WIND TELECOMUNICAZIONI GROUP

Consolidated financial statements as of and for the year ended December 31, 2012

WIND TELECOMUNICAZIONI GROUP

Report on operations at December 31, 2012

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THE WIND TELECOMUNICAZIONI GROUP

The WIND Telecomunicazioni Group (hereinafter also WIND Group or the Group) is a leading Italian telecommunications operator and offers mobile, Internet, fixed-line voice and data products and services to consumer and corporate subscribers.

The Group markets its mobile services through "WIND" brand and it provides voice, network access, international roaming and value added services, or "VAS," as well as mobile Internet services, to its mobile subscribers, through (i) the Global System for Mobile Communications ("GSM") and General Packet Radio Services allowing continuous connection to the Internet ("GPRS") (which are known as "second generation" or "2G" technologies), and (ii) universal mobile telecommunications systems, which are designed to provide a wide range of voice, high speed data and multimedia services ("UMTS") and high-speed downlink packet access ("HSDPA") technology (which are known as "third generation" or "3G" technologies). In line with the Italian telecommunications market, the majority of WIND mobile subscribers are pre-paid subscribers.

WIND is the main alternative fixed-line operator in Italy based on revenue. It markets its fixed-line voice, broadband and data services primarily through "Infostrada" brand.

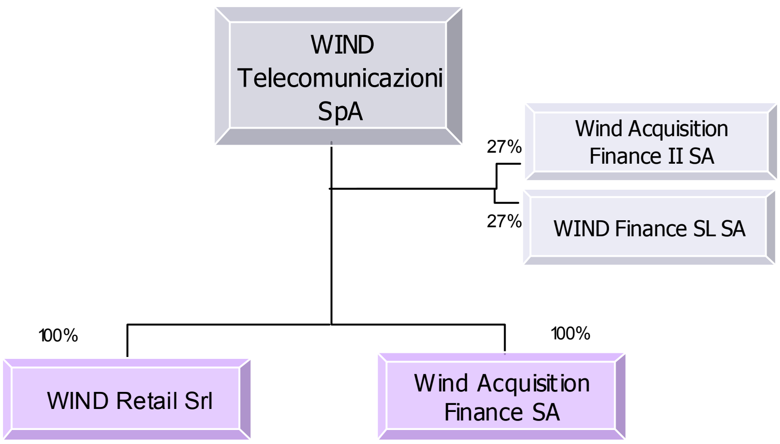
The following are the main offices of the Parent WIND Telecomunicazioni SpA:

Registered office	Via Cesare Giulio Viola, 48 - 00148 Rome - Italy
Secondary office	Via Lorenteggio, 257 - 20152 Milan - Italy

The Parent WIND Telecomunicazioni SpA (hereinafter also WIND or the Parent) is controlled by Wind Telecom SpA through WIND Acquisition Holdings Finance SpA, which wholly owns WIND Telecomunicazioni SpA.

At the present date Vimpelcom Amsterdam BV holds 92.24% of Wind Telecom SpA while WIND Acquisition Holdings Finance SpA holds 7.76%.

The following diagram outlines the structure of the WIND Group at December 31, 2012.



BOARD OF DIRECTORS AND CORPORATE BODIES OF WIND TELECOMUNICAZIONI SPA

Board of Directors [(1)]

Chairman	Jo Olav Lunder
Directors	Maximo Ibarra, CEO
	Vincenzo Nesci
	Jeffrey David Mc Ghie
	Cornelis Hendrik Van Dalen

Board of Statutory Auditors [(2)]

Chairman	Giancarlo Russo Corvace
Standing auditor	Roberto Colussi
Standing auditor	Maurizio Paternò di Montecupo
Substitute auditor	Lelio Fornabaio
Substitute auditor	Stefano Zambelli

(1) The Shareholders' meeting held on March 28, 2012 appointed the new Board of Directors of the Company for a two-fiscal year term, until the date of the shareholders' meeting of the Company convened for the approval of the Company's financial statements as at December 31, 2013.
Following the resignation of Mr. Ossama Raafat Shafik Bessada from the office of Director and CEO, the Board of Directors' meeting held on May, 11 2012, co-opted Mr. Maximo Ibarra as a new member of the Board of Directors, to hold office until the next shareholders' meeting of the Company, pursuant to Article 2386 of the Italian Civil Code, and appointed Mr. Ibarra as the new CEO of the Company.

(2) The Board of Statutory Auditors of the Company will hold office until the date of the shareholders' meeting convened for the approval of the Company's financial statements as at December 31, 2012.
The alternate auditor Luana Iadarola resigned by letter dated September 27, 2011. The shareholders' meeting held on April 28, 2012 appointed Lelio Fornabaio as the new alternate auditor in replacement of Luana Iadarola.

WIND GROUP HIGHLIGHTS AT DECEMBER 31, 2012

The operating and financial data reported below are taken from the Group's consolidated financial statements as of and for the year ended December 31, 2012, prepared in accordance with the IFRS endorsed by the European Union.

According to IFRS 5 the economic result of the assets sold to Vimpelcom Ltd ("Libero" web portal, the subsidiaries WIND International Services SpA and ItNet Srl and the branch referring to the operation of the submarine cable between Italy and Greece), net of the related tax effect, are reported under *discontinued operations* as they regard a significant business.

Below are the main indicators of the WIND's Group on December 31, 2012, with a comparison with the corresponding figures for 2011.

Operational data	**At December 31, 2012**	**At December 31, 2011**
Mobile customers (millions of SIM Cards)	21.6	21.0
Mobile ARPU (euro/month)	14.4	15.6
Fixed-line customers (millions of lines)	3.1	3.1
Fixed-line ARPU (euro/month)	31.2	33.2
Mobile network coverage[1]	99.82%	99.76%
Employees (headcount)	6,899	6,952

[1] As a percentage of the Italian population.

Income statement figures (millions of euro)	**2012**	**2011**
Revenue	5,427	5,570
EBITDA[1]	2,063	2,120
Operating income	916	1,052
Net finance expense	(875)	(933)
Loss for the year attributable to the owners of the parent	(124)	(154)

[1] Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets

Statement of financial position figures (millions of euro)	**At December 31, 2012**	**At December 31, 2011**
Total assets	14,523	15,060
Equity attributable to		
owners of the parent	1,197	1,287
non-controlling interests	0.1	0.2
Total liabilities	13,326	13,773
Net financial indebtedness	9,151	9,346

THE ITALIAN TELECOMMUNICATIONS SERVICES MARKET

Industry overview

Italy is Europe's fourth largest telecommunications services market in Europe by revenue. The value of the Italian mobile market in 2012 will be approximately €18 billion, a decline over 2011, due to the contraction in voice services only partially compensated by an increase in multimedia and data services. The Italian fixed-line market (Voice and VAS voice) is forecast to total approximately €7.2 billion in 2012, a decrease over 2011 mainly as a result of a drop in voice traffic revenues. Value added service revenues are estimated to be 9% of this market, with a fall of 5% over the previous year. The value of the internet access market is estimated in approximately €4.3 billion for 2012, with the broadband segment accounting for almost the entire market.

The mobile network telecommunications services market in 2012 was characterized by a progressive heightening of the competition and the introduction of new regulations which led to the need for Operators to apply significant price reductions and propose new tariff formulas.

This situation drove Operators into offering voice, SMS and data bundles, proposing first of all flat plans with increasing traffic volumes and, following this, plans with no limits on call minutes and SMSs, to which were then added the Internet traffic offer which is unlimited in terms of GB but has reduced speed if the proposed ceiling is exceeded.

Roaming traffic tariff regulations caused Operators to make changes from the summer in their offers for telephone calls and navigation from abroad, offering options at reduced prices so that the same conditions as the Italian tariff plan may be applied; in addition, driven by the presence of a large number of non-Italians in Italy, Operators launched numerous options and tariffs for calling abroad with reduced tariffs.

The Internet Mobile Offer has become increasingly important in the strategies and commercial proposals of Operators, who during the year strengthened the network to arrive at coverage of the majority of the country with 42 Mbps connections and the launch of LTE services in December. All Operators extended their product portfolio, in particular regarding Internet navigation devices (Smartphones and Tablets), Internet keys and 3G Wi-Fi modems for navigating at up to 42 Mbps.

The launching of Mobile Internet Services continued, in combination with voice-data plans and as far as browsing on PCs and Tablets alone is concerned. New terminals (Smartphones and Tablets), Internet keys and Wifi hotspots were often linked to these plans and many new varied offers were introduced in 2012 by type of customer, to encourage the use of Internet on mobile devices with various usage and price conditions.

In 2012 the mobile network voice-data offer for the Business market was extended with the introduction of plans and services addressed to the "small business with bundle" segment and offers of services for navigating in mobility, together with discounts and promotions for customers (with MNP) and for the purchase of Smartphones and tablets. Operators placed considerable emphasis on the offer of rechargeable Business profiles, hence without the concessionary tax, which are aimed in particular at professionals and micro-businesses.

Mobile network offers for the Consumer market were reformulated in 2012 with the scope of offering bundles at increasingly competitive prices and designed to encourage the passage from other Operators with MNP. In the second half of 2012, Operators introduced new roaming tariffs and options and new subscription solutions with unlimited traffic formulas. All Operators introduced innovative services in 2012: new Cloud services for storing multi-media content, music streaming services and mobile payment and mobile commerce services, in particular on NFC platforms, were all presented. In this respect in October TIM, Vodafone, WIND, 3 Italia and Poste Mobile signed an agreement for the shared development of an NFC platform. The offers for fixed network services made by the leading Italian Operators in 2012 concentrated on reiterating Voice and Internet bundle promotions, continuing to propose lower prices.

The offers of fixed network services by the main Italian operators, in 2012, have focused on recurrence of bundled voice and Internet promotions, continuing to offer lower prices. In terms of the consumer market, in addition to the promotions and reformulation of the prices already existing Voice and Internet ADSL offers, with the exploitation of the video contents, the offer was enriched with Cloud storage services, while for the business market the Voice and Internet traffic offers were redesigned through the introduction of new tariff profiles, complete with integrated fixed-mobile offers and innovative services. In further detail, Cloud storage services were launched and new Hosting solutions were introduced for small VAT-registered businesses, while the Cloud offer was enriched by a B2N2C solution for medium and large companies.

Mobile telecommunications

The Italian mobile telephone market is the third largest in Europe in terms of revenue after France and United Kingdom. There are four infrastructure operators in Italy, who were offering mobile telecommunications services to around 92.7 million registered SIM cards at December 31, 2012, equal to a penetration rate of 152% of the Italian population. The penetration figures are distorted by the widespread use by many customers of more than one SIM card. It is estimated that approximately 81% of Italian mobile customers are subscribers to a prepaid mobile telephone service which presents low customer acquisition costs and higher margins than other European countries.

Excluding the MVNOs, at December 31, 2012 WIND had an estimated market share of 23.3%, while Telecom Italia and Vodafone had a share of 34.7% and 31.7% respectively and H3G had 10.3%.

Fixed telephone services market

Voice

The Italian fixed line voice service market is the fourth largest in Europe by value, preceded by Germany, France and the United Kingdom. Telecom Italia dominates this market, although the liberalization of the market in 1998 made it possible for other operators to offer indirect voice services and, since 2003, direct fixed telephony services via unbundling. Providing unbundled voice services directly to one's subscribers allows alternative operators, as Infostrada, to be the sole holder of the customer relationship removing the relationship between the user and Telecom Italia. For customers who find themselves outside the areas covered directly by the unbundling service, Infostrada offers a wholesale service. Principal Competitors in the fixed telephony market are, amongst others, Fastweb, BT Italia, , Vodafone/Teletu and Tiscali.

Internet

At December 31, 2012, broadband access internet had reached a penetration of 63% on the total of fixed lines in Italy. Broadband services in Italy have been rising rapidly since 2001 to arrive at approximately 13.5 million connections, which represent around 22% of the Italian population. Despite the recent sharp increase in broadband, Italy is still behind other European countries, mainly as the result of the lack of technological infrastructures and the low penetration of personal computers.

TRENDS IN OPERATIONS

Mobile Telephony

At December 31, 2012 WIND had a total of 21.6 million mobile telephone customers, a rise of 3% over December 31, 2011, increasing again its market share (excluding MVNO operators) by approximately 0.6 percentage point amounting to 23.3% compared to 22.7% of 2011.

The following table sets out key figures regarding mobile operations.

Mobile	**2012 12 M**	**2011 12 M**	**Change**
Customer base (millions of SIM Cards)	21.6	21.0	3.0%
Revenue (millions of euro)[(1)]	3,870	3,989	(3.0%)
Voice traffic (billions of minutes)	52.8	48.2	9.5%
ARPU (Euro/month)	14.4	15.6	(7.8%)
% ARPU Data/Total ARPU	27.5%	22.6%	

Voice and SMS offers

Voice and SMS consumer offer

WIND offers its consumer prepaid customers two simple tariff plans for communicating with everyone, providing them with the possibility of extending and customizing their tariff portfolio by adding options for calling, sending messages and browsing in internet, adding combinations of the various options or selecting all inclusive solutions.

WIND's strategy has always been centered on customer's communications needs: the choice to be made is between offers for communicating with everyone and options to speak with WIND customers, with the aim on the one hand of encouraging mobile telephone customers to use the WIND SIM as their main SIM and on the other to build a WIND "community".

Following the launch at the end of 2011 of the *All Inclusive* option, being an all inclusive rechargeable solution with the customer able to make calls and send messages to everyone and unlimited internet, during 2012 WIND enlarged its offerta with *All Inclusive Big* in order to offer more call minutes and SMSs made or sent to anyone, and *All Inclusive Wind Unlimited*, that put WIND as the first operator on the Italian market to propose an "All inclusive" offer with unlimited calls and messages to WIND community and internet navigation.

In the final quarter of 2012 WIND introduced the *King-size* offer into the Rechargeable market, which includes 1,000 call minutes and 1,000 SMSs made or sent to anyone, with the aim of satisfying even the most demanding customer.

The WIND offers embody the business's own values of clarity, simplicity and transparency, ensuring the freedom to communicate without a connection charge and by using the "TRUE MINUTE" tariff, meaning a set of tariffs based on the actual number of seconds of conversation, with no charge before use and with the additional possibility of keeping the minutes and messages available under control through a dedicated number.

Throughout 2012, WIND additionally confirmed its focus on subscription offers, continuing to invest in the convenience and simplicity of the *All Inclusive* tariff plans, the most complete portfolio of offers on the market that has an enhanced a broad range of smartphone combined with the offer.

In November *the All Inclusive* portfolio was enriched by a new and important arrival: *All Inclusive Unlimited*, WIND's first unlimited offer which includes call minutes and SMSs made or sent to anyone and no limits Internet in a single subscription; in addition, all of the best Smartphones on the market are included in the offer for the *Full Edition* version.

Voice and Sms consumer promotions

In 2012 WIND continued to pursue its strategy of increasing its customer base through the *Passa a WIND* promotion to increase the interest of other operators' customers in WIND services and offer them a price benefit linked to the customization of their tariff plan.

In the fourth quarter of 2012, WIND extended the term of the promotion from 2 to 5 years, to guarantee customers a long-term "frozen price". At the same time customer flexibility is guaranteed, as customers may change their option within those proposed at any time and still keep the discount. The aim is to provide customers with the possibility of choosing the solution most suitable for their needs at any given moment.

The Christmas Edition offers provided a reduction on the monthly charge for the chosen option, which in certain cases even exceeded 50%. In addition to the convenience of the Christmas Edition, WIND also introduced the *5 Years All Inclusive* promotion for Christmas in order to offer an all inclusive solution discounted for five years to new customers who active a Rechargeable contract with a new number.

In line with its "closer" positioning to customers, for the Christmas period WIND gave additional value to all top-ups made by *All Inclusive* customers: for each top-up made, customers received an immediate mini top-up to be spent without any limits on time or use. A promotion dedicated to WIND's new customers and existing customers. In 2012 WIND introduced new offers and improved existing offers, dedicated to its consolidated customers: i) by simplifying the mechanism of the *Porta i tuoi amici in WIND* promotion and doubling the benefit, and ii) by introducing the *5 Anni per tutti* promotion that enables anyone who is already a WIND customer to have access to the promotion dedicated to new customers who carry out portability of the number into WIND in order to create loyalty in its customers by proposing the latest items from the WIND portfolio at an advantageous price.

Then WIND placed specific emphasis on the ethnic sector, proposing even more conveninet tariffs such as for example the tariff for calling Bangladesh, which has been reduced from 8 to 2 euro cents a minute and launching a new *Call Your Country* offer that guarantees the usual advantageous prices for calling abroad with a micro-fee of 1 euro a month. In the final quarter of 2012, WIND additionally introduced the first offer on the market which combines international and national calls, as always with the transparency of the "TRUE MINUTE" tariff. Noi Tutti International enables customers to use 240 real minutes to call fixed and mobile numbers in over 20 countries, including those in Western Europe, Romania, the USA and Peru, and also national numbers. In addition, if the 240 minutes are exceeded, WIND guarantees customers the use of beneficial Call Your Country tariffs without having to pay additional charges. This offer is compatible with all the other WIND options so that customers are free to use the minutes as they like.

Throughout the whole of the year, new subscription customers have used the promotions dedicated to them offering a reduction on the monthly charge for all the All Inclusive offers. Starting from October, the benefits for new customers have also been extended to WIND's existing customers with the "5 Years for All" promotion.

Business voice offer

WIND provides a wide range of voice services to its corporate customers, to small and medium businesses (SMEs) and to professionals (the SOHO market), with tailored offers to suit each market segment.

For the large-scale businesses, which often call for offers on a competitive basis for their mobile telephony needs, WIND offers customized services suitable for their specific requirements. With its offer based on a business's budget, WIND has increased its package of proposed services based on "all inclusive" charge solutions: customers establish their telephone spending at a company level by identifying traffic packages shared across all the SIMs, thus keeping control of the budget at both a global level and at a single SIM card level. Large-scale companies are increasingly geared towards offers in prepaid mode so that they can further increase control over their telecommunication expenses.

Faced with an increasing interest in the use of mobile applications (Apps) designed to take certain business processes into mobility, WIND has additionally launched Enterprise Mobility Services through strategic partnerships and vertical system integrator agreements.

For SMEs and SOHO customers WIND (through its agents and agencies channels) offered more standardized products, concentrating on offers of the "all inclusive" type (One Mobile range), with voice calls and SMSs being included in the charge and business calls and unlimited Internet traffic all offered with specific promotions.

Since November 2012 WIND has increased its focus on the offers for professionals and small businessmen sold through the pull channel (stores), with the launch of the *All Inclusive* offers (which include minutes, SMSs and Internet), enhanced by unlimited calls between colleagues. The All Inclusive offers also provide for an unlimited plan comprising unlimited minutes, SMSs and Internet.

The WIND offer dedicated to the push channel (agents and agencies) is completed with One Company, a solution dedicated to small and medium businesses which offers fixed telephony and ADSL, and with WIND Business One Office, a converging offer which is geared towards the market of professionals and small businessmen, and in particular professional firms with one or two fixed lines (analogical or ISDN) and at least one subscription or rechargeable SIM.

Data and VAS offers for consumer and business customers

WIND offers a complete range of in-mobility data services and VAS for smatphone, computers and tablet for both the consumer and business market.

- Mobile Internet: WIND has continued its growth in the mobile Internet services sphere with a significant increase in the number of activations. In order to strengthen customer loyalty, in the final quarter WIND continued with its strategy of integrated voice, SMS and data offers, giving the possibility of activating Internet offers, in promotion for five years, to all customers with the rechargeable tariff who have voice and SMS options. For anyone who purchased a new Smartphone with a rechargeable WIND SIM, WIND additionally offered the *All Inclusive* option at a reduced price for five years. The special price offer for the activation of *Internet No Stop*, reserved for anyone purchasing a Tablet or activating a rechargeable microSIM, has been extended by taking the term to five years. Also for anyone navigating on a laptop, the promotion linked to the purchase of an Internet key or the activation of a subscription SIM which enables customers to have *Mega Unlimited* at a special price has been extended to five years. While on the other hand as a promotion WIND has given customers with the rechargeable tariff already owning their own Internet key or a Tablet the possibility of activating the *Mega Unlimited* option for the payment of an activation fee, again for five years.

  For SOHO and SME customers, WIND offers voice and data tariff plans known as *One Mobile M, L* and *XL* which provide unlimited internet traffic, giving a response to the need expressed by the market to navigate from smartphones. The new tariff plans enhance the offer for navigating with notebooks and tablets, with the possible use of an internet key (included in the offer): browsing in internet is possible with no time limit with Internet Start, Plus and Evo, enabling the customer to keep his costs under control.

- *BlackBerry*. The BlackBerry services offered by WIND are available to both large-scale business and SMEs and to consumer customers, with the possibility for new customers to include a smartphone in the fee for the pre-selected tariff plan.

Innovative Services.

In 2012 WIND placed considerable emphasis on innovative services aimed above all at simplifying customer management thanks to the development of new forms of self-care and at identifying new forms of revenue by using the mobile phone as a means of making payments.

- Self-care: 2012 saw the MyWind App as the heart of customer management strategy through Smartphones and Tablets, which were accompanied by the Mobile Start.Wind portals to meet the demands of the Group's other customers. The MyWind App achieved significant growth in terms of dissemination and functionality, providing Apple and Android customers with the possibility of managing the WIND offer, activating offers and services, checking the state of their credit and the services, finding WIND stores and carrying out top-ups. A handy Widget is dedicated to Android customers, which enables them to keep usage of the WIND offers constantly under control.

  In addition to offering news services, ringing tones and games, the new Mobile Start.Wind, portal, accessible from all mobile phones and via the Internet and from Tablets, gives customers direct access to the customer Area with the same functionalities and the same look-and-feel as the App. It is also possible for customers to access Facebook from the Start page and read news about their friends or post items directly on their social network page in real time.
- *Mobile Payment:* As a natural extension of the development of mobile telephone payment systems, already being carried out within the Mobilepay consortium, mobile ticketing testing was carried out in 2012: the purchase of tickets for local transport using telephonic credit by sending an SMS or directly from the MyWind App. A start was made in the city of Florence, where excellent results were achieved in terms of both interest and service penetration.

  In addition, thanks to WIND's activity, which led to the approval of an amendment to the Italian government's Growth Decree, it is now possible to use telephonic credit for the purchase of transport tickets. This led to the start of mobile ticketing for transport in the province of Bari in December, an activity which will continue in all the other main Italian cities in 2013.

In addition, the foundations were laid for the development of NFC technology in 2012 through an internal trial which gave a certain number of employees the possibility of using their telephone in place of their corporate pass badge to use the canteen services of contracted restaurants or to make purchases from vending machines.

International Roaming

WIND customers are able to use their mobile telephone services, including SMS, MMS and data services (GPRS, EDGE, 3G, HSDPA), where available, in other countries through roaming facilities guaranteed by agreements with 467 international operators in 205 different countries. "Ad hoc" offers have been conceived to develop roaming data traffic for prepaid and post-payment customers through the use of new daily or weekly options which enable them to avoid the well-known "bill shock" problem and also to use Smartphones aboard without changing their usage habits.

Sales and distribution

As part of its strategy, which sees distribution as an increasingly crucial factor for own growth, WIND continues to improve the quality of its distribution channels and strengthen its sales network.

WIND markets its mobile products and services, including SIM cards and mobile phones, under the WIND name and without the name, via a series of exclusive points of sale, which at December 31, 2012 included 166 WIND-owned stores and 480 sales points in franchising working exclusively with the WIND brand. The non-exclusive sales network consists of 1,463 WIND dealers, 913 sales points in electronic store chains and 5,172 other sales points in the smaller Italian towns which are run by SPAL SpA, WIND's biggest distributor in terms of sales points.

A portion of the services is also sold online through the website www.155.it, while scratch cards are also distributed via small sales points such as tobacconists and newsagents.

WIND has taken the decision to extend the distribution of its offers for business customers to the internet channel by opening an online store for the direct sale of mobile products and services: WindBusinesShop.it, to be found in the WindBusiness.it portal, offers both voice and internet services addressed to SOHO customers and small businesses, who can make autonomous purchases online.

Fixed Telephony and Internet

WIND offers consumer and prosumer customers a vast range of direct and indirect fixed network vocal communications services, broadband and data transmission services marketed under the Infostrada name. WIND offers broadband services both to direct customers (unbundling), renting from Telecom Italia the "last mile" of the access network, which is disconnected from Telecom Italia equipment and connected to the WIND equipment to be found in the telephone exchange, and to indirect customers, where it sells a service on to its customers which it buys wholesale from Telecom Italia. In the areas where WIND do not have direct access to the network via unbundling customers could ask for wholesale services.

As a reply to the trends taking place on the Italian fixed-line telecommunications market, which see an increasing replacement of fixed by mobile and the migration of customers from narrow band to broadband, WIND has concentrated its efforts on increasing the number of subscribers to direct voice services (unbundling) and broadband internet services.

Voice services

At December 31, 2012, WIND's fixed network voice customer base exceeded 3.1 million subscribers, a decrease of 1% compared to December 31, 2011. The number of direct voice customers, rose by 3% over the previous year.

The following table sets out the key fixed-line indicators.

Fixed-line	**2012 12 M**	**2011 12 M**	**Change**
Customer base (thousands of lines)	3.1	3.1	(1%)
of which LLU (thousands)[1]	2,465	2,397	3%
Revenue (millions of euro)	1,392	1,442	(3.5%)
Voice traffic (billions of minutes)	18,1	18,5	(2.3%)
ARPU (Euro/month)	31,2	33,2	(6%)

[1] Including Virtual LLU.

Internet and data

WIND offers a vast range of internet and data transmission services, both for consumer customers and business customers. At December 31, 2012, WIND had 2.2 million broadband internet customers and 0.04 million narrowband subscribers.

The following table sets out the key internet access figures.

Internet and data services	2012 12 M	2011 12 M	Change
Internet Customer Base ('000)	2,253	2,225	1%
of which Narrowband ('000)	43	90	(53%)
of which Broadband ('000)	2,210	2,135	4%
of which LLU ('000)	1,849	1,751	6%
of which Shared Access ('000)	15	18	(18%)

Package and converging services

WIND is one of the leading suppliers in Italy of internet, voice and data services on fixed line and mobile telephone services, having an integrated infrastructure and a network coverage which extends throughout the country which enables it to offer integrated packages of services which combine these products. In order to respond to the demands of customers who want a single solution for their needs for telephony and broadband internet connectivity, WIND launched three new offers, *All Inclusive*, *All Inclusive L* and *All Inclusive XL*, which supplement the *Absolute ADSL* offer and which for a fixed monthly fee provide a fixed voice line with various associated tariff plans depending on the selected package together with unlimited broadband connectivity. The validity of this commercial decision has been confirmed by the increasing number of LLU direct customers who have selected an offer including broadband voice and internet services. WIND's positioning in this market has been consolidated through the recurring launch of new promotions on the aforesaid offers.

Confirming the success of the *Super All Inclusive* offer, a further two converging offers were launched in the second quarter of 2012 which complete the portfolio: *Super All Inclusive L* and *Super All Inclusive XL*, that offer to the customers the possibility of choosing the combination most suitable for their communication needs, selecting between a fixed-line telephone, a mobile telephone and ADSL at a single price.

The success of the *Super All Inclusive* offer should be noted; this combines the benefits of the Infostrada *All Inclusive* offer with WIND's *All Inclusive* mobile subscription offer; in particular, customers subscribing to the *Super All Inclusive* offer have a highly advantageous single monthly charge that includes fixed, mobile and broadband.

As part of converging services WIND provides a triple advantage for customers choosing both fixed and mobile telephony. With *Passa a WIND* of Infostrada, customers who activate a new Infostrada contract and decide to pass to WIND keeping their mobile telephone number with a new rechargeable combine the benefits of the Infostrada dedicated promotion and the WIND dedicated promotion with an exclusive offer that is reserved for them: *Raddoppia le Ricariche* for 6 months. In addition, with the new *All Inclusive Double* promotion the benefits increase even further, as customers can choose the *All Inclusive* option on a rechargeable SIM card, and an Infostrada *All Inclusive* plan has an extra discount on the telephone bill.

A new converging promotion was launched in the fourth quarter, *Internet Everywhere*, which is aimed at customers who wish to navigate at home with ADSL and in mobility with an Internet key or Tablet: all new Infostrada customers can sign up for the Internet No Stop option at €3 a month for ever, instead of €9, or the *Mega Unllimited* option for €10 for ever, instead of €20.

Voice and business data offer

WIND offers voice services to its business users on fixed network PSTN, ISDN and VoIP, data services, VAS and connectivity services. More specifically, WIND's offer is geared towards the large-scale business segment, capitalizing on the experience developed with ENEL and developing new voice and data services for the companies of the large enterprise market, also using a dedicated call center. For these customers WIND is also capable of tailoring its offer to specific demands and, if requested, to the requirements established for taking part in tenders. Large companies are guaranteed access to the network through radio bridge links, direct optic fiber connections or direct access via LLU; in the areas where this direct access is not available, dedicated lines rented from Telecom Italia are used.

In addition, WIND is also extending its offer for the large-scale business market through the addition of cloud services, amplifying its commercial proposal with ICT and managed services solutions on both fixed and mobile networks. WIND has announced a partnership with Google's Enterprise division on the basis of which WIND will propose the collaboration and business communication solutions based on the Google Apps cloud solution on its own Enterprise market. As the first result of this collaboration, an innovative solution has been launched which offers voice services, SMSs, navigation, Gmail and collaboration in a single package. For SMEs, WIND offers a wide range of dual-play (voice + internet) off the shelf products with tariff plans based on VoIP technology: *One Company* offers from 2 to 8 voice lines with ADSL internet access, while the latest offer launched, *Infostrada Impresa*, subsequently renamed *WIND Impresa,* offers from a minimum of 6 to a maximum of 60 voice lines, with SHDSL internet access. In addition, a service for renting, running and carrying out the maintenance of telephone switchboards can be subscribed to together with the *WIND Impresa* offer.

With its new converging offer *WIND Business One Office* WIND began addressing the market of persons and firms registered for VAT, and in particular professional firms having one or two fixed lines (analogue or ISDN) and at least one SIM card who need to communicate with colleagues from both a fixed and mobile line, through both voice and internet services. The *One Office* offer is available for WIND network coverage on active line and non-active line.

The portfolio One Office has a fixed offer *WIND Business Evo* which consists of a flat bundle on voice and data and tariff plans which are addressed to small traders and businessmen with fewer telephonic needs: *Wind Business ADSL Evo* and *Wind Business ADSL Plus* with pay per use telephony and flat rate ADSL, respectively at 20 Mbps and 8 Mbps.

Completing the offer is a browsing pack sold under an installment payment scheme, *Internet Pack*, which consists of a Wi-Fi router and an internet key, or, using the same sales scheme, *Internet & Video Pack*, which in addition to a Wi-Fi router and an internet key contains an IP videocamera to enable customers to browse and video-control their working environment.

The *One Office* offer consists of five fixed tariff plans (one is for ISDN) which, together with certain of the mobile tariff plans, make up the converging offer: *WIND Business Plus*, *WIND Business Start*, *WIND Business Start ISDN*, *WIND Business Evo, WIND Business ADSL Evo* and *WIND Business ADSL Plus.*

Convergence enables the customer to benefit from various reductions, such as discounts on "business" monthly charges and free of charge calls, both as regards the fixed-line component and the mobile component.

As far as the internet access service is concerned, WIND offers a complete range of value added services, some of which, such as Static IP, Dominion level II and the Evolved Email and Messengering services, are included in the ADSL offer, while others are optional and are charged. Among the principal paying services offered there is the

Certified Electronic Mail service to certify, through the use of standards set by law, sending e-mails starting from a given mailbox, thereby investing legal.
In addition, WIND offers these customers a dedicated national toll-free number free of charge.
Since November 2012 WIND has increased its focus on the offers for professionals and small businessmen sold by the pull channel (stores) with the launch of the *All Inclusive* offers enhanced by unlimited calls between colleagues.

Sale and distribution of fixed network services
The main sales channels for fixed-line voice and ADSL services for the final user are represented by the shops and the toll-free number 159. In the market for Internet access for consumer customers, the web portal of Infostrada is an important distribution channel and growing.
WIND, then, uses dedicated outbound sales agencies in order to acquire business customers. These staffs are trained to make the customer's needs emerge and to recognize them and in order to propose the products and services best suited to satisfying their demands. The call centers also make outbound calls to potential customers chosen by means of business intelligence tools.

Interconnection services
WIND offers other operators its wholesale services, by means of which it puts its network capacity at their disposal and manages incoming and outgoing call termination traffic for national and international operators. WIND receives a fee from other operators as consideration for managing calls which end up on its mobile or fixed network. In the same way WIND must pay termination tariffs to the other operators for the calls which end up on their mobile or fixed telephone networks. Mobile to mobile, mobile to fixed and fixed to mobile interconnection tariffs are regulated by AGCOM.

Customer Service and Retention
WIND customer service activities are coordinated by the Customer Management unit, which is subdivided by type of customer: mobile telephony, fixed telephony (which also includes the internet segment) and business customers. In order to provide a made-to-measure service for certain sectors of particularly important customers, such as the ethnic communities, WIND also provides its customer assistance service in foreign languages.
WIND has enterprise call centers dedicated to its customers in Rome and Ivrea, with internal agents assigned to each customer, in order to provide top levels of service to strategic customers. The call centers dedicated to residential customers are spread throughout the country.
Starting 2012 the Infostrada customer service has consolidated its operating organization, concentrating on the phase of activating new customers so that they may be accompanied by specialist staff towards an effective and precise purchase and activation of all the services.
WIND intensified the integration between its Customer Care (Mobile and Fixed) and sales structures in order to be able to offer a customer assistance service which is also organized on a capillary basis across the country through its sales points, therefore making customer support more direct and transparent also in the period prior to the business purchase. During the final part of the year, WIND also initiated work to assist Fixed and Mobile Broadband customers through the use of synergistic and dedicated technical assistance structures.
During 2012 the territorial presidium of the Regional Communications Committees (*Comitati Regionali Comunicazioni* - Co.Re.Com.) began using WIND personnel. The aim of this initiative is to improve the settlement of disputes in the

completion phase of the mandatory attempt at reconciliation. At the end of March 2012 this presidium covered over 80% of the potential population concerned.

