled Euro 102.7 million (at December 31, 2017 Euro 74.1 million).

The trade receivable balance includes the receivables of the Peruvian company for a value of Euro 3,871 thousand and the receivables with recourse of the French company for Euro 561 thousand.

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

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

	31/12/2018		31/12/2017
	Foreign currency	Euro	Foreign currency
US Dollar	27,483	24,003	20,669
UK Sterling	247	276	5
Brazilian Real	35,339	7,952	37,881
Peruvian Nuevo Sol	46,127	11,941	17,491
Polish Zloty	161	38	1,561
Colombian Peso	3,233,655	869	3,069,135
Argentinean Peso	174,934	4,053	14,909

Note 17 - Income tax receivables

The account receivables for current taxes at December 31, 2018 amounted to Euro 760 thousand (at December 31, 2017 totaling Euro 2,864 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:

	31/12/2018	31/12/2017
Employee receivables	644	1,439
Social security institution receivables	217	1,188
Prepayments and accrued income	1,561	1,398
Short-term tax receivable	14,350	5,312
Receivables from the state for subventions and grants	14,385	10,741
Other various receivables	1,526	1,193
Other receivables from parent companies	1,515	-
Cumulative write-down of receivables	(46)	(46)
Total	34,152	21,225

The employee receivables relate principally to advances provided for work transport for Euro 500 thousand (Euro 599 thousand at December 31, 2017) and employee advances for the Solidarity Contract in December and for adjustment in January 2019 for Euro 123 thousand (Euro 493 thousand at December 31, 2017).

Receivables from social security institutions 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, 2018 for Euro 142 thousand. In 2018, these receivables decreased by Euro 763 thousand mainly due to the delay in the authorization of the reconciliation statements by INPS Palermo, which occurred on December 18, 2017, for the amounts disbursed in 2017 and the reconciliation in January 2018 of employee leaving indemnity quotas payable to the INPS for staff in all company facilities. The remaining receivables of Euro 75 thousand are from Argentinian social security institutions.

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

Short-term tax receivables increased substantially for Italian VAT which, compared to the previous year, rose as a result of applying Split Payments for the whole year to transactions carried out with listed companies, with subsidiaries directly or indirectly controlled by the State or with subsidiaries of regional public entities, in accordance with the provisions of Article 17-ter, paragraph 1-bis of Presidential Decree 633/72 in force since July 1, 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 1,526 thousand and decreased Euro 333 thousand on December 31, 2017.

Other receivables from parent companies refer to amounts due from Exprivia S.p.A. for the recognition of the benefit relating to the utilization of part of the 2018 tax losses of Italtel S.p.A. transferred to the consolidating company, as a result of the national tax consolidation pursuant to Article 117 and subsequent of Presidential Decree 917/1986.

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:

	31/12/2018	31/12/2017
Other financial receivables	316	7
Short-term financial prepayments and accrued income	48	66
Monetary funds / Securities	1,315	875
Total	1,679	948

The Euro 1,315 thousand of Monetary Funds at December 31, 2018 concerns investments in funds comprising Argentinian government securities liquefiable and due in the very short-term.

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:

	31/12/2018	31/12/2017
Cash at banks, financial institutions and post offices	13,428	22,353
Cheques	331	839
Cash	13	23
Total cash and cash equivalents	13,772	23,215

The amounts shown can be readily converted into cash and do not have a significant risk of change in value.

SHAREHOLDERS' EQUITY AND LIABILITIES

Note 21 – Share capital

At December 31, 2018 and 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.

The shareholders of the company are 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%.

At December 31, 2018, all shares issued had been subscribed and paid-in.

At December 31, 2018 the Company did not hold treasury shares.

Note 22 Reserves

The account Reserves is composed as follows:

	31/12/2018	31/12/2017
Equity financial instruments Contribution Reserve	3,488	-
Share Premium Reserve	13,245	13,245
New Equity Financial Instruments Reserve	9,371	9,371
Total	26,104	22,616

The Shareholders' Meeting of April 23, 2018 allocated the amount of Euro 3,488 thousand to the Legal Reserve. This amount stems from the surplus of the Share Premium Special Reserve established on the recapitalization to cover losses amounting to Euro 13,947 thousand up to September 30, 2017, compared to the loss of Euro 10,458 thousand in 2017.

On December 14, 2017, the motion of the Extraordinary Shareholders' Meeting of Italtel S.p.A. was executed with regard to the company's recapitalization and the covering of cumulative losses up to December 31, 2016 and the additional loss for the period January 1 to September 30, 2017. New C EFIs were subscribed by the lending backs on this date, 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

This Reserve was subsequently utilized for an amount equal to Euro 57,431,977 to cover cumulative losses, with a remaining balance of Euro 9,371,283.

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

The breakdown of the account is as follows:

	31/12/2018	31/12/2017
Prior year results carried forward	3,971	2,985
Employee benefits remeasurement reserve IAS 19	(2,671)	(2,959)
Cash Flow Hedge reserve recognized in other comprehensive income	-	(595)
Translation reserve	(12,880)	(9,918)
Reserve for coverage of Italtel S.p.A. losses January 1 - September 30, 2017	-	13,947
Stock option plan reserve	99	-
Loss for the year	(4,781)	(10,458)
Total	(16,262)	(6,998)

The account Previous Year Results Carried Forward increased due to the effect, among others, of the application of IAS 29 - Financial Reporting in Hyperinflationary Economies to the 2018 financial statements of the Group's Argentinian company. In accordance with this standard, net equity accounts in the financial statements of Italtel Argentina S.A., expressed in Argentinian Pesos, were restated to take account of the local inflationary effect. The accounting standard establishes that the counter-entry of the revaluation of net equity accounts must be recorded to the income statement of the year in which it occurs, in an allocated account under financial charges. The cumulative revaluation effect at December 31, 2018 amounts to Euro 1,610 thousand.