WIND strengthened its presence on the Web in 2012, working on all digital contact points with customers. The Group placed special emphasis on its customer interface systems to make them increasingly accessible and easy to use. In this respect a significant aesthetic and functional make-over was carried during the year out of all the Group's institutional websites (www.wind.it, www.infostrada.it and www.windbusiness.it), with a view to more effective customer management and simplification of use.

Through areas reserved for customers, WIND provides an integrated billing system for all subscription payers, as well as giving them the possibility of paying their bills, entering orders, topping up SIM cards and obtaining information by electronic means in a matter of just a few minutes and free of charge. The websites are accompanied by the MyWind App, dedicated to customers with Apple and Android Smartphones and Tablets; the application is fully integrated with the customer care systems and enables customers to have direct contact with WIND from their own telephone. The same functionality and user experience are also available via the Mobile Start.Wind portal.

WIND has also launched various initiatives and functionalities on the social networks to encourage direct interaction with the customer. Via Facebook or Twitter customers can report matters directly to WIND Customer Care, interact with operators and, with the WIND top-up application on Facebook, can also top-up their SIM cards, ask for a top-up for a friend or make a gift of a top-up.

By analyzing customer needs, the Customer Relationship Management function (CRM) identifies commercial action on the basis of individual demands, defining and carrying out dedicated promotional programs aimed at improving the satisfaction of customers, raising the value associated and ensure their loyalty over time.

The constant evolution of loyalty programs, enriched by new partnerships spread across the country, has led to an increase in the benefits and services enjoyed by subscription customers. The planning of promotional activities for customers receiving the newsletter will enable the relationship with customers to be consolidated by means of low cost, high efficiency communication tools.

Marketing and Branding

WIND's reference markets are served by strategy exploiting the strength inherent in each of the WIND and Infostrada brands in their respective markets. WIND positions each of its products and adapts marketing and communications campaigns towards each of the markets in which it works: both of the WIND and Infostrada brands contains the distinctive "W" which enables the brand associated with the various products to be identified, pointing out that it belongs to the WIND company.

Television continues to be the main medium in which investments are made, with a strong advertising presence and with a parallel increase in the pressure of investments dedicated to local communication through posters, the press and the radio.

The new advertising format on television, "Sogno", launched in the second half of 2012, sees as the leading character Infostrada's historical testimonial celebrity Fiorello, also for WIND brand name, stressing the fact that WIND and Infostrada are members of a single big group with increasingly integrated fixed and mobile offers. The campaign claim "Fiorello marries WIND", announced in August, notes this union, dictated by the total synergy between the Company's image and that of the artist: clarity, transparency and simplicity are WIND's values but are also elements which have always been a feature of Fiorello's personality. The "Sogno" format was developed in September and October through the use of various different creative subjects which saw Fiorello as protagonist, alternatively for WIND and for Infostrada, ensuring a constant presence on television. Since November, with the launch of WIND's Christmas campaign, communications expenditure has concentrated on the portfolio of All Inclusive mobile offers, available by top-up or on subscription.

The poster campaign which saw Fiorello as protagonist and the *All Inclusive* subscription offer continued through to the end of 2012.

In the second half of the year, the "True Minute" campaign was transversally supported by all the offline and online communication media with the aim of expressing the values of transparency and convenience typical of WIND and Infostrada. All the television campaigns were accompanied by investments in digital advertizing and a constant presence on the main social media.

Infostrada confirms its leadership in advertising awareness among operators of fixed telephony in the last quarter of the year as well as the constant presence of the brand on Internet channel where performance display campaigns and alternate with tactical campaigns to support promotional offers available in exclusive on web. WINDbusiness in the second half of 2012 has continued to promote the range of mobile web campaigns dedicated to the product line for *One Mobile* Rechargeable and Subscription, with the aim of promote buying from the shop. In October 012, was launched a direct mail campaign to promote the offer to customer Wind Business Club (member get member).

In addition, WIND sponsors concerts, television programs and sports events; in particular in the musical field, where the interest shown by all age groups and the ability to involve the public is considered to be the highest. From November 2012 WIND is also sponsor of the Tour of his testimonial history, Aldo, Giovanni and Giacomo and Giorgio Panariello. WIND is also the leading sponsor of the AS Roma football team and plans to sponsor all the club's matches until June 30, 2013.

NETWORK

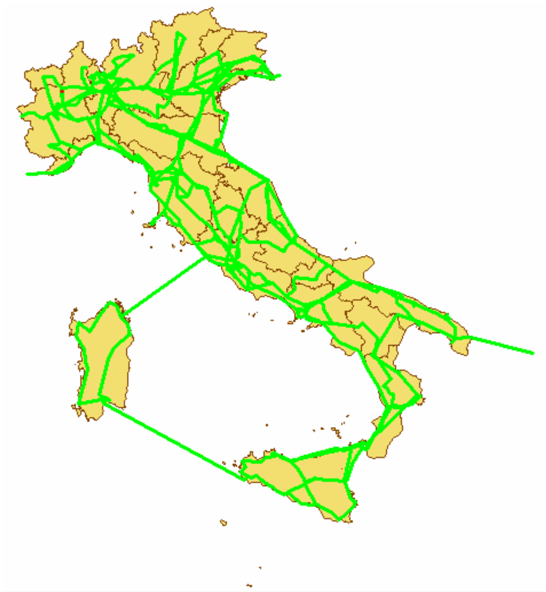
WIND has developed an integrated network infrastructure providing high-capacity transmission capabilities and extensive coverage throughout Italy. As of December 31, 2012, WIND mobile network covered 99.82% of the Italian population while WIND UMTS/HSPA network covered 95.34% of the Italian population.

WIND started the coverage of HSPA service (21/5.8 Mbps) in all capitals cities already covered by the 14.4/5.8 Mbps service (currently 74 capitals cities have been covered).

At the end of 2012 WIND cover about 70% of the population with HSPA service (21/5.8 Mbps) Mobile and fixed-line networks are supported by 21.622 kilometers of fiber optic cable backbone in Italy and 4735 kilometers of fiber optic cable MANs as of December 31, 2012. The network uses a common system platform, WIND "intelligent network," for both mobile and fixed-line networks. Network platform has been upgraded to provide it with a uniform IP network platform, which provides additional capacity. The integrated nature of operations allows to offer subscribers mobile, fixed-line and Internet product bundles and VAS. WIND has also approximately 467 roaming agreements with other Italian and international telecommunications operators around the world.

Fixed-Line Network

WIND fixed-line network consists of an extensive fiber optic transport network with over 21.622 kilometers of transmission backbone, 4.735 kilometers of fiber optic cable MANs linking all capitals of Italian provinces and other major cities in Italy, a radio transmission network with approximately 16.375 radio links in operation. The voice switching network consists of a NGN/IMS network composed by 37 softswitch 4 Media Gateway Controller and 42 Trunking Gateway. From June 2010 this network is supported by a new C4 NGN network that consists of 2 Media Gateway Controller e 14 Media Gateway. The national network is supported by NGN (Next Generation Network) dedicated to interconnection with international operator composed by 2 Media Gateway Controller and 6 Trunking Gateway. WIND is able to handle all the traffic on proprietary backbone infrastructure, with little need to rent additional capacity from third parties



As of December 31, 2012 WIND has 1.455 LLU sites for direct subscriber connections, with a capacity of approximately 3.25 million lines. WIND has interconnections with 613 SGUs, which allows to provide carrier pre-selection and carrier selection access forindirect subscribers throughout Italy, as well as WLR services. WIND Internet network consists of an aggregated data network with more than 168 points of presence, broadband remote access servers for ADSL direct and indirect access Internet services and for virtual private network corporate services, more than 10 network access servers for dial-up access Internet services and EDGE routers for direct Internet access corporate services.

Mobile Network

WIND offers mobile services through dual band GSM-900 and GSM-1800 digital mobile network, which also supports GPRS, a mobile technology that provides greater bandwidth for data transmission and Internet access than GSM. GSM network also supports EDGE capabilities. EDGE is an upgraded technology that enables to offer increased data speeds and VAS over GSM network and also to reduce the cost of handling mobile data traffic. WIND also offers mobile services over UMTS network, a mobile technology that provides even greater bandwidth than GSM network, using HSDPA technology to provide enhanced speeds for data transmission and mobile Internet services.

The following table provides an analysis of WIND's GSM/GPRS and UMTS/HSDPA networks as of December 31, 2012.

GSM/GPRS	**Units**
Radiating sites	13,593
BSC (Base Station Controllers)	318
MSC (Mobile Switching Centers)	53
HLR (Home Location Register)	10
SGSN (Service GPRS Support Node)	12
GGSN (Gateway GPRS Support Node)*	12
UMTS	
Node B	11,881
RNC (Radio Network Controller)	56
MSC-Server	14
MGW (mediagateway)	16
SGSN (Service GPRS Support Node)	15 (12 SGSN dual access)

* shared with UMTS core network

RESEARCH AND DEVELOPMENT ACTIVITIES

In order to select the best technologies and best architectural solutions for the mobile and fixed networks, WIND has focused on the study and experimentation of new solutions to increase performance for broadband customers for mobile and fixed network. On the mobile network, WIND has developed the new technologies roll-out to enable the provision of broadband services to 42 Mbit / s through the gradual inclusion of all the features provided by HSPA (High Speed Packet Access). To support the development of mobile broadband WIND was granted new frequencies for LTE and got 10MHz FDD (Frequency Division Duplexing) in the 800 MHz band and 20MHz FDD-band 2600MHz. With these frequencies WIND will extend the range and capacity of mobile data services providing indoor coverage and rural area coverage with 800MHz frequencies and the maximum performance, currently achievable with LTE, with 20MHz acquired in 2600Mhz band. The development of mobile broadband HSPA and LTE involves the use of new generation technologies such as the Single RAN (i.e. a single infrastructure for the various 2G, 3G, LTE radio technologies) which is now the reference for the WIND network as well as the constant expansion of fiber optic backhauling BTS and IP high-capacity radio links.

On the fixed access network, WIND has carried out continuous technical and economic studies and tested the new technologies that will allow the development of ultra high speed fiber networks (Fiber To The Home, Fiber to the Building, Fiber to the mobile). In particular WIND has started a significant FTTH trial in Milan and it has planned the commercial FTTH roll-out in 2013. WIND has continued its own path in new technologies selection and network implementation in order to simplify and optimize the network architecture to a global "all-IP" paradigm which includes all levels of network (fixed, mobile, and core transport).

Throughout the year 2012, confirming its vocation, through its WIND Innovation Lab (WIL) centre of excellence, the “workshop of ideas and projects, WIND encourages the introduction of solutions designed to improve the Group’s offering and business potential, as well as some internal processes optimisation. In 2012, in order to improve Customer Care processes and in terms of retail sales process improvement, we realized “proof of concept” studies.

Throughout the year 2012 WIL actively participated in various research projects, thus exploiting the funding opportunities available from the European Community, as well as from local Public Administrations.

The issues of greatest attention are the following:

1. Solutions for sustainable mobility using data from mobile network and from sensors deployed on the network for applications of geo-location, security, traffic planning, applications for sustainable tourism
2. Solutions for security management for data access using mobile terminals according to the new “BYOD” (Bring Your Own Device) model
3. Solutions for control and supervision of the territory
4. Green ICT solutions above all for Green Data Centers realized according to the new rules for the energy saving both by the use of new equipment as well as the new optimized processes for the production and the management of the data center also involving the energy providers.
5. Analysis of the new FI (Future Internet) and IoT (Internet of Things) approaches to cope with thousands of applications cooperating together.

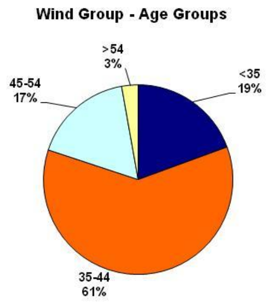
HUMAN RESOURCES

At December 31, 2012, the Group had a workforce of 6,899 employees structured as follows.

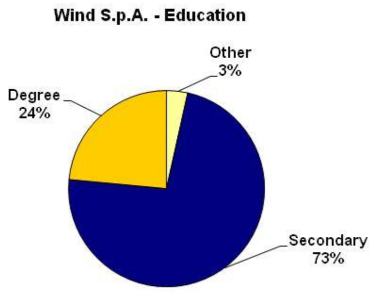
	No. of employees at		Average No. of employees in	
	12/31/2012	12/31/2011	2012	2011
Senior Managers	143	152	148	153
Middle Managers	598	576	588	576
Office Staff	6,158	6,224	6,195	6,313
Total WIND Group	**6,899**	**6,952**	**6,931**	**7,042**

During 2012, WIND Telecomunicazioni SpA and WIND Retail Srl hired a total of 97 employees and 149 employees left. In particular, WIND Retail SpA hired 65 employees and 69 employees left. It should be noted that the average amounts for 2011 do not include resources of Portale Libero and IT-Net which left the consolidation area in May 2011.

The following charts summarize personnel statistics relating to the subsidiary WIND Telecomunicazioni SpA and Italian subsidiaries.



Average age: **39.4**



Graduated w/o Call Center: **27.5%**

Female presence is at 47%. The percentage has increased following the acquisition in 2009 of the company Phony, today WIND Retail Srl, and has remained stable at the date.

In terms of geographical allocation of personnel WIND sees over 70% of personnel distributed among the offices in Milan, Rome, Naples and Ivrea.

Sites	31/12/2012	31/12/2011
Milano	12.6%	12.5%
Ivrea	9.4%	9.4%
Roma	33.8%	33.8%
Napoli	17.7%	17.7%
Altro	26.6%	26.5%
Totale	**100%**	**100%**

The following table shows the personnel distribution by department

Departments	31/12/2012	31/12/2011
Network	34.7%	34.4%
Information Technology	5.9%	5.8%
Customer Care	25.4%	25.8%
Marketing & Vendite	23.2%	23.3%
Staff	10.8%	10.7%
Totale	**100%**	**100%**

Organization

On May 11, 2012, Maximo Ibarra, who was previously the head of the Consumer Business Unit, was appointed Chief Executive Officer of WIND Telecomunicazioni SpA to replace Ossama Raafat Shafik Bessada who has left the company.

In the interest of simplification and focus of the activities, the following organizational changes have been implemented in the second half of 2012.

The Public Relations Department was reorganized in August to concentrate in it all the responsibilities related to the stakeholders relations system management, with the aim of supporting and promoting the WIND brand and ensuring adequate support for business development. Activities were also carried out in the sales area that was designed to make its departments more focused on their respective market segments.

In October it was established the Wind Digital unit, reporting directly to the CEO, with responsibility for developing the company's digital strategy.

In November 2012 it was announced that, effective January 1, 2013, Ziad Shatara would have assumed the role of Chief Executive Officer of Banglalink and Nicola Grassi, currently IT Director, the role of Chief Technology Officer.

In terms of network studies started in 2011, a plan has been drawn up in 2012 as an alternative to the idea of outsourcing; this plan provides for a deep-seated and detailed reorganization of the Network Operations areas and has been used as the basis of discussions with trade unions in the dedicated committees. Meetings were held with trade unions in October to come to a final agreement on the new model to replace the outsourcing project which will be implemented in 2013.

Development and training

Development

During 2012, according to 2011, the following activities have been started:

- It has been completed the Performance Appraisal, started in March, which has confirmed itself as a tool geared towards individual growth and performance management;
- It has been completed the Succession Plan that identifies people who can fill critical positions in the organization in a medium short time. The process identified the key factors that distinguish the profile of the position in order to evaluate the correspondence with the characteristics of the selected candidates;
- It has been completed the second and third tranche of Individual Assessments, meaning the process of assessing the potential of WIND's management team, with the aim of identifying a person's professional profile in terms of his or her characterizing abilities. 71 managers took part in this initiative during the first nine months of 2012;
- 56 people consisting of seventh level employees and middle management participated in the Development Center, an initiative which starting from a skill and motivational orientation profile supports WIND's personnel in identifying an individual development plan.

In early September, the Top Management together with the CEO defined the new corporate values: Trust, Fast, Focus, Ambition, Make It Happen. The values will be soon released with a specific communication campaign through the company intranet. The new values will be introduced in the next Performance Appraisal and the organizational behaviors associated with each value will be subject to Rating.

In addition, the new training will be based on the new values.

Training

Campaigns of institutional training related to Customer Experience Management and Excellence had particular importance during 2012, involving middle management and senior management in various initiatives. The overall objective of these experiments was to provide opportunities for managers to practice and reflect to facilitate be more "Wind più vicini" (Wind closer).

The Customer Experience, a day of coaching in our Call Center, wanted to enhance the attention and orientation, raising the understanding and sensitivity of the participants in relation to our Customer: during the year 315 middle managers and 42 senior managers were involved. The 52 sessions were held at the sites of Pozzuoli and Ivrea, thanks to the cooperation and hospitality of colleagues in the Corporate Customer Management, Fixed and Mobile.

Training projects on managerial Excellence involved 354 middle managers and 86 senior managers in two different initiatives, and its focus was on Execution and Leadership: in these training experiences it was proposed a vision and a systematic practice on how to "do" and "be" in an excellent way, stimulating participants through new ways of approaching own actions and relationship management.

The total number of training days for all employees during 2012 amounted to 19,129, of which:

- 52% is attributable to activities relating to Technology and Product development, as direct training to professional groups of the Technology Department and as activities carried out internally by the Business Units for Sales and Customer Management;

- 34% is due to the training activities coordinated directly by Human Resources, including activities designed to the entire company on cross-cutting and specific issues; and special projects and institutions as specified below: includes 75 training man days to WIND Retail;
- 14% of the training activities carried out by the Safety department related to health and safety at work.

Training activities included in the Institutional Training Master Plan took place during the first six months of the year: based on available dates of all employees of the company, during the period between September of 2011 and the first half of 2012, 2,283 colleagues (including 20 from WIND Retail) have been involved, of which 778 participated in the language training group. The activities related to the plan are funded by Fondimpresa since 2010.

In relation to the specific training activities carried out during the year, it should be highlighted the completion of the project dedicated to Information Technology colleagues to support the Change in processes and organizational structures of our IT department. During 2012, the nature of the training activities was more specifically professional, through opportunities to participate in international seminars, dedicated courses and internal courses, divided on the evolving scenario of IT architectures and platforms for the business, 203 colleagues have been involved for a total of 604.5 training man days.

Industrial relations

In January the Company agreed, following a meeting at the Ministry for Economic Development, to suspend for six months decisions related to the Network reorganization and to start, under the supervision of the Ministry, a discussion with trade unions to consider possible alternative solutions. At the same time, trade union organizations suspended the ongoing agitation and undertook not to proclaim others for the period of suspension of the decision.

To implement the commitments made under the supervision of the Ministry, in the following months, several meetings were held aimed at evaluating the effectiveness of alternative Network reorganization plans and it was held the annual meeting with trade unions to present business guidelines, in accordance with current national labor contract.

To conclude the process, an agreement was reached with the trade unions on October 10, 2012, to review the key economic institutions and regulatory labor costs for the period 2013-2017: this optimization plan involves all the employees of the company, including senior management. At the same time, it was presented to the unions the new organizational model of the Network Operations, which will be implemented during 2013 and from which further improvements in terms of efficiency and quality of service are expected. Implementation modalities of the new organization and the main impacts on staff have been the subject of a specific agreement.

As far as strikes are concerned, the only one due to company reasons was the one held in January (which was announced before the suspension agreed at the ministerial meeting), while in the course of the year there were two strikes in support of negotiations for the renewal of the national labor contract.

The total hours lost due to strikes have been reduced by over 40% compared to the previous year.

In December discussions with National Trade Unions reopened due to the renewal of the National Collective Contract, but it has not yet been possible to reach an agreement on all matters covered by the negotiations.

CORPORATE SOCIAL RESPONSIBILITY

WIND confirmed its commitment to corporate social responsibility with the objective of increasingly integrating its many business activities with social and environmental actions, as well as ensuring that it conducts itself in a responsible manner in its relations with both internal and external stakeholders.

The WIND 2011 Sustainability Report was published in July 2012 whose aim is to provide stakeholders with information on the Group's economic, social and environmental performance during the year.

The "WIND per te" (WIND for you) initiative introduced at the beginning of 2006 and designed to assist WIND employees in reconciling their work obligations with their day-to-day personal needs (info service, online consulting, administrative practices, laundry and car assistance) continues to be much appreciated by employees.

A variety of social initiatives was supported also in 2012: blood donation at the Rome and Milan offices that achieved considerable success, "Race for the cure" in the fight against breast cancer; charity Easter egg sales to raise funds and charity Christmas sale of the 10decimi's Moleskine notebooks, to support 10decimi's projects.

During the 2012 WIND continued its collaboration with Sodalitas Foundation whose core values are: social cohesion, respect for diversity, social responsibility, solidarity, rights and dignity, needs and support to people and the creation of a "Sustainability Logo" to ensure the sustainability of WIND's products and services.

Between June and July 2012 the "Wind Integration Cup" was launched, a new project dedicated to the immigrants, to accompany them in a process of integration true and complete. The initiative has pursued the path of "closeness" and support to foreigners through the organization of the football tournament between teams of mixed nationalities, which took place in 8 Italian cities, with the support of the Coni, involving 864 players in 72 teams from 30 different ethnic groups, with a total of 220 games.

In December 2012 WIND helped, by donating 50,000 Euros, 5 different Reception Shelters in Italy to help children and families in need: Associazione Gianmarco De Maria (Cosenza), Associazione Peter Pan (Roma), Associazione Casa Oz (Torino), La Caramella Buona (Reggio Emilia), Associazione ABC Burlo (Trieste).

REGULATORY FRAMEWORK AT DECEMBER 31, 2012

Fixed-line market

Antitrust activity

On August 5, 2011, the Italian antitrust authority AGCM published the commitments presented by Telecom Italia as part of the A428 "WIND-Fastweb/Telecom Italia conduct" enquiry. On April 20, 2012 the AGCM notified that it had rejected the commitments proposed by Telecom Italia; the proceeding therefore followed the process required to establish that Telecom Italia was at fault and on December 12, 2012 the Communication containing the results of the enquiry was issued. The proceeding is currently set to conclude on March 30, 2013.

Proceeding A426 - "Tenders for the allocation of fixed telephone services and IP connectivity" was completed with the acceptance of the commitments proposed by Telecom Italia which were accepted and published on July 9, 2012 with the proceeding in question thereby coming to an end.

Publication of the commitments presented by Telecom Italia as part of the A426 which occurred in October 2012 brought an end to this proceeding on a definitive basis.

In September 2012 AGCM publicated the new procedure for presenting the commitments, which confirms the need for a timely presentation of these to avoid transforming this scheme into a means of extending the timescale of the proceeding.

On September 13, 2012, the AGCM initiated proceeding I-757 against Telecom Italia, Vodafone and WIND. After gaining access to the formal papers, analyzing the available documentation and obtaining the opinion of outside legal counsel, the decision was taken not to present Commitments.

On the basis of reports received from WIND, Fastweb and Vodafone, the Competition Department of the European Commission initiated a detailed investigation in July to ascertain whether there was an economic benefit for Telecom Italia in terms of state aid arising from the joint venture between the province of Trento and the incumbent operator, which envisages the construction of an optic fiber infrastructure. If the existence of such a benefit were to be confirmed, the measure would constitute state aid pursuant to article 107 of the Treaty on the Functioning of the European Union (TFEU) and its compatibility would have to be assessed in the light of EU's orientation on broadband.

Telecom Italia Reference Offers

The following proceedings for the revision of the Telecom Italia offers have been initiated in 2012:

- with resolutions 36/12/CIR (LLU) and 37/12/CIR (Bitstream) published on May 16, 2012 the economic conditions for the network cap services relating to the 2012 offer of Telecom Italia for the LLU and Bitstream services were approved;
- with resolution 59/12/CIR published on May 30, 2012 the economic services for the WLR services at cost and the technical conditions of the 2012 WLR offer of Telecom Italia were approved;
- with resolution 284/12/CONS, after a closer examination of the fixed-line market conditions on May 29, 2012 a public consultation was initiated concerning amendments to resolution 578/10/CONS in relation to the Wholesale Line Rental (WLR) charges for POTS and ISDN services for 2012. The proceeding is still in progress;

- by means of resolution 93/12/CIR the technical and economic conditions for the services at cost presented in the LLU offer were approved in September 2012. The Bitstream proceeding is still in progress;
- by means of resolution 92/12/CIR the reference offer of Telecom Italia relating to markets 2, 3 and 10 was approved in September 2012;
- by means of resolution 94/12/CIR, Telecom Italia's reference offer regarding the approval of prices for the services subject to orientation at cost of Telecom Italia's offer for 2012 relative to Bitstream services (market 5) was published in October 2012. Through this resolution the risk of an end of sale of ATM technology in 2012 has been avoided, and this has instead been set for the end of February 2013.
- with resolution 51/12/CIR published on May 16, 2012 the 2012 Telecom Italia reference offer for dedicated capacity transmission services, wholesale direct circuits and partial circuits was approved (market 6, ex 13,14);
- by means of resolution 421/12/CONS published in September a proceeding was initiated for setting the fixed termination price of the alternative operators at the same 2012 SGU level as that established for Telecom Italia.

In addition, on May 18, 2012 the proceedings for assessing the NGA offers of Telecom Italia concerning the following commenced the assessment of the Telecom Italia reference offer for 2012 relating to: i) NGA Bitstream services, the VULA service and the relative accessory services, ii) NGAN End to End access service, and iii) NGAN access services (infrastructure for local laying, adduction sections, primary and secondary optic fibers, termination sections in optic fiber).

These initial assessment proceedings were followed by three more detailed proceedings.

More specifically, proceedings 95/12/CIR (October 10, 2012) relating to Telecom Italia's 2012 NGA and VULA Bitstream offer, proceeding 105/12/CIR (November 8, 2012) relating to Telecom Italia's 2012 NGA infrastructure offer and proceeding 114/12/CIR (November 15, 2012) relating to Telecom Italia's 2012 NGA End to End offer have been initiated. The proceedings are still in progress.

Fixed access network

NGN

With Resolution 1/12/CONS, AGCOM identified the regulatory requirements relating to services for access to the new generation networks of Telecom Italia. In particular, the new NGAN rules envisage a series of services that Telecom Italia must offer to alternative operators; dark fiber, access to civil works, end to end, LLU of the fiber in central if technically feasible, different levels of Bitstream including the VULA.

As the result of this resolution, on March 19, 2012 Telecom Italia published the offers referring to 2012 for NGAN access services (markets 4 and 5). On May 18 2012 AGCOM started the public consultations related these offers as discussed in the paragraph on Telecom Italia's reference offers.

In addition, three specific proceedings are in progress aimed at: i) establishing a cost model to determine the prices of wholesale services for access to the Telecom Italia fiber network and identifying the areas where sustainable competition exists for determining the prices of wholesale services for access to broadband (Resolution 41/12/CONS); ii) assessing the regulatory impact of the introduction of new transmission techniques such as vectoring in the development of new generation networks (Resolution 42/12/CONS); and iii) assessing the existence of the conditions for imposing symmetric requirements for access to the physical network infrastructures (Resolution 43/12/CONS).

Market Analysis – Fixed Access Markets 1, 4 and 5

By means of resolution 390/12/CONS on September 12, 2012 the Authority started the third cycle Market Analysis cycle for the access markets to the fixed network (nos. 1, 4 and 5 among those identified by European Commission Recommendation 2007/879/EC): i) market of services for fixed position access to the public telephone network for resident and non-resident customers; ii) market of services for wholesale (physical) fixed position access to the network infrastructures (including shared or fully separated access); iii) market of services for access to wholesale broadband. The proceeding will have a duration of 150 days.

During the proceeding, in October and November 2012, AGCOM carried out a quantitative and qualitative data collection process with operators using tailored questionnaires.

Fixed termination

Resolution 229/11/CONS establishes that from January 1, 2012 the termination tariffs will be symmetric between Telecom Italia and the other operators, in particular symmetric TDM termination tariffs at SGU level and symmetric IP termination tariffs determined following two procedures, one technical on IP interconnection and one economic for the definition of the BULRIC model.

The final decision on the technical guidelines was adopted by AGCOM on December 14, 2011 by means of resolution 128/11/CIR. On December 15, 2011, AGCOM initiated the enquiry procedure aimed at creating a cost model (BULRIC) for determining the prices of interconnection services in IP modality which resulted in public consultation 349/12/CONS.

The proceedings regard the TDM (traditional interconnection) symmetric termination values for 2012: i) Telecom Italia termination, the fixed termination value on Telecom Italia's network at various interconnection levels were established by means of resolution 92/12/CIR; and ii) TDM OLO termination, public consultation 421/12/CONS has been initiated on this subject.

In May 2012 the Council of State annulled the previous ruling of the Regional Administrative Court (December 2011) which upheld the appeal of Telecom Italia on resolution 179/10/CONS relating to the prices of fixed termination for 2010 (a termination cap for OLOs fixed at 0.57 eurocents/minute).

WIND has made a special appeal against resolution 229/11/CONS which is currently pending.

The proposed decisions of Agcom on TDM OLO 2012 termination and IP 2012-2015 connection have recently been communicated to the EU.

Regulatory measures in respect of IP interconnection and interoperability for the provision of VoIP services

With resolution 128/11/CIR published on December 14, 2011 the technical guidelines for IP interconnection were issued. AGCOM with public consultation 12/13/CONS noted that migration from TDM to IP will require, for its completion, an additional period than assumed in resolution no. 229/11/CONS (taken in the resolution 128/11/CIR). WIND was published in October 2012 its range of reference IP.

It is planned to set up a technical discussion table among operators for an exchange of views between operators in order to define the detailed specifications, at the interconnection committee of the Economic Development Minister, together with a monitoring unit (UPIM) managed by AGCOM for any issues which may emerge during the migration period. In particular, with the commission not having reached an agreement on the technical specifications of interconnection, AGCOM in a suitable technical discussion table determined the points still open during the summer at a specific technical discussion table. The operators then met to transpose everything into technical specifications at the interconnection commission of the ministry for Economic development Minister.

Migration and pure number portability procedure

With resolution 31/11/CIR in May 2011 AGCOM initiated a public consultation regarding provisions concerning retention prohibition and the management of the customer cooling-off period in the procedures for the transfer of fixed network users. It is expected the final decision by the Authority.

On February 2012, with Resolution 7/12/CIR the provisions on the economic conditions of fixed network number portability previously included as part of specific technical discussions were submitted for consultation. By means of resolution 92/12/CIR the question of the one-off NP costs was concluded.

Technical discussions are currently taking place among operators at AGcom to update the migration procedures, taking into account LLU subloop services, the possibility of managing virtual operators in the fixed line segment and the need to manage the migrations onto the Telecom Italia NGA offers in the fixed line segment.

In addition, talks are also being held between AGcom, operators and consumers' associations on the revision of the legislation on distance contracts and on the revision of withdrawal legislation (including the cooling off period). These discussions, which will be followed by a public consultation, therefore relate to a revision of resolution 664/06/CONS and resolution 274/07/CONS (on the subject of migration).

Public consultations of the European Commission and of BEREC

The main European consultations initiated in 2012 in which WIND took part were as follows: i) public consultation on the BEREC report on broadband promotion; ii) high level principles for non-discrimination; iii) special tariff services; iv) effects of fixed-mobile replacement in the definition of the markets; v) medium-term BEREC strategy, vi) "Guidelines on the application of Article 3 of the Roaming Regulation - WHOLESALE ROAMING ACCESS", and vii) decision on the means of implementing Decoupling and Local Break Out (LBO).

On July 31, 2012 BEREC's three public consultations on Net Neutrality, for which WIND had sent its contribution, were concluded: i) Draft Guidelines for Quality of Service in the scope of Net Neutrality, ii) Draft report "An assessment of IP-interconnection in the context of Net Neutrality", and iii) Draft report "Differentiation practices and related competition issues in the scope of Net Neutrality". In July the European Commission published an on-line questionnaire on Net Neutrality, touching the most important aspects that had emerged during the recent debates on the subject as well as those downstream from the various public consultations published on the subject by both the Commission and BEREC and more specifically traffic management, privacy, transparency and switching, on which WIND has sent its contribution.

Also in July, WIND sent its positioning as a reply to the European Commission's public consultation on initiatives to reduce the cost of developing broadband structure in Europe;

In October, WIND sent its contribution to the public consultation set up by BEREC for its 2013 Work Programme and the public consultation on the revision of BEREC's Common Position on Wholesale Broadband Access, Wholesale Leased Line and Wholesale Local Access.

Mobile market

Market Analysis - Mobile Termination

With regard to mobile termination, Resolution 621/11/CONS is effective; this is the outcome of the third cycle of market analyses initiated with Resolution 670/10/CONS and completed with the publication of the decisions as per Resolution 621/11/CONS on January 4, 2012.

AGCOM has carried out the third cycle of Market Analysis and the following are the main decisions on the structure of the mobile termination market established by Resolution 621/11/CONS: i) the relevant market keeps the same perimeter (4 distinct markets: one for each of the networks of the 4 mobile operators), ii) tt the time of the monitoring AGCOM highlights that there are no MVNOs with infrastructural ranges of their own numbering,, iii) vonfirmation of the notification of SMPs for the 4 MVNOs, each on its own reference market, iv) confirmation for the 4 SMPs having the following requirements: Access and use of specific network resources (public OR), Transparency (public OR), Non-discrimination (public OR), Regulatory accounting, Price control (defined on the basis of the BU LRIC cost model adopted with resolution 60/11/CONS), and v) the termination prices determined for the price cap are calculated by using the BULRIC model adopted with resolution 60/11/CONS, which includes a reasonable remuneration rate for the capital employed (WACC) of 10.4% (this was 12.4% in 667/08/CONS)

With resolution 621/11/CONS, AGCOM confirmed the termination amounts determined in the previous resolution (667/08/CONS) until June 30, 2012 and established the following glide path.

Eurocent/minutes	**As from 1/07/2012**	**As from 1/01/2013**	**As from 1/07/2013**
H3G	3.5	1.7	0.98
Telecom Italia	2.5	1.5	0.98
Vodafone	2.5	1.5	0.98
WIND	2.5	1.5	0.98

Messaging services – SMS termination

As part of the 670/10/CONS proceeding, relating to mobile network voice termination services (market 7) and with specific indication as part of Resolution 621/11/CONS, AGCOM is continuing its review of SMS services with specific Market Analysis for SMS termination services. In this context, in February 2012 AGGOM submitted an information questionnaire to the mobile operators and virtual operators of mobile network services in order to collect the data needed for the market analysis.

The SMS termination services market is not at present a regulated market in Italy. The market analysis currently being carried out, therefore, corresponds to the first cycle of analyses performed for that market. On September 26, by means of resolution 420/12/CONS AGCOM submitted for consultation its proposal for a decision on the identification and market analysis of SMS termination services. The proposed results envisage: i) the definition of a relevant market for each operator that offers SMS termination services; ii) the geographical size of the national market; iii) the non-susceptibility of the relevant markets thus defined to *ex ante* regulation. The consultation was brought to a close in October 2012. The final decision is expected to be announced in the first quarter of 2013.

Monitoring of market and competition changes relating to virtual mobile operators

In February, 2012 AGCOM began monitoring market and competition changes relating to virtual mobile operators (understood in the broad sense as providers of mobile services, infrastructural or otherwise), by sending an information questionnaire to various parties in the market.

This activity has its origins in the contents of Resolution 621/11/CONS regarding mobile termination relating to virtual mobile operators. The timing of this proceeding has not yet been determined.

In October 2012 AGCOM updated the information it had collected, again through the use of questionnaires.

Roaming Regulation

On May 30, 2012 the EU Council approved the text of the III Roaming Regulation. The inclusion of structural solutions designed to increase the level of competition in the supply of international roaming services was confirmed as well as the requirement to provide a wholesale access offer for roaming services. The progressive reduction of both wholesale and retail caps from July 1, 2012 was additionally confirmed, with the inclusion of retail caps also for the supply of data services.

On June 30, 2012 the new Roaming regulation was published; this introduces structural measures to separate roaming services from the supply of domestic services (decoupling, plus local break out: LBO for data). This separation will become operational on July 1, 2014, , and through the Implementation Act, published on December 14, 2012, the Commission established the principles underlying the means by which this will be carried out. In addition, it is planned to carry out work in early 2013 to determine the required technical specifications, and this will be coordinated by the Commission.

Frequencies

Following the tender for the right to use the 800 MHz, 1800 MHz, 2000 MHz and 2600 MHz frequencies, on October 3, 2011 WIND was awarded 2 blocks of 2x5 MHz block in the 800 MHz band and 4 blocks of 2x5 MHz block in the band 2600 MHz released on February 2, 2012 with a measure of the Ministry of Economic Development.

Resolution 282/11/CONS establishes that the operators awarded lots in the 800 MHz band must identify suitable mitigation and coordination techniques to avoid any possible residual problems of interference in the adjacent band concerning existing equipment that is entitled to protection in accordance with international standards. In addition, if the application of the technical regulations does not ensure the total absence of harmful interference on all the possible cases of interference, operators must guarantee the coordination and/or adoption of specific additional mitigation techniques with the operator or operators using the same bands in neighboring geographical areas or adjacent bands in the same areas.

Paragraph 2bis, article 14 of Decree Law no. 179 of October 18, 2012, in conjunction with Conversion Law no. 221 of December 17, 2012 on "Further urgent measures for the growth of the country", published in the Official Journal of

December 18, 2012, states the following: *"Within sixty days of the effective date of the conversion law of this decree, by way of a regulation of the Minister for Economic Development, the measures to be undertaken by telecommunications operators to minimize any interference between the ultra mobile broadband services in the 800MHz band and domestic television reception equipment, and the means of doing this, shall be established. Any measures which may be need to be taken on domestic television reception equipment to mitigate interference shall be managed through the use of a fund set up by telecommunication operators who have been assigned frequencies in the 800 MHz band and run privately by the operators concerned, in accordance with the requirements of the regulations. The parameters for setting up said fund and the related contribution made by the operators shall be established according to principles of proportion, transparency and non-discrimination. By way of its own provision, the Ministry for Economic Development shall each quarter reformulate such contributions on the basis of the costs of intervention actually incurred and reported by the individual operators".*

Public consultation resolution 550/12/CONS on the procedure for the allocation of the frequencies available in the television band for terrestrial digital radio broadcasting systems was published in November 2012.

WIND sent Agcom its reply in December 2012.

Public consultation resolution 553/12/CONS on the use of frequencies in the 3600-3800 MHz band by terrestrial systems capable of providing electronic communication services was published in December 2012. The Authority intends to obtain comments, items of information and documentation concerning the use of these frequencies through this consultation. The aim of this activity is to check the actual market demand for these applications and the conditions for use in the light of evolving technological developments and technical legislation. WIND is currently preparing its reply document.

Additional topics

National Numbering Plan

With resolution 154/11/CIR the "Public consultation concerning changes and additions to the national numbering plan as per resolution 26/08/CIR" was initiated. The subjects put out to consultation regard the following: i) revision of price caps for the numbering in decade 4 for surcharged services, ii) timing for the configuration of assigned numbers by access operators, iii) codes for rendering "dual billing" services, iv) numbering for SMS/MMS services which are free of charge for the user or at costs not higher than the price relating to communications between users, v) numbering for surcharged services provided through SMSs/MMSs or data transmission for rendering services of a social-informative nature, excluding the subscribers' information service, vi) ownership of the numbering assigned in blocks of ten numbers, in the case of portability, vii) Machine-to-Machine (M2M) communications, viii) revision of the provisions of articles 3 and 30 of resolution 74/10/CIR, and ix) updating of the provisions of the plan.

Final decision 52/12/CIR was published on May 18, 2012; this updates the National Numbering Plan Rules. Among the main points included in the decision is the fact that the routing numbers to be used for mobile communications will remain with three digits and that the new RgNs may be requested in the 74X and 75X decades. The mobile numbering will be seen with a four-digit prefix.

At the present time, technical discussions between operators and AGCOM to analyze any need for further additions to the national numbering plan have started up again.

Universal Service

AGCOM announced that the proceeding to determine the universal service for 2005 has begun again in a notice of February 2012, which was followed by public consultation 35/12/CIR. Agcom recently published its final decision.

In addition, in August 2012 AGCOM sent an information request relating to the proceeding for the definition of the universal service for 2006.

Copyright

In July 2011 was approved by AGCOM a draft regulation concerning the protection of copyright on electronic communications networks, subject to public consultation (Decision No 398/11/CONS) for which WIND defined a positioning, prepared the response document an participated in a special hearing held on October 3, 2011.

The objectives set by AGCOM relating, among others, the promotion of a legal, promotion of agreements between manufacturers and distributors, the identification of criteria and procedures for the adoption of collective licensing. Finally confirmed the prediction of a proceeding before reporting AGCOM.

Investigation of mobile VoIP, P2P and Net Neutrality

WIND has defined an internal positioning and has prepared the response document to the consultations on the safeguards of consumer protection and competition for services in VOIP and peer-to-peer mobile network (resolution no.39/11/CONS) and the issue of net neutrality (resolution no.40/11/CONS), which is given particular attention to need for rationalization and efficient use of network resources.

On December 20, 2011, with resolutions 713/11/CONS and 714/11/CONS AGCOM published the results of the Net Neutrality, Peer to Peer and VoIP consultations as per resolutions 39/11/CONS and 40/11/CONS. These documents contain the various positions emerging from the consultations.

Main new consumer protection regulations

On April 24, 2012 resolution 154/12/CONS on the quality and charter of mobile and personal communication services was published; this is the result of a technical discussion table which saw the collaboration of the Ugo Bordoni Foundation (in the following also FUB), AGCOM and the mobile operators. This resolution repealed and replaced the preceding resolution 104/05/CSP, whose subject was a series of indicators used as the basis to check the quality of the data/voice services in mobility. In addition, resolution 151/12/CONS, which provides additions to resolution 244/08/CSP on fixed position internet quality, has become effective.

In December 2012, by means of resolution 588/12/CONS, AGCOM initiated a consultation on changes to the Directive on the quality of contact telephone services in the electronic communications sector, as already approved by means of resolution 79/09/CSP. WIND is determining an internal positioning in order to prepare a reply paper to this consultation, which is expected to highlight the very many critical matters connected with setting new standards for customer assistance services.

In conjunction with fixed and mobile operators, by means of Resolution 376/11/CONS AGCOM has also initiated the setting up of a single data base available for online consultation by end user that relates to the commercial coverage of the Italian territory for broadband wired-wireless services. The aim is basically to realize an access application integrated with the various coverage data bases available at the fixed and mobile network operators, which is to be enhanced with information on the coverage, speed and commercial offers of each operator.

With resolution no. 326/10/CONS the regulator has provided for the following measures concerning user protection: i) alert systems and expense limits for data traffic, ii) termination of the data link to the achievement of the remaining available credit or traffic, iii) the availability of systems for controlling data traffic costs, iv) the predetermination of upper monthly data traffic consumption thresholds, v) information to be provided to customers regarding the above measures, and vi) the availability of tariff plans for voice and SMS services that are in line with EC standards and related disclosure to customers.

With resolution 73/11/CONS the Authority intervened on the question of user protection, adopting the Regulation on compensation applicable in settling disputes between operators and users. This Regulation establishes the criteria for calculating the compensation due to the user and additionally identifies the specific circumstances for automatic compensation.

In January 2012 the Authority commenced the process of amending resolution 664/06/CONS on the Regulation on distance contracts. Following the hearings and the formal lodging of the documents with AGCOM, the operators drew up a Code of Conduct (currently still in draft) in order to improve the present "distance" sale process and strengthen the minimum guarantees to provide assurance to customers during the contact phase preceding the "distance contractual procedure". On June 2012 AGCOM set up an ad hoc technical discussion table as part of which the revision of resolution 664/06/CONS and resolution 274/07/CONS (on the issue of migration) will be included considering the overlapping of matters of common interest.

Privacy

Legislative Decree no. 69/12, through which Italy introduced European Directive 136/2009 on Telecommunications (the e-Privacy Directive) into national law, introduced significant changes in the privacy field.

By means of the new article 32-bis of Legislative Decree no. 196/2003 (the Privacy Code) the decree introduces the definition of "data breach" and the requirement to notify the authority and subscribers if there is a violation of the user's personal data, and in any case if the data are jeopardized. The Privacy Guarantor has issued a provision that sets out the guidelines for implementing data breach regulations and has initiated a public consultation on certain points of the document. brought to a conclusion at the start of November, as a result of which an implementation provision is to be issued.

The decree also made changes to article 122 of the Privacy Code by introducing an opt-in framework for e-cookies, separating these into "technical cookies" (e.g. session monitoring, performance of electronic authentication, etc.), which are needed to actually provide the service and are not subject to that framework, and "non-technical cookies" (i.e. monitoring of websites visited, collection of user's data, etc.), which are used for marketing purposes and being especially critical in terms of privacy require the prior, informed consent of the customer/user. In this scenario, the Privacy Guarantor has initiated a public consultation addressed to all website managers and the most representative consumers' associations in order to obtain contributions and suggestions on the matter to assist in drawing up a subsequent implementation regulation.

MAIN PENDING LEGAL PROCEEDINGS AT DECEMBER 31, 2012

WIND is subject to various legal proceedings arising in the ordinary course of business. Below is a description of all material pending legal proceedings at December 31, 2012, excluding those situations in which the cost arising from a negative outcome of the proceedings cannot be estimated or for which a negative outcome is not considered probable. In addition, WIND is subject from time to time to tax audits and investigations, some of which may in the future result in legal proceedings.

Proceedings Concerning Electromagnetic Radiation

Proceedings are still pending, in particular before the administrative courts, regarding the installation of base radio stations. These are mainly the result of current concerns about electromagnetic radiation. The claims are of an undeterminable monetary amount.

Proceedings with agents

Certain proceedings are still pending at different judicial stages relating to the termination of agency agreements, in which the agents seek payment from WIND of certain indemnities provided for by Italian legislation; these include the termination indemnity, the collection indemnity, the indemnity in lieu of notice and the indemnities pursuant to article 1751 of the Italian Civil Code.

WIND/ITALGO SPA

Italgo SpA (formerly Delta SpA), initiated proceedings against WIND based upon an alleged breach by WIND of certain provisions of an agreement signed with Delta SpA for the provision of goods and services (the "Commercial Agreement"). Italgo SpA sought the termination of the Commercial Agreement and other related agreements, as well as the payment by WIND of a penalty of €3.3 million, a refund of €23 million (the price paid for Delta SpA shares) and additional damages (to be quantified during the proceedings) for the costs which Italgo SpA alleges to have incurred as a result of WIND's alleged breache of contract. Italgo SpA alternatively sought a reduction in the purchase price agreed by the parties to be settled by offsetting this amount against an amount of €9 million payable by Italgo SpA to WIND. On March 19, 2010, an injunction was issued by the Court in Rome ordering WIND to pay a total of €3 million. WIND has appealed this decision. At the present, a negative result with respect to the March 19, 2010 injunction is considered probable**.**

WIND/Crest One SpA

Crest One SpA ("Crest One") has initiated proceedings against WIND for: (i) the refund of an amount of approximately €16 million, previously paid to WIND by Crest One as value added tax under a distribution agreement entered into between Crest One and WIND, and (ii) the compensation of damages alleged to have been suffered by Crest One (the amount of which damages is to be determined following the trial) pursuant to the payment of such value added tax by Crest One to WIND.

On March 22, 2012 the Court in Rome declared Crest One' bankruptcy, WIND has claims before the bankruptcy court against Crest One for contractual breach for non-payment and for an incorrect application of the VAT regime by Crest One.

Terna/Enel.Net/WIND

On June 11, 2010, Terna -Rete Elettrica Nazionale S.p.A ("Terna") and Terna Linee Alta Tensione S.r.l. ("Telat") sued WIND and Enel.Net before the Court of Rome requesting the termination of three contracts executed by Terna, Enel.Net and Telat, alleging abreach by Enel.Net under article 1453 of the Italian Civil Code, relating to good faith obligations to renew contractually set prices for hospitality and maintenance services by Terna and Telat. It should be noted that the parties have reached an out of court settlement for closing the case.

Proceedings concerning Misleading Advertising and Unfair Commercial Practices

Under Legislative decree no. 146/2007, the Italian Antitrust Authority has the power to initiate proceedings concerning unfair commercial practices and misleading advertising and issue fines of up to €5 million for each proceeding (amount redefined by Law no. 135/12 August 2012). To date, in 2011 received a single fine of €90 thousand connected to a case initiated in 2009; during 2011, AGCM initiated other five actions against WIND in this regard (three of which already have been settled through agreed non-monetary undertakings, one has been closed with a fine of €200 thousand and one closed without any fine). In 2012 AGCM initiated three new proceedings (one settled with a fine of €70 thousand, one closed without any fine and one still pending).

Audit on dealers' fees

In 2001 WIND received a dispute notice from the tax authorities regarding the tax treatment adopted in 1999, 2000 and 2001 for certain fees paid to dealers. The court of the second instance found in favour of WIND for 1999 and 2001 while it found against WIND for 2000. These cases currently remain pending before the supreme court. The dispute can be quantified in approximately €6 million plus penalties and interest.

WIND-Antitrust Authority (Proceeding no. A/357)

With a decision dated August 3, 2007, the Antitrust Authority closed proceeding no. A/357 by condemning WIND and Telecom Italia for abuse of their dominant positions in the wholesale termination market due to the discriminatory application of economic and technical conditions for fixed-to-mobile on net (fixed-mobile calls originating and terminating on the WIND network) and intercom calls (the calls on the internal telephone lines of a business customer) in favor of their respective internal divisions and to the detriment of fixed-line competitors. WIND was fined a sum of €2 million and ordered to cease the discriminatory behaviour. WIND appealed against the decision by seeking the annulment before the Administrative Court of Lazio (the Lazio TAR). The Lazio TAR rejected WIND's appeal on January 29, 2008 and the related decision was published on April 7, 2008. On September 17, 2008, WIND filed an appeal before the State Council, seeking the annulment of the above Lazio TAR's decision, the hearing for which, following various delays, occurred on March 15, 2011.

On April 20, 2011, the State Council published the final ruling by rejecting the WIND's appeal. On June 4, 2012, WIND filed an appeal before the Court of Cassazione for the annulment of the above State Council's ruling.

WIND-Antitrust Authority (Proceeding no. I/757)

, 2012, the Italian Competition Authority (or the "ICA") opened an anti-trust investigation in respect of three Italian MNOs (Telecom Italia, Vodafone and WIND) and carried out dawn raids on their premises. The investigation was started following a claim by an Italian MVNO, Bip Mobile. Bip Mobile claimed an alleged agreement between Telecom Italia, Vodafone and WIND which was aimed to prevent the entry of Bip Mobile into the Italian mobile market through collusive pressure on the multi-brand point of sales starting as of June, 2012. WIND is currently defending its conduct against Bip's Mobile's allegations and cooperating with ICA in accordance with usual legal and procedural steps. The investigation will be completed by the end of September 2013, with an ICA decision of condemnation and fine of the MNOs or the dismissal of BIP's claim.

CONSOLIDATED FINANCIAL AND PERFORMANCE DATA

The following tables provide a summary of the main consolidated financial and performance data for the Group for 2012, prepared in conformity with the IFRS endorsed by the European Union, together with a comparison with the corresponding figures for 2011.

Income statement figures (millions of euro)	**2012**	**2011**
Revenue	5,427	5,570
EBITDA[1]	2,063	2,120
Operating income	916	1,052
Net finance expense	(875)	(933)
Profit before tax	40	118
Profit (loss) from discontinued operations	0	6
Profit for the year attributable to owners of the Parent	(124)	(154)

[1] Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets

	2012	**2011**
Capital expenditure (millions of euro)	1,085	2,292

Statement of financial position figures (millions of euro)	**December 31, 2012**	**December 31, 2011**
Total assets	14,523	15,060
Equity attributable to		
owners of the parent	1,197	1,287
non-controlling interests	0.1	0.2
Total liabilities	13,326	13,773
Net financial indebtedness	9,151	9,346

Earnings Performance

The table below sets out the consolidated income statement for 2012 and a comparison with the 2011 figures.

(millions of euro)	2012	2011	Change amount	Change %
Revenue	5,262	5,431	(169)	(3.1)%
Other revenue	165	139	26	18.7%
Total revenue	**5,427**	**5,570**	**(143)**	**(2.6)%**
Purchases and services	(2,847)	(2,925)	78	2.7%
Other operating costs	(173)	(154)	(19)	(12.3)%
Personnel expenses	(344)	(371)	27	7.3%
Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets	**2,063**	**2,120**	**(57)**	**(2.7)%**
Depreciation and amortization	(1,146)	(1,056)	(90)	(8.5)%
Reversal of impairment losses/(impairment losses) on non-current assets	4	(14)	18	n.m.
Gains (losses) on disposal of non-current assets	(5)	2	(7)	n.m.
Operating Income	**916**	**1,052**	**(136)**	**(12.9)%**
Finance income	18	15	3	20.0%
Finance expense	(893)	(948)	55	5.8%
Foreign exchange gains (losses)	(1)	(1)	0	n.m.
Profit/(Loss) before tax	**40**	**118**	**(78)**	**(66.1)%**
Income tax	(164)	(278)	114	41.0%
Loss from continuing operations	**(124)**	**(160)**	**36**	**22.5%**
Profit from discontinued operations	0	6	(6)	n.m.
Loss for the year	**(124)**	**(154)**	**30**	**19.5%**
Non-controlling interests	0	0	0	n.m.
Loss for the year attributable to the owners of the parent	**(124)**	**(154)**	**30**	**19.5%**

Revenue

The Group generated total revenue of €5.427 million in 2012, a decrease of €143 million over 2011.

Revenue amounted to €5,262 million in 2012, a decrease of €169 million (-3.1%) over the previous year. The following table provides details of this item and changes with respect to 2011.

(millions of euro)	2012	2011	Change Amount	%
Revenue from sales	198	148	50	33.8%
Telephony services	4,280	4,306	(26)	(0.6)%
Interconnection traffic	611	807	(196)	(24.3)%
International roaming	45	55	(10)	(18.2)%
Judicial authority services	6	7	(1)	(14.3)%
Other revenue from services	122	108	14	13.0%
Total	**5,262**	**5,431**	**(169)**	**(3.1)%**

The negative trend mainly arises from the decrease in revenue from interconnection traffic due to the combined effect of the following factors: i) a decrease in revenue from domestic interconnection on the fixed network and mobile network due to the decrease in unit tariffs, partially offset by the increase in fixed and mobile traffic volumes; ii) a decrease in revenue from international incoming traffic due to a decrease in tariffs, partially offset by the increase in volumes; iii) a decrease in revenue from international traffic ended on domestic fixed-line and mobile due to decrease in volumes and unit tariffs; iv) a decrease in revenue from interconnection derived from narrowband internet traffic mainly following a general shift towards broadband technology; these changes were partially offset by the increase in revenue from Vas not Voice services due to an increase in volumes.

The decrease in revenue from telephony services is due to the mobile, fixed and internet. The mobile segment continued to effectively pursue its strategy of growth through further development of its customer base and the substantial stability of the average customer bill size achieved in particular through the development of offers dedicated to mobile internet browsing. Revenues in the fixed segment, despite the increase in internet revenues, decreased due to competitive pressures and the reshaping of bundle fees that led to a slowdown in growth of the customer base and increased the churn phenomenon. The negative effect on Voice&Vas revenues was partially offset by the increase in Internet revenues (Traffic and fees) mainly due to the expansion of broadband customer base drawn from major offers involving the use of unlimited ADSL traffic.

Revenue from sales rose during 2012, mainly due to the shift in the mix of sales in favor of UMTS with higher prices. In addition, the increase was supported by stable sales of mobile phone compared to the previous year.

International roaming revenue fell mainly as the effect of the general reduction in roaming tariffs for both voice and internet, only partially offset by an increase in internet volumes.

Other revenue amounted in total to €165 million for 2012 (€139 million for 2011) and refers principally to prior year income and the revision of estimates made in previous years.

Operating costs

Operating costs for 2012 amounted to €3,364 million, representing an increase of €86 million over the previous year.

Purchases and services amounted to €2,847 million in 2012, a decrease of €78 million over 2011. The following table provides an analysis of this item for 2012 and a comparison with the figures for the previous year.

(million of euro)	2012	2011	Change Amount	%
Interconnection traffic	843	974	(131)	(13.4)%
Leases	765	752	13	1.7%
Customer acquisitions costs	256	267	(11)	(4.1)%
Cost of goods sold and consumable materials	235	190	45	23.7%
Outsourcing, consulting and professional services	182	190	(8)	(4.2)%
Advertising and promotional services	178	209	(31)	(14.8)%
Maintenance and repair	107	95	12	12.6%
Utilities	116	100	16	16.0%
National and international roaming	35	34	1	2.9%
Other	131	114	17	14.9%
Total	**2,848**	**2,925**	**(77)**	**(2.6)%**

The change in purchases and services is mainly attributable to:

- a decrease of €131 million in *Interconnection traffic* costs mainly due to a general fall in termination tariffs, only partially offset by an increase in the volume of traffic directed to the mobile network and in VAS traffic;
- a decrease of €31 million in the cost of *Advertising and promotional services* mainly due to lower costs for advertizing on TV;
- an increase of €45 million in *Purchases of raw materials, consumables, supplies and goods,* mainly due to an increase in the unit purchase prices charged by suppliers compared to the previous period as the result of a shift of sales towards high-range terminals;
- an increase of 16 million in *Utilities* costs mainly due to the increase in the price of electricity over the previous year;
- an increase of €13 million in *Lease of local access network* costs as the result of an increase in the LLU tariffs and customer bases.

Personnel expenses decreased by €27 million (7.3%) over 2011. The change is mainly due to the effects arising from the new agreement with trade unions reached on October 10, 2012, to revise the main economic and legislative schemes in personnel costs in the period from 2013 to 2017.

EBITDA

Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets (EBITDA) came to €2,063 million in 2012, representing a decrease of €57 million, or 2.7%, over 2011.

Operating income

Operating income for 2012 came to €916 million, a decrease of €136 million compared with 2011. Other than the effect of change in EBITDA, this is mainly due to the result of the increase of depreciation and amortization (increase of €90 million over the previous year) only partially offset by the decrease in the reversal of impairment losses on non-current assets.

The increase in depreciation and amortization is mainly the result of the increased investments network for the expansion of the access networks made in the last years and amortization of intangible assets due to higher customer acquisition costs as a result of increase in the customer base.

Finance income and expense

In 2012 net finance expense came to €875 million (€933 million in 2011). The decrease is mainly due to gains arising from the measurement at fair value of the derivatives embedded in the loans (losses of €73 million at December 31, 2011).

Result for the year attributable to owners of the Parent

2012 closed with a loss of €124 million (loss of €154 million in 2011).

Statement of financial position highlights

The following reclassified statement of financial position represents an aggregate under operational criteria of the assets and liabilities of the statement of financial position prepared in accordance with IFRS.

(millions of euro)	As of December 31, 2012	As of December 31, 2011	Change Amount	%
Non-current assets				
Property, plant and equipment	3,599	3,649	(50)	(1.4)%
Intangible assets	8,740	8,806	(66)	(0.7)%
Financial assets measured at cost	16	16	0	n.m.
Total non-current assets	**12,355**	**12,471**	**(116)**	**(0.9)%**
Net working capital				
Inventories	24	20	4	20.0%
Trade receivables	1,196	1,350	(154)	(11.4)%
Trade payables	(1,790)	(1,771)	(19)	(1.1)%
Tax assets and liabilities	(490)	(529)	39	7.4%
Other assets	249	195	54	27.7%
Other liabilities	(989)	(883)	(106)	(12.0)%
Total net working capital	**(1,800)**	**(1,618)**	**(182)**	**(11.2)%**
Employee benefits	(58)	(58)	0	0.0%
Provisions	(149)	(162)	13	8.0%
Net invested capital	**10,348**	**10,633**	**(285)**	**(2.7)%**
Equity attributable to owners of the Parent	1,197	1,287	(90)	(7.0)%
Non-controlling interests	0	0	0	0.0%
Total equity	**1,197**	**1,287**	**(90)**	**(7.0)%**
Net financial indebtedness	**9,151**	**9,346**	**(195)**	**(2.1)%**
Total net financing	**10,348**	**10,633**	**(285)**	**(2.7)%**

Property, plant and equipment amounted to €3,599 million, decreased by €50 million compared with 31 December 2011, mainly as the net effect of the depreciation charge for the year and disposals for the year (€716 million and €33 million respectively), partially offset by investments of €716 million. In connection with an operation to replace transmission equipment being carried out to render the network more efficient and to obtain benefits from synergies, the net carrying amount of the replaced equipment was impaired by €50 million and investments have been recognized by €85 million resulting from the recognition as an increase in the market value of the equipment received as a replacement.

Intangible assets amounted to €8,740 million, decreased by €66 million compared with 31 December 2011, mainly as the net effect of investments of €369 million and the amortization charge for the year of €430 million.

Working capital, which had a negative balance of €1,800 million at December 31, 2012, decreased by €182 million mainly as the combined effect of the increase in *Other liabilities* and the decrease in *Trade receivables*.

Equity amounted to €1,197 million at December 31, 2011, of which €1,196.9 million is attributable to owners of the Parent and €0.1 million to non-controlling interests. The following table sets out the principal changes in consolidated equity in 2012 and 2011.

(million of euro)	2012	2011
Beginning of year	**1,287**	**1,517**
Consolidation reserve	0	(10)
Loss for the year	(124)	(154)
Dividends paid	0	(1)
Change in Cash Flow Hedge reserve	(1)	(61)
Other changes	35	(4)
End of year	**1,197**	**1,287**

The following table sets out the composition of **net financial indebtedness** at December 31, 2012 and the changes over December 31, 2011.

(millions of euro)	December 31, 2012	December, 31 2011	Change amount	%
FINANCIAL LIABILITIES				
Non-current financial liabilities				
Bonds	5,818	5,391	427	7.9%
Financing from banks	2,836	3,059	(223)	(7.3)%
Financing from other lenders	342	486	(144)	(29.6)%
Derivative financial instruments	160	110	50	45.5%
Current financial liabilities				
Bonds	179	176	3	1.7%
Financing from banks	124	750	(626)	(83.5)%
Financing from other lenders	159	179	(20)	(11.2)%
Derivative financial instruments	4	2	2	100.0%
TOTAL GROSS FINANCIAL INDEBTEDNESS (A)	**9,622**	**10,153**	**(531)**	**(5.2)%**
FINANCIAL ASSETS				
Non-current financial assets				
Derivative financial instruments	113	175	(62)	(35.4)%
Financial receivables	54	220	(166)	(75.5)%
Current financial assets				
Financial receivables	173	17	156	917.6%
Cash and cash equivalents	131	395	(264)	(66.8)%
TOTAL FINANCIAL ASSETS (B)	**471**	**807**	**(336)**	**(41.6)%**
NET FINANCIAL INDEBTEDNESS (A-B)	**9,151**	**9,346**	**(195)**	**(2.1)%**

Net financial indebtedness decreased by € 195 million over that at December 31, 2011 due to changes in the composition of financial liabilities and transactions during 2012, details of which we refer to note 14 Consolidated Financial Statements.

Cash flow statement

Consolidated cash flows for 2012 are set out in the following statement and are compared to the corresponding figures for 2011.

(million of euro)	2012	2011	Change amount	Change %
Cash flows from (used in) operating activities				
Loss from continuing operations	(124)	(160)	36	22.5%
Adjustments to reconcile the loss for the year with the cash flows from/ (used in) operating activities				
Depreciation, amortization and impairment losses on non-current assets	1,142	1,070	72	6.8%
Net changes in provisions and employee benefits	(13)	(52)	39	75.2%
(Gains)/losses on disposal of non-current assets	5	(2)	7	n.m.
Changes in current assets	87	(262)	349	n.m.
Changes in current liabilities	215	675	(460)	(68.1)%
Net cash flows from operating activities	**1,312**	**1,269**	**43**	**3.4%**
Cash flows from investing activities				
Acquisition of property, plant and equipment	(631)	(738)	107	14.5%
Proceeds from sale of property, plant and equipment	9	5	4	93.1%
Acquisition of intangible assets	(369)	(1,400)	1,031	73.7%
(Acquisition)/Disposal of financial assets	0	(14)	14	n.m.
Proceeds from sale of subsidiaries	0	110	(110)	n.m.
Net cash flows used in investing activities	**(991)**	**(2,037)**	**1,046**	**51.4%**
Cash flows from financing activities				
Changes in loans and bank facilities	(607)	749	(1,356)	n.m.
Dividends paid	0	(5)	0	100.0%
Net cash flows used in financing activities	**(607)**	**744**	**(1,351)**	**n.m.**
Discontinued operations				
Net cash from operating activities	0	13	(13)	n.m.
Net cash used in investing activities	0	0	(0)	n.m.
Net cash flows from discontinued operations	**0**	**13**	**(13)**	**(100.0)%**
Net cash flows for the year	**(286)**	**(11)**	**(275)**	**n.m.**
Cash and cash equivalents at the beginning of the year	395	406	(11)	(2.7)%
Cash and cash equivalents at the end of the year	**109**	**395**	**(286)**	**(72.4)%**

Cash flows from **operating activities**, amounting to €1,310 million, increased by €40 million over the previous year.

Investing activities used cash during 2012 of a total of €991 million, representing a decrease of €1,048 million over 2011. Investments in 2011 includes the purchase of a LTE frequencies for an amount of €1,144 million.

During 2012, **financing activities** used cash of €607 million as the net effect of the following operations:

- the early repayment of €500 million of the installments of tranches A1 and A2 of the Senior Facility Agreement falling due in 2012 and 2013, made on April 13, 2012;

- additional placement completed on April 13, 2012, of the Additional Senior Secured Notes 2018 of €200 million having a coupon of 7⅜% and USD400 million having a coupon of 7¼%;
- repayment of €500 million relating the principal of the Bridge Facility Agreement provided to the subsidiary Wind Acquisition Finance SA in October 2011, made in two payments of €250 million on April 20, 2012 and September 27, 2012, respectively;
- repayment during the year of €75 million relating to the principal of loan from other banks against the deferred repayment plan of the fair value of the derivative instruments that were repaid with the refinancing of the Group's debt of November 2010;
- use of cash of €100 million from August 2012 of part of the revolving tranche of the Senior Facility Agreement;
- repayment, on October 3, 2012, of €81 million relating to the principal of payable due to the Ministry of Economic Development.

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Independent auditors' report
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text into the English language solely for the convenience of international readers)

To the Sole Shareholder of
WIND Telecomunicazioni S.p.A.

1. We have audited the consolidated financial statements of WIND Telecomunicazioni S.p.A. and its subsidiaries (the "WIND Group") as of and for the year ended December 31, 2012, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of WIND Telecomunicazioni S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the data related to the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by us and dated March 26, 2012.

3. In our opinion, the consolidated financial statements of WIND Group at December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of WIND Group for the year then ended.

4. The management of WIND Telecomunicazioni S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial

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statements as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In our opinion the Report on Operations is consistent with the consolidated financial statements of WIND Group as of December 31, 2012.