The account Previous Year Results Carried Forward also decreased by Euro 625 thousand, relating to the increase in the trade receivables doubtful debt provision of Italtel S.p.A. recorded in accordance with IFRS 9, which entered into force on January 1, 2018.

Other reserves include Euro 2,671 thousand 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, 2018 actuarial gains were recorded in the comprehensive income statement totaling Euro 288 thousand, net of the tax effect. At December 31, 2017 actuarial gains were recorded for Euro 55 thousand.

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

	2018	2017
Balance at January 1	(2,959)	(3,014)
Post-employment benefits actuarial gains(losses)	288	55
Balance at December 31	(2,671)	(2,959)

At December 31, 2018, Italtel S.p.A. reduced to zero the Cash Flow Hedge Reserve which was negative for Euro 595 thousand and which, at December 31, 2017, was recorded in the financial statements following the valuation of exchange rate hedging transactions in accordance with the international standard IAS 39. This reserve represented the fair value at December 31, 2017 of the effective portion of derivative instruments to hedge future cash flows. These variations are recorded in the net equity reserve until such time as the underlying hedge is recognized to the income statement. At December 31, 2018, exchange risk hedges were closed and the reserve recognized to the income statement to compensate for the economic effects generated by the hedged transaction.

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

	2018	2017
Balance at January 1	(595)	-
Gains/(losses) on the effective portion of the Cash Flow Hedge:	(783)	(783)
Tax effect	188	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:

	2018	2017
Balance at January 1	(9,918)	(6,891)
Conversion of opening net equity and consolidation adjustments	(3,039)	(2,985)
Conversion of Profit/(loss)	77	(42)
Balance at December 31	(12,880)	(9,918)

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 2,750 thousand and in Brazil for Euro 271 thousand.

The Share-Based Incentive Plan Reserve refers to the assignment of Exprivia S.p.A. shares and incorporates the fair value measurement of the parent company's free assignment of shares to the CEO and to senior executives, in accordance with the Exprivia 2018-2020 Share-Based Incentive Plan regulation approved by the Board of Directors of March 22, 2018 and valued according to IFRS 2 - Share-Based Payments.

The Plan envisages the following share-assignment conditions:

- Maximum number of rights: 842,629.
- The allocation of the shares is subject to continued employment and the effective undertaking of working activities.
- Access to the Plan is linked to the achievement of a fixed average EBITDA level in the 2018-2020 three-year period, measured with reference to the Italtel consolidated financial statements; the Regulation describes the conditions linked to business performance for the years 2018-2019-2020 which regulate the assignment of shares.
- Assignment date of the shares to Beneficiaries: 60 calendar days after the approval of the 2020 financial statements.

In summary, the principal parameters and assumptions adopted in the model for the fair value measurement of shares are:

- Share value at the reference date (August 3, 2018) equal to Euro 1.204
- Employee Turnover Rate: 3%
- Probability of achieving the EBITDA three-year average: 85%

The application of the measurement model provided the following results:

- Number of shares assigned: 478,470
- Share value: Euro 1.204
- Value: Euro 576,078

As per IFRS 2 - Share-Based Payments, when the right to assign the shares matures, provided that the employee has completed a given period of service and the fixed results' achievement conditions are satisfied, the total value of the Share-Based Incentive Plan must be recorded along this time frame. Since the Plan's maturity period is from August 3 to December 31, 2020, the quota accrued from August to December 2018 was recorded at December 2018.

Schedule of reconciliation between net equity and result of the parent company and consolidated financial statements

The reconciliation between the Net Equity and the Net Profit for the year, resulting from the separate financial statements of the Parent Company Italtel S.p.A. with those of the consolidated financial statements, is reported below.

	31/12/2018		31/12/2017	
	2018 Result	Equity at 31/12/2018	2017 Result	Equity at 31.12.2017
Italtel S.p.A.	(3,171)	29,842	(10,458)	35,619
Contribution of the consolidated companies	(545)	36,430	(551)	32,661
Elimination investments	(79)	(39,492)	(401)	(36,176)
Elimination dividends	(1,388)	-	(672)	-
Other consolidation adjustments	402	3,062	1,624	3,514
Total Italtel Group	(4,781)	29,842	(10,458)	35,618

Note 24 - Employee benefit provisions

The employee benefits provisions are broken down as follows:

	31/12/2018	31/12/2017
Post-employment benefits	15,836	18,868
Indemnity for the advanced settlement of contract	-	450
Deferred employee benefits provisions for foreign companies	3	3
Total	15,839	19,321

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:

	31/12/2018	31/12/2017
ECONOMIC ASSUMPTIONS		
Increase in the cost of living	1.5% annual	1.5% annual
Discount rate	1.57% annual	1.30% 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:

	31/12/2018	31/12/2017
Balance at January 1	18,871	19,810
IFRS adjustment – actuarial losses Italtel S.p.A.	(379)	(72)
Increase in the year Italtel S.p.A.	227	250
Increase in the year - foreign companies	-	3
Utilizations in the year Italtel S.p.A.	(2,880)	(990)
Utilizations in the year - foreign companies	-	(130)
Balance at December 31	15,839	18,871

The actuarial gain calculated for 2018 is Euro 379 thousand, while in the previous year actuarial gains of Euro 72 thousand were reported.