Rome - March 21, 2013

Reconta Ernst & Young S.p.A.
Signed by: Luigi Facci, Partner

WIND GROUP

Consolidated financial statements as of and for the year ended December 31, 2012

FINANCIAL STATEMENTS AND NOTES THERETO

CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of euro)	Note	At December 31, 2012	At December 31, 2011
Assets			
Property, plant and equipment	3	3,599,279	3,648,505
Intangible assets	4	8,740,122	8,805,784
Financial assets	5	187,615	415,699
Deferred tax assets	6	219,647	210,797
Total non-current assets		**12,746,663**	**13,080,785**
Inventories	7	24,118	20,311
Trade receivables	8	1,195,981	1,350,384
Financial assets	5	173,322	17,603
Current tax assets	9	8,070	6,486
Other receivables	10	244,511	189,608
Cash and cash equivalents	11	130,543	395,276
Total current assets		**1,776,545**	**1,979,668**
TOTAL ASSETS		**14,523,208**	**15,060,453**
Equity and Liabilities			
Equity			
Issued capital		147,100	147,100
Share premium reserve		751,887	751,887
Other reserves		(95,861)	(129,576)
Retained earnings		393,799	517,595
Equity attributable to owners of the parent	12	**1,196,925**	**1,287,006**
Non-controlling interests		**128**	**218**
Total equity	12	**1,197,053**	**1,287,224**
Liabilities			
Financial liabilities	14	9,155,589	9,046,105
Employee benefits	16	58,305	58,108
Provisions	17	149,048	161,794
Other non-current liabilities	18	142,800	115,869
Deferred tax liabilities	6	702,002	739,404
Total non-current liabilities		**10,207,744**	**10,121,280**
Financial liabilities	14	466,524	1,106,706
Trade payables	19	1,789,616	1,770,584
Other payables	20	845,944	767,320
Tax payables	21	16,327	7,339
Total current liabilities		**3,118,411**	**3,651,949**
Total liabilities		**13,326,155**	**13,773,229**
TOTAL EQUITY AND LIABILITIES		**14,523,208**	**15,060,453**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)	Note	2012 12 months	2011 12 months
Revenue	22	5,261,742	5,430,853
Other revenue	23	165,258	139,473
Total revenue		**5,427,000**	**5,570,326**
Purchases and services	24	(2,847,794)	(2,925,243)
Other operating costs	25	(172,833)	(153,516)
Personnel expenses	26	(343,549)	(371,247)
Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets		**2,062,824**	**2,120,320**
Depreciation and amortization	27	(1,146,531)	(1,055,787)
Reversal of impairment losses/(impairment losses) on non-current assets	28	4,129	(13,828)
Gains/(losses) on disposal of non-current assets	29	(4,819)	1,586
Operating income		**915,603**	**1,052,291**
Finance income	30	18,648	14,758
Finance expense	31	(893,207)	(947,676)
Foreign exchange gains/(losses), net	32	(934)	(1,122)
Profit before tax		**40,110**	**118,251**
Income tax	33	(163,996)	(278,122)
Loss from continuing operations		**(123,886)**	**(159,871)**
Profit from discontinued operations	34	-	5,907
Loss for the year		**(123,886)**	**(153,964)**
Non-controlling interests		(90)	(81)
Loss for the year attributable to the owners of the parent		**(123,796)**	**(153,883)**
Earnings per share (in euro) – basic and diluted:	13		
Earning per share from Continuing operations		(0.85)	(1.09)
Earning per share from Discontinued operations		-	0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of euro)	Note	2012 12 months	2011 12 months
Loss for the year		**(123,886)**	**(153,964)**
Other comprehensive income			
Cash flow hedges	12	(17,474)	2,366
Income tax relating to components of other comprehensive income	12	16,189	(63,595)
Other comprehensive income for the year, net of tax		**(1,285)**	**(61,229)**
Total comprehensive income for the year		**(125,171)**	**(215,193)**
Total comprehensive income attributable to:			
Owners of the parent		(125,081)	(215,112)
Non-controlling interests		(90)	(81)

CONSOLIDATED CASH FLOW STATEMENT

(thousands of euro)	2012 12 months	2011 12 months
Cash flows from operating activities		
Loss from continuing operations	**(123,886)**	**(159,871)**
Adjustments to reconcile the loss for the year with the cash flows from/ (used in) operating activities		
Depreciation, amortization and (reversal of impairment losses)/impairment losses on non-current assets	1,142,402	1,069,617
Unrealized exchange difference	-	-
Net changes in provisions and employee benefits	(12,549)	(52,331)
(Gains)/losses on disposal of non-current assets	4,819	(1,586)
Changes in current assets	86,899	(260,710)
Changes in current liabilities	214,385	674,719
Net cash flows from operating activities	**1,312,070**	**1,269,838**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(631,433)	(738,409)
Proceeds from sale of property, plant and equipment	8,729	4,660
Acquisition of intangible assets	(368,634)	(1,400,484)
(Acquisition)/Disposal of financial assets	-	(14,200)
Proceeds from sale of subsidiaries	-	109,736
Net cash flows used in investing activities	**(991,338)**	**(2,038,697)**
Cash flows from financing activities		
Changes in loans	(607,292)	749,351
Dividends paid	-	(5,006)
Net cash flows from/(used in) financing activities	**(607,292)**	**744,345**
Discontinued operations		
Net cash from operating activities	-	13,378
Net cash used in investing activities	-	265
Net cash from discontinued operations	**-**	**13,643**
Net cash flows for the year	**(286,560)**	**(10,871)**
Cash and cash equivalents at the beginning of the year	395,276	406,147
Cash and cash equivalents at the end of the year	**108,716**	**395,276**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

(thousands of euro)	2012 12 months	2011 12 months
Income tax paid	(127,988)	(90,907)
Interest paid on loans/bonds	(783,041)	(722,061)
Interest paid on hedging derivative instruments	(61,924)	(28,753)
Interest received on hedging derivative instruments	30,858	39,185

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

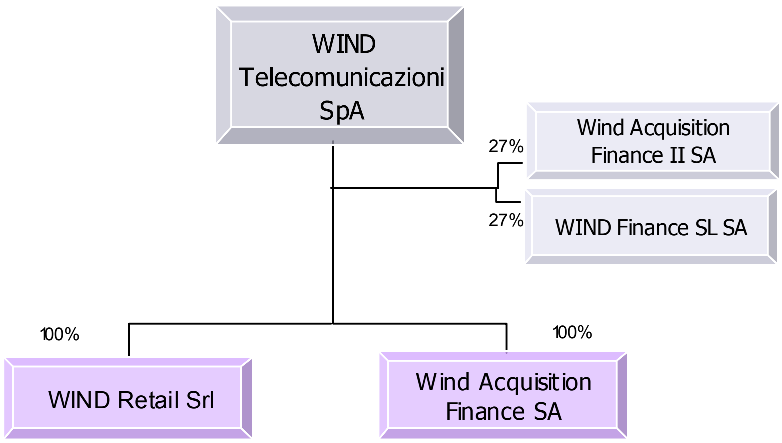
(thousands of euro)	Issued capital	Share premium reserve	Other reserves	Retained earnings/(losses carried forward)	Equity attributable to the owners of the parent	Non-controlling interests	**Equity**
	Equity attributable to the owners of the parent						
Balances at December 31, 2010	**147,100**	**751,887**	**(105,708)**	**724,217**	**1,517,496**	**299**	**1,517,795**
Total comprehensive income for year	**-**	**-**	**(61,229)**	**(153,883)**	**(215,112)**	**(81)**	**(215,193)**
- Loss for the year	-	-	-	(153,883)	**(153,883)**	(81)	**(153,964)**
- Cash flow hedges	-	-	(61,229)	-	**(61,229)**	-	**(61,229)**
Transactions with equity holders	**-**	**-**	**37,361**	**(52,739)**	**(15,378)**	**-**	**(15,378)**
- Sale of assets	-	-	37,361	(48,028)	**(10,667)**	-	**(10,667)**
- Dividends paid	-	-	-	(907)	**(907)**	-	**(907)**
- Other changes	-	-	-	(3,804)	**(3,804)**	-	**(3,804)**
Balances at December 31, 2011	**147,100**	**751,887**	**(129,576)**	**517,595**	**1,287,006**	**218**	**1,287,224**
Total comprehensive income for the year	**-**	**-**	**(1,285)**	**(123,796)**	**(125,081)**	**(90)**	**(125,171)**
- Loss for the year	-	-	-	(123,796)	**(123,796)**	(90)	**(123,886)**
- Cash flow hedges	-	-	(1,285)	-	**(1,285)**	-	**(1,285)**
Transactions with equity holders	**-**	**-**	**35,000**	**-**	**35,000**	**-**	**35,000**
- Contribution from shareholders	**-**	**-**	35,000	**-**	**35,000**	**-**	**35,000**
Balances at December 31, 2012	**147,100**	**751,887**	**(95,861)**	**393,799**	**1,196,925**	**128**	**1,197,053**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WIND TELECOMUNICAZIONI GROUP AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1 INTRODUCTION

WIND Telecomunicazioni SpA ("WIND", the "Parent" or the "Company") is a joint stock company having its registered office in Via Cesare Giulio Viola, 48, Rome (Italy), and is controlled by Wind Telecom SpA through WIND Acquisition Holdings Finance SpA which wholly owns WIND Telecomunicazioni SpA.
WIND Telecomunicazioni SpA and its subsidiaries (the "Group" or the "Wind Group") operate primarily in Italy in the fixed and mobile telecommunications sector under the brands *"Infostrada"* and "*Wind*".

The following diagram outlines the structure of the WIND Group at December 31, 2012.



At the date of the present consolidated financial statements as of and for the year ended December 31, 2012 Vimpelcom Ltd holds 92.24% of Wind Telecom SpA while WIND Acquisition Holdings Finance SpA holds 7.76%.

The Group closed 2012 with a profit before tax of €40,110 thousand (a profit before tax of €118,251 thousand in 2011) and a loss for the year from continuing operation of €123,886 thousand (€159,871 thousand in 2011). This result reflects the decline in operating income due to increased competitive pressure and higher depreciation and amortization.
The WIND Group will continue to consolidate its performance and its competitive position in 2013, notwithstanding the challenging economic environment and the unfavourable regulatory development. The efficiency and cost optimization processes will be further supported by the integration with the VimpelCom Group, mainly through the deployment of achievable synergies.

During 2013 WIND Group will continue to explore and develop the most promising opportunities arising from the combination of new technologies and new needs expressed by the market while continuing to build upon the commercial success experienced during the course of 2012 in the mobile, fixed-line voice and internet segments as well as continuing to develop its convergent business model.

The growth prospects of the Group in 2013 will be supported and sustained by the necessary financial investments which will be in line with the investments made in 2012.

2 GENERAL ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of WIND Telecomunicazioni SpA at December 31, 2012 have been prepared on a going concern basis and in accordance with the IFRS endorsed by the European Union.

The term IFRS includes all International Financial Reporting Standards (IFRSs), all International Accounting Standards (IASs), all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and all interpretations of the Standing Interpretations Committee (SIC) endorsed by the European Union and contained in published EU Regulations.

During the year no exceptional events occurred such as to require the waivers provided for by IAS 1.

These consolidated financial statements are expressed in euros, the currency of the economy in which the Group operates. Unless otherwise stated, all amounts shown in the tables and in these notes are expressed in thousands of euro.

For presentation purposes, the current/non-current distinction has been used for the statement of financial position, while expenses are analyzed in the income statement using a classification based on their nature. The indirect method has been selected to present the cash flow statement.

For the purposes of comparison, balances in the statement of financial position and income statement and the detailed tables in the notes have been reclassified where necessary. In particular, in order to ensure better presentation in the line Income tax paid on Additional Information on the Cash Flow Statement, the amount of €9,129 thousands related to repayment plan of closing of the audit on withholding taxes on interests paid to some Group companies in prior years; while in the line Purchases and services (see note 24) the amount of €11,030 thousands was reclassified from Maintenance and repair to utilities. These reclassifications however do not affect the Group's loss for the year or equity.

These consolidated financial statements were approved by the Parent's Board of Directors on February 20, 2013.

2.2 Basis of consolidation

These consolidated financial statements include the financial statements of WIND Telecomunicazioni SpA and those entities over which the company exercises control, both directly or indirectly, from the date of acquisition to the date when such control ceases. Control may be exercised through direct or indirect ownership of shares with majority voting rights, or by exercising a dominant influence expressed as the direct or indirect power, based on contractual agreements or statutory provisions, to determine the financial and operational policies of the entity and obtain the

related benefits, regardless of any equity relationships. The existence of potential voting rights that are exercisable or convertible at the reporting date is also considered when determining whether there is control or not.
The financial statements used in the consolidation process are those prepared by the individual Group entities as of and for the year ended December 31, 2012 (the reporting date for these consolidated financial statements) in accordance with the IFRS used by the Parent in drawing up these statements and approved by the respective Boards of Directors.

The consolidation procedures used are as follows:

- the assets and liabilities and income and expenses of consolidated subsidiaries are included on a line-by-line basis, allocating to non-controlling interests, where applicable, the share of equity and profit or loss for the year that is attributable to them. The resulting balances are presented separately in consolidated equity and the consolidated income statement;
- the purchase method of accounting is used to account for business combinations in which the control of an entity is acquired. The cost of an acquisition is measured as the fair value of the assets acquired, liabilities incurred or assumed and equity instruments issued at the acquisition date. Any excess of the cost of acquisition over the fair value of the assets and liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit or loss after first verifying that the fair values attributed to the acquired assets and liabilities and the cost of the acquisition have been measured correctly;
- business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination are considered business combinations involving entities under common control. In the absence of an accounting standard guiding the accounting treatment of these operations the Group applies IAS 8, consolidating the carrying amounts of the transferred entity and reporting any gains arising from the transfer directly in equity;
- the purchase of investments from minority holders in entities where control is already exercised is not considered a purchase but an equity transaction. Therefore, the difference between the cost incurred for the acquisition and the respective share of the accounting equity acquired is recognized directly in equity;
- unrealized gains and losses arising from transactions carried out between companies consolidated on a line-by-line basis and the respective tax effects are eliminated if material, as are corresponding balances of receivables and payables, income and expense, and finance income and expense;
- gains and losses arising from the sale of investments in consolidated subsidiaries are recognized in income as the difference between the selling price and the corresponding portion of the consolidated equity sold.

The following table provides a summary of the Group's investments showing the criteria used for consolidation and measurement.

	Registered office	Share/quota capital Euros	% holding 12.31.2012	% holding 12.31.2011	Basis of consolidation / measurement 12.31.2012	Basis of consolidation / measurement 12.31.2011
Subsidiaries						
WIND Retail Srl	Italy	1,026,957	100	100	Line by line	Line by line
Wind Acquisition Finance SA	Luxembourg	60,031,000	100	100	Line by line	Line by line
Associates						
Wind Team Consortium	Italy	4,500	33.33	33.33	Cost	Cost
WIND Finance SL SA	Luxembourg	31,000	27	27	Line by line	Line by line
Wind Acquisition Finance II SA	Luxembourg	31,000	27	27	Line by line	Line by line
SPAL TLC SpA	Italy	3,000,000	33	33	Cost	Cost
Fibra per l'Italia Consortium	Italy	3,600,000	33.33	33.33	Cost	Cost
Others						
Mix Srl	Italy	99,000	9.75	9.75	Cost	Cost
Consel	Italy	51,000	1	1	Cost	Cost
Janna Scarl	Italy	13,717,365	17	17	Cost	Cost
QXN	Italy	500,000	10	10	Cost	Cost

There are no changes in the scope of consolidation compared to the consolidated financial statements as of and for the year ended December 31, 2011.
The investments in WIND Finance SL SA and Wind Acquisition Finance II SA, in which the Group has an interest of 27%, have been consolidated on a line-by-line basis because they are special purpose entities.

2.3 Summary of main accounting policies

The principal accounting policies adopted in preparing these consolidated financial statements are set out below.

- ***Property, plant and equipment***

Property, plant and equipment are stated at purchase cost or production cost, net of accumulated depreciation and any impairment losses. Cost includes expenditure directly attributable to bringing the asset to the location and condition necessary for use and any dismantling and removal costs which may be incurred as a result of contractual obligations which require the asset to be returned to its original state and condition. Costs incurred for ordinary and cyclical repairs and maintenance are taken directly to profit or loss in the period in which they are incurred. Costs incurred for the expansion, modernization or improvement of the structural elements of owned or leased assets are capitalized to the extent that they have the requisites to be separately identified as an asset or part of an asset, in accordance with the "component approach". Under this approach each asset is treated separately if it has an autonomously determinable useful life and carrying amount. Depreciation is charged systematically, on a straight-line-basis from the date the asset is available and ready for use over its estimated useful life.
The useful lives of property, plant and equipment and their residual values are reviewed and updated, where necessary, at least at each year end. Land is not depreciated. When a depreciable asset is composed of identifiable separate components whose useful lives vary significantly from those of other components of the asset, depreciation is calculated for each component separately, applying the "component approach".
The useful lives estimated by the Group for the various categories of property, plant and equipment are as follows.

Plant and machinery	5-20 years
Planning and development costs of the fixed line and mobile telephone network	Residual term of license
Equipment	4 years
Other assets	5-10 years

Gains or losses arising from the sale or retirement of assets are determined as the difference between the selling price and the carrying amount of the asset sold or retired and are recognized in profit or loss under "Gains/(losses) on disposal of non-current assets".

Finance leases are leases that substantially transfer all the risks and rewards incidental to the ownership of assets to the Group. Property, plant and equipment acquired under finance leases are recognized as assets at their fair value or, if lower, at the present value of the minimum lease payments, including any amounts to be paid for exercising a purchase option. The corresponding liability due to the lessor is recognized as part of financial liabilities.

An asset acquired under a finance lease is depreciated over the shorter of the lease term and its useful life.

Lease arrangements in which the lessor substantially retains the risks and rewards incidental to ownership of the assets are classified as operating leases. Lease payments under operating leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

- ***Intangible assets***

Intangible assets are identifiable non-monetary assets without physical substance which can be controlled and which are capable of generating future economic benefits. Intangible assets are stated at purchase and/or production cost including any expenses that are directly attributable to preparing the asset for its intended use, net of accumulated amortization in the case of assets being amortized and any impairment losses. Amortization begins when an asset becomes available for use and is charged systematically on the basis of the residual possibility of utilization of the asset, meaning on the basis of its estimated useful life.

➢ *Industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights*

Costs for the purchase of industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights are capitalized. Amortization is charged on a straight-line basis such as to write off the cost incurred for the acquisition of a right over the shorter of the period of its expected use and the term of the underlying agreement, starting from the date on which the acquired right may be exercised. Trademarks are not amortized as they are considered to have an indefinite useful life.

➢ *Software*

Costs relating to the development and maintenance of software programs are expensed as incurred. Unique and identifiable costs directly related to the production of software products which are controlled by the Group and which are expected to generate future economic benefits for a period exceeding one year are accounted for as intangible assets. Direct costs – where identifiable and measurable – include the cost of employees who develop the software, together with a share of overheads as appropriate. Amortization is charged over the useful life of the software which is estimated at 5 years.

- *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the interest acquired in the fair value at the acquisition date of the assets and liabilities of the entity or business acquired. Goodwill relating to investments accounted for using the equity method is included in the carrying amount of the investment. Goodwill is not systematically amortized but is rather subject to periodic tests to ensure that the carrying amount in the statement of financial position is adequate ("impairment test"). Impairment tests are carried out annually or more frequently when events or changes in circumstances occur that could lead to an impairment loss on the cash generating units ("CGUs") to which the goodwill has been allocated. An impairment loss is recognized whenever the recoverable amount of goodwill is lower than its carrying amount. The recoverable amount is the higher of the fair value of the CGU less costs to sell and its value in use, which is represented by the present value of the cash flows expected to be derived from the CGU during operations and from its disposal at the end of its useful life. The method for calculating value in use is described in the paragraph below "Impairment losses". Once an impairment loss has been recognized on goodwill it cannot be reversed.

Whenever an impairment loss resulting from the above tests exceeds the carrying amount of the goodwill allocated to a specific CGU, the residual amount is allocated to the assets of that particular CGU in proportion to their carrying amounts. The carrying amount of an asset under this allocation is not reduced below the higher of its fair value less costs to sell and its value in use as described above.

- *Customer list*

The customer list as an intangible asset consists of the list of customers identified on allocating the goodwill arising on acquisitions carried out by the Group. Amortization is charged on the basis of the respective estimated useful lives, which range from 5 to 15 years.

- *Customer Acquisition Costs*

These consist mainly of the cost of commissions paid to the sales network, which in line with sector practice are capitalized as intangible assets from 2010, in accordance with the principles of reference, and amortized over the minimum contract term.

- ***Impairment losses***

At each reporting date, property, plant and equipment and intangible assets with finite lives are assessed to determine whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset concerned is estimated and any impairment loss is recognized in profit or loss. Intangible assets with an indefinite useful lives are tested for impairment annually or more frequently when events or changes in circumstances occur that could lead to an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, which is represented by the present value of its estimated future cash flows. In determining an asset's value in use the estimated future cash flows are discounted using a pre-tax rate that reflects the market's current assessment of the cost of money for the investment period and the specific risk profile of the asset. If an asset does not generate independent cash flows, its recoverable amount is determined in relation to the cash-generating unit (CGU) to which it belongs. An impairment loss is recognized in the profit or loss when the carrying amount of an asset or the CGU to which it is allocated exceeds its recoverable amount. If the reasons for previously recognizing an impairment loss cease to exist, the carrying amount of an asset other than goodwill is increased to the carrying amount of the asset that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized on the asset, with the reversal being recognized in profit or loss.

- ***Investments***

Investments in non-consolidated subsidiaries are stated at cost. Investments in companies where the Group exercises a significant influence ("associates"), which is presumed to exist when the Group holds between 20% and 50%, are accounted for using the equity method.

The equity method is as follows:

- the Group's share of the profit or loss of an investee is recognized in profit or loss from the date when significant influence or control begins up to the date when that significant influence or control ceases. Where the investee accounted for using the equity method has a deficit as the result of losses, its carrying amount is reduced to zero and any excess attributable to the Group, in the event that it has legal or constructive obligations on behalf of the investee or in any case to cover the losses, is recognized in a specific provision. Equity changes in investees accounted for using the equity method that do not result from profit or loss are recognized directly in consolidated equity reserves;
- unrealized gains and losses generated from transactions between the Parent or its subsidiaries and its investees accounted for using the equity method are eliminated on consolidation for the portion pertaining to the Group; unrealized losses are eliminated unless they represent an impairment loss.

Investments in other companies are measured at fair value with any changes in fair value being recognized in profit or loss. If the fair value cannot be reliably determined an investment is measured at cost. Cost is adjusted for impairment losses if necessary, as described in the paragraph "Impairment losses". If the reasons for an impairment loss no longer exist, the carrying amount of the investment is reversed up to the extent of the loss with the related effect recognized in profit or loss. Any risk arising from losses exceeding the carrying amounts of investments is accrued in a specific provision under liabilities to the extent of the Group's legal or constructive obligations on behalf of the investee or in any case to the extent that it is required to cover the losses. Investments held for sale or to be wound up in the short term are classified as current assets and stated at the lower of their carrying amount and fair value less costs to sell.

- ***Financial instruments***

Financial instruments consist of financial assets and liabilities whose classification is determined on their initial recognition and on the basis of the purpose for which they were purchased. Purchases and sales of financial instruments are recognized at settlement date.

- *Financial assets*

Financial assets are initially recognized at fair value and classified in one of the following four categories and subsequently measured as described below:

i) Financial assets at fair value through profit or loss: this category includes financial assets purchased primarily for sale in the short term, those designated as such upon initial recognition, provided that the assumptions exist for such classification or the fair value option may be exercised, and financial derivatives except for the effective portion of those designated as cash flow hedges. These assets are measured at fair value; any change in the period is recognized in profit or loss. Financial instruments included in this category are classified as current assets if they are held for trading or expected to be disposed of within twelve months from the reporting date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative; positive and negative fair values arising from transactions with the same counterparty are offset if this is contractually provided for.

ii) Loans and receivables: these are non-derivative financial instruments, mostly relating to trade receivables, which are not quoted on an active market and which are expected to generate fixed or determinable repayments. They are included as current assets unless they are contractually due over more than twelve months after the reporting date in which case they are classified as non-current assets. These assets are measured at amortized cost using the effective interest method. If there is objective evidence of factors which indicate an impairment loss, the asset is reduced to the discounted value of future cash flows. The impairment loss is recognized in profit or loss. If in future years the factors which caused the impairment loss cease to exist, the carrying amount of the asset is reinstated up to the amount that would have been obtained in case of application of amortized cost.

iii) Held-to-maturity investments: these are fixed maturity non-derivative financial instruments having fixed or determinable payments which the Group has the intention and ability to hold until maturity. These assets are measured at amortized cost using the effective interest method, adjusted as necessary for impairment losses. In the case of impairment the policies used for financial receivables will be applied.

iv) Available-for-sale financial assets: these are non-derivative financial instruments which are either specifically included in this category or included there because they cannot be classified in the other categories. These assets are measured at fair value and any related gain or loss is recognized directly in an equity reserve and subsequently recognized in profit or loss only when the asset is actually sold or, if there are cumulative negative changes, when it is expected that the losses recognized in equity cannot be recovered in the future. For debt securities, if in a future period the fair value increases due to the objective consequence of events occurring after the impairment loss has been recognized in profit or loss, the original value of the instrument is reinstated with the corresponding gain recognized in profit or loss. Additionally, the yields from debt securities arising from the use of the amortized cost method are recognized in profit or loss in the same manner as foreign exchange differences, whereas foreign exchange differences relating to available-for-sale equity instruments are recognized in the specific equity reserve. The classification as current or non-current assets is the consequence of strategic decisions regarding the estimated period of ownership of the asset and its effective marketability, with those which are expected to be realized within twelve months from the reporting date being classified as current assets.

Financial assets are derecognized when the right to receive cash flows from them ceases and the Group has effectively transferred all risks and rewards related to the instrument and its control.

- *Financial liabilities*

Financial liabilities consisting of loans, trade payables and other obligations are measured at amortized cost using the effective interest method. When there is a change in expected cash flows which can be reliably estimated, the value of the loans is recalculated to reflect such change based on the present value of expected cash flows and the

originally determined internal rate of return. Financial liabilities are classified as current liabilities except where the Group has an unconditional right to defer payment until at least twelve months after the reporting date.
Financial liabilities are derecognized when settled and the Group has transferred all the related costs and risks relating to the instrument.

- *Derivative financial instruments*

At the date of signing of the contract the instrument is initially recognized at fair value, with subsequent changes in fair value being recognized as a financial component of income. Where instead it has been decided to use hedge accounting, meaning in those situations in which the hedging relationship is identified, subsequent changes in fair value are accounted for in accordance with the following specific criteria. The relationship between each derivative qualifying as a hedging instrument and the hedged item is documented to include the risk management objective, the strategy for covering the hedge and the means by which the hedging instrument's effectiveness will be assessed. An assessment of the effectiveness of each hedge is made when each derivative financial instrument becomes active and throughout the hedge term.
In the case of a fair value hedge, i.e. the hedge refers to changes in the fair value of a recognized asset or liability, the changes in the fair value of the hedging instrument and those of the hedged item are both recognized in profit or loss. If the hedge is not fully effective, meaning that these changes are different, the non-effective portion is treated as finance income or expense for the year in the income statement.
For a cash flow hedge, the fair value changes of the derivative are subsequently recognized, limited to the effective portion, in a specific equity reserve (the "cash flow hedge reserve"). A hedge is normally considered highly effective if from the beginning and throughout its life the changes in the expected cash flows for the hedged item are substantially offset by the changes in the fair value of the hedging instrument. When the economic effects deriving from the hedged item are realized, the reserve is reclassified to the income statement together with the economic effects of the hedged item. Whenever the hedge is not highly effective, the non-effective portion of the change in fair value of the hedging instrument is immediately recognized as a financial component of the profit or loss for the year. Cash flow hedges also include hedges of the currency risk for transactions carried out in US dollars. These obligations are translated at the year-end exchange rate and any resulting exchange gains and losses are offset in the income statement against the change in the fair value of the hedging instrument.
When hedged forecast cash flows are no longer considered highly probable during the term of a derivative, the portion of the "cash flow hedge reserve" relating to that instrument is reclassified as a financial component of the profit or loss for the year. If instead the derivative is sold or no longer qualifies as an effective hedging instrument, the "cash flow hedge reserve" recognized to date remains as a component of equity and is reclassified to profit or loss for the year in accordance with the criteria of classification described above when the originally hedged transaction takes place.
Quotations at the reporting date are used to determine the fair value of financial instruments listed on active markets. In the absence of an active market, fair value is determined by referring to prices supplied by third-party operators and by using valuation models based primarily on objective financial variables and, where possible, prices in recent transactions and market prices for similar financial instruments.

- ***Taxation***

Income tax is recognized on the basis of taxable profit for the year and the applicable laws and regulations, using tax rates prevailing at the reporting date.

Deferred taxes are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements at the tax rates that are expected to apply for the years when the temporary differences will be realized or settled and tax losses carried forward will be reversed, based on tax laws that have been enacted or substantively enacted by the reporting date. An exception to this rule regards the initial recognition of goodwill and temporary differences connected with investments in subsidiaries when the Group is able to control the timing of the reversal of the temporary differences or when it is probable that the differences will not reverse.

Current and deferred taxes are recognized in profit or loss, except for those arising from items taken directly to equity; in such cases the tax effect is recognized directly in the specific equity item.

Tax assets and liabilities, including those regarding deferred taxation, are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity and when the entity has a legally enforceable right to offset these balances and intends to exercise that right. In addition, current tax assets and liabilities are offset in the case that different taxable entities have the legally enforceable right to do so and when they intend to settle these balances on a net basis.

The Group's tax position and its presentation in the financial statements reflect the effects of the election made in 2006 and renewed in 2009 by the Italian parent Wind Telecom SpA to take part in the national tax consolidation procedure.

For the regulations on electing the tax consolidation procedure to apply, the parent that elected for consolidation is required to determine a single overall tax base for corporate income tax (IRES) purposes consisting of the sum of the taxable profit or tax loss of the Parent and those of its subsidiaries taking part in the procedure, and to settle a liability by making a single tax payment or to recognize a single tax credit for repayment or to be carried forward.

Therefore, it follows that a receivable or payable with the Parent is found in the financial statements on transferring a tax loss or taxable profit, respectively, in the place of the respective tax receivables or payables accrued by the Group companies taking part in the procedure.

- ***Inventories***

Inventories are stated at the lower of purchase cost or production cost and net estimated realizable value. Cost is determined using the weighted average cost method for fungible goods or goods held for resale. When necessary, provisions are made for slow-moving and obsolete inventories.

- ***Cash and cash equivalents***

Cash and cash equivalents are recognized at fair value and consist of short-term highly liquid investments (generally not exceeding three months) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

- ***Assets held for sale and assets in disposal groups***

Assets held for sale consist of non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. No further depreciation is charged from the time that a depreciable asset is reclassified to this caption. Gains or losses arising from discontinued operations or from assets held for sale are reported as a separate item in profit or loss, net of any tax effects.

- ***Provisions***

Provisions are recognized for a loss or expense of a specific nature that is certain or probable to arise but for which the timing or amount cannot be precisely determined. Provisions are only recognized when the Group has a present legal or constructive obligation arising from past events that will result in a future outflow of resources, and when it is probable that this outflow of resources will be required to settle the obligation. The amount provided represents the best estimate of the present value of the outlay required to meet the obligation. The interest rate used in determining the present value of the liability reflects current market rates and takes into account the specific risk of each liability.
Risks, for which the likelihood of a liability arising is just possible, are disclosed in the notes under "Contingent assets and liabilities" and no provision is made.

- ***Employee benefits***

➢ *Short-term employee benefits*

Short-term employee benefits are recognized in profit or loss in the period when an employee renders the related service.

➢ *Post-employment benefits*

Post-employment benefits may be divided into two categories: 1) defined contribution plans and 2) defined benefit plans. Contributions to defined contribution plans are charged to profit or loss when incurred, based on their nominal value. For defined benefit plans, since benefits are determinable only after the termination of employment, costs are recognized in profit or loss based on actuarial calculations.
Defined benefit plans, which include the Italian post-employment benefits (TFR) which are due in accordance with the provisions of article 2120 of the Italian Civil Code and which are accrued up to December 31, 2006, are based on an employee's working life and the remuneration received during service. The related liability is projected forward to calculate the probable amount payable at the termination date and is then discounted using the Projected Unit Credit Method, taking into account time before the actual payment of the benefit. The measurement of the liability recognized in the statement of financial position is carried out by third party actuaries, based on actuarial assumptions which relate mainly to: the discount rate, which must reflect market yields on the high quality corporate bonds having a term consistent with the expected term of the obligation, increases in salaries and employee turnover.
As a consequence of the introduction of Law no. 296 of December 27, 2006 (the 2007 Finance Act) and subsequent decrees and regulations, the post-employment benefits accruing from January 1, 2007 are considered to be part of defined contribution plans and recognized in the same manner as other defined contribution plans, if the amounts are transferred to treasury funds of the national social security organization (INPS), or from June 30, 2007 or the date of employee election, if earlier, if transferred to private pension plans. The post-employment benefits accrued up to these dates remain defined benefit plans, with the related actuarial calculations excluding any assumptions

regarding increases in salaries as had been previously made. The difference arising from this change was recognized in the consolidated profit or loss for the year ended December 31, 2007.

At each reporting date, actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the Group's obligation at year end, which arise from changes in the actuarial assumptions referred to above, are recognized using the "corridor approach", meaning only when the gains or losses exceed 10% of the present value of the Group's obligation at the previous reporting date. Any amount in excess of 10% is charged against future income over a period in line with the average remaining working life of employees, starting with the first period subsequent to recognition.

➢ *Termination benefits and redundancy incentive schemes*

Benefits due to employees on the termination of employment contracts are treated as a liability when the Group is demonstrably committed to terminating these contracts for a single employee or group of employees before the normal retirement date or to granting termination benefits in order to facilitate voluntary resignations of surplus employees following a formal proposal. These benefits do not create future economic advantages to the Group and the related costs are therefore immediately recognized in profit or loss.

➢ *Share-based payments*

The Group recognizes additional benefits to certain managers and other members of personnel through stock option plans. IFRS 2 - Share-based Payments considers these plans to represent a component of employee remuneration; the cost of these plans therefore consists of the fair value of the option at the grant date and is recognized in profit or loss on a straight-line basis over the period between the grant date and the vesting date, with the corresponding entry recognized directly in equity. Changes in the fair value of the option subsequent to the grant date have no effect on the original measurement.

- ***Translation of items in non-euro currencies***

Transactions in foreign currencies are translated into euros at the exchange rate prevailing at the date of the transaction. Exchange gains and losses arising on the settlement of transactions and those arising on the translation at year-end exchange rates of monetary assets and liabilities are recognized in profit or loss.

With reference to foreign transactions whose currency risk is covered with derivatives, further details are provided in the note *Financial instruments*.

- ***Revenue recognition***

Revenue is recognized at the fair value of the consideration received, net of rebates and discounts. Revenue from the sale of goods is recognized when the Group transfers the risks and rewards of ownership of the goods. Revenue from services is recognized in profit or loss by reference to the stage of completion and only when the outcome can be reliably estimated.

More specifically, the criteria followed by the Group in recognizing core-business revenue are as follows:

➢ revenue arising from post-paid traffic, interconnection and roaming is recognized on the basis of the actual usage of each subscriber and telephone operator. Such revenue includes amounts paid for access to and usage of the Group network by customers and other domestic and international telephone operators;

- revenue from the sale of prepaid cards and recharging is recognized on the basis of the prepaid traffic actually used by subscribers during the year. The unused portion of traffic at period end is recognized as "Other payables - Prepaid traffic to be used";
- revenue from the sale of mobile phones and fixed-line phones and related accessories is recognized at the time of sale;
- one-off revenue from fixed and mobile (prepaid or subscription) activation and/or substitution, activation of new services and tariff plans is recognized for the full amount at the moment of activation to the extent of the related costs, or deferred over the minimum contractual term. In the case of promotions with a cumulative plan still open at year end, the activation fee is recognized on an accrual basis so as to match the revenue with the period in which the service may be used;
- one-off fees received for the granting of rights to use owned fiber optic cables are recognized at the time of the transfer of the underlying right and, therefore, of the related risks and rewards.

- ***Grants***

Grants are recognized when a formal decision of the disbursing government institution, in case of government grants, has been taken, with recognition being matched to the costs to which they relate. Grants related to income are taken to "Other revenue" in the profit or loss, while grants related to assets are recognized as deferred revenue and taken to income on a straight-line basis over the useful life of the asset to which the grant directly relates.

- ***Finance income and expense***

Finance expense is recognized on an accruals basis using the effective interest method, meaning at the interest rate that renders all cash inflows and outflows linked to a specific transaction financially equivalent.
Finance expense that are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 – Borrowing Costs), which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized and amortized over the useful life of the class of assets to which they refer.

- ***Earnings per share***

- *Basic*

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to owners of the parent, both from continuing and discontinued operations, by the weighted average number of ordinary shares of the parent outstanding during the year.

- *Diluted*

Diluted earnings per share are calculated by dividing the profit or loss for the year attributable to owners of the parent by the weighted average number of ordinary shares of the parent outstanding during the year where, compared to basic earnings per share, the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential shares, while the profit or loss for the year is adjusted for the effects of such conversion net of taxation. Diluted earnings per share are not calculated when there are losses as any dilutive effect would improve earnings per share.

- ***New accounting standards and interpretations***

The Group has adopted all the newly issued and amended standards of the IASB and interpretations of the IFRIC, endorsed by the European Union, applicable to its transactions and effective for financial statements for years beginning January 1, 2012 and thereafter.

Accounting standards, amendments and interpretations adopted from January 1, 2012

The following is a brief description of the new standards and interpretations adopted by the Group in the preparation of the consolidated financial statements at December 31, 2012.

- *Amendment to IFRS 7 - Financial Instruments Disclosures – Transfers of Financial Assets*

  The amendments will enable users of financial statements to improve their understanding of transfers ("derecognition") of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Application of this amendments did not have any effects on the Group's financial statements at December 31, 2012.

Accounting standards, amendments and interpretations adopted by the European Union and not early applied by the Group

The following standards and interpretations had been issued at the date of these notes but were not yet effective for the preparation of these consolidated financial statements at December 31, 2012.

STANDARD/INTERPRETATION	EFFECTIVE DATE
Amendments to IAS 12 - Deferred tax: Recovery of Underlying Assets	January 1, 2013
Amendments to IFRS1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	January 1, 2013
Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income	January 1, 2013
IAS 19 - Amended to IAS 19 Employee Benefits	January 1, 2013
IFRS 10 – Consolidated Financial Statements	January 1, 2014
IFRS 11 – Joint Arrangements	January 1, 2014
IFRS 12 - Disclosure of Interests in Other Entities	January 1, 2014
IFRS 13 – Fair Value Measurement	January 1, 2013
IFRIC Interpretation 20 – Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
IAS 27 – Separate Financial Statements	January 1, 2014
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2014

Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014

Accounting standards, amendments and interpretations adopted by the European Union

At the date of these notes relevant EU bodies have not completed the process necessary for the endorsement of the following standards and interpretations.

STANDARD/INTERPRETATION	IASB EFFECTIVE DATE
IFRS 9 – *Financial Instruments*	January 1, 2015
Amendments to IFRS 1 – Government Loans	January 1, 2013
Annual Improvements to IFRSs – 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1, 2013
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	January 1, 2014

The Group is currently assessing any impact the new standards and interpretations may have on the financial statements for the years in which they become effective.

2.4 Use of estimates

The preparation of these consolidated financial statements required management to apply accounting policies and methodologies based on complex, subjective judgments, estimates based on past experience and assumptions determined from time to time to be reasonable and realistic based on the related circumstances. The use of these estimates and assumptions affects the amounts reported in the statement of financial position, the income statement and the cash flow statement as well as the notes. The final amounts for items for which estimates and assumptions were made in the consolidated financial statements may differ from those reported in these financial statements due to the uncertainties that characterize the assumptions and conditions on which the estimates are based.

In this respect, the situation caused by the persisting difficulties of the economic and financial environment in the Eurozone led to the need to make assumptions regarding future performance which are characterised by significant levels of uncertainty; as a consequence, therefore, it cannot be excluded that results may arise in the future which differ from estimates, and which therefore might require adjustments, even significant, to be made to the carrying amount of assets and liabilities, which at the present moment can clearly neither be estimated nor predicted. The main items affected by these situations of uncertainty are non-current assets (tangible and intangible assets), deferred tax assets, provisions, contingent liabilities, impairment provisions.

The estimates and underlying assumptions are reviewed periodically and continuously by the Group. If the items considered in this process perform differently, then the actual results could differ from the estimates, which would accordingly require adjustment. The effects of any changes in estimate are recognised in profit or loss in the period in which the adjustment is made if it only affects that period, or in the period of the adjustment and future periods if it affects both current and future periods.

The accounting principles requiring a higher degree of subjective judgment in making estimates and for which changes in the underlying conditions could significantly affect the consolidated financial statements are briefly described below.

- Goodwill: goodwill is tested for impairment at least on an annual basis to determine whether any impairment losses have arisen that should be recognized in profit or loss. More specifically, the test is performed by allocating the goodwill to a cash generating unit (CGU) and subsequently estimating the unit's fair value. Should the fair value of the net capital employed be lower than the carrying amount of the CGU, an impairment loss is recognized on the allocated goodwill. The allocation of goodwill to cash generating units and the determination of the fair value of a CGU require estimates to be made that are based on factors that may vary over time and that could as a result have an impact on the measurements made by management which might be significant.
- Impairment losses on non-current assets: non-current assets are reviewed to determine whether there are any indications that the carrying amount of these assets may not be recoverable and that they have suffered an impairment loss that needs to be recognized. In order to determine whether any such elements exist it is necessary to make subjective measurements, based on information obtained within the Group and in the market and also on past experience. When a potential impairment loss emerges it is estimated by the Group using appropriate valuation techniques. The identification of the elements that may determine a potential impairment loss and the estimates used to measure such loss depend on factors which may vary over time, thereby affecting estimates and measurements.
- Depreciation of non-current assets: the cost of property, plant and equipment is depreciated on a straight-line basis over the useful lives of the assets. The useful life of property, plant and equipment is determined when the assets are purchased and is based on the past experience of similar assets, market conditions and forecasts concerning future events which may affect them, amongst which are changes in technology. The actual useful lives may therefore differ from the estimates of these. The Group regularly reviews technological and business sector changes, dismantling costs and recoverable amounts in order to update residual useful lives. Such regular updating may entail a change of the depreciation period and consequently a change in the depreciation charged in future years.
- Deferred tax assets: the recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognize deferred tax assets depends on factors which may vary over time and which may lead to significant effects on the measurement of this item.
- Contingent liabilities and provisions: the accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimate process based upon the probability of an unfavorable outcome. The definition of such provisions entails making estimates based on currently known factors which may vary over time and which could actually turn out to be significantly different from those referred to in preparing the notes to these financial statements.

2.5 Risk management

Credit risk

The Group's credit risk is principally associated with trade receivables which at December 31, 2012 amounted to €1,195,981 thousand. The Group minimizes credit risk through a preventive credit check process which ensures that all customers requesting new products and services or additions to existing services are reliable and solvent, also by using a preference for contracts which provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This check is carried out in the customer acceptance phase through the use of internal and external information.

The Group additionally exercises timely post-customer acquisition measures for the purpose of credit collection such as the following:

- sending reminders to customers;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and customer profiles;
- measuring and monitoring the debt status through reporting tools.

As a general rule, the Group has a limited level of credit concentration as the consequence of diversifying its product and services portfolio to its customers. In more detail, a small concentration of credit may be found in the business that WIND Telecomunicazioni SpA carries out with dealers and domestic and international operators.

WIND Telecomunicazioni SpA is also assisted by sureties issued by primary banks as collateral for the obligations resulting from supplies and receivables from dealers.

In relation to the management of the financial flows, related to the exposure of financial counterparties credit risk, Wind complies with Vimpelcom Group Treasury Policy, reviewing and amending, in accordance with the holding company, the Credit Limits set for each National and International Banking Group.

These Credit Limits take into consideration the sum of the following components (NFA or, Net Financial Assets):

1. Availability of balances in bank or postal current accounts;
2. Deposits or short term financial investments;
3. Positive Mark to Market arising on derivatives used for hedging;
4. Bank guarantees issued in favour of the company.

The Group had a positive net balance on its current accounts of €108,685 thousand at December 31, 2012. The Group's credit risk exposure from derivative contracts is represented by their realizable value or fair value, if positive.

The negative fair value of the entire portfolio at December 31, 2012 was €81,008 thousand (details of this may be found in note 15).

Liquidity risk

Liquidity risk arises mostly from the cash flows generated by debt servicing, in terms of both interest and principal, and from all of the Group's payment obligations that result from business activities.

In respect of debt, on November 26, 2010 WIND Telecomunicazioni SpA entered a new floating rate long-term loan agreement - the Senior Facility Agreement - consisting of two tranches: tranche A, amortizing, and tranche B, bullet, denominated in euros. The total nominal amount of this agreement, net of repayments made, amounts to €2,930,000 thousand, to which €400 million of a revolving credit facility drawn down for €100 million at December 31, 2012, should be added.

In addition, WIND Telecomunicazioni SpA has amortizing loans in euros granted by:

- banks, against the repayment plan of the fair value of the derivatives extinguished since they were hedging loans repaid as part of the refinancing of the Company's debt, for a notional of €162,183 thousand at December 31, 2012;
- the Ministry of Economic Development, with a nominal amount of €324,043 thousand at December 31, 2012, following the awarding of the 800MHz and 2600MHz frequencies assigned to it on completion of the competitive auction for fourth generation frequencies in Italy which was completed on September 29, 2011. Details of this may be found in notes 4, 14 and 20.

At Group level, the subsidiary Wind Acquisition Finance SA, a company registered under Luxembourg law, has issued:

- a high yield bond outstanding on July 13, 2009 and maturity date July 15, 2017 which consists of a tranche of a nominal amount of USD2,000,000 thousand and a tranche of a nominal amount of €1,250,000 thousand, each with a coupon of 11.75%;
- the bond Senior Secured Notes, on November 26, 2010, maturing on February 15, 2018. The Notes are divided into two tranches: one having a nominal amount of USD1,300,000 thousand and paying a semi-annual coupon of 7.25% and one having a nominal amount of €1,750,000 thousand and paying a semi-annual coupon of 7.375%;
- the bond Additional Senior Secured Notes, on April 13, 2012, maturing on February 15, 2018. The Notes are divided into two tranches: one having a nominal amount of USD400,000 thousand and paying a semi-annual coupon of 7.25% and one having a nominal amount of €200,000 thousand and paying a semi-annual coupon of 7.375%.

The "Senior Secured Notes", "Additional Senior Secured Notes" and the "High Yield" are subject to mandatory repayment in the following situations:

- if there is a change of control, all bondholders will be entitled to request the total or partial repurchase of the bonds they hold at a price equal to 101% of the notional amount plus the interest accrued at the repurchase date;
- in the case of asset sales, any proceeds not reinvested in the form envisaged by the offering memorandum and which exceed the amount of €25,000 thousand must be used to make a *pari-passu* repurchase offer to bondholders and debtholders at a price of 100% of the notional amount plus the interest accrued at the repurchase date.

The repayment flows provided for in the above agreements, with exclusive reference to the amounts used, translating US dollar tranches at the hedge agreement exchange rate, where applicable, are as follows.

(millions of euro)	2013	2014	2015	2016	2017	2018	Total
Senior Facility Agreement							
Term Loan A1	-	30	33	37	-	-	100
Term Loan A2	-	245	267	303	-	-	815
Term Loan B1	-	-	-	-	1,334	-	1,334
Term Loan B2	-	-	-	-	681	-	681
Revolving	100	-	-	-	-	-	100
Annuity	73	52	20	17	-	-	162
Debt from Ministry	81	81	81	81	-	-	324
Senior Notes 2017							
Senior Notes Euro	-	-	-	-	1,250	-	1,250
Senior Notes USD	-	-	-	-	1,428	-	1428
Senior Secured Notes 2018							
Senior Notes Euro	-	-	-	-	-	1,750	1,750
Senior Notes USD	-	-	-	-	-	961	961
Senior Secured Notes 2018 TAP							
Senior Secured Notes Euro						200	200
Senior Secured Notes USD						305	305
Total	**254**	**408**	**401**	**438**	**4,693**	**3,216**	**9,410**

The Senior Facility Agreement includes covenants typical for agreements of this type and size, including Financial covenants and General covenants (eg, negative pledge and pari passu). Failure to comply with these covenants, in some cases, if not properly remedied, may result in an obligation of early repayment of the outstanding loans. At December 31, 2012 the Group is in compliance with its covenants.

The tranches of bonds that are denominated in US dollars are hedged by cross currency swaps. As concerns liquidity risk, these cross currency swaps will lead to an exchange of principal on maturity.

The contractual due dates for financial liabilities, including those for interest payments, which are representative of the respective effects on profit or loss, are set out in the following tables, which provide the figures at December 31, 2012 and 2011.

(millions of euro)	Carrying amount at December 31, 2012	Total Contractual cash flows	2013	2014	2015	2016	2017	2018
Non-derivative financial liabilities								
Bank loans	2,960	(3,581)	(218)	(401)	(414)	(442)	(2,106)	-
Bonds	5,996	(8,874)	(562)	(562)	(562)	(562)	(3,328)	(3,298)
Loans from others	501	(547)	(176)	(148)	(110)	(103)	-	(10)
Net derivative financial liabilities	81							
Outflows		(4,184)	(324)	(306)	(283)	(283)	(1,694)	(1,294)
Inflows		4,224	276	277	274	274	1,788	1,335
Total	**9,538**	**(12,962)**	**(1,004)**	**(1,140)**	**(1,095)**	**(1,116)**	**(5,340)**	**(3,267)**

(millions of euro)	**Carrying amount at December 31, 2011**	**Total Contractual cash flows**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Non-derivative financial liabilities									
Bank loans	3,809	(4,290)	(416)	(417)	(429)	(439)	(464)	(2,125)	-
Bonds	5,567	(8,799)	(530)	(530)	(530)	(530)	(530)	(3,326)	(2,823)
Loans from others	665	(764)	(208)	(183)	(154)	(114)	(105)	-	-
Net derivative financial liabilities	(42)								
Outflows		(4,064)	(299)	(310)	(284)	(260)	(261)	(1,672)	(978)
Inflows		4,220	284	297	279	262	262	1,798	1,038
Total	**9,999**	**(13,697)**	**(1,169)**	**(1,143)**	**(1,118)**	**(1,081)**	**(1,098)**	**(5,325)**	**(2,763)**

Market risk

The Group's strategy for managing interest rate and currency risks is aimed at both managing and controlling such financial risks. More specifically, this strategy is aimed at eliminating currency risk and optimizing debt cost wherever possible, taking into account the interests of the Group's stakeholders.

Managing market risk for the WIND Group refers to financial liabilities from the time they actually arise or from when there is a high probability that they will arise.

More specifically, the following market risks are monitored and managed:

- Cash flow risk - this is the risk that movements in the yield curve could have an impact on profit or loss in terms of greater finance expense.
- Fair value risk - this is the risk that movements in the yield curve could have an impact on the fair value of debt.
- Currency risk - this is the risk that the fair value of financial instruments in currencies other than the euro or their cash flows, or the amounts payable or receivable generated by ordinary operations but not in euros, could undergo adverse effects caused by fluctuations in exchange rates.

The main objectives that the Group intends to reach are:

- ➢ to continue to defend the strategic plan scenario from the effects of exposure to currency, interest rate and inflation risks, identifying an optimum combination of the fixed rate, floating rate and inflation components for financial liabilities;
- ➢ to reduce the cost of debt;
- ➢ to manage derivatives in compliance with the Group's approved strategies, taking into consideration the different effects that derivative transactions could have on profit or loss and the statement of financial position.

After signing the medium/long-term loan contract with a banking syndicate, WIND Group, regarding interest rate risk, undertook to hedge, for the first three years, at least 50% of its exposure to the interest accruing on the total debt and to hedge 100% of its currency risk exposure on the Senior Secured Notes issued in foreign currency.

To meet these commitments the interest rate risk was hedged and, at the present time, this has reached a level of approximately 99%, with a maximum hedge term of less than five years.

At December 31, 2012, outstanding derivative contracts hedging interest rate risk total €2,915,000 thousand.

Considering that the total of long-term loans from banks and bonds outstanding at December 31, 2012 amounted to €8,823,792 thousand (liabilities in foreign currencies are translated at the rates provided in the relevant CCS), the fixed to floating ratio was as follows at that date.

(millions of euro)	**Outstanding at 12.31.2012**	**Rate at 12.31.2012**
At fixed rate	8,809	99.83%
At floating rate	15	0.17%

In compliance with the commitments undertaken, the currency risk resulting from the bonds issued by the subsidiary Wind Acquisition Finance SA has been fully hedged by cross currency swap transactions having a total notional of USD3,700,000 thousand.

All derivative agreements were entered into at market rates, without any up-front payments or receipts (a zero cost basis) and with a credit margin being applied.

It is estimated that an increase of 100 basis points in the euro interest rate yield curve (all other variables remaining constant) would lead to an increase in borrowing costs, with regard to the unhedged portion of floating rate debt and the ineffective portion of hedging instrument, of approximately €1,740 thousand and in the cash flow reserve of approximately €27,082 thousand.

Fair value hierarchy

IFRS 7 requires financial instruments recognised in the statement of financial position at fair value to be classified on the basis of a hierarchy that reflects the significance of the inputs used in determining fair value. The following levels are used in this hierarchy:

- Level 1 – quoted prices in active markets for the assets or liabilities being measured;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) on the market;
- Level 3 – inputs that are not based on observable market data.

The following table provides an analysis under this hierarchy of financial assets and liabilities measured at fair value at December 31, 2012.

(millions of euro)	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at *fair value*					
Derivative financial instruments	15	-	113	-	113
Total assets		**-**	**113**	**-**	**113**
Liabilities at *fair value*					
Derivative financial instruments	15	-	165	-	165
Total liabilities		**-**	**165**	**-**	**165**

In 2012 there were no transfers either from Level 1 to Level 2 or vice versa or from Level 3 to other levels or vice versa.

3 PROPERTY, PLANT AND EQUIPMENT

The following table sets out the changes in ***Property, Plant and Equipment*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Additions	Depreciation	Reversal of impairment losses/ Impairment losses	Disposals	Others	At December 31, 2012
Land and buildings	551	-	-	-	-	1	552
Plant and machinery	3,100,056	533,153	(681,667)	(18,722)	(31,817)	349,714	3,250,717
Equipment	23,134	9,597	(10,570)	(5)	(11)	3,715	25,860
Other	59,814	12,143	(23,900)	-	(80)	12,528	60,505
Assets under construction	464,950	161,915	-	-	(1,313)	(363,907)	261,645
Total	**3,648,505**	**716,808**	**(716,137)**	**(18,727)**	**(33,221)**	**2,051**	**3,599,279**

The cost, accumulated impairment losses and accumulated depreciation at December 31, 2012 can be summarized as follows.

(thousands of euro)	At December 31, 2012			
	Cost	Accumulated impairment losses	Accumulated depreciation	Carrying amount
Land and buildings	552	-	-	552
Plant and machinery	10,481,185	95,298	7,135,170	3,250,717
Equipment	141,362	12	115,490	25,860
Other	490,694	163	430,026	60,505
Assets under construction	262,287	642	-	261,645
Total	**11,376,080**	**96,115**	**7,680,686**	**3,599,279**

Plant and machinery presents a net increase by €150,661 thousand over the previous year. The main gross increases of the year regard purchases and operations of radio links and high frequency equipment for the expansion of the mobile access network and plant and machinery under construction (3G mobile technologies and the respective transport and support networks).

As part of the plan for the development of the Group's production structure, disposals have been made of equipment, infrastructure and transmission systems having a carrying amount of €31,622 thousand which are no longer usable; these relate mostly to radio links and high frequency equipment (€27,948 thousand) and leasehold improvements (€3,082 thousand). In connection with an operation to replace transmission equipment being carried out to render the network more efficient and to obtain benefits from synergies, the net carrying amount of replaced equipment of €23,261 thousand was written off, a loss form disposal of the equipment of €26,232 thousand was recognized and investments have been recognized by €85,375 thousand resulting from the recognition as an increase in the market value of the equipment received as a replacement. In this regard, the value of equipment received as a replacement offsets by €19,865 thousand the impairment loss on the equipment replaced and €20.444 thousand related to the loss from disposal of the equipment replaced, while the remaining €45,066 thousand was suspended in other non-current liabilities and will be released in profit or loss over the useful life of assets.

At December 31, 2012, transmission equipment, telephone systems and commutation switchboards owned by the Parent and having a carrying amount of €140,552 thousand were with customers for use (€130,982 thousand at

December 31, 2011), while transmission equipment for direct access through "unbundling of the local loop" having a carrying amount of €39,651 thousand (€64,241 thousand at December 31, 2011) was held on deposit by Telecom Italia SpA.

Plant and machinery additionally includes the expenditure incurred to acquire the exclusive rights for the use of cable ducts and optic fiber for a total of €90,800 thousand at December 31, 2012 (€75,632 thousand at December 31, 2011).

At December 31, 2012, *Equipment* increased over the balance at the end of the previous year by an amount of €2,726 thousand as the result of the depreciation charge for the year only partially offset by the increased investments. Commercial equipment having a carrying amount of €23,158 thousand at December 31, 2012, was with third parties, mostly authorized dealers, for use at that date (€19,193 thousand al December 31, 2011).

The net balance of *Other* increased over the balance at the end of the previous year by an amount of €691 thousand mainly as the result of the entry into use during the year of office machines and electronic equipment.

The balance of *Assets under construction* at December 31, 2012 consists mainly of plant and machinery being completed and tested.

4 INTANGIBLE ASSETS

The following table sets out the changes in ***Intangible assets*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Additions	Amortization	Reversal of impairment losses/ Impairment losses	Disposal	Others	At December 31, 2012
Industrial patents and intellectual property rights	281,152	89,696	(112,914)	258		40,851	299,043
Concessions, licenses, trademarks and similar rights	3,091,725	158	(112,811)		-	-	2,979,072
Other intangible assets	635,245	138,503	(204,669)		(771)	(2,128)	566,180
Goodwill	3,608,112	-	-	(643)	-	-	3,607,469
Assets under development	1,189,550	140,277	-		-	(41,469)	1,288,358
Total	**8,805,784**	**368,634**	**(430,394)**	**(385)**	**(771)**	**(2,746)**	**8,740,122**

The cost, accumulated impairment losses and accumulated amortization at December 31, 2012 can be summarized as follows.

(thousands of euro))	At December 31, 2012			
	Cost	Accumulated impairment losses	Accumulated amortization	Carrying amount
Industrial patents and intellectual property rights	1,728,413	11,542	1,417,828	299,043
Concessions, licenses, trademarks and similar rights	4,404,877	1,002	1,424,803	2,979,072
Other intangible assets	1,562,887	-	996,707	566,180
Goodwill	3,609,387	1,918	-	3,607,469
Assets under development	1,288,358	-	-	1,288,358
Total	**12,593,922**	**14,462**	**3,839,338**	**8,740,122**

"Others" mainly includes industrial patents and intellectual property rights which entered into use during the year.

The capitalization of the borrowing costs (€94,614 thousand) relating to the purchase of the frequencies (not yet in use) at the end of 2011 is included among the investments in Assets under development. The capitalization of customer acquisition costs is included among the investments in Other intangibles assets.

Industrial patents and intellectual property rights consist of the cost for the outright purchase of application software licenses or the right to use such licenses for an unlimited period and the capitalized costs relating to the time spent by Parent personnel in designing, developing and implementing information systems, which at December 31, 2012 amounted to €7,203 thousand (€6,202 thousand at December 31, 2011).

Concessions, licenses, trademarks and similar rights include individual licenses for the installation of networks and concessions to operate in the regulated activities of the telecommunications sector granted to the Group's companies by the relevant authorities, as detailed below.

Individual licenses or General Authorizations	Date of issue	Date of expiry (*)
WIND Telecomunicazioni SpA		
Installation of network and provision of voice telephony services on the Italian national territory (**)	February 1998	February 2018
Installation and provision of public telecommunications networks on the Italian national territory	April 1998	April 2018
Provision of public digital mobile communications services using DCS 1800 technology, including the possibility of operating in frequencies in the 900 MHz band using GSM technology pursuant to article 6, paragraph 6(c) of Presidential Decree no. 318 of September 19, 1997	June 1998	June 2018
Installation and provision of public telecommunications networks on the Italian national territory issued to Infostrada SpA now merged	April 1999	April 2019
Provision of third generation mobile communications services adopting the UMTS standard (IMT-2000 family) and the installation of the related network on the Italian national territory pursuant to article 6, paragraph 6(c) of Presidential Decree no. 318 of September 19, 1997	January 2001 (***)	December 2029
Use of frequencies for broadband point-multipoint radio networks in the 24.5-26.5 GHz band for the geographical area corresponding to the specified Italian region/autonomous province (****)	July 2002	July 2022

(*) Individual licenses are renewable in compliance with the regulations prevailing at the time of the renewal upon submission of an application at least 60 days prior to the expiry date (article 25, paragraph 6, of Decree no. 259/03)

(**) The Parent has two licenses for network installation and the provision of fixed line telephony services following the merger of Infostrada SpA

(***) The term of the license came into effect on January 1, 2002

(****) A total of 21 individual point-multipoint licenses have been assigned

The frequencies for providing terrestrial publicly available broadband mobile services in the 800 and 2600 MHz bands were not yet in use at December 31, 2012.

Concessions, licenses, trademarks and similar rights for €1,300,235 thousand refer to trademarks which have an indefinite useful life.

Similar rights consist of rights of way and the right to use assets owned by third parties for a predetermined period of time and are initially recognized at their one-off purchase price, including any accessory costs. This item relates for the most part to the costs incurred by Infostrada SpA, now merged, for the purchase in 1998 of the right of way on the Italian railway network and the purchase of the right to use the existing optic fiber on the network.

Other intangible assets mainly relate to the fair value of the customer list, amounting to €437,741 thousand, identified on allocating the goodwill at December 31, 2006 arising from the merger of the former parent Wind Acquisition Finance SpA and to the customer acquisition costs amounting to €120,793 thousand.

Assets under development consist of the internal and external costs incurred for the purchase or development of intangible assets for which the respective ownership right has not yet been fully acquired at the end of the year or which relate to incomplete projects, and down payments made to suppliers for the purchase of intangible assets. More specifically, intangible assets under development relate to the costs incurred for the design, development and implementation of information systems or specific modules thereof. At December 31, 2012 the item includes the rights to use frequencies awarded to the Parent by tender on October 3, 2011 not yet in use and the capitalization of the borrowing costs (€94,614 thousand) relating to the purchase of these frequencies.

Goodwill pertains to the subsidiary WIND Retail Srl for €27,525 thousand and to the parent WIND Telecomunicazioni SpA for €3,579,944 thousand.

The change in the goodwill attributable to WIND Retail Srl is the effect of a decrease of €643 thousand resulting from the recognition of an impairment loss during the year relating to the share of the goodwill allocated to the points of sales which form part of the rationalization of the subsidiary’s commercial network in 2012.

The carrying amount of goodwill recognized and of intangible assets with indefinite useful lives at December 31, 2012 was tested for impairment. The test was carried out by comparing the carrying amount with the value in use and recoverable amount. More specifically, the value in use was calculated on the basis of the discounted cash flows resulting from the 2012-2016 business plan. A growth rate of 1% was assumed for the years not covered by this plan. An interest rate of 8.24% was used to discount the cash flows being the weighted average cost of capital, net of the tax effect, calculated using the capital asset pricing model. Sensitivity was performed simulating, compared to the base assumptions, cash flows reduction by estimating a growth rate of 0.5% for the years not covered by the plan. In all cases the recoverable amount of the net assets continue to be higher than their book value.

5 FINANCIAL ASSETS

The following table sets out ***Financial assets*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012			At December 31, 2011		
	Non-current	Current	Total	Non-current	Current	Total
Financial assets measured at cost	16,359	-	**16,359**	16,359	-	**16,359**
Derivative financial instruments	113,212	-	**113,212**	174,853	-	**174,853**
Financial receivables	58,044	173,322	**231,366**	224,487	17,603	**242,090**
Total	**187,615**	**173,322**	**360,937**	**415,699**	**17,603**	**433,302**

The *Financial assets measured at cost*. consist of non-controlling interests in companies and consortia as set out in the following table.

Company / consortium	% of investment	At December 31, 2012	At December 31, 2011
Wind Team Consortium	33.33%	1	1
Consel Consortium	1.00%	1	1
Janna Scarl	17.00%	2,072	2,072
Mix Srl	9.75%	10	10
QXN Scpa	10.00%	50	50
SPAL TLC	33.00%	13,000	13,000
Fibra per l'Italia Consortium	33.33%	1,200	1,200
Other consortiums	-	25	25
Total financial assets measured at cost		**16,359**	**16,359**

Investments in Consorzio Wind Team, Consorzio Fibra per l'Italia and SPAL TLC SpA are not represented as associates because the Group does not have significant influence.

The item *Derivative financial instruments* includes the positive fair value of derivative financial instruments, detailed as follows: i) embedded derivatives on Bond issues amounting to €29,634 thousand (€20,192 thousand at December 31, 2011); and ii) hedging derivatives on financial liabilities amounting to €83,578 thousand (€154,661 thousand at December 31, 2011). Additional details on the composition of the item balance and respective changes are to be found in note 15.

The *Financial receivables,* amounting €231,366 thousand at December 31, 2012 mainly include:

- the loan of €156,333 thousand grated by WIND to the indirect parent Wind Telecom SpA (Intercompany Loan Agreement) with a single lump-sum repayment on December 30, 2013 and with interest being capitalized and charged at an annual Euribor+2.625% rate. At December 31, 2012 the loan was reclassified from non-current assets to current assets;
- fees of €48,624 thousand (€60,042 thousand at December 31, 2011) of which €11,266 thousand in current assets (€11,374 thousand at December 31, 2011) recognized for hedging derivatives arranged in the previous years, which are being amortized over the terms of these instruments;
- the residual value of the transaction costs for the unused portion of bank loans (revolving tranches for which further details may be found in note 14) equal to €10,436 thousand (€13,178 thousand at December 31, 2011), which are charged to profit or loss on a straight-line basis over the term of the agreement.

The following table sets out the due dates for financial receivables.

(thousands of euro)	At December 31, 2012				At December 31, 2011			
Financial receivables	**<1 year**	**1<x<5 years**	**>5 years**	**Total**	**<1 year**	**1<x<5 years**	**>5 years**	**Total**
Guarantee deposits	714	2,568	887	**4,169**	645	2,297	2,104	**5,046**
Receivables due from parents	156,333	-	-	**156,333**	-	149,729	-	**149,729**
Receivables due from related parties	-	-	-	**-**	-	-	-	**-**
Others	16,275	54,166	423	**70,864**	16,958	61,560	8,797	**87,315**
Total	**173,322**	**56,734**	**1,310**	**231,366**	**17,603**	**213,586**	**10,901**	**242,090**

6 DEFERRED TAX ASSETS AND LIABILITIES

The following tables provide the variation of ***Deferred tax assets*** and ***Deferred tax liabilities*** by origin at December 31, 2012.

(thousands of euro)	At December 31, 2011	Decrease	Increase	At December 31, 2012
Provision for bad debts (taxed)	126,391	13,395	28,640	141,636
Provisions for risks (taxed)	55,522	35,652	9,688	29,558
Measurement of financial assets/liabilities	-		3,375	3,375
Amortization and depreciation of non-current assets	28,884	21,217	37,411	45,078
Deferred tax assets	**210,797**	**70,264**	**79,114**	**219,647**
Employee benefits	702	-	1,498	2,200
Accelerated depreciation and amortization	22,181	8,658	-	13,523
Derivative financial instruments	12,486	12,486	-	-
Property, plant, and equipment at fair value	85,526	6,862	5,396	84,060
Depreciation of PPA	618,422	21,542	5,338	602,218
Measurement of financial assets/liabilities	87	86	-	1
Deferred tax liabilities	**739,404**	**49,634**	**12,232**	**702,002**

The increase in 2012 in *deferred tax assets* is explained by increase in provision for bad debts and in amortization and depreciation of non-current assets, and is compensated by the decrease in provision for risks. Decrease in *deferred tax liabilities* is mainly due to decrease in accelerated depreciation and amortization and depreciation of PPA.

Deferred tax have been recognized by considering the probability of their utilization and the extent to which the directors believe there is a reasonable certainty that sufficient profits will be generated in future years against which the losses may be used within the time limits imposed by prevailing tax laws and regulations.

Deferred tax assets were not recognized in respect of temporary differences carried forward indefinitely totalling €268,455 thousand (€196,022 thousand at December 31, 2011), arising from non-deductible finance expenses within the limits imposed by law, due to the lack of reasonable certainty of their recoverability. In addition, even if transferred to the tax consolidation, consistently with the terms of the agreement, no receivables due from the indirect parent Wind Telecom SpA have been recognized. In fact, on the basis of this agreement, if the excess interest expense is transferred to the national consolidation, the transferring company obtains the right to remuneration corresponding to the theoretical tax benefit transferred, only if, and to the extent to which, the company which has transferred this excess interest expense transfers to the consolidation the excess gross operating profit (GOP) not utilized in the tax period for the deduction of interest expense pursuant to article 96, paragraphs 1, 2 and 7 of the Consolidated Income Tax Law (TUIR).