The increase in the year is essentially due to “Interest costs” for Euro 227 thousand in 2018 (Euro 250 thousand in 2017).

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

	31/12/2018	31/12/2017
Balance at January 1	450	550
Provisions in the year	-	-
Utilizations in the year	(450)	(100)
Balance at December 31	-	450

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, 2017	72	20,596	20,668
Changes in the year:			
- Increases	25	1,118	1,143
- Utilizations/Releases	-	(1,680)	(1,680)
- Utilizations personnel restructuring costs	-	(5,836)	(5,836)
- Translation differences	(7)	(39)	(46)
December 31, 2017	90	14,159	14,249
Changes in the year:			
- Increases	2	772	774
- Utilizations/Releases	-	(2,090)	(2,090)
- Utilizations personnel restructuring costs	-	(6,950)	(6,950)
- Reclassifications	-	(400)	(400)
- Translation differences	(5)	(48)	(53)
Balance at December 31, 2018	87	5,443	5,530

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 5,443 thousand at December 31, 2018 (Euro 14,159 thousand at December 31, 2017) concerns risks related to disputes in progress for Euro 486 thousand and tax risks relating to foreign companies for Euro 943 thousand.

In addition, in 2016, Euro 16,800 thousand was provisioned for personnel as part of the restructuring under the 2017-2023 Industrial Plan. In 2017 utilizations were Euro 5,836 thousand and in 2018 utilization were Euro 6,950 thousand, with the provision amounting to Euro 4,014 thousand at December 31, 2018. The 2018 utilizations include Euro 456 thousand relating to personnel participating in the restructuring plan and who shall be leaving in 2019. These utilizations were reclassified under employee payables.

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:

	31/12/2018			31/12/2017		
	Short-term	Medium/ long-term	Total	Short-term	Medium/ long-term	Total
Secured bank loans	5,000	130,010	135,010	-	132,005	132,005
Unsecured loans	1,248	1,533	2,781	359	2,781	3,140
Unsecured loans at subsidized rates	6,165	11,284	17,449	7,378	12,409	19,787
Loans from other lenders	-	-	-	-	-	-
Liabilities for finance leases	99	-	99	103	71	174
Medium/long term loans	12,512	142,827	155,339	7,840	147,266	155,106
Short-term bank loans	25,316	-	25,316	29,961	-	29,961
Total payables to financial institutions	37,828	142,827	180,655	37,801	147,266	185,067
Other	4,004	-	4,004	4,111	-	4,111
Accrued liabilities and deferred income	41	-	41	264	-	264
Total	41,873	142,827	184,700	42,176	147,266	189,442

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

	31/12/2018	31/12/2017
- within one year	12,512	7,840
- between one and two years	18,050	11,188
- between two and three years	622	17,578
- between three and four years	626	-
- between four and five years	4,631	-
- over five years	118,898	118,500
Total	155,339	155,106

At December 31, 2018, the medium/long term loans, including the short-term portion, were as follows:

	Variable rate	Fixed rate	31/12/2018
- within one year	5,000	7,512	12,512
- between one and two years	10,000	8,050	18,050
- between two and three years	-	622	622
- between three and four years	-	626	626
- between four and five years	4,000	631	4,631
- over five years	116,010	2,888	118,898
Total	135,010	20,329	155,339

The loans with secured guarantees, totaling Euro 135,010 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:

- 1) Euro 2,110 thousand at 31/12/2019;
- 2) Euro 4,220 thousand at 31/12/2020;
- 3) Euro 3,377 thousand at 31/12/2023;
- 4) Euro 26,646 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:

- 1) Euro 390 thousand at 31/12/2019;
- 2) Euro 780 thousand at 31/12/2020;
- 3) Euro 622 thousand at 31/12/2023;
- 4) 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:

- 1) Euro 2.500 thousand at 31/12/2019;
- 2) Euro 5.000 thousand at 31/12/2020;
- 3) Euro 81,452 thousand at 31/12/2024.

- Euro 3,005 thousand relating to interest charges matured on the above lines for the period from December 14, 2018, the loan contract's closing date, to December 31, 2018. This interest does not increase the value of the credit lines but is a medium/long-term payable to the lending bank syndicate, to be paid on the loan's final maturity date.

In detail:

- 1) Euro 828 thousand from the Restructuring line maturing on 31/12/2024;
- 2) Euro 152 thousand from the TERM-E line maturing on 31/12/2024;
- 3) Euro 2,025 thousand from the TERM D/E line maturing on 31/12/2024;

Unsecured loans at standard rates for Euro 2,781 thousand issued by the Intesa Sanpaolo Group for a total of Euro 13,533 thousand for research activities on the PAIMS and SIS projects, of which Euro 10,752 thousand are at subsidized rates. During the year, Euro 359 thousand were reimbursed on the closure of the loan issued by Banca Intesa Sanpaolo S.p.A. for research activities concerning the “Asic” project.

The unsecured loans at subsidized rates of Euro 17,449 thousand comprise loans at rates between 0.17% and 0.886%, and concern subsidized financing issued based on research, development and industrial innovation laws. The above loans increased to Euro 5,040 thousand as a result of the new loans at subsidized rates issued by Mediocredito Centrale in July for a total of Euro 5,182 thousand to finance research activities concerning the Re-Actor and Agile-Networks projects. The amortized cost measurement of these new loans based on the accounting standard IFRS 9 led to an adjustment to the nominal value of Euro 142 thousand. Reimbursements for a total value of Euro 7,378 thousand were made during the year, in accordance with the loan amortization plans in place.

The account Short-term bank loans, totaling Euro 25,316 thousand at December 31, 2018 (Euro 29,961 thousand at December 31, 2017), includes the use of the short-term Revolving credit lines and the new Revolving Credit A line (Hot Money).