7 INVENTORIES

The following table provides an analysis of ***Inventories*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Finished goods	24,548	20,750
Write-downs	(430)	(439)
Total	**24,118**	**20,311**

"*Finished goods*" consist principally of mobile phone handsets and the related accessories. The change taking place during the year is essentially due to an increase in the value of inventory of mobile telephone terminals, kits and related accessories, stocks consisting of products which are technologically advanced and higher unit value over previous year.

8 TRADE RECEIVABLES

The following table provides an analysis of ***Trade receivables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Due from final customers	1,086,249	1,163,235
Due from telephone operators	169,375	248,795
Due from authorized dealers	192,946	274,973
Due from associates	34,771	44,483
Due from related parties	1,042	26,609
Other trade receivables	50,446	45,130
(Provision for bad debts)	(338,848)	(452,841)
Total	**1,195,981**	**1,350,384**

Receivables due from final customers arise principally from the supply of fixed and mobile telephony services to customers with subscription contracts, while *receivables due from telephone operators* mainly relate to interconnection and roaming services. *Receivables due from authorized dealers* relate to sales of radio mobile and fixed-line handsets and related accessories, as well as rechargeable telephone cards and top-ups.
The balance of net trade receivables at December 31, 2012 has decreased by a total of €154,403 thousand over that at December 31, 2011. This is mostly due to i) the decrease in receivables due from telephone operators (€79,420 thousand) due to the effect arising from the financial regulation; ii) the decrease in receivables due from final customers (€76,986 thousands); iii) the decrease in receivables due from authorized dealers (€82,027 thousands) and iv) partially compensated by the decrease in provision for bad debts.
The decrease in *Receivables from related parties* is mainly due to the reclassification of the receivables due from Libero Srl, WIS and It Net, to receivables due from third parties, following the change in the shareholding structure as a result of which, these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Group.
Receivables due from associates consist of the receivables due from SPAL TLC SpA.

The following table provides an analysis, at December 31, 2012 and 2011 of trade receivables and the respective provision for bad debts, by due date.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Gross amount	(Provision)	Gross amount	(Provision)
- unexpired	888,564	(12,092)	1,044,266	(9,981)
- expired from:				
- 0-30 days	72,380	(699)	68,035	(584)
- 31-120 days	43,180	(2,022)	90,057	(1,968)
- 121-150 days	20,171	(1,499)	21,204	(544)
- beyond 150 days	510,534	(322,536)	579,663	(439,764)
Total	**1,534,829**	**(338,848)**	**1,803,225**	**(452,841)**

The following table provides an analysis of trade receivables at December 31, 2012 and 2011, net of the provision for bad debts, between those falling due within 12 months and those falling due after 12 months.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
-within 12 months	1,146,252	1,197,503
-after 12 months	49,729	152,881
Total	**1,195,981**	**1,350,384**

The following table sets out changes in the provision for bad debts during the year ended December 31, 2012.

(thousands of euro)	**At December 31, 2011**	**Increases**	**(Utilizations)**	**At December 31, 2012**
Provision for bad debts	**452,841**	111,327	(225,320)	**338,848**

The Parent, at December 31, 2012, following an analysis on recoveries activities on trade receivables up to 2010, was recognized a credit loss, fully covered by doubtful provision, for €201 million.

In order to guarantee the obligations assumed by the Parent as a consequence of loans disbursed under the Senior Facility Agreement on November 24, 2010, for which further details may be found in note 14, and the obligations assumed by the subsidiary Wind Acquisition Finance SA ("WAF"), as a consequence of the Senior Notes, expiring in 2017, issued on July 13, 2009, the Senior Secured Notes, expiring in 2018, issued on November 26, 2010 and the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012, the Parent established collateral by transferring trade receivables, receivables from intercompany loans and receivables relating to insurance contracts, both present and future, in favor of the lending banks and the other creditors specified in the supplemental deed related to the respective collateral contract and in favor of the subscribers to the Senior Secured Notes and the subscribers of the Additional Senior Secured Notes.

9 CURRENT TAX ASSETS

The balance on ***current tax assets*** of €8,070 thousand at December 31, 2012 (€6,486 thousand at December 31, 2011) mostly regards receivables for current tax assets arising from taxes paid in previous years. Advance payments of IRAP tax made during the year are classified as a deduction from tax payables.

10 OTHER RECEIVABLES

The following table sets out details of ***Other receivables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Trade prepayments	124,082	108,032
Other receivables due from third parties	84,874	32,978
Tax receivables	5,999	9,812
Advances to suppliers	19,384	32,345
Other receivables due from parents	20,541	17,683
Other receivables due from related parties	2,476	972
Other receivables due from associates	2	14
(Provision for bad debts)	(12,847)	(12,228)
Total	**244,511**	**189,608**

The following table provides an analysis, at December 31, 2012 and 2011, of other receivables and the respective provision for bad debts by due date.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Gross balance	(Provision)	Gross balance	(Provision)
- unexpired	210,010	(7,159)	166,962	(7,159)
- expired from:				
- 0-30 days	8,275	-	2,521	-
- 31-120 days	3,145	-	5,725	-
- 121-150 days	19,453	-	11,308	-
- beyond 150 days	16,475	(5,688)	15,320	(5,069)
Total	**257,358**	**(12,847)**	**201,836**	**(12,228)**

The following table provides an analysis of other receivables at December 31, 2012 and 2011, net of the provision for bad debts, between those falling due within 12 months and those falling due after 12 months.

(thousands of euro)	At December 31, 2012	At December 31, 2011
-within 12 months	183,338	144,745
-after 12 months	61,173	44,863
Total	**244,511**	**189,608**

Trade prepayments relate mainly to lease installments for civil and technical sites and lease installments for telephone network circuits.

Other receivables due from third parties relate mainly to receivables from non-commercial third parties. The change over December 31, 2011 is mainly arise from the closure at December 31, 2012 of disputes with suppliers amounting to €30 million and other changes in non-commercial receivables.

The following table provides an analysis of *Tax receivables* at December 31, 2012 and 2011.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
VAT	3,550	7,950
Other tax receivables	2,449	1,862
Total	**5,999**	**9,812**

The following table sets out changes in the provision for bad debts for other receivables for the year ended December 31, 2012. This table refers solely to receivables which are due for payment after 12 months.

(thousands of euro)	**At December 31, 2011**	**Increases**	**(Utilizations)**	**At December 31, 2012**
Provision for bad debts	**12,228**	619	-	**12,847**

11 CASH AND CASH EQUIVALENTS

The following table sets out an analysis of ***Cash and cash equivalents*** at December 31, 2012 and 2011.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
Bank deposits and checks	130,512	395,245
Cash on hand and stamps	31	31
Total	**130,543**	**395,276**

The cash and cash equivalents represent the surplus of cash generated by operations, changed mainly due to the ordinary cash inflows and outflows occurred during the year. Further details may be found in note 37 to the cash flow statement.

12 EQUITY

The following table provides details of the changes in ***Equity*** during the years ended December 31, 2012 and 2011.

(thousands of euro)	Equity attributable to the owners of the parent Issued capital	Share premium reserve	Other reserves	Retained earnings/(losses carried forward)	Equity attributable to the owners of the parent	Non-controlling interests	**Equity**
Balances at December 31, 2010	**147,100**	**751,887**	**(105,708)**	**724,217**	**1,517,496**	**299**	**1,517,795**
Total comprehensive income for year	**-**	**-**	**(61,229)**	**(153,883)**	**(215,112)**	**(81)**	**(215,193)**
- Loss for the year	-	-	-	(153,883)	**(153,883)**	(81)	**(153,964)**
- Cash flow hedges	-	-	(61,229)	-	**(61,229)**	-	**(61,229)**
Transactions with equity holders	**-**	**-**	**37,361**	**(52,739)**	**(15,378)**	**-**	**(15,378)**
- Sale of assets	-	-	37,361	(48,028)	**(10,667)**	-	**(10,667)**
- Dividends paid	-	-	-	(907)	**(907)**	-	**(907)**
- Other changes	-	-	-	(3,804)	**(3,804)**	-	**(3,804)**
Balances at December 31, 2011	**147,100**	**751,887**	**(129,576)**	**517,595**	**1,287,006**	**218**	**1,287,224**
Total comprehensive income for the year	**-**	**-**	**(1,285)**	**(123,796)**	**(125,081)**	**(90)**	**(125,171)**
- Loss for the year	-	-	-	(123,796)	**(123,796)**	(90)	**(123,886)**
- Cash flow hedges	-	-	(1,285)	-	**(1,285)**	-	**(1,285)**
Transactions with equity holders	**-**	**-**	**35,000**	**-**	**35,000**	**-**	**35,000**
- Contribution from shareholders	-	-	35,000	-	**35,000**	-	**35,000**
Balances at December 31, 2012	**147,100**	**751,887**	**(95,861)**	**393,799**	**1,196,925**	**128**	**1,197,053**

The share capital of the parent WIND Telecomunicazioni SpA at December 31, 2012 consisted of 146,100,000 ordinary shares with no nominal value, fully subscribed and paid up by the sole shareholder WIND Acquisition Holdings Finance SpA.

Despite the encumbrances on the pledged shares underlying the share capital of the Parent held by WIND Acquisition Holdings Finance SpA, the voting rights at shareholders' meetings of the Parent are retained by WIND Acquisition Holdings Finance SpA by express contractual agreement as an exception to the provisions of paragraph 1, article 2352 of the Italian Civil Code.

The following table shows the reconciliation of the result of the year and of consolidated equity with the balance in the Parent's financial statements.

(thousands of euro)	Result for the year 2012	2011	Equity at December, 31 2012	2011
Equity and Result for the year of WIND Telecomunicazioni SpA	**(145,320)**	**(182,993)**	**1,180,528**	**1,252,108**
Equity and Result for the year of consolidated entities net of the shares attributable to Non-controlling interests	31,100	30,893	120,673	129,597
Consolidation adjustments:				
elimination of carryng amount of investments		-	(92,916)	(92,916)
other consolidation adjustments	(9,576)	(1,783)	(11,360)	(1,783)
Equity and Result for the year attributable to owners of the parent	(123,796)	(153,883)	1,196,925	1,287,006
Equity and Result for the year attributable to Non-controlling interests	(90)	(81)	128	218
Equity and Result for the year in the Consolidated Financial Statements	**(123,886)**	**(153,964)**	**1,197,053**	**1,287,224**

The resolution adopted by the parent's shareholders on March 28, 2012 resolving the approval of the annual financial statements as of and for the year ended December 31, 2011 allocating the loss for the year of €182,993 thousand to losses carried forward

Changes in equity attributable to the owners of the Parent during the year ended December 31, 2012 were due mainly to:

- the loss for the year attributable to the owners of the parent totaled €123,796 thousand;
- non-refundable equity contribution in the overall amount of €35,000 thousand made on October 12, 2012 by the parent WIND Acquisition Holdings Finance SpA;
- the decrease in the cash flow hedge reserve as the effect of the income and the expense recognized among other components of the Consolidated Statement of Comprehensive Income for 2012 that relate entirely to the transactions on hedging derivatives on cash flows, as described in further detail in note 15. The following table shows the changes in the cash flow hedge reserve.

(thousands of euro)	Interst rate risk			Foreign currency risk			
	Gross reserve	Tax effect	Total	Gross reserve	Tax effect	Total	Cash Flow Hedge Reserve
At December 31, 2011	**(188,186)**	**-**	**(188,186)**	**43,355**	**(12,486)**	**30,869**	**(157,317)**
Changes in fair value	(70,729)	-	(70,729)	(89,637)	16,189	(73,448)	(144,177)
Reverse to income statement	109,469	-	109,469	33,423	-	33,423	142,892
At December 31, 2012	**(149,446)**	**-**	**(149,446)**	**(12,859)**	**3,703**	**(9,156)**	**(158,602)**

13 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to the owners of the Parent; profit refers to continuing operations and discontinued operations. Both basic and diluted earnings per share have been calculated by using as a denominator the weighted average for the year of the number of outstanding shares, since there were no diluting effects at December 31, 2012 or December 31, 2011.

The data underlying the calculation are as follows.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Loss from continuing operations	(123,886)	(159,871)
Profit from discontinued operations	-	5,907
Weighted average number of shares (units)	146,100,000	146,100,000
Loss per share from continuing operations – basic and diluted (in Euro)	**(0.85)**	**(1.09)**
Earnings per share from discontinued operations – basic and diluted (in Euro)	**-**	**0.04**

14 FINANCIAL LIABILITIES

The following table sets out an analysis of ***Financial liabilities*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012			At December 31, 2011		
	Non-current	Current	Total	Non-current	Current	Total
Bonds issues	5,817,668	178,612	**5,996,280**	5,390,761	175,799	**5,566,560**
Bank loans	2,835,522	124,271	**2,959,793**	3,058,756	749,860	**3,808,616**
Loans from others	342,010	159,444	**501,454**	486,244	179,140	**665,384**
Derivative financial instruments	160,389	4,197	**164,586**	110,344	1,907	**112,251**
Total financial liabilities	**9,155,589**	**466,524**	**9,622,113**	**9,046,105**	**1,106,706**	**10,152,811**

The change in financial liabilities is mainly due to the effect of the following transactions, net of exchange rate effects:

- the early repayment of €500 million of the installments of tranches A1 and A2 of the Senior Facility Agreement falling due in 2012 and 2013, made on April 13, 2012;
- the additional placement completed on April 13, 2012, of the Additional Senior Secured Notes 2018 of €200 million having a coupon of 7⅜% and USD400 million having a coupon of 7¼%;
- the repayment of €500 million relating the principal of the Bridge Facility Agreement provided to the subsidiary Wind Acquisition Finance SA in October 2011, made in two payments of €250 million on April 20, 2012 and September 27, 2012, respectively;
- the repayment during the year of €76.7 million relating to the principal of loan from other banks against the deferred repayment plan of the fair value of the derivative instruments that were repaid with the refinancing of the Group's debt of November 2010;
- the use of cash of €100 million from August 2012 of part of the revolving tranche of the Senior Facility Agreement;
- the repayment, on October 3, 2012, of €81 million relating to the principal of payable due to the Ministry of Economic Development.

The following table sets out an analysis of *Financial liabilities* at December, 2012 and 2011 by due date.

(thousands of euro)	At December 31, 2012				At December 31, 2011			
	<1 year	1<x<5 years	>5 years	Total	<1 year	1<x<5 years	>5 years	Total
Bonds issues	178,612	2,678,444	3,139,224	**5,996,280**	175,799	-	5,390,761	**5,566,560**
Bank loans	124,271	2,835,522	-	**2,959,793**	749,860	1,165,000	1,893,756	**3,808,616**
Loans from others	159,444	332,335	9,675	**501,454**	179,140	485,714	530	**665,384**
Derivative financial instruments	4,197	132,736	27,653	**164,586**	1,907	94,161	16,183	**112,251**
Total financial liabilities	**466,524**	**5,979,037**	**3,176,552**	**9,622,113**	**1,106,706**	**1,744,875**	**7,301,230**	**10,152,811**

The following table provides the breakdown of effective interest rates and lending currency, net of derivative financial instruments, of loans at December 31, 2012.

(thousands of euro)	At December 31, 2012					
	<5%	5%<x<7.5%	7.5%<x<10%	10%<x<12.5%	12.5%<x<15%	Total
Euro	427,590	3,009,058	1,759,400	180,042	1,263,070	6,639,160
US dollars	-	-	1,254,036	-	1,564,331	2,818,367
Total	**427,590**	**3,009,058**	**3,013,436**	**180,042**	**2,827,401**	**9,457,527**

The following table provides a comparison between the carrying amount and fair value of non-current *Financial liabilities* at December 31, 2012 and 2011. The fair value is approximately the same as the carrying amount for current *Financial liabilities*.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issues	5,817,668	5,984,303	5,390,761	4,740,685
Bank loans	2,835,522	2,927,700	3,058,756	2,680,140
Loans from others	342,010	342,010	486,244	486,243
Derivative financial instruments	160,389	160,389	110,344	110,344
Total	**9,155,589**	**9,414,402**	**9,046,105**	**8,017,412**

Current *Financial liabilities* at December 31, 2012 consist exclusively of the portions of bank loans and bonds for which payment is due by the end of the following financial year, referring to both principal and accrued interest.
An analysis of the *derivative financial instruments* balance and of the respective changes is found in note 15.

Bonds

The following table sets out the main information relating to outstanding *Bonds* at December 31, 2012.

(thousands of euro)	Carrying amount at December 31, 2012	Carrying amount at December 31, 2011	Nominal amount at December 31, 2012	Issue price	Currency	Due date	Interest rate	Price
Senior Secured Notes 2017 €	1,263,071	1,254,424	1,250,000	96.3%	EUR	07/15/2017	11.75%	105.0%
Senior Secured Notes 2017 $	1,564,331	1,590,129	1,515,955	97.5%	USD	07/15/2017	11.75%	104.8%
Senior Secured Notes 2018 €	1,734,800	1,729,847	1,750,000	99.3%	EUR	02/15/2018	7.38%	101.0%
Senior Secured Notes 2018 $	975,601	992,160	985,371	99.3%	USD	02/15/2018	7.25%	100.8%
Additional SSN 2018 €	180,042	-	200,000	90.1%	EUR	02/15/2018	7.38%	99.5%
Additional SSN 2018 $	278,435	-	303,191	92.2%	USD	02/15/2018	7.25%	100.0%
Total	**5,996,280**	**5,566,560**	**6,004,517**					

As required by the Group's risk management policies, for which details may be found in note 2.5 in order to fully eliminate any currency risks arising from issues denominated in US dollars, the Group has entered into hedging arrangements based on cross currency swaps for a notional amount of €2,693,792 thousand, which at December 31, 2012 had a positive fair value of €83,578 thousand and a negative fair value of €27,653 thousand.

Bank loans

The following table sets out the main information relating to outstanding *Bank loans* at December 31, 2012.

(thousands of euro)	Carrying amount at December 31, 2012	Carrying amount at December 31, 2011	Nominal amount at December 31, 2012	Usable amount	Currency	Due date	Interest rate
Senior Facility Agreement							
- Tranche A1	97,634	150,061	100,329	100,329	EUR	11/26/2016	Euribor+4.00%
- Tranche A2	792,785	1,218,496	814,671	814,671	EUR	11/26/2016	Euribor+4.00%
- Tranche B1	1,288,668	1,285,424	1,333,882	1,333,882	EUR	11/26/2017	Euribor+4.25%
- Tranche B2	657,900	656,281	681,118	681,118	EUR	11/26/2017	Euribor+4.50%
- Revolving	99,994	-	100,000	400,000	EUR	11/26/2016	Euribor+4.00%
- Overdrafts	21,827	-	-				
- Other accrued interest	985	1,347	-				
Bridge Facility Agreement	-	497,007	-	-	EUR	10/27/2012	Euribor 3M+7,5%
Total	**2,959,793**	**3,808,616**	**3,030,000**	**3,330,000**			

The Senior Facility Agreement, disbursed on November 26, 2010 to the Parent WIND Telecomunicazioni SpA and denominated exclusively in euro, is made up of various tranches, each having its own specific repayment plan and interest rates which may be reviewed on the basis of the trend of specific equity ratios.

Details and the main features of the tranches are as follows:

- tranche A1 is repayable from May 26, 2011 to November 26, 2016. Interest is payable at Euribor plus a spread of 400 basis points. The maximum amount of the facility of €166 million was fully in use;
- tranche A2 is repayable from May 26, 2011 to November 26, 2016. Interest is payable at Euribor plus a spread of 400 basis points. The maximum amount of the facility of €1,349 million was fully in use;
- tranche B1 is repayable in a single lump sum on November 26, 2017. Interest is payable at Euribor plus a spread of 425 basis points. The maximum amount of the facility of €1,334 million was fully in use;
- tranche B2 is repayable in a single lump sum on November 26, 2017. Interest is payable at Euribor plus a spread of 450 basis points. The maximum amount of the facility of €681 million was fully in use;
- a revolving tranche having final repayment on November 26, 2016. This may be used either as a cash loan or a signature loan. If used as a cash loan interest is payable at Euribor plus a margin of 400 basis points and there is a non-use commission of 160 basis points. At December 31, 2012, the maximum usable amount of €400 million, was in use for €100 million.

The Bridge Facility Agreement, received by on October 21, 2011, was fully repaid on September 27, 2012 by Wind Acquisition Finance SA. This loan had a notional of €500,000 thousand and a term of twelve months and bears interest at a floating rate (initially of 3-month Euribor plus a spread of 750 basis points).

With the aim of reducing its bank loan exposure to fluctuations in interest rates and foreign exchange rates, the Group has entered transactions which qualify as hedges for a notional amount of €2,915,000 thousand, whose fair value at December 31, 2012, including forward start transactions, is negative for €136,993 thousand. The hedges extend to September 2017 and consist of plain vanilla interest rate swaps and plain vanilla forward start interest rate swaps.

Loans from others

This item, having a balance of €501,454 thousand (€665,384 thousand at December 31, 2011), mainly consists of:

- payable due to the Ministry of Economic Development for an amount of €324 million, as the result of the allocation of the mobile frequency use rights (for which details may be found in note 4). This balance is repayable over a five year period from October 3, 2012 (a payment of €81 million was performed on October 3, 2012) at a floating interest rate calculated by adding a spread of 1% to the average rate at which treasury bonds are issued during the previous year as published by the Ministry in the 30 days preceding the due date of each instalment;
- payable to banks of €164,095 thousand (of which €74,790 is the current portion) against the deferred repayment plan of the fair value of the derivative instruments hedging loans that were repaid with the refinancing of the Group's debt.

15 DERIVATIVE FINANCIAL INSTRUMENTS

The following table provides details of the outstanding ***Derivative financial instruments*** at December 31, 2012 and 2011, analyzed by the type of risk hedged.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Fair Value (+)	Fair Value (-)	Fair Value (+)	Fair Value (-)
- Exchange rate risk	83,578	27,653	154,661	79
- Interest rate risk	-	136,933	-	112,172
Total cash flow hedges	**83,578**	**164,586**	**154,661**	**112,251**
- Embedded derivatives on Bonds	29,634	-	20,192	-
Total Derivatives Non Hedge Accounting	**29,634**	**-**	**20,192**	**-**
Total	**113,212**	**164,586**	**174,853**	**112,251**

The following table shows the detail of current and non-current derivative instruments.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Fair Value (+)	Fair Value (-)	Fair Value (+)	Fair Value (-)
Current	-	4,197	-	1,907
Non current	113,212	160,389	174,853	110,344
Total derivatives	**113,212**	**164,586**	**174,853**	**112,251**

The fair value of financial instruments listed on active markets was determined as the market quotation at the reporting date. In the absence of an active market, fair value was determined by referring to prices provided by external operators and using valuation models based mostly on objective financial variables, as well as by taking into account, where possible, the prices used in recent transactions and the quotations of similar financial instruments.

The following were outstanding at December 31, 2012:

- cross currency swaps hedging the interest rate and currency risks relating to the tranches of bonds denominated in US dollars, for which reference should be made to note 14, having a notional amount of €2,693,792 thousand (€2,389,169 thousand at December 31, 2011) and having a positive fair value of €83,578 thousand and a negative fair value of €27,653 thousand (positive fair value of 154,661 thousand and negative fair value of €79 thousand at December 31, 2011);
- plain vanilla interest rate swaps and plain vanilla forward start interest rate swaps hedging the interest rate risk of bank loans, having a notional amount of €2,915,000 thousand (€3,380,000 thousand at December 31, 2011) and a negative fair value of €136,993 thousand and a positive fair value of €0 thousand (negative fair value of €112,172 thousand and a positive fair value of €0 thousand at December 31, 2011);
- embedded derivatives of €29,634 thousand (€20,192 thousand at December 31, 2011) relating to the fair value of the early repayment options provided for on issue of the Senior Secured Notes and the Additional Senior Secured Notes (€24,835 thousand and €4,799 thousand on the loans expiring in 2017 and 2018, respectively), for which details may be found in note 14.

16 EMPLOYEE BENEFITS

The following table sets out the changes in ***Employee benefits*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Accrual	(Utilization)	Other changes	At December 31, 2012
Post-employment benefits	**58,108**	21,825	(1,929)	(19,699)	**58,305**

Other changes during the year consist mostly of the transfer of the post-employment benefits accrued during the year to supplementary pension funds or to the Treasury fund held by the Italian social security organization INPS (€18,422 thousand).

The main actuarial assumptions underlying the calculation of the post-employment benefits are the following.

Average inflation rate	Discount rate	Increase in wages and salaries	Employee turnover rate
2.00%	4.20%	N/A	1.00%– 2.00%

The effects recognized in profit or loss are as follows.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Current service costs	19,855	20,100
Finance expense	1,970	2,391
Total	**21,825**	**22,491**
Actual return on plan assets	N/A	N/A

17 PROVISIONS

The following table sets out changes in ***Provisions*** during the year ended December 31, 2012.

(thousands of euro)	At December 31, 2011	Increases	(Decreases)	At December 31, 2012
Litigation	41,274	6,368	(12,902)	34,740
Restructuring	4,307	4,101	(4,306)	4,102
Universal service contribution (Presidential Decree no. 318/1997)	17,501	2,500	(3,318)	16,683
Product assistance	2,956	1,154	(2,038)	2,072
Dismantling and removal	38,712	1,701	(2,429)	37,984
Other provisions	57,044	18,593	(22,170)	53,467
Total	**161,794**	**34,417**	**(47,163)**	**149,048**

Litigation

The provision at the respective dates is based on estimates using the best information available of the total charge that the Group expects to incur upon settlement of all outstanding legal proceedings (for details on the main proceedings in progress, please refers to paragraph on main pending legal proceedings in note 38).

Restructuring

The provision consists of the costs which the Parent expects to incur in future years as a consequence of implementing restructuring and reorganization plans resulting from the identification of areas of efficiency in certain business areas. The utilization of the restructuring provision in the amount of €4,306 thousand and the increase in the amount of €4.101 is mainly due to leaving incentives.

Universal service contribution

Article 3, paragraph 6, of Presidential Decree no. 318 of September 19, 1997 regarding the "Implementation of European Union Directives" establishes a mechanism designed to distribute the net cost of providing universal service throughout the country whenever the related obligations represent an unfair cost for the entity or entities assigned the responsibility for supplying the service. The utilization of the provision in the amount of €3,318 thousand relates to the universal service for 2005, while the accrual in the amount of €2,500 thousand relates to the estimate of the universal service for 2012.

Dismantling and removal

The item consists of the estimate of the dismantling and removal costs which may be incurred as a result of contractual obligations which require the asset to be returned to its original state and condition.

Other provisions

This item consists of the measurement of certain liabilities arising from obligations assumed by the Group for which an estimate is made at the date of these financial statements of the amount to be settled upon due date. The balance includes €31,997 thousand for liabilities for termination benefits arising from agency contracts in existence at the reporting date and €6,807 thousand accrued in 2012 relating to compensation plan for the long-term retention and incentive of management.

18 OTHER LIABILITIES

Other non-current liabilities at December 31, 2012 and 2011 amount to €142,800 thousand and €115,869 thousand, respectively. At December 31, 2012 this item mainly includes:

- an amount of €100,268 thousand relating to the deferral of the positive economic effect resulting from the operation for the replacement of transmission apparatus in 2012 and 2011 (for which details may be found in note 3), which will be recognized in profit or loss over the useful life of the assets;
- an amount of €33,598 thousand relating to a capital contribution recognized on the allocation of the frequencies (for which details may be found in note 3) as a discount of 3% on the total amount of the tender for the commitment made to produce over 50% of the new networks using apparatus having environmental eco-sustainable features. The amount will be released to profit or loss when there is the reasonable certainty that the envisaged conditions will be met, and is consistent with the depreciation of the apparatus having eco-sustainable features which will be purchased and put into use for the development of the network.

19 TRADE PAYABLES

The following table provides details of ***Trade payables*** at December 31, 2012 and 2011.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
Due to telephone operators	418,195	407,984
Due to agents	41,586	50,682
Due to authorized dealers	47,571	40,541
Due to parents	6,172	692
Due to associates	7,727	5,206
Due to related companies	4,190	65,068
Other trade payables	1,264,175	1,200,411
Total	**1,789,616**	**1,770,584**

The change in this item over the year is principally due to the effect of normal settlements during the course of the year.

Trade payables *due to telephone operators* mainly relate to interconnection and roaming services.

Payables *due to agents* and *due to authorized dealers* relate to commissions to agents and authorized dealers.

Trade payables *due to parents* are the consequence of the agreement between the indirect parent Wind Telecom SpA and the WIND Telecomunicazioni SpA relating to the provision of services for which further details may be found in note 35.

Due from associates consist of the trade payables due to SPAL TLC SpA*.*

Trade payables *due to related companies* mainly relate to transactions with telephone operators belonging to the group for which further details may be found in note 35. The item decreased compared to December 31, 2011 due to the reclassification of the payables due to Libero Srl, WIS and It Net, to payables due to third parties, following the change in the shareholding structure as a result of which, these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Group.

Other trade payables mainly relate to payables to suppliers for the purchase of goods and services.

The following table provides an analysis of trade payables by due date.

(thousands of euro)	At December 31, 2012	At December 31, 2011
-within 12 months	1,726,534	1,713,633
-after 12 months	63,082	56,951
Total	**1,789,616**	**1,770,584**

20 OTHER PAYABLES

The following table provides an analysis of ***Other payables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Payables to social security organizations	29,837	34,587
Tax payables	171,441	151,275
Payables to personnel	35,433	50,092
Payables to government bodies by grants	9,475	27,239
Other amounts payable to parents	316,442	225,760
Other amounts payable to related companies	339	220
Prepaid traffic to be used	208,262	216,351
Deferred income	25,482	29,371
Other payables	49,233	32,425
Total	**845,944**	**767,320**

The following table provides an analysis by due date.

(thousands of euro)	At December 31, 2012	At December 31, 2011
-within 12 months	818,144	706,699
-after 12 months	27,800	60,621
Total	**845,944**	**767,320**

Payables to social security organizations relate principally to the employer's and employees' portions of social security contributions for December and the employer's portion accrued on deferred remuneration (mostly accrued vacation and other permitted leaves that have been accrued but not yet taken). This item also includes the amounts payable to the Italian social security organization INPS for the accrued post-employment benefits (TFR) yet to be paid which employees had elected to transfer to the Treasury fund in accordance with Law no. 296 of December 27, 2006, the "2007 Finance Act", and subsequent decrees and regulations.

The following table sets out details of *Tax payables* at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Government license fee	25,298	33,882
Withholding tax	10,200	13,573
VAT	69,865	2,393
Other	66,078	101,427
Total	**171,441**	**151,275**

The increase in VAT payables as of December 31, 2012 in comparison with December 31, 2011 is in accordance with the net flow of billing.

Other Tax payables consists mostly of the tax payable of 64,982 at December 31, 2012 (€100,537 thousand at December 31, 2011) relating the closing of the audit on withholdings on the interest paid by the Parent to Wind Finance SL SA and Wind Acquisition Finance SA in prior years. This tax debt is payable in twelve quarterly installments from December 2, 2011 to September 2, 2014, with interest charged at a rate of 1.5%.

Payables to personnel consist mostly of liabilities for accrued vacation and other accrued leaves still to be taken at the end of the year. *Payables to personnel* decreased compared to December 31, 2011 mainly due a decrease in deferred compensations following the agreement with trade unions, reached on October 10, 2012, to revise the main economic and legislative schemes in personnel costs in the period from 2013 to 2017.

Payables to government bodies for grants represent amounts due for licenses and concessions provided by the relevant bodies. The decrease, compared to December 31, 2011, is mainly due to the payment of €15,397 thousand to the Ministry of Economic Development, performed on February 29, 2012 and related to 2002-2004 annual contributions for the operation of radio network for private use.

Out of *Other payables to parents*, €315,929 thousand (€222,843 thousands at December 31, 2011) refers to a payable to the indirect parent Wind Telecom SpA following the transfer of IRES tax payables by Group companies as part of the national tax consolidation procedure.

Prepaid traffic to be used consists of the unused portion of prepaid traffic, sold by the Parent via rechargeable telephone cards and top-ups, which had not yet been utilized at the end of the year.

Deferred income refers to income for billings made contractually in advance in prior years and in 2012 for lease and installation fees relating to the utilization of broadband capacity ('initial capacity'), which will be recognized in later periods.

Other payables mainly consist of amounts due to supplementary pension funds, amounts payable for bank commissions and guarantee deposits received from customers and an advance received from the Region of Puglia as part of the Company's participation in the Region of Puglia's project to carry out investments supporting local development by an amount of €6,110 thousand at December 31, 2012.

21 TAX PAYABLES

The balances at December 31, 2012 and 2011 of €16,327 thousand and €7,339 thousand, respectively, represent the amounts due by the Group companies for income tax for the year, net of advance payments for the corresponding tax periods.

Receivable and payable items for IRES are included in receivables and payables from and to the parent, as Group companies have elected to take part in the national tax consolidation procedure of Wind Telecom SpA.

22 REVENUE

The following table provides an analysis of ***Revenue*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	 %
Revenue from sales	**198,447**	**147,543**	**50,904**	**34.5%**
- Telephone services	4,280,264	4,305,981	(25,717)	(0.6)%
- Interconnection traffic	611,356	807,628	(196,272)	(24.3)%
- International roaming	44,699	54,734	(10,035)	(18.3)%
- Judicial authority services	6,392	7,053	(661)	(9.4)%
- Other revenue from services	120,584	107,914	12,670	11.7%
Revenue from services	**5,063,295**	**5,283,310**	**(220,015)**	**(4.2)%**
Total	**5,261,742**	**5,430,853**	**(169,111)**	**(3.1)%**

The item shows a decrease of 3.1% for the twelve months of 2012 compared to the corresponding period in 2011. This effect is due to a decrease in revenue from *interconnection traffic* and from *international roaming*, which the effect was partially offset by the increase in the *revenue from sales* due to a shift of sales towards high-range terminals. Despite the difficult macroeconomic situation and the contraction of the market *telephone services* managed to hold up, due mainly to an increase in the customer base and the development of offers for mobile internet browsing.

The *interconnection traffic* revenue decrease mainly due to the combined effect of the following factors:

- a fall in revenue from domestic interconnection on the mobile network and the fixed network and from international interconnection due to the reduction of unit tariffs, only partially offset by an increase in traffic volumes;
- a decrease in narrowband internet traffic mainly following a general shift towards broadband technology;
- higher interconnection traffic revenue from VAS Not Voice due to an increase in traffic volumes.

International roaming revenue fell mainly as the effect of the general reduction in tariffs for both voice and data, only partially offset by an increase in international roaming volume in internet.

23 OTHER REVENUE

Other revenue amounts in total to €165,258 thousand in the twelve months of 2012 (an increase of €25,785 thousand over the year 2011) and refers principally to the effects related to the closure of settlement with some suppliers and to the revisions of estimates made in previous years.

24 PURCHASES AND SERVICES

The following table provides an analysis of ***Purchases and services*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Interconnection traffic	842,636	974,015	(131,379)	(13.5)%
Customer acquisition costs	256,416	266,895	(10,479)	(3.9)%
Lease of civil and technical sites	245,016	243,934	1,082	0.4%
Purchases of raw materials, consumables, supplies and goods	239,054	189,394	49,660	26.2%
Lease of telecommunication circuits	83,928	86,972	(3,044)	(3.5)%
Advertising and promotional services	177,900	208,752	(30,852)	(14.8)%
Outsourced services	139,317	137,896	1,421	1.0%
Other services	102,238	85,298	16,940	19.9%
Lease of local access network	422,445	407,420	15,025	3.7%
Maintenance and repair	107,146	94,947	12,199	12.8%
Utilities	115,581	100,294	15,287	15.2%
National and international roaming	35,089	34,273	816	2.4%
Consultancies and professional services	42,638	52,171	(9,533)	(18.3)%
Change in inventories	(3,807)	1,441	(5,248)	(364.2)%
Other leases and use of third party assets	13,610	13,781	(171)	(1.2)%
Bank and postal charges	11,244	10,488	756	7.2%
Transport and logistics	17,343	17,272	71	0.4%
Total purchases and services	**2,847,794**	**2,925,243**	**(77,449)**	**(2.6)%**

The change in this item is essentially due to the combined effect of the following factors compared to December 31, 2011:

- a decrease of €131,379 thousand in *Interconnection traffic* costs mainly due to a general fall in termination tariffs, only partially offset by an increase in the volume of traffic directed to the mobile network, to the international and in VAS traffic;
- a decrease of €30,852 thousand in the cost of *Advertising and promotional services* mainly due to the improvement in advertising strategy and in the efficiency/effectiveness ratio;
- a decrease of €10,479 thousand in *Customer acquisition cost,* mainly due to a reduction in costs related to fixed line acquisition costs;
- net increase of €44,412 thousand in *Purchases of raw materials, consumables, supplies and goods and Change in inventories* mainly due to an increase in the unit purchase prices charged by suppliers compared to the previous period as the result of a shift of sales towards high-range terminals;
- an increase of €15,025 thousand in *Lease of local access network* costs mainly as the result of an increase in the LLU tariffs and customer bases;
- an increase of 15,287 thousand in *Utilities* costs mainly due to the increase in the price of electricity over the previous year;
- an increase of 12,199 thousand in *Maintenance and repair costs* mainly due to the increase in volumes of acquisitions.

The item *consultancies and professional services* includes remuneration for statutory auditors of Group companies, equal to €234 thousand, and the remuneration for the external audit activities on financial statements, equal to €1,323 thousand (total compensation for the audit to separate and consolidate financial statements at December 31, 2012 is equal to €584 thousand). The ordinary shareholders' meeting of March 28, 2012 did not resolve compensations to the Directors of the Parent.

25 OTHER OPERATING COSTS

The following table provides an analysis of ***Other operating costs*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Impairment losses on trade receivables and current assets	111,858	91,367	20,491	22.4%
Accruals for costs	5,984	1,364	4,620	338.7%
Annual license fees	31,225	29,121	2,104	7.2%
Other operating costs	16,807	16,251	556	3.4%
Accruals for risks	6,368	14,690	(8,322)	(56.7)%
Gifts	591	723	(132)	(18.3)%
Total other operating costs	**172,833**	**153,516**	**19,317**	**12.6%**

The increase over the twelve months of 2011 is due to i) the rise in impairment losses on trade receivables due to the negative collection performance, and ii) an increase in annual license fees arising mainly from the increase in the fees payable to AGCOM for 2011, partially offset by a decrease in accruals for risks.

26 PERSONNEL EXPENSES

The following table provides an analysis of ***Personnel expenses*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Wages and salaries	283,568	302,847	(19,279)	(6.4)%
Social security charges	77,363	82,050	(4,687)	(5.7)%
Other personnel expenses	17,957	14,120	3,837	27.2%
Post-employment benefits	20,201	19,735	466	2.4%
(Costs capitalized for internal works)	(55,540)	(47,505)	(8,035)	16.9%
Total personnel expenses	**343,549**	**371,247**	**(27,698)**	**(7.5)%**

The noted decrease over the twelve months of 2011 is essentially due to: i) a decrease in the items *Wages and salaries* principally resulting from the decrease in the average number of employees of the Group by 111 units, and ii) the decrease in allowances and incentives, mainly due to the agreement with trade unions, reached on October 10, 2012, to revise the main economic and legislative schemes in personnel costs in the period from 2013 to 2017.

Other personnel expenses include for 2012 the provision for restructuring for €4,101 thousand.

The number of employees at year end was as follows.

	At December 31, 2012	At December 31, 2011
Senior management	143	152
Middle management	598	576
Employees	6,158	6.224
Total	**6,899**	**6.952**

The average number of employees during the year was as follows.

	2012 12 months	2011 12 months
Senior management	148	153
Middle management	588	576
Employees	6,195	6.313
Total	**6,931**	**7,042**

27 DEPRECIATION AND AMORTIZATION

The following table provides an analysis of ***Depreciation and amortization*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Depreciation of property, plant and equipment				
- Plant and machinery	681,687	635,055	46,632	7.3%
- Industrial and commercial equipment	10,550	9,354	1,196	12.8%
- Other assets	23,900	23,326	574	2.5%
Amortization of intangible assets with finite lives				
- Industrial patents and similar rights	112,914	108,887	4,027	3.7%
- Concessions, licenses, trademarks and similar rights	112,811	113,354	(543)	(0.5)%
- Other intangible assets	204,669	165,811	38,858	23.4%
Total depreciation and amortization	**1,146,531**	**1,055,787**	**90,744**	**8.6%**

Depreciation and amortization rose by €90,744 thousand over the twelve months of 2011, of which €48,402 thousand being the depreciation of property, plant and equipment as result of higher investments network for the expansion of the access networks made in the last years and €42,342 thousand being the amortization of intangible assets due to higher customer acquisition costs as a result of increase in the customer base.

28 REVERSAL OF IMPAIRMENT LOSSES / (IMPAIRMENT LOSSES) ON NON-CURRENT ASSETS

The following table provides an analysis of ***Reversal of impairment losses / (impairment losses) on non-current assets*** for 2012 and 2011.

(thousands of euro)	**2012**	**2011**	**Change**	
	12 months	**12 months**	**Amount**	**%**
Reversal of impairment losses / (Impairment losses) on property, plant and equipment	4,786	(13,358)	18,144	(135.8)%
Reversal of impairment losses / (Impairment losses) on intangible assets	(657)	(470)	(187)	39.8%
Total	**4,129**	**(13,828)**	**17,957**	**(129.9)%**

The item includes the effects of impairment losses and reversals of property, plant and equipment and the effect of the operation to replace transmission equipment for which more details may be found in the note 3.

29 GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS

The following table provides an analysis of ***Gains/(losses) on disposal of non-current assets*** for 2012 and 2011.

(thousands of euro)	**2012**	**2011**	**Change**	
	12 months	**12 months**	**Amount**	**%**
Gains on disposal of property, plant and equipment	5,970	3,875	2,095	54.1%
Losses on disposal of property, plant and equipment	(10,789)	(2,289)	(8,500)	371.3%
Total	**(4,819)**	**1,586**	**(6,405)**	**(403.8)%**

The change over the previous year is due to losses recorded in 2012 on the disposal and/or sale of property, plant and equipment as part of the normal renewal process for these assets for which more details may be found in the note 3.

30 FINANCE INCOME

The following table provides an analysis of ***Finance income*** for 2012 and 2011.

(thousands of euro)	**2012**	**2011**	**Change**	
	12 months	**12 months**	**Amount**	**%**
Interest on bank deposits	1,652	7,490	(5,838)	(77.9)%
Cash flow hedge reversed from equity	239	6	233	n.m.
Fair value measurement of derivatives	9,169	-	9,169	n.m.
Other	7,588	7,262	326	4.5%
Total finance income	**18,648**	**14,758**	**3,890**	**26.4%**

The increase in this item is mainly due to a rise in the income arising from the fair value measurement of the embedded derivatives on the bonds amounting to €9,169 thousand at December 31, 2012 (a loss of €72,703 thousand at December 31, 2011). This effect was only partially offset by the decrease in interest income on the average cash balance.

Other financial income, by €6,604 thousand in the twelve months of 2012 and by €6,097 thousand in the twelve months of 2011, consists of the interest arising on the receivable from the parent Wind Telecom SpA under the agreement entered in November 2010, for which details may be found in note 5.

31 FINANCE EXPENSE

The following table provides an analysis of ***Finance expense*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Interest expense on:				
Bond issues	(575,339)	(528,480)	(46,859)	8.9%
Bank loans	(241,007)	(245,884)	4,877	(2.0)%
Discounted provisions	(3,671)	(3,543)	(128)	3.6%
Cash flow hedges, reversed from equity	(109,682)	(93,839)	(15,843)	16.9%
Fair value measurement of derivatives	-	(72,703)	72,703	(100.0)%
Other	(58,122)	(26,034)	(32,088)	n.m.
(Finance expense capitalized)	94,614	22,807	71,807	n.m.
Total finance expense	**(893,207)**	**(947,676)**	**54,469**	**(5.7)%**

Finance expense at December 31, 2012 consists mostly of accrued interest on financial liabilities outstanding at December 31, 2012, for which further details may be found in note 14, the effects of hedge accounting for derivatives under which a portion of the cash flow hedge reserve was reclassified to the income statement by €109,682 thousand (€93,839 thousand at December 31, 2011).

The change in the item over the twelve months of 2011 is essentially due to the combined effect of the following factors:

- higher charges related to the partial early repayment of the Senior Facility Agreement and of the Bridge Loan Facility and relating to the residual balance of the fee paid on entering the arrangement/issue at the repayment date, forming part of the amortized cost;
- higher interest expense related the placement, completed on April 13, 2012, of the Additional Senior Secured Notes 2018;

In addition, as result of fair value valuation of derivatives embedded in loans at December 31, 2012, finance income amounting to €9,169 thousands was recognized (as described in note 30) in respect of finance expense amounting to €72,703 thousands at December 31, 2011.

The change in the item Other of Finance expense relates to finance expenses on Loans from others, for which details can be found in note 14.

32 FOREIGN EXCHANGE GAINS/(LOSSES), NET

The following table provides an analysis of ***Foreign exchange gains (losses) - net*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Realized gains	853	1,800	(947)	(52.6)%
Unrealized gains	56,741	233,938	(177,197)	(75.7)%
Foreign exchange gains	**57,594**	**235,738**	**(178,144)**	**(75.6)%**
Realized losses	1,637	3,466	(1,829)	(52.8)%
Unrealized losses	56,891	233,394	(176,503)	(75.6)%
Foreign exchange losses	**58,528**	**236,860**	**(178,332)**	**(75.3)%**
Total	**(934)**	**(1,122)**	**188**	**(16.8)%**

33 INCOME TAX

The following table provides an analysis of ***Income tax*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Current tax	(204,884)	(232,219)	27,335	(11.77)%
Previous years income taxes	10,825	(114,856)	125,681	n.m.
Deferred tax	30,063	68,953	(38,890)	(56.4)%
Total income tax	**(163,996)**	**(278,122)**	**114,126**	**(41.0)%**

The net charge for the year is made up of the following:

- current income taxes expense of €204,884 thousand (of which €137,681 thousand for IRES tax and €67,203 thousand for IRAP tax) charged on the consolidated taxable income for 2012. The decrease compared to 2011 is due to the lower result before tax;
- previous years income taxes of €10,825 thousands. At December 31, 2012, €12,155 thousand refer to the claim for previous years IRES as a result of the deductible IRAP related to personnel expenses in accordance with article 2 of Legislative Decree no. 201 of December 6, 2011 and , according to the national tax consolidation agreement, such receivable was accounted as a reduction of payables due to parent Wind Telecom SpA;
- net deferred tax income of €30,063 thousand, arising from changes of €5,870 thousand in deferred tax assets mainly relating to the changes in temporary differences arising from provisions and non-current assets and from the release of deferred tax liabilities of €24,193 thousand, mainly relating to the changes in temporary differences arising from non-current assets.

The following table provides a reconciliation between the theoretical tax rate and the effective tax rate for 2012 and 2011.

(thousands of euro)		**2012**		**2011**
Theoretical tax rate	27.50%		27.50%	
Profit before tax	**40,110**		118,251	
Theoretical tax assets relating to IRES		11,030		32,519
Non-deductible costs/non-taxable revenue		96,867		56,673
Non-recognized deferred tax assets		-		455
Adjustments to previous years taxes		(11,104)		114,901
Actual IRES tax (current and deferred)		96,793		204,548
Effective IRES tax rate	241.32%		172.98%	
IRAP tax at Group level		67,203		73,574
Actual tax expense recognized in profit or loss		163,996		278,122
Overall tax rate	408.87%		235.20%	

The above reconciliation between the theoretical and effective tax rates has been performed solely for IRES tax (corporate income tax) purposes. The IRAP tax charge is included to reconcile with the overall *income tax* expense in the financial statements.

34 PROFIT/LOSS FROM DISCONTINUED OPERATIONS

The item at December 31, 2011 comprised the income, net of related tax effect, amounted to €5,907 thousand, attributable to the assets ("Libero" web portal, the subsidiaries WIND International Services SpA and Itnet Srl and the branch referring to the operation of the submarine cable between Italy and Greece), sold as part of the combination agreement between the indirect parent Wind Telecom SpA and VimpelCom Ltd.

35 RELATED PARTY TRANSACTIONS

Transactions with related parties

Related party transactions are part of normal operations which are conducted on an arm's length basis from an economic standpoint and formalized in agreements, and mainly relate to transactions with telephone operators.

In refer to transactions with the indirect parent Wind Telecom SpA, the Parent receives services relating to IT, marketing, personnel, purchasing, etc; moreover, on November 29, 2010 the Parent granted Wind Telecom SpA a loan of €156,333, for which details may be found in note 5.

Following a change in the shareholding structure of VimpelCom in the third quarter of 2012, payables and receivables arising from transactions with Libero Srl, Itnet Srl and WIS SpA have been reclassified as third party balances since these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Group.

During the period ended December 31, 2012, Group companies did not hold treasury shares of the Parent WIND Telecomunicazioni SpA, either directly or through trustees, or hold shares of the parent WIND Acquisition Holdings Finance SpA, or hold investments in the indirect parent Wind Telecom SpA.

The table below provides a summary of the main effects on the income statement and statement of financial position of related party transactions during the year.

(thousands of euro)	Year ended December 31, 2012							
	Revenue	Finance income/ expense	Expenses	Trade receiv.	Other receiv.	Financial receiv.	Trade payables	Other payables
Armenija Telefon Kompani	9	-	3	4	-	-	11	-
Consorzio Wind Team	-	-	2	-	2	-	-	-
DiGi (Malaysia)	24	-	10	9	-	-	5	-
DTAC/UCOM (Thailand)	9	-	51	-	-	-	11	-
Globalive Wireless Management	1,745	-	-	25	2,265	-	5	-
Golden Telecom Ukraine	1	-	1	-	-	-	-	-
GrameenPhone (Bangladesh)	145	-	63	127	-	-	58	-
KaR-Tel	51	-	3	2	-	-	20	-
Kievstar	474	-	375	118	-	-	64	-
Maritim Communication Partner AS (Norway)	-	-	232	-	-	-	62	-
Mobitel LLC Georgia	-	-	12	-	-	-	10	-
Summit Technology Solutions (STS)	-	-	146	-	-	-	6	-
Orascom Telecom Algeria SpA	348	-	104	304	-	-	39	-
Orascom Telecom Bangladesh Ltd. (Banglalink)	5	-	19	54	-	-	4	-
Orascom Telecom Holding SAE	-	-	975	23	-	-	1,744	-
Orascom Telecom Services Europe Company	-	-	-	183	-	-	-	-
Pakistan Mobile Communications Ltd.	74	-	5	22	-	-	4	-
Powercom (Pty) Ltd T/A leo	-	-	1	-	-	-	-	-
SKY MOBILE LLC	-	-	1	2	-	-	1	-
Sotelco Ltd.	-	-	1	1	-	-	-	-
Telenor Magyarorszag KFT (Hungary)	257	-	204	-	-	-	35	-
Telenor Mobile Communications AS (Norway)	97	-	29	-	-	-	40	-
Telenor Pakistan (Pakistan)	8	-	7	1	-	-	6	-
Telenor Serbia (Serbia)	256	-	136	343	-	-	1,063	-
Unitel	2	-	2	-	-	-	7	-
Vimpelcom ltd	815	-	-	-	827	-	-	-
VimpelCom Lao Co, Ltd	-	-	5	-	-	-	4	-
Vympel-Kommunikacii	969	-	193	8	-	-	1,064	-
Weather Capital Sarl	-	-	70	-	-	-	-	267
WIND Acquisition Holdings Finance SpA	44	-	-	-	1,567	-	273	-
Wind Telecom SpA*	461	6,604	13,223	-	18,147	156,333	5,898	316,442
Wind Acquisition Holdings Finance II SA	-	-	-	-	47	-	-	-
Wind Acquisition Holdings Finance SA	-	-	-	-	-	-	-	72
SPAL TLC S.p.A.**	389,027	-	37,371	34,771	-	-	7,726	-
Vimpelcom International services	-	-	210	-	165	-	109	-
Total	**394,821**	**6,604**	**53,454**	**35,997**	**23,020**	**156,333**	**18,269**	**316,781**

*payables to Wind Telecom SpA relate in the amount of €315.081 thousand and of €848 thousand to the transfer by the Parent and by the subsidiary WIND Retail Srl of its corporate income tax (IRES) payables to Wind Telecom SpA following the choice to take part in the national tax consolidation procedure with Wind Telecom SpA.

** revenue to SPAL TLC SpA include the revenue of WIND Telecomunicazioni SpA from the sale of phone cards (€370,679 thousand).

Directors

The Directors of the Parent, identified as "Key Management Personnel", did not receive compensations for 2012, as it was not resolved by the ordinary shareholders' meeting of March 28, 2012. There were no transactions with directors in 2012.

36 NET FINANCIAL DEBT

The following statement shows the Group's net financial debt broken down into its principal components, as already described in notes 5, 14 and 15 to the financial components of the statement of financial position.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Bonds issues	5,817,668	5,390,761
Bank loans	2,835,522	3,058,756
Loans from other	342,010	486,244
Derivative financial instruments	160,389	110,344
Non-current financial liabilities	**9,155,589**	**9,046,105**
Bonds issues	178,612	175,799
Bank loans	124,271	749,860
Loans from others	159,444	179,140
Derivative financial instruments	4,197	1,907
Current financial liabilities	**466,524**	**1,106,706**
TOTAL GROSS FINANCIAL DEBT	**9,622,113**	**10,152,811**
Cash and cash equivalents	**(130,543)**	**(395,276)**
Financial receivables	(172,607)	(16,958)
Current financial assets	**(172,607)**	**(16,958)**
Derivative financial instruments	(113,212)	(174,853)
Financial receivables	(54,590)	(220,086)
Non-current financial assets	**(167,802)**	**(394,939)**
NET FINANCIAL DEBT	**9,151,161**	**9,345,638**

The net financial debt does not include the guarantee deposits for an amount of €4,169 thousand and €5,046 thousand at December 31, 2012 and at December 31, 2011, respectively.

37 CASH FLOW STATEMENT

For the purposes of the Group Cash Flow Statement, net cash and cash equivalents at December 31, 2012 comprise cash and cash equivalent net of bank overdraft (€21,827 thousands at December 31, 2012 and zero in the previous year).

Cash flows from operating activities, amounting to €1,312,070 thousand in 2012, increased of €42,232 thousand over 2011.

Investing activities used cash during the twelve months of 2012 of a total of €991,338 thousand mainly due to the spending on 3G mobile technologies, to the capitalization of customer acquisition costs and to the capitalization of the borrowing costs relating to the purchase of the frequencies at the end of 2011. The cash flow from investing activities decrease of €1,047,359 thousand over 2011 mainly due to the decrease in investment in fixed assets of €1,138,826 thousand mainly due to the investment made in 2011 relating to the purchase of frequencies by €1,145,699 thousand. During the year 2011 investing activities also included proceeds from sale of investment, net of the cash disposed, of €109,736 thousand related to the sale of the set of activities consisting of the "Libero" internet portal, the subsidiaries WIND International Services SpA and ItNet Srl and the business relating to operating the underwater cable between Italy and Greece to VimpelCom Ltd.

During the year 2012, financing activities used cash of €607,292 thousand as the effect of:

- the early repayment of €500 million of the installments of tranches A1 and A2 of the Senior Facility Agreement falling due in 2012 and 2013, made on April 13, 2012;
- the issue of a new bond on April 13, 2012 through the subsidiary Wind Acquisition Finance SA having an amount, net of fees paid, of €451 million (nominal amount of €200 million and USD400 million);
- the repayment of €500 million relating the principal of the Bridge Facility Agreement provided to the subsidiary Wind Acquisition Finance SA in October 2011, made in two payments of €250 million on April 20, 2012 and September 27, 2012, respectively;
- the repayment during the year of €76.7 million relating to the principal of loan from other banks against the deferred repayment plan of the fair value of the derivative instruments that were repaid with the refinancing of the Group's debt of November 2010;
- the use of cash of €100 million from August 2012 of part of the revolving tranche of the Senior Facility Agreement;
- the repayment, on October 3, 2012, of €81 million relating to the principal of payable due to the Ministry of Economic Development.

During the year 2011 financing activities generated cash of €744,345 thousand as the effect of: i) the early repayments of €155,702 thousand attributable to tranches A1 and A2 of the Senior Facility Agreement, ii) subscription of Bridge Facility Agreement with a notional of €500,000 thousand, iii) a loan from the Ministry of Economic Development of €405,053 thousand, and iv) the distribution of dividends of €5,006 thousand to the direct parent WIND Acquisition Holdings Finance SpA.

38 OTHER INFORMATION

Main pending legal proceedings

WIND is subject to various legal proceedings arising in the ordinary course of business. Below is a description of all material pending legal proceedings at December 31, 2012, excluding those situations in which the cost arising from a negative outcome of the proceedings cannot be estimated or for which a negative outcome is not considered probable.

Proceedings with agents

Certain proceedings are still pending at different judicial stages relating to the termination of agency agreements, in which the agents seek payment from WIND of certain indemnities provided for by Italian legislation; these include the termination indemnity, the collection indemnity, the indemnity in lieu of notice and the indemnities pursuant to article 1751 of the Italian Civil Code.

WIND/ITALGO SPA

Italgo SpA (formerly Delta SpA), initiated proceedings against WIND based upon an alleged breach by WIND of certain provisions of an agreement signed with Delta SpA for the provision of goods and services (the "Commercial Agreement"). Italgo SpA sought the termination of the Commercial Agreement and other related agreements, as well as the payment by WIND of a penalty of €3.3 million, a refund of €23 million (the price paid for Delta SpA shares) and additional damages (to be quantified during the proceedings) for the costs which Italgo SpA alleges to have incurred as a result of WIND's alleged breache of contract. Italgo SpA alternatively sought a reduction in the purchase price agreed by the parties to be settled by offsetting this amount against an amount of €9 million payable by Italgo SpA to WIND. On March 19, 2010, an injunction was issued by the Court in Rome ordering WIND to pay a total of €3 million. WIND has appealed this decision. At the present, a negative result with respect to the March 19, 2010 injunction is considered probable by this amount**.**

Proceedings concerning Misleading Advertising and Unfair Commercial Practices

Under Legislative decree no. 146/2007, the Italian Antitrust Authority has the power to initiate proceedings concerning unfair commercial practices and misleading advertising and issue fines of up to €5 million for each proceeding (amount redefined by Law no. 135/12 August 2012). To date, in 2011 received a single fine of €90 thousand connected to a case initiated in 2009; during 2011, AGCM initiated other five actions against WIND in this regard (three of which already have been settled through agreed non-monetary undertakings, one has been closed with a fine of €200 thousand and one closed without any fine). In 2012 AGCM initiated three new proceedings (one settled with a fine of €70 thousand, one closed without any fine and one still pending).

Contingent assets and liabilities

The WIND Group had the following contingent liabilities at December 31, 2012.

Proceedings Concerning Electromagnetic Radiation

Proceedings are still pending, in particular before the administrative courts, regarding the installation of base radio stations. These are mainly the result of current concerns about electromagnetic radiation. The claims are of an undeterminable monetary amount.

Audit on dealers' fees

In 2001 WIND received a dispute notice from the tax authorities regarding the tax treatment adopted in 1999, 2000 and 2001 for certain fees paid to dealers. The court of the second instance found in favour of WIND for 1999 and 2001 while it found against WIND for 2000. These cases currently remain pending before the supreme court. The dispute can be quantified in approximately €6 million plus penalties and interest.

WIND/Crest One SpA

Crest One SpA ("Crest One") has initiated proceedings against WIND for: (i) the refund of an amount of approximately €16 million, previously paid to WIND by Crest One as value added tax under a distribution agreement entered into between Crest One and WIND, and (ii) the compensation of damages alleged to have been suffered by Crest One (the amount of which damages is to be determined following the trial) pursuant to the payment of such value added tax by Crest One to WIND.

On March 22, 2012 the Court in Rome declared Crest One' bankruptcy, WIND has claims before the bankruptcy court against Crest One for contractual breach for non-payment and for an incorrect application of the VAT regime by Crest One.

WIND-Antitrust Authority (Proceeding no. A/357)

With a decision dated August 3, 2007, the Antitrust Authority closed proceeding no. A/357 by condemning WIND and Telecom Italia for abuse of their dominant positions in the wholesale termination market due to the discriminatory application of economic and technical conditions for fixed-to-mobile on net (fixed-mobile calls originating and terminating on the WIND network) and intercom calls (the calls on the internal telephone lines of a business customer) in favor of their respective internal divisions and to the detriment of fixed-line competitors. WIND was fined a sum of €2 million and ordered to cease the discriminatory behaviour. WIND appealed against the decision by seeking the annulment before the Administrative Court of Lazio (the Lazio TAR). The Lazio TAR rejected WIND's appeal on January 29, 2008 and the related decision was published on April 7, 2008. On September 17, 2008, WIND filed an appeal before the State Council, seeking the annulment of the above Lazio TAR's decision, the hearing for which, following various delays, occurred on March 15, 2011. On April 20, 2011, the State Council published the final ruling by rejecting the WIND's appeal. On June 4, 2012, WIND filed an appeal before the Court of Cassazione for the annulment of the above State Council's ruling.

WIND-Antitrust Authority (Proceeding no. I/757)

On September 13, 2012, the Italian Competition Authority (or the "ICA") opened an anti-trust investigation in respect of three Italian MNOs (Telecom Italia, Vodafone and WIND) and carried out dawn raids on their premises. The investigation was started following a claim by an Italian MVNO, Bip Mobile. Bip Mobile claimed an alleged agreement between Telecom Italia, Vodafone and WIND which was aimed to prevent the entry of Bip Mobile into the Italian mobile market through collusive pressure on the multi-brand point of sales starting as of June, 2012. WIND is currently defending its conduct against Bip's Mobile's allegations and cooperating with ICA in accordance with usual legal and procedural steps. The investigation will be completed by the end of September 2013, with an ICA decision of condemnation and fine of the MNOs or the dismissal of BIP's claim.

Terna/Enel.Net/WIND

On June 11, 2010, Terna -Rete Elettrica Nazionale S.p.A ("Terna") and Terna Linee Alta Tensione S.r.l. ("Telat") sued WIND and Enel.Net before the Court of Rome requesting the termination of three contracts executed by Terna, Enel.Net and Telat, alleging abreach by Enel.Net under article 1453 of the Italian Civil Code, relating to good faith obligations to renew contractually set prices for hospitality and maintenance services by Terna and Telat. It should be noted that the parties have reached an out of court settlement for closing the case.

Guarantees

No Group company has pledged any guarantees, either directly or indirectly, in favor of parents or companies controlled by the latter.

The collateral pledged by Group companies at December 31, 2012 as a guarantee for liabilities may be summarized as follows:

- a special lien pursuant to article 46 of the Consolidated Banking Law on certain assets, present and future, belonging to the Parent as specified in the relevant deed, in favor of the banking syndicate party to the Senior Facility Agreement and other creditors specified in the relevant deed;
- a lien exists on the Parent’s trademarks and intellectual property rights, as specified in the relevant deed, pledged in favor of the banking syndicate party to the Senior Facility Agreement and other creditors specified in the relevant deed;
- pledge over 6,200 shares representing 100% of the corporate capital of the subsidiary Wind Acquisition Finance SA owned by WIND Telecomunicazioni SpA and in favor of a pool of banks pursuant the related share pledge agreement.

Finally, in order to provide a guarantee for its obligations, the Parent has pledged as security its trade receivables, receivables arising from intercompany loans and receivables relating to insurance policies, present and future, as described in the specific instrument, to the banking syndicate in accordance with the Senior Facility Agreement and the other lending parties specified in the supplemental deed related to the respective contract as a guarantee for and in favor of the subscribers to the Senior Notes, expiring in 2017, issued on July 13, 2009 by Wind Acquisition Finance SA and in favor of the subscribers to the Senior Secured Notes, expiring in 2018, issued on November 26, 2010 by Wind Acquisition Finance SA and to the lending parties specified in the deed of confirmation and extension of the deed of assignment of receivables by way of security as a guarantee for and in favor of the subscribers to the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012 by Wind Acquisition Finance SA. Moreover, the Parent has pledged as security its receivables arising from the Put and Call option dated May 26, 2005 as described in the relevant deed, to the banking syndicate in the Senior Facility Agreement and the other lending parties specified therein as a guarantee for and in favor of the subscribers to the Senior Secured Notes expiring in 2017 issued by Wind Acquisition Finance SA on July 13, 2009 and the Senior Secured Notes expiring in 2018 issued by Wind Acquisition Finance SA on November 26, 2010 and to the lending parties specified in the deed of confirmation and extension of the deed of assignment of receivables by way of security as a guarantee for and in favor of the subscribers to the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012 by Wind Acquisition Finance SA.

A description is provided below of personal guarantees (sureties) issued mainly by banks and insurance companies on behalf of the Group and in favor of third parties in respect of commitments of various kinds. The total of these, amounting to €525,155 thousand at December 31, 2012 includes:

- sureties totaling €22,102 thousand issued by insurance companies, of which €14,459 thousand in favor of the Rome Tax Revenue Office as security against the Group’s excess VAT receivable which was offset in 2009 as part of the special procedure envisaged by Presidential Decree no. 633 of October 26, 1972 and subsequent amendments;

- sureties totaling €503,053 thousand issued by banks, relating to participation in tenders, of which €438,651 thousand in favor of the Minister for Economic Development for the participation in the tender procedure it had been awarded the frequency use rights in the 800, 1800, 2000 and 2600 MHz bands, to sponsorships, property leases, operations regarding prize competitions, events and excavation licenses.

The Parent has been under the management and coordination of Wind Telecom SpA since July 2007.

39 SUBSEQUENT EVENTS

No significant events took place after the balance sheet date that would require adjustments or additional disclosures in the consolidated financial statements.

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Independent auditors' report
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text into the English language solely for the convenience of international readers)

To the Sole Shareholder of
WIND Telecomunicazioni S.p.A.

1. We have audited the financial statements of WIND Telecomunicazioni S.p.A. as of and for the year ended December 31, 2012, comprising the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of WIND Telecomunicazioni S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the data related to the financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated March 26, 2012.

3. In our opinion, the financial statements of WIND Telecomunicazioni S.p.A. at December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of WIND Telecomunicazioni S.p.A. for the year then ended.

4. The management of WIND Telecomunicazioni S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial

statements as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In our opinion the Report on Operations is consistent with the financial statements of WIND Telecomunicazioni S.p.A. as of December 31, 2012.