Other financial payables decreased substantially due to the fair value measurement of the currency hedging contracts which this year show a liability for Euro 119 thousand, compared to a liability of Euro 3,209 thousand in 2017. The increase was due to a liability of Euro 3,871 thousand relating to the Peruvian company's advance transaction on receivables with recourse.

The covenants to be complied with as per the loan contracts in force from December 31, 2018 to June 30, 2024 are illustrated below.

The three covenants concern:

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

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

	<i>Leverage Ratio</i>	<i>Interest Cover Ratio</i>	<i>Capital Expenditure</i>
at December 31, 2018	≤7.1	≥3.4	18,700,000
at June 30, 2019	≤6.7	≥4.4	
at December 31, 2019	≤5.6	≥4.7	17,400,000
at June 30, 2020	≤5.7	≥4.9	
at December 31, 2020	≤4.4	≥5.6	17,600,000
at June 30, 2021	≤4.4	≥5.9	
at December 31, 2021	≤3.6	≥6.2	17,600,000
at June 30, 2022	≤3.6	≥7.5	
at December 31, 2022	≤3.0	≥8.0	17,600,000
at June 30, 2023	≤3.0	≥8.4	
at December 31, 2023	≤3.0	≥8.8	17,600,000
at June 30, 2024	≤3.0	≥8.8	

At December 31, 2018, parameters were complied with and have the following values:

- the Leverage Ratio was equal to 6.43;
- the Interest Cover Ratio stood at 4.73;
- total investments amounted to Euro 13,263 thousand.

Liquidity

Net liquidity at December 31, 2018 and 2017 was broken down as follows:

	31/12/2018	31/12/2017
Cash and cash equivalents	344	862
On demand bank current accounts	13,428	22,353
Restricted current accounts	-	-
Total	13,772	23,215

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

	31/12/2018	31/12/2017
Cash generated/(absorbed) by operating activities	10,192	(44,236)
Cash generated/(absorbed) by investing activities	(13,712)	(15,523)
Cash generated/(absorbed) by financing activities	(4,743)	60,372
Other equity changes	(1,180)	(3,396)
Changes in the year	(9,443)	(2,783)

In 2018 the Group absorbed liquidity of Euro 9,443 thousand compared to liquidity absorbed in the previous year of Euro 2,783 thousand, as follows:

Cash flow generated by operating activities

The cash flow generated by operating activities totaled Euro 10,192 thousand.

Cash flow from operating activities before working capital changes of Euro 617 thousand is accompanied by the change in net working capital, with the generation of cash of Euro 9,575 thousand.

Cash absorbed by investing activities

In 2018, investing activities absorbed cash of Euro 13,712 thousand, principally due to investment in property, plant and equipment for Euro 2,749 thousand and in intangible assets for Euro 10,514 thousand.

Cash absorbed by investing activities

Financial assets in 2018 absorbed liquidity of Euro 4,743 thousand.

During the year, the net balance of short-term loan repayments was Euro 4,645 thousand, with the repayment also of medium/long-term loans for Euro 7,737 thousand, while new medium/long-term loans were granted for Euro 8,045 thousand. Finally, changes to other financial payables show a negative balance of Euro 406 thousand.

Balance Sheet

The condensed balance sheet at December 31, 2018 and 2017 is reported below.

	(Euro thousands)		
	31/12/2018	31/12/2017	Changes
Non-current assets and liabilities:			
+ Goodwill	122,215	122,215	-
+ Property, plant and machinery and other intangible assets	34,477	37,067	(2,590)
+ Other assets	2,203	3,508	(1,305)
+ Deferred tax assets	60,756	61,975	(1,219)
- Employee provisions	(15,839)	(19,321)	3,482
- Provisions for risks and charges	(5,530)	(14,249)	8,719
- Other liabilities	(441)	(225)	(216)
Non-current assets and liabilities	197,841	190,970	6,871
Working capital:			
+ Inventories	33,180	40,112	(6,932)
+ Trade receivables and Works in progress	151,761	110,988	40,773
+ Other receivables	34,912	24,089	10,823
+ Assets held-for-sale	106	215	(109)
- Trade payables	(176,418)	(124,392)	(52,026)
- Other payables	(42,002)	(40,842)	(1,160)
- Liabilities related to assets held-for-sale	(386)	(389)	3
Working capital	1,153	9,781	(8,628)
Total net capital employed	198,994	200,751	(1,757)
Net financial debt	169,152	165,133	4,019
of which cash	(13,772)	(23,215)	9,443
Consolidated shareholders' equity	29,842	35,618	(5,776)
Share capital	20,000	20,000	-
Other reserves including the net result	9,842	15,618	(5,776)
Total Debt and Net Equity	198,994	200,751	(1,757)

Financial Highlights

The net debt was as follows:

	(Euro thousands)		
	31/12/2018	31/12/2017	Changes
Short-term bank loans	37,828	37,872	(44)
Medium/long-term loans (bank and subsidized)	142,827	147,195	(4,368)
Other financial payables	4,004	4,111	(107)
Accrued liabilities and deferred income	41	264	(223)
Gross debt	184,700	189,442	(4,742)
Cash in hand and similar	(344)	(862)	518
On demand bank current accounts	(13,428)	(22,353)	8,925
Short-term financial receivables	(316)	(7)	(309)
Prepayments and accrued income	(145)	(212)	67
Other working capital securities	(1,315)	(875)	(440)
Net debt	169,152	165,133	4,019

The net debt at December 31, 2018 totaled Euro 169,152 thousand and increased Euro 4,019 thousand compared to Euro 165,133 thousand at December 31, 2017, due to the reduction in the gross debt of Euro 4,742 thousand, offset by the decrease in liquidity for Euro 9,443 thousand and the decrease in current financial receivables and other financial receivables.

The short-term bank loans reduced Euro 44 thousand, mainly due to the repayment of the subsidized loans for Euro 7,737 thousand offset by the reclassification from long-term to short-term of the portion which will be repaid in 2019 of Euro 7,437 thousand.

The medium/long-term loans of Euro 135,010 thousand includes Euro 3,005 thousand of interest matured in the period between December 14, 2017 to December 31, 2018 on the medium/long-term credit lines as per the Restructuring Agreement and repayable on December 31, 2024.

These increased the medium/long-term loans from Euro 132,005 thousand in 2017 to Euro 135,010 thousand in 2018.

Other financial payables reduced Euro 107 thousand, with accrued liabilities and deferred income decreasing Euro 223 thousand.

Liquid assets decreased by Euro 9,443 thousand in 2018, from Euro 23,215 thousand at December 31, 2017 to Euro 13,772 thousand in 2018, as a result of the cash flow absorbed by the financing activity for Euro 8,614 thousand and the cash flow absorbed by the investment activity for Euro 13,712 thousand, net of the liquidity generated by the operating activity of Euro 14,063 thousand.

Financial receivables increased Euro 309 thousand, while prepayments and accrued income decreased Euro 67 thousand. Other current securities increased Euro 440 thousand.

Note 27 - Other liabilities

This account Other liabilities is comprised of:

	31/12/2018	31/12/2017
Medium/long term accrued liabilities and deferred income	441	113
Deposits	-	112
Total	441	225

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:

	31/12/2018	31/12/2017
Supplier payables	172,226	122,056
Payables to associated companies	80	185
Payables to parent companies	1,809	2,151
Payables to associated companies	160	-
Total	174,275	124,392

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, together with the payables to associated companies, specifically to the company Exprivia do Brasil Servicos Ltda.

The book value of the Trade Payables approximates their Fair Value.

The trade payables in currencies other than the Euro, the group functional currency, are listed below:

	31/12/2018		31/12/2017
	Foreign currency	Euro	Foreign currency
US Dollar	80,465	70,275	16,787
UK Sterling	3	3	4
Argentinean Peso	71,663	1,660	32,290
Brazilian Real	20,621	4,640	21,431
Polish Zloty	247	58	361
Colombian Peso	2,783,766	748	2,559,819
Peruvian Nuevo Sol	32,695	8,464	28,518

Note 29 - Current tax liabilities

Current tax liabilities amount to Euro 614 thousand and Euro 635 thousand at December 31, 2018 and December 31, 2017 respectively, representing the Income tax payables:

	31/12/2018	31/12/2017
Income taxes – foreign countries	614	635
Total	614	635

Note 30 - Other payables and liabilities

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

	31/12/2018	31/12/2017
Employee payables	14,372	18,521
Social security institutions	3,147	3,295
Accrued liabilities and deferred income	13,883	8,817
VAT	2,042	1,313
Withholding taxes to be paid	2,200	2,288
Other taxes	1,187	681
Customer advances	1,688	1,489
Other liabilities	2,869	3,803
Total	41,388	40,207

Employee payables, amounting to Euro 14,372 thousand at December 31, 2018, decreased by Euro 4,149 thousand compared to the previous year. The change is mainly due to the payment of incentives to Italtel S.p.A. employees who left at December 31, 2017 as part of the current restructuring and were paid in January 2018.

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.

INCOME STATEMENT

Note 31 - Revenues from sales and services

The following tables report the revenues from sales and services recorded in the years ended December 31, 2018 and 2017, broken down by client and region. The balance includes revenues from sales for Euro 355,657 thousand and the change in contract work-in-progress for Euro 82,705 thousand (Euro 20,469 thousand at December 31, 2017).

i) Revenues from sales and services broken down by client

	2018	2017
Telecom Italia Group	113,924	145,808
Other local operators	30,408	35,359
Large enterprises and Public Sector	143,438	89,048
Overseas Operators – EMEA	43,583	44,889
Overseas Operators – LATAM	107,009	115,107
Total	438,362	430,211

ii) Revenues from sales and services broken down by region

	2018	2017
Italy	286,089	268,521
Other European countries	44,841	45,012
Central and South America	107,009	115,107
USA	350	119
Africa	-	1,172
Asia	73	280
Total	438,362	430,211

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:

	2018	2017
Grants	6,723	3,887
Gains on disposals	78	30
Other	12,667	13,693
Total	19,468	17,610

Operating grants for Euro 6,534 thousand concern contributions for costs incurred for research and development activities (Euro 3,713 thousand in 2017) and Euro 189 thousand for capital grants (Euro 174 thousand in 2017).

The account Others concerns prior year income for Euro 2,503 thousand (Euro 3,626 thousand in 2017), Euro 5,722 thousand of Cisco contributions on the VIP Program contract and SRS Agreement (Euro 5,159 thousand in 2017) and the release of provisions for Euro 1,281 thousand (Euro 803 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:

	2018	2017
Purchases of materials	205,741	232,223
Purchases of services	136,962	118,511
Total	342,703	350,734

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.

In the previous year purchases of services included non-recurring charges for corporate consultancy and notary fees relating to the extraordinary transactions and recapitalization described totaling Euro 5,179 thousand.