Rome - March 21, 2013

Reconta Ernst & Young S.p.A.
Signed by: Luigi Facci, Partner

WIND Telecomunicazioni SPA

Separate financial statements as of and for the year ended December 31, 2012

FINANCIAL STATEMENTS AND NOTES THERETO

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STATEMENT OF FINANCIAL POSITION

(thousands of euro)	Note	At December 31, 2012	At December 31, 2011
Assets			
Property, plant and equipment	3	3,598,046	3,647,384
Intangible assets	4	8,723,610	8,779,002
Financial assets	5	161,270	308,692
Deferred tax assets	6	216,157	210,674
Total non-current assets		**12,699,083**	**12,945,752**
Inventories	7	20,312	16,628
Trade receivables	8	1,216,565	1,366,870
Financial assets	5	163,791	8,071
Current tax assets	9	8,031	6,447
Other receivables	10	251,308	196,014
Cash and cash equivalents	11	109,110	177,416
Total current assets		**1,769,117**	**1,771,446**
TOTAL ASSETS		**14,468,200**	**14,717,198**
Equity and Liabilities			
Equity			
Issued capital		147,100	147,100
Share premium reserve		752,157	752,157
Other reserves		(85,026)	(158,766)
Retained earnings		366,297	511,617
Total equity	12	**1,180,528**	**1,252,108**
Liabilities			
Financial liabilities	13	9,023,876	9,348,727
Employee benefits	15	57,780	57,598
Provisions	16	148,425	161,331
Other non-current liabilities	17	142,800	115,869
Deferred tax liabilities	6	701,979	726,809
Total non-current liabilities		**10,074,860**	**10,410,334**
Financial liabilities	13	577,527	514,154
Trade payables	18	1,796,612	1,777,629
Other payables	19	838,673	760,891
Tax payables	20	-	2,082
Total current liabilities		**3,212,812**	**3,054,756**
Total liabilities		**13,287,672**	**13,465,090**
TOTAL EQUITY AND LIABILITIES		**14,468,200**	**14,717,198**

INCOME STATEMENT

(thousands of euro)	Note	2012 12 months	2011 12 months
Revenue	21	5,260,862	5,429,194
Other revenue	22	167,218	142,477
Total revenue		**5,428,080**	**5,571,671**
Purchases and services	23	(2,869,378)	(2,951,066)
Other operating costs	24	(172,531)	(152,913)
Personnel expenses	25	(331,017)	(351,149)
Operating income before depreciation and amortization, reversal of impairment losses/impairment losses on non-current assets and gains/losses on disposal of non-current assets		**2,055,154**	**2,116,543**
Depreciation and amortization	26	(1,146,035)	(1,055,228)
Reversal of impairment losses/(impairment losses) on non-current assets	27	4,777	(13,324)
Gains/(losses) on disposal of non-current assets	28	(3,983)	1,586
Operating income		**909,913**	**1,049,577**
Finance income	29	18,399	13,897
Finance expense	30	(923,316)	(1,088,904)
Foreign exchange gains/(losses), net	31	(514)	(326)
Profit /(Loss) before tax		**4,482**	**(25,756)**
Income tax	32	(149,802)	(160,392)
(Loss) from continuing operations		**(145,320)**	**(186,148)**
Profit from discontinued operations	33	-	3,155
Loss for the year		**(145,320)**	**(182,993)**

STATEMENT OF COMPREHENSIVE INCOME

(thousands of euro)	Note	2012 12 months	2011 12 months
Loss for the year		**(145,320)**	**(182,993)**
Other comprehensive income			
Cash flow hedges	12	38,740	(2,330)
Income tax relating to components of other comprehensive income	12	-	(51,109)
Other comprehensive income for the year, net of tax		**38,740**	**(53,439)**
Total comprehensive income for the year		**(106,580)**	**(236,432)**

CASH FLOW STATEMENT

(thousands of euro)	2012 12 months	2011 12 months
Cash flows from operating activities		
Loss from continuing operations	**(145,320)**	**(186,148)**
Adjustments to reconcile the loss for the year with the cash flows from/ (used in) operating activities		
Depreciation, amortization and (reversal of impairment losses)/impairment losses on non-current assets		
Unrealized exchange difference	1,141,258	1,068,553
Net changes in provisions and employee benefits	(12,724)	(55,824)
(Gains)/losses on disposal of non-current assets	3,983	(1,586)
Changes in current assets	240,108	(139,532)
Changes in current liabilities	27,819	601,568
Net cash flows from operating activities	**1,255,124**	**1,287,031**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(630,720)	(739,204)
Proceeds from sale of property, plant and equipment	9,359	3,839
Acquisition of intangible assets	(378,155)	(1,401,338)
(Acquisition)/Disposal of financial assets	-	(14,165)
Proceeds from sale of subsidiaries	-	198,136
Net cash flows used in investing activities	**(999,516)**	**(1,952,732)**
Cash flows from financing activities		
Changes in loans	(352,756)	749,352
Changes in current accounts with subsidiaries	7,013	(45,454)
Dividends paid	-	(5,006)
Net cash flows from (used in) financing activities	**(345,743)**	**698,892**
Discontinued operations		
Net cash from operating activities	-	4,715
Net cash used in investing activities	-	69
Net cash used in discontinued operations	**-**	**4,784**
Net cash flows for the year	**(90,135)**	**37,975**
Cash and cash equivalents at the beginning of the year	177,416	139,441
Cash and cash equivalents at the end of the year	**87,281**	**177,416**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

(thousands of euro)	2012 12 months	2011 12 months
Income tax paid	(127,081)	(80,396)
Interest paid on loans/bonds	(789,719)	(714,587)
Interest paid on hedging derivative instruments	(61,912)	(28,753)
Interest received on hedging derivative instruments	12,601	39,185

STATEMENT OF CHANGES IN EQUITY

	Equity				
(thousands of euro)	Issued capital	Share premium reserve	Other reserves	Retained earnings/(losses carried forward)	**Equity**
Balances at December 31, 2010	**147,100**	**752,157**	**(105,327)**	**702,835**	**1,496,765**
Total comprehensive income for the year	**-**	**-**	**(53,439)**	**(182,993)**	**(236,432)**
- Loss for the year	-	-	-	(182,993)	**(182,993)**
- Cash flow hedges	-	-	(53,439)	-	**(53,439)**
Transactions with equity holders	**-**	**-**	**-**	**(8,225)**	**(8,225)**
- Sale of assets	-	-	-	(3,514)	**(3,514)**
- Dividends paid	-	-	-	(907)	**(907)**
- Other changes	-	-	-	(3,804)	**(3,804)**
Balances at December 31, 2011	**147,100**	**752,157**	**(158,766)**	**511,617**	**1,252,108**
Total comprehensive income for the year	**-**	**-**	**38,740**	**(145,320)**	**(106,580)**
- Loss for the year	-	-	-	(145,320)	**(145,320)**
- Cash flow hedges	-	-	38,740	-	**38,740**
Transactions with equity holders	-	-	**35,000**	**-**	**35,000**
- Contribution from shareholders			35,000		**35,000**
Balances at December 31, 2012	**147,100**	**752,157**	**(85,026)**	**366,297**	**1,180,528**

NOTES TO THE FINANCIAL STATEMENTS OF THE WIND TELECOMUNICAZIONI SPA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1 INTRODUCTION

WIND Telecomunicazioni SpA ("WIND" or the "Company") is a joint stock company having its registered office in Via Cesare Giulio Viola, 48, Rome (Italy), and is controlled by Wind Telecom SpA through WIND Acquisition Holdings Finance SpA which wholly owns WIND Telecomunicazioni SpA.

WIND Telecomunicazioni SpA operate in Italy in the fixed and mobile telecommunications sector under the brands *"Infostrada"* and "*Wind*" respectively.

At the date of the present financial statements as of and for the year ended December 31, 2012 Vimpelcom Ltd holds 92.24% of Wind Telecom SpA while WIND Acquisition Holdings Finance SpA holds 7.76%.

The Company closed 2012 with a profit before tax of €4,482 thousand (a loss before tax of €25,756 thousand in 2011) and a loss for the year from continuing operation of €145,320 thousand (€186,148 thousand in 2011). This result reflects the decline in operating income due to increased competitive pressure and higher depreciation and amortization.

WIND will continue to consolidate its performance and its competitive position in 2013, notwithstanding the challenging economic environment and the unfavourable regulatory development. The efficiency and cost optimization processes will be further supported by the integration with the VimpelCom Group, mainly through the deployment of achievable synergies.

During 2013 the Company will continue to explore and develop the most promising opportunities arising from the combination of new technologies and new needs expressed by the market while continuing to build upon the commercial success experienced during the course of 2012 in the mobile, fixed-line voice and internet segments as well as continuing to develop its convergent business model.

The growth prospects of the Company in 2013 will be supported and sustained by the necessary financial investments which will be in line with the investments made in 2012.

2 GENERAL ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of WIND Telecomunicazioni SpA at December 31, 2012 have been prepared on a going concern basis and in accordance with the IFRS endorsed by the European Union.

The term IFRS includes all International Financial Reporting Standards (IFRSs), all International Accounting Standards (IASs), all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and all interpretations of the Standing Interpretations Committee (SIC) endorsed by the European Union and contained in published EU Regulations.

During the year no exceptional events occurred such as to require the waivers provided for by IAS 1.

These separate financial statements are expressed in euros, the currency of the economy in which the Company operates. Unless otherwise stated, all amounts shown in the tables and in these notes are expressed in thousands of euro.

For presentation purposes, the current/non-current distinction has been used for the statement of financial position, while expenses are analyzed in the income statement using a classification based on their nature. The indirect method has been selected to present the cash flow statement.

For the purposes of comparison, balances in the statement of financial position and income statement and the detailed tables in the notes have been reclassified where necessary. In particular, in order to ensure better presentation in the line Income tax paid on Additional Information on the Cash Flow Statement, the amount of €9,129 thousands related to repayment plan of closing of the audit on withholding taxes on interests paid to some Group companies in prior years; while in the line Purchases and services (see note 24) the amount of €11,030 thousands was reclassified from Maintenance and repair to utilities.. These reclassifications however do not affect the Company's loss for the year or equity.

These financial statements were approved by the Company's Board of Directors on February 20, 2013.

2.2 Summary of main accounting policies

The principal accounting policies adopted in preparing these financial statements are set out below.

- ***Property, plant and equipment***

Property, plant and equipment are stated at purchase cost or production cost, net of accumulated depreciation and any impairment losses. Cost includes expenditure directly attributable to bringing the asset to the location and condition necessary for use and any dismantling and removal costs which may be incurred as a result of contractual obligations which require the asset to be returned to its original state and condition.

Costs incurred for ordinary and cyclical repairs and maintenance are taken directly to profit or loss in the period in which they are incurred. Costs incurred for the expansion, modernization or improvement of the structural elements of owned or leased assets are capitalized to the extent that they have the requisites to be separately identified as an asset or part of an asset, in accordance with the "component approach". Under this approach each asset is treated separately if it has an autonomously determinable useful life and carrying amount. Depreciation is charged systematically, on a straight-line-basis from the date the asset is available and ready for use over its estimated useful life.

The useful lives of property, plant and equipment and their residual values are reviewed and updated, where necessary, at least at each year end. Land is not depreciated. When a depreciable asset is composed of identifiable separate components whose useful lives vary significantly from those of other components of the asset, depreciation is calculated for each component separately, applying the "component approach".

The useful lives estimated by the Company for the various categories of property, plant and equipment are as follows.

Plant and machinery	5-20 years
Planning and development costs of the fixed line and mobile telephone network	Residual term of license
Equipment	4 years
Other assets	5-10 years

Gains or losses arising from the sale or retirement of assets are determined as the difference between the selling price and the carrying amount of the asset sold or retired and are recognized in profit or loss under "Gains/(losses) on disposal of non-current assets".

Finance leases are leases that substantially transfer all the risks and rewards incidental to the ownership of assets to the Company. Property, plant and equipment acquired under finance leases are recognized as assets at their fair value or, if lower, at the present value of the minimum lease payments, including any amounts to be paid for exercising a purchase option. The corresponding liability due to the lessor is recognized as part of financial liabilities.

An asset acquired under a finance lease is depreciated over the shorter of the lease term and its useful life.

Lease arrangements in which the lessor substantially retains the risks and rewards incidental to ownership of the assets are classified as operating leases. Lease payments under operating leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

- ***Intangible assets***

Intangible assets are identifiable non-monetary assets without physical substance which can be controlled and which are capable of generating future economic benefits. Intangible assets are stated at purchase and/or production cost including any expenses that are directly attributable to preparing the asset for its intended use, net of accumulated amortization in the case of assets being amortized and any impairment losses. Amortization begins when an asset becomes available for use and is charged systematically on the basis of the residual possibility of utilization of the asset, meaning on the basis of its estimated useful life.

➢ *Industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights*

Costs for the purchase of industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights are capitalized. Amortization is charged on a straight-line basis such as to write off the cost incurred for the acquisition of a right over the shorter of the period of its expected use and the term of the underlying agreement, starting from the date on which the acquired right may be exercised. Trademarks are not amortized as they are considered to have an indefinite useful life.

➢ *Software*

Costs relating to the development and maintenance of software programs are expensed as incurred. Unique and identifiable costs directly related to the production of software products which are controlled by the Company and which are expected to generate future economic benefits for a period exceeding one year are accounted for as intangible assets. Direct costs – where identifiable and measurable – include the cost of employees who develop the software, together with a share of overheads as appropriate. Amortization is charged over the useful life of the software which is estimated at 5 years.

➢ *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the interest acquired in the fair value at the acquisition date of the assets and liabilities of the entity or business acquired. Goodwill relating to investments accounted for using the equity method is included in the carrying amount of the investment. Goodwill is not systematically amortized but is rather subject to periodic tests to ensure that the carrying amount in the statement of financial position is adequate ("impairment test"). Impairment tests are carried out annually or more frequently when events or changes in circumstances occur that could lead to an impairment loss on the cash generating units ("CGUs") to which the goodwill has been allocated. An impairment loss is recognized whenever the recoverable amount of goodwill is lower than its carrying amount. The recoverable amount is the higher of the fair value of the CGU less costs to sell and its value in use, which is represented by the present value of the cash flows expected to be derived from the CGU during operations and from its disposal at the end of its useful life. The method for calculating value in use is described in the paragraph below "Impairment losses". Once an impairment loss has been recognized on goodwill it cannot be reversed.

Whenever an impairment loss resulting from the above tests exceeds the carrying amount of the goodwill allocated to a specific CGU, the residual amount is allocated to the assets of that particular CGU in proportion to their carrying amounts. The carrying amount of an asset under this allocation is not reduced below the higher of its fair value less costs to sell and its value in use as described above.

- *Customer list*

The customer list as an intangible asset consists of the list of customers identified on allocating the goodwill arising on acquisitions carried out by the Company. Amortization is charged on the basis of the respective estimated useful lives, which range from 5 to 15 years.

- *Customer Acquisition Costs*

These consist mainly of the cost of commissions paid to the sales network, which in line with sector practice are capitalized as intangible assets from 2010, in accordance with the principles of reference, and amortized over the minimum contract term.

- ***Impairment losses***

At each reporting date, property, plant and equipment and intangible assets with finite lives are assessed to determine whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset concerned is estimated and any impairment loss is recognized in profit or loss. Intangible assets with an indefinite useful lives are tested for impairment annually or more frequently when events or changes in circumstances occur that could lead to an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, which is represented by the present value of its estimated future cash flows. In determining an asset's value in use the estimated future cash flows are discounted using a pre-tax rate that reflects the market's current assessment of the cost of money for the investment period and the specific risk profile of the asset. If an asset does not generate independent cash flows, its recoverable amount is determined in relation to the cash-generating unit (CGU) to which it belongs. An impairment loss is recognized in the profit or loss when the carrying amount of an asset or the CGU to which it is allocated exceeds its recoverable amount. If the reasons for previously recognizing an impairment loss cease to exist, the carrying amount of an asset other than goodwill is increased to the carrying amount of the asset that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized on the asset, with the reversal being recognized in profit or loss.

- ***Investments***

Investments in subsidiaries and associates are measured at cost. Investments in other companies are measured at fair value through profit or loss. If fair value cannot be reliably determined an investment is measured at cost.

Cost is adjusted for impairment losses if necessary, as described in the paragraph "Impairment losses". If the reasons for an impairment loss no longer exist, the carrying amount of the investment is increased up to the extent of the loss with the related effect recognized in profit or loss. Any risk arising from losses exceeding the carrying amounts of investments is accrued in a specific provision to the extent of the Company's legal or constructive obligations on behalf of the investee or in any case to the extent that it is required to cover the losses. Investments held for sale or to be wound up in the short term are classified as current assets at the lower of their carrying amount and fair value less costs to sell.

- ***Financial instruments***

Financial instruments consist of financial assets and liabilities whose classification is determined on their initial recognition and on the basis of the purpose for which they were purchased. Purchases and sales of financial instruments are recognized at settlement date.

➢ *Financial assets*

Financial assets are initially recognized at fair value and classified in one of the following four categories and subsequently measured as described below:

i) Financial assets at fair value through profit or loss: this category includes financial assets purchased primarily for sale in the short term, those designated as such upon initial recognition, provided that the assumptions exist for such classification or the fair value option may be exercised, and financial derivatives except for the effective portion of those designated as cash flow hedges. These assets are measured at fair value; any change in the period is recognized in profit or loss. Financial instruments included in this category are classified as current assets if they are held for trading or expected to be disposed of within twelve months from the reporting date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative; positive and negative fair values arising from transactions with the same counterparty are offset if this is contractually provided for.

ii) Loans and receivables: these are non-derivative financial instruments, mostly relating to trade receivables, which are not quoted on an active market and which are expected to generate fixed or determinable repayments. They are included as current assets unless they are contractually due over more than twelve months after the reporting date in which case they are classified as non-current assets. These assets are measured at amortized cost using the effective interest method. If there is objective evidence of factors which indicate an impairment loss, the asset is reduced to the discounted value of future cash flows. The impairment loss is recognized in profit or loss. If in future years the factors which caused the impairment loss cease to exist, the carrying amount of the asset is reinstated up to the amount that would have been obtained in case of application of amortized cost.

iii) Held-to-maturity investments: these are fixed maturity non-derivative financial instruments having fixed or determinable payments which the Company has the intention and ability to hold until maturity. These assets are measured at amortized cost using the effective interest method, adjusted as necessary for impairment losses. In the case of impairment the policies used for financial receivables will be applied.

iv) Available-for-sale financial assets: these are non-derivative financial instruments which are either specifically included in this category or included there because they cannot be classified in the other categories. These assets are measured at fair value and any related gain or loss is recognized directly in an equity reserve and subsequently recognized in profit or loss only when the asset is actually sold or, if there are cumulative negative changes, when it is expected that the losses recognized in equity cannot be recovered in the future. For debt securities, if in a future period the fair value increases due to the objective consequence of events occurring after the impairment loss has been recognized in profit or loss, the original value of the instrument is reinstated with the corresponding gain recognized in profit or loss. Additionally, the yields from debt securities arising from the use of the amortized cost method are recognized in profit or loss in the same manner as foreign exchange differences, whereas foreign exchange differences relating to available-for-sale equity instruments are recognized in the specific equity reserve. The classification as current or non-current assets is the consequence of strategic decisions regarding the estimated period of ownership of the asset and its effective marketability, with those which are expected to be realized within twelve months from the reporting date being classified as current assets.

Financial assets are derecognized when the right to receive cash flows from them ceases and the Company has effectively transferred all risks and rewards related to the instrument and its control.

- *Financial liabilities*

Financial liabilities consisting of loans, trade payables and other obligations are measured at amortized cost using the effective interest method. When there is a change in expected cash flows which can be reliably estimated, the value of the loans is recalculated to reflect such change based on the present value of expected cash flows and the originally determined internal rate of return. Financial liabilities are classified as current liabilities except where the Company has an unconditional right to defer payment until at least twelve months after the reporting date.

Financial liabilities are derecognized when settled and the Company has transferred all the related costs and risks relating to the instrument.

- *Derivative financial instruments*

At the date of signing of the contract instrument is initially recognized at fair value, with subsequent changes in fair value being recognized as a financial component of income. Where instead it has been decided to use hedge accounting, meaning in those situations in which the hedging relationship is identified, subsequent changes in fair value are accounted for in accordance with the following specific criteria. The relationship between each derivative qualifying as a hedging instrument and the hedged item is documented to include the risk management objective, the strategy for covering the hedge and the means by which the hedging instrument's effectiveness will be assessed. An assessment of the effectiveness of each hedge is made when each derivative financial instrument becomes active and throughout the hedge term.

In the case of a fair value hedge, i.e. the hedge refers to changes in the fair value of a recognized asset or liability, the changes in the fair value of the hedging instrument and those of the hedged item are both recognized in profit or loss. If the hedge is not fully effective, meaning that these changes are different, the non-effective portion is treated as finance income or expense for the year in the income statement.

For a cash flow hedge, the fair value changes of the derivative are subsequently recognized, limited to the effective portion, in a specific equity reserve (the "cash flow hedge reserve"). A hedge is normally considered highly effective if from the beginning and throughout its life the changes in the expected cash flows for the hedged item are substantially offset by the changes in the fair value of the hedging instrument. When the economic effects deriving from the hedged item are realized, the reserve is reclassified to the income statement together with the economic effects of the hedged item. Whenever the hedge is not highly effective, the non-effective portion of the change in fair value of the hedging instrument is immediately recognized as a financial component of the profit or loss for the year. Cash flow hedges also include hedges of the currency risk for transactions carried out in US dollars. These obligations are translated at the year-end exchange rate and any resulting exchange gains and losses are offset in the income statement against the change in the fair value of the hedging instrument.

When hedged forecast cash flows are no longer considered highly probable during the term of a derivative, the portion of the "cash flow hedge reserve" relating to that instrument is reclassified as a financial component of the profit or loss for the year. If instead the derivative is sold or no longer qualifies as an effective hedging instrument, the "cash flow hedge reserve" recognized to date remains as a component of equity and is reclassified to profit or loss for the year in accordance with the criteria of classification described above when the originally hedged transaction takes place.

Quotations at the reporting date are used to determine the fair value of financial instruments listed on active markets. In the absence of an active market, fair value is determined by referring to prices supplied by third-party operators and by using valuation models based primarily on objective financial variables and, where possible, prices in recent transactions and market prices for similar financial instruments.

- ***Taxation***

Income tax is recognized on the basis of taxable profit for the year and the applicable laws and regulations, using tax rates prevailing at the reporting date.

Deferred taxes are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the tax rates that are expected to apply for the years when the temporary differences will be realized or settled and tax losses carried forward will be reversed, based on tax laws that have been enacted or substantively enacted by the reporting date. An exception to this rule regards the initial recognition of goodwill and temporary differences connected with investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences or when it is probable that the differences will not reverse.

Current and deferred taxes are recognized in profit or loss, except for those arising from items taken directly to equity; in such cases the tax effect is recognized directly in the specific equity item.

Tax assets and liabilities, including those regarding deferred taxation, are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity and when the entity has a legally enforceable right to offset these balances and intends to exercise that right. In addition, current tax assets and liabilities are offset in the case that different taxable entities have the legally enforceable right to do so and when they intend to settle these balances on a net basis.

The Company's tax position and its presentation in the financial statements reflect the effects of the election made in 2006 and renewed in 2009 by the Italian parent Wind Telecom SpA to take part in the national tax consolidation procedure.

For the regulations on electing the tax consolidation procedure to apply, the Company that elected for consolidation is required to determine a single overall tax base for corporate income tax (IRES) purposes consisting of the sum of the taxable profit or tax loss of the Parent and those of its subsidiaries taking part in the procedure, and to settle a liability by making a single tax payment or to recognize a single tax credit for repayment or to be carried forward.

Therefore, it follows that a receivable or payable with the Parent is found in the financial statements on transferring a tax loss or taxable profit, respectively, in the place of the respective tax receivables or payables accrued by the Company.

- ***Inventories***

Inventories are stated at the lower of purchase cost or production cost and net estimated realizable value. Cost is determined using the weighted average cost method for fungible goods or goods held for resale. When necessary, provisions are made for slow-moving and obsolete inventories.

- ***Cash and cash equivalents***

Cash and cash equivalents are recognized at fair value and consist of short-term highly liquid investments (generally not exceeding three months) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

- ***Assets held for sale and assets in disposal groups***

Assets held for sale consist of non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. No further depreciation is charged from the time that a depreciable asset is reclassified to this caption. Gains or losses arising from discontinued operations or from assets held for sale are reported as a separate item in profit or loss, net of any tax effects.

- ***Provisions***

Provisions are recognized for a loss or expense of a specific nature that is certain or probable to arise but for which the timing or amount cannot be precisely determined. Provisions are only recognized when the Company has a present legal or constructive obligation arising from past events that will result in a future outflow of resources, and when it is probable that this outflow of resources will be required to settle the obligation. The amount provided represents the best estimate of the present value of the outlay required to meet the obligation. The interest rate used in determining the present value of the liability reflects current market rates and takes into account the specific risk of each liability.

Risks, for which the likelihood of a liability arising is just possible, are disclosed in the notes under "Contingent assets and liabilities" and no provision is made.

- ***Employee benefits***

➢ *Short-term employee benefits*

Short-term employee benefits are recognized in profit or loss in the period when an employee renders the related service.

➢ *Post-employment benefits*

Post-employment benefits may be divided into two categories: 1) defined contribution plans and 2) defined benefit plans. Contributions to defined contribution plans are charged to profit or loss when incurred, based on their nominal value. For defined benefit plans, since benefits are determinable only after the termination of employment, costs are recognized in profit or loss based on actuarial calculations.

Defined benefit plans, which include the Italian post-employment benefits (TFR) which are due in accordance with the provisions of article 2120 of the Italian Civil Code and which are accrued up to December 31, 2006, are based on an employee's working life and the remuneration received during service. The related liability is projected forward to calculate the probable amount payable at the termination date and is then discounted using the Projected Unit Credit Method, taking into account time before the actual payment of the benefit. The measurement of the liability recognized in the statement of financial position is carried out by third party actuaries, based on actuarial assumptions which relate mainly to: the discount rate, which must reflect market yields on the high quality corporate bonds having a term consistent with the expected term of the obligation, increases in salaries and employee turnover.

As a consequence of the introduction of Law no. 296 of December 27, 2006 (the 2007 Finance Act) and subsequent decrees and regulations, the post-employment benefits accruing from January 1, 2007 are considered to be part of defined contribution plans and recognized in the same manner as other defined contribution plans, if the amounts are transferred to treasury funds of the national social security organization (INPS), or from June 30, 2007 or the date of employee election, if earlier, if transferred to private pension plans. The post-employment benefits accrued up to these dates remain defined benefit plans, with the related actuarial calculations excluding any assumptions regarding increases in salaries as had been previously made. The difference arising from this change was recognized in the profit or loss for the year ended December 31, 2007.

At each reporting date, actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the Company's obligation at year end, which arise from changes in the actuarial assumptions referred to above, are recognized using the "corridor approach", meaning only when the gains or losses exceed 10% of the present value of the Company's obligation at the previous reporting date. Any amount in excess of 10% is charged against future income over a period in line with the average remaining working life of employees, starting with the first period subsequent to recognition.

➢ *Termination benefits and redundancy incentive schemes*

Benefits due to employees on the termination of employment contracts are treated as a liability when the Company is demonstrably committed to terminating these contracts for a single employee or group of employees before the normal retirement date or to granting termination benefits in order to facilitate voluntary resignations of surplus employees following a formal proposal. These benefits do not create future economic advantages to the Company and the related costs are therefore immediately recognized in profit or loss.

➢ *Share-based payments*

The Company recognizes additional benefits to certain managers and other members of personnel through stock option plans. IFRS 2 - Share-based Payments considers these plans to represent a component of employee remuneration; the cost of these plans therefore consists of the fair value of the option at the grant date and is recognized in profit or loss on a straight-line basis over the period between the grant date and the vesting date, with the corresponding entry recognized directly in equity. Changes in the fair value of the option subsequent to the grant date have no effect on the original measurement.

▪ ***Translation of items in non-euro currencies***

Transactions in foreign currencies are translated into euros at the exchange rate prevailing at the date of the transaction. Exchange gains and losses arising on the settlement of transactions and those arising on the translation at year-end exchange rates of monetary assets and liabilities are recognized in profit or loss.
With reference to foreign transactions whose currency risk is covered with derivatives, further details are provided in the note *Financial instruments*.

▪ ***Revenue recognition***

Revenue is recognized at the fair value of the consideration received, net of rebates and discounts. Revenue from the sale of goods is recognized when the Company transfers the risks and rewards of ownership of the goods. Revenue from services is recognized in profit or loss by reference to the stage of completion and only when the outcome can be reliably estimated.

More specifically, the criteria followed by the Company in recognizing core-business revenue are as follows:

- revenue arising from post-paid traffic, interconnection and roaming is recognized on the basis of the actual usage of each subscriber and telephone operator. Such revenue includes amounts paid for access to and usage of the Company network by customers and other domestic and international telephone operators;
- revenue from the sale of prepaid cards and recharging is recognized on the basis of the prepaid traffic actually used by subscribers during the year. The unused portion of traffic at period end is recognized as "Other payables - Prepaid traffic to be used";
- revenue from the sale of mobile phones and fixed-line phones and related accessories is recognized at the time of sale;
- one-off revenue from fixed and mobile (prepaid or subscription) activation and/or substitution, activation of new services and tariff plans is recognized for the full amount at the moment of activation to the extent of the related costs, or deferred over the minimum contractual term. In the case of promotions with a cumulative plan still open at year end, the activation fee is recognized on an accrual basis so as to match the revenue with the period in which the service may be used;
- one-off fees received for the granting of rights to use owned fiber optic cables are recognized at the time of the transfer of the underlying right and, therefore, of the related risks and rewards.

- ***Grants***

Grants are recognized when a formal decision of the disbursing government institution, in case of government grants, has been taken, with recognition being matched to the costs to which they relate. Grants related to income are taken to "Other revenue" in the profit or loss, while grants related to assets are recognized as deferred revenue and taken to income on a straight-line basis over the useful life of the asset to which the grant directly relates.

- ***Finance income and expense***

Finance expense is recognized on an accruals basis using the effective interest method, meaning at the interest rate that renders all cash inflows and outflows linked to a specific transaction financially equivalent.
Finance expense that are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 – Borrowing Costs), which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized and amortized over the useful life of the class of assets to which they refer.

- ***Earnings per share***

➢ *Basic*

Basic earnings per share are calculated by dividing the profit or loss for the year both from continuing and discontinued operations, by the weighted average number of ordinary shares outstanding during the year.

➢ *Diluted*

Diluted earnings per share are calculated by dividing the profit or loss for the year by the weighted average number of ordinary shares of the outstanding during the year where, compared to basic earnings per share, the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential shares, while the profit or loss for the year is adjusted for the effects of such conversion net of taxation. Diluted earnings per share are not calculated when there are losses as any dilutive effect would improve earnings per share.

- ***New accounting standards and interpretations***

The Company has adopted all the newly issued and amended standards of the IASB and interpretations of the IFRIC, endorsed by the European Union, applicable to its transactions and effective for financial statements for years beginning January 1, 2012 and thereafter.

Accounting standards, amendments and interpretations adopted from January 1, 2012

The following is a brief description of the new standards and interpretations adopted by the Company in the preparation of the financial statements at December 31, 2012.

➢ *Amendment to IFRS 7 - Financial Instruments Disclosures – Transfers of Financial Assets*

The amendments will enable users of financial statements to improve their understanding of transfers ("derecognition") of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Application of this amendments did not have any effects on the separate financial statements at December 31, 2012.

Accounting standards, amendments and interpretations adopted by the European Union and not early applied by the Company

The following standards and interpretations had been issued at the date of these notes but were not yet effective for the preparation of these financial statements at December 31, 2012.

STANDARD/INTERPRETATION	EFFECTIVE DATE
Amendments to IAS 12 - Deferred tax: Recovery of Underlying Assets	January 1, 2013
Amendments to IFRS1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	January 1, 2013
Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income	January 1, 2013
IAS 19 - Amended to IAS 19 Employee Benefits	January 1, 2013
IFRS 10 – Consolidated Financial Statements	January 1, 2014
IFRS 11 – Joint Arrangements	January 1, 2014
IFRS 12 - Disclosure of Interests in Other Entities	January 1, 2014
IFRS 13 – Fair Value Measurement	January 1, 2013
IFRIC Interpretation 20 – Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
IAS 27 – Separate Financial Statements	January 1, 2014
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2014
Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014

Accounting standards, amendments and interpretations adopted by the European Union

At the date of these notes relevant EU bodies have not completed the process necessary for the endorsement of the following standards and interpretations.

STANDARD/INTERPRETATION	IASB EFFECTIVE DATE
IFRS 9 – *Financial Instruments*	January 1, 2015
Amendments to IFRS 1 – Government Loans	January 1, 2013
Annual Improvements to IFRSs – 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1, 2013
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	January 1, 2014

The Company is currently assessing any impact the new standards and interpretations may have on the financial statements for the years in which they become effective.

2.3 Use of estimates

The preparation of these separate financial statements required management to apply accounting policies and methodologies based on complex, subjective judgments, estimates based on past experience and assumptions determined from time to time to be reasonable and realistic based on the related circumstances. The use of these estimates and assumptions affects the amounts reported in the statement of financial position, the income statement and the cash flow statement as well as the notes. The final amounts for items for which estimates and assumptions were made in the separate financial statements may differ from those reported in these financial statements due to the uncertainties that characterize the assumptions and conditions on which the estimates are based.
In this respect, the situation caused by the persisting difficulties of the economic and financial environment in the Eurozone led to the need to make assumptions regarding future performance which are characterised by significant levels of uncertainty; as a consequence, therefore, it cannot be excluded that results may arise in the future which differ from estimates, and which therefore might require adjustments, even significant, to be made to the carrying amount of assets and liabilities, which at the present moment can clearly neither be estimated nor predicted. The main items affected by these situations of uncertainty are non-current assets (tangible and intangible assets), deferred tax assets, provisions, contingent liabilities, impairment provisions.
The estimates and underlying assumptions are reviewed periodically and continuously by the Group. If the items considered in this process perform differently, then the actual results could differ from the estimates, which would accordingly require adjustment. The effects of any changes in estimate are recognised in profit or loss in the period in which the adjustment is made if it only affects that period, or in the period of the adjustment and future periods if it affects both current and future periods.

The accounting principles requiring a higher degree of subjective judgment in making estimates and for which changes in the underlying conditions could significantly affect the separate financial statements are briefly described below.

- Goodwill: goodwill is tested for impairment at least on an annual basis to determine whether any impairment losses have arisen that should be recognized in profit or loss. More specifically, the test is performed by allocating the goodwill to a cash generating unit (CGU) and subsequently estimating the unit's fair value. Should the fair value of the net capital employed be lower than the carrying amount of the CGU, an impairment loss is recognized on the allocated goodwill. The allocation of goodwill to cash generating units and the determination of the fair value of a CGU require estimates to be made that are based on factors that may vary over time and that could as a result have an impact on the measurements made by management which might be significant.
- Impairment losses on non-current assets: non-current assets are reviewed to determine whether there are any indications that the carrying amount of these assets may not be recoverable and that they have suffered an impairment loss that needs to be recognized. In order to determine whether any such elements exist it is necessary to make subjective measurements, based on information obtained within the Company and in the market and also on past experience. When a potential impairment loss emerges it is estimated by

the Company using appropriate valuation techniques. The identification of the elements that may determine a potential impairment loss and the estimates used to measure such loss depend on factors which may vary over time, thereby affecting estimates and measurements.

- Depreciation of non-current assets: the cost of property, plant and equipment is depreciated on a straight-line basis over the useful lives of the assets. The useful life of property, plant and equipment is determined when the assets are purchased and is based on the past experience of similar assets, market conditions and forecasts concerning future events which may affect them, amongst which are changes in technology. The actual useful lives may therefore differ from the estimates of these. The Company regularly reviews technological and business sector changes, dismantling costs and recoverable amounts in order to update residual useful