Note 34 - Personnel costs

The account Personnel costs is broken down as follows:

	2018	2017
Wages and salaries	64,966	63,212
Social security charges	18,217	17,873
Post-employment benefits	3,144	3,024
Other non-recurring costs and Restructuring provision accruals	(1,602)	-
Other	1,344	928
Total	86,069	85,037

Personnel costs increased by Euro 1,032 thousand compared to the previous year. At December 31, 2018, this account included the utilization of other provisions for risks and charges in the account Other Non-Recurring Charges/(Income) for Euro 1,152 thousand to cover personnel costs included in the restructuring plan and reallocated for a reallocation within the company, and the utilization of surplus employee provisions for Euro 450 thousand.

The average workforce increased from 1,399 in 2017 to 1,473 in 2018.

The account Others includes the cost of Euro 99 thousand relating to the fair value of the free share assignment of the parent company Exprivia S.p.A. to the CEO and to senior executives, in accordance with the 2018-2020 Exprivia Share-Based Incentive Plan regulation, approved by the Board of Directors of March 22, 2018 and valued according to IFRS 2 - Share-Based Payments. In relation to this cost, the Share-Based Incentive Plan Reserve was recorded in the Net Equity for an equal amount. For further information on the Plan, reference should be made to Note 23.

Additional information on the breakdown by category, qualification and department is contained in the Directors' Report, in the Human Resources and Sustainability section.

Note 35 - Amortization, depreciation and write-downs

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

	2018	2017
Development Costs	11,435	8,485
Other intangible assets	1,440	1,404
Industrial buildings	490	483
Plant and machinery	581	591
Industrial and commercial equipment	709	728
Other assets	1,031	991
Total	15,686	12,682

Note 36 - Other operating costs

This account Other operating costs is comprised of:

	2018	2017
Other operating expenses	4,759	5,362
Provisions for risks	48	1,143
Write-down of receivables	63	2,315
Total	4,870	8,820

The account miscellaneous operating costs includes prior year charges of Euro 1,068 thousand (Euro 577 thousand in 2017).

Note 37 - Change in inventories

The following table highlights the principle components of the account:

	2018	2017
Contract work-in-progress and products in work in progress	(1,943)	(5,328)
Finished products and goods	(4,238)	6,480
Total	(6,181)	1,152

Note 38 - Increases on internal works capitalized

The account increases on internal works capitalized amounted to Euro 8,315 thousand in 2018 (Euro 10,453 thousand in 2017) and concerns the capitalizations of tangible and intangible fixed assets of the production or acquisition costs, not including financing charges.

In 2018, the account concerned for Euro 8,261 thousand (Euro 10,402 thousand in 2017) 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.

	2018			2017		
	Charges	Income	Net charges/(income)	Charges	Income	Net charges/(income)
Exchange rate differences	12,544	7,627	4,917	14,515	11,918	2,597
Bank interest	5,900	330	5,570	7,258	138	7,120
Other	5,190	77	5,113	3,723	2,464	1,259
Total	23,634	8,034	15,600	25,496	14,520	10,976

Net financial charges total Euro 15,600 thousand, compared to Euro 10,976 thousand in the previous year, increasing Euro 4,624 thousand.

Net exchange losses increased from Euro 2,597 thousand in 2017 to Euro 4,917 thousand in 2018, an increase of Euro 2,320 thousand. This movement includes the net positive change of Euro 2,307 thousand of the charge deriving from the currency risk hedges, which increased from Euro (2,426) thousand at December 31, 2017, to Euro 119 thousand at December 31, 2018, offset by the net negative change of realized and unrealized exchange rate differences.

Net interest charges decreased from Euro 7,120 thousand in 2017 to Euro 5,570 thousand in 2018, decreasing Euro 1,550 thousand.

Other charges increased from Euro 1,259 thousand in 2017 to Euro 5,113 thousand in 2018, rising therefore Euro 3,854 thousand.

In 2017 other financial income included 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.

As discussed, the financial statements of the company Italtel Argentina S.p.A. were restated by applying IAS 29 as the country is a hyperinflationary economy. The account Other Financial Charges also includes the loss, recorded in the financial statements of the Argentinian company, of Euro 757 thousand on the net monetary position deriving from the restatement of the income statement, non-monetary assets and own capital.

In 2018 and 2017, the Italtel Group recognized net financial charges from transactions undertaken with holders of EFI, as follows:

	2018	2017
Unicredit	4,652	5,375
GE Capital	-	35
Banco di Brescia	-	46
Total	4,652	5,456

Note 40 - Income taxes

The income tax account in 2018 reports income of Euro 219 thousand, compared to a charge of Euro 1,349 thousand in the previous year. The IRAP estimated for the current year, as for the previous, was zero. The balance includes the gain of Euro 1,515 thousand deriving from the utilization of part of the Italtel S.p.A. 2018 tax losses, transferred to the parent company Exprivia S.p.A. in relation to the national tax consolidation, pursuant to Article 117 and subsequent of Presidential Decree 917/1986. Non-recoverable withholding taxes incurred overseas of Euro 246 thousand were written-down in 2018. The account also includes foreign income taxes for Euro 1,220 thousand (Euro 295 thousand in 2017), lower taxes relating to previous years for Euro 245 thousand (lower taxes for Euro 26 thousand in 2017), in addition to deferred tax charges of Euro 75 thousand (income of Euro 1,080 thousand in the previous year).

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

	2018	2017
Loss before taxes	(4,964)	(8,823)
Theoretical taxes ^(a)	(1,191)	(2,118)
IRAP	-	-
Colombia expected taxes	22	14
Withholding taxes foreign currencies	246	-
Deferred tax assets write-down	36	76
Difference between the tax rate on foreign entities	127	(1,129)
Non-deductible (exempt) tax components	828	1,227
Deferred taxes not recorded on tax losses and temporary differences	65	3,469
Positive components not subject to taxation	(190)	(130)
Other changes	(162)	(60)
Effective tax	(219)	1,349

(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, 2018 and 2017 concern the company Italtel Telecommunication Hellas EPE in liquidation and 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 Greek company concluded the liquidation process and was removed from the local Companies Register on December 4, 2018. It is still included under discontinued operations in the present financial statements since the final liquidation capital of Euro 94 thousand was collected on January 25, 2019.

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 106 thousand (Euro 215 thousand at December 31, 2017) comprise liquidity of Euro 94 thousand of the Greek company and Euro 12 thousand of the Arabian company.

Liabilities of Euro 386 thousand (Euro 389 thousand at December 31, 2017) are wholly related to the Arabic company.

The net loss from discontinued operations in 2018 amounts to Euro 36 thousand (Euro 286 thousand in 2017) and represents the net loss of only Italtel Hellas Epe.

The loss concerned the company's liquidation operations.

The company Italtel Arabia Ltd did not undertake any activities in 2018 or in 2017.

Note 42 - Transactions with related parties

Transactions with the related parties were as follows:

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)

December 31, 2018	Trade receivables	Financial receivables	Trade payables	Financial payables	Other receiv./payables
Associated companies:					
Cored - Reti Duemila consortium in liquidation	59	-	-	-	(80)
Hermes consortium in liquidation	-	-	-	-	-
Other related parties:					
Exprivia Group	1,174	-	(1,970)	-	1,426
Italtel Group S.p.A.	-	-	-	-	-
Cisco Systems Group	1,317	-	(64,074)	-	-
Total	2,550	-	(66,044)	-	1,346

In 2017 and 2018, the Italtel Group reports transactions with related parties as follows:

December 31, 2017	Sales	Purchases	Financial income / (charges)	Other
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

December 31, 2018	Sales	Purchases	Financial income / (charges)	Other
Associated companies:				
Cored - Reti Duemila consortium in liquidation	-	-	-	(1)
Hermes consortium in liquidation	-	-	-	(3)
Other related parties:				
Exprivia Group	1,232	(2,911)	-	487
Italtel Group S.p.A.	-	-	-	-
Cisco Systems Group	1,154	(208,385)	-	5,722
Total	2,386	(211,296)	-	6,205

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.

In relation to senior managers with strategic responsibilities, in 2018 and in 2017 emoluments were matured for a total amount respectively of Euro 2,133 thousand and Euro 2,035 thousand. These emoluments were as follows:

	2018	2017
Current Emoluments	2,040	1,950
Post-employment benefits	93	85
Total	2,133	2,035

Note 43 - Guarantees & 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.

	31/12/2018	31/12/2017
To be repaid		
- within one year	5,497	5,036
- between one and two years	4,982	4,929
- between two and three years	4,509	4,683
- between three and four years	4,263	4,420
- between four and five years	3,212	3,371
- over five years	2,830	5,846
Total	25,293	28,285

The Italtel Group has in place commercial guarantees for Euro 26,396 thousand, of which Euro 2,052 thousand concerning the client Telecom Italia S.p.A., broken down into bank guarantees for Euro 11,784 thousand and insurance guarantees for Euro 14,611 thousand. These guarantees have differing maturities until March 2022.

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

Additional financial sureties were granted for Euro 16,548 thousand in guarantee of the research and development loans issued of which Euro 3,448 thousand with maturity of March 31, 2019, 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 2018 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	284	198	482
Other services	37	4	41
Total 2018 costs for auditing and other services	321	202	523

Note 45 – Subsequent events

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

Note 46 – List of investee companies

<i>A) List of companies included in the consolidation scope under the line-by-line method</i>						
Company name (activities)	Registered office	Currency	Share capital	% held		
1) Italtel S.p.A. (telecommunications systems and services)	Settimo Milanese	Euro	20,000,001	81 19	Exprivia S.p.A. Cisco Systems (Italy) S.r.l.	
Italian subsidiaries						
2) Italtel Latam S.r.l.	Settimo Milanese	Euro	10,000	100	Italtel S.p.A.	
Overseas subsidiaries						
3) Italtel BV (commercial and finance)	Amsterdam (Netherlands)	Euro	1,800,000 (1)	100	Italtel Latam S.r.l. (2)	
4) Italtel S.A. (telecommunication systems)	Madrid (Spain)	Euro	7,353,250	100	Italtel S.p.A. (1)	
5) Italtel Argentina S.A. (telecommunication systems)	Buenos Aires (Argentina)	P.A.	4,030,000	71.46	Italtel BV	
6) Italtel Brasil Ltda (telecommunication systems)	Sao Paolo (Brazil)	Real Brazilian	15,456,636 (9)	93.66	Italtel Latam S.r.l. (3)	
7) Italtel Deutschland GmbH (commercial)	Düsseldorf (Germany)	Euro	40,000	6.34 100	Italtel BV Italtel S.p.A. (1)	
8) Italtel France Sas (commercial)	Courbevoie (France)	Euro	40,000	100	Italtel S.p.A.	
9) Italtel Telecommunication Hellas EPE (commercial) in liquidation (5)	Athens (Greece)	Euro	729,750	100	Italtel S.p.A.	
10) Italtel U.K. Ltd (commercial)	London (Great Britain)	UK Sterling	26,000	100	Italtel S.p.A. (1)	
11) Italtel Belgium Sprl (commercial)	Brussels (Belgium)	Euro	200,000	60 40	Italtel S.p.A. Italtel France Sas (6)	
12) Italtel Poland Sp.Zo.O. (commercial)	Warsaw (Poland)	Zloty	400,000	100	Italtel S.p.A.	
13) Italtel Arabia Ltd (commercial) in liquidation	Riyadh (Saudi Arabia)	SAR	3,287,980	90 10	Italtel S.p.A. Italtel BV	
14) Italtel Perú S.a.c. (commercial)	Lima (Peru)	Nuevo Sol	3,028,000	90 10	Italtel BV Italtel S.p.A.	
15) Ausoitaltel S.A. (commercial)	Quito (Ecuador)	USD	500,000	1	Italtel BV	
16) Italtel USA LLC	Miami (Florida)	USD	150,000	99 100	Italtel Latam S.r.l. (7) Italtel S.p.A.	
17) Italtel de Chile S.p.A.	Santiago (Chile)	P.C.	1,000,000	100	Italtel Latam S.r.l. (8)	

B) List of companies valued under the net equity method

Company name (activities)	Registered office	Currency	Share capital	% held	Book value
Italian associated companies					
18) Cored - Consorzio Reti 2000 in liquidation (broadband networks)	Milan	Euro	260,000	30	Italtel S.p.A. 76
19) Hermes consortium in liquidation (transmission systems) Removed from the Companies Register with effect from December 3, 2018	Milan	Euro	478,422	24	Italtel S.p.A. -

C) List of investments in other companies valued at cost

Company (activities)	Registered office	Currency	Share capital	% held	Book value
Other companies valued at cost					
20) Cefriel - S.c.r.l. (training and research)	Milan	Euro	1,115,596	5.80	Italtel S.p.A. 36
21) Consorzio Milano Ricerche (Milan Research Consortium) (design and research)	Milan	Euro	172,456	8.3	Italtel S.p.A. 15
22) Consel - Consorzio Elis per la Formazione Professionale Superiore - S.c.r.l.	Rome	Euro	51,000	2.5	Italtel S.p.A. 1
23) SISTEL - Comunicações, Automação e Sistemas S.A. (telecommunication systems)	Monte de Caparica (Portugal)	Euro	10,338,838	0.88 0.72	Italtel S.p.A. 29 Italtel BV 7
24) Parco Scientifico e Tecnologico della Sicilia S.c.p.A. (research)	Palermo	Euro	7,626,733	0.04	Italtel S.p.A. 2
25) 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	402,000	2.98	Italtel S.p.A. -
26) CONAI National Packaging Consortium (management of packaging)	Rome	Euro	variable	0.005	Italtel S.p.A. 1
27) COFRIDIP Consortium	Padua	Euro	28,402	9.09	Italtel S.p.A. 3
28) Technology District, Sicily Micro e Nano Sistemi S.c.a.r.l.	Catania	Euro	600,000	4.55	Italtel S.p.A. 27
29) SI-LAB Sicilia S.c.a.r.l	Palermo	Euro	30,000	18.50	Italtel S.p.A. 6
30) Open Hub Med S.c.a.r.l	Milan	Euro	1,050,000	9.52	Italtel S.p.A. 100

Note:

- 1) With effect from July 5, 2018;
- 2) With effect from September 19, 2018;
- 3) With effect from July 25, 2018;
- 4) With effect from July 20, 2018;
- 5) The company was removed from the local Companies Register with effect from December 4, 2018 (following the conclusion of the liquidation process). The final liquidation capital was collected on January 25, 2019;
- 6) With effect August 5, 2018;
- 7) With effect July 10, 2018;
- 8) With effect December 19, 2018;
- 9) With effect December 20, 2018;
- 10) The S.c.a.r.l. Made was incorporated on January 11, 2019, with its registered office in Milan, share capital of Euro 250,000 and a 1% stake, equivalent to Euro 2,500, held by Italtel S.p.A.
- 11) On February 21, 2019, Italtel S.p.A. acquired 25% of the share capital from Exprivia S.p.A. of Consorzio Exprivia società consortile a responsabilità limitata s.r.l. equivalent to Euro 5,000.

Note 47 Grants and economic benefits received from public sector entities

Pursuant to Article 1, paragraph 125 of Law No. 124 of 2017, the following table highlights the information concerning grants and other economic benefits received from Italian Public Sector entities during 2018.

(Euro)

Type	Lender	Project	Subsidized rate	Amount collected at December 31, 2018
Non-refundable grant	Ministry for Economic Development	Development Contract 2		2,537,000
Non-refundable grant	Ministry for University and Scientific Research	Bigger Data		59,732
Non-refundable grant	European Union	Softfire		50,000
Non-refundable grant	European Union	OTW S A Horizon Sesame		24,457
Non-refundable grant	European Union	5G Essence		35,250
Non-refundable grant	European Union	5G City		41,169
Subsidized rate loans	Cassa Depositi e Prestiti	"Agile Networks" research and development project	0.17%	2,645,116
Subsidized rate loans	Cassa Depositi e Prestiti	"Re-Actor" research and development project	0.17%	2,536,779
Total				7,929,503

Settimo Milanese, March 14, 2019

For the Board of Directors

The Chief Executive Officer



**INDIPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH
THE ARTICLE 14 OF LEGISLATIVE DECREE NO.39 OF 27
JANUARY 2010**

ITALTEL SPA

**REPORT OF THE AUDIT OF THE CONSOLIDATE FINANCIAL
STATEMENTS**



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 statement of financial position as of 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows 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 2018, 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 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 2018, 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 2018 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 2018 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.

Bari, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Corrado Aprico
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the consolidated financial statements referred to in this report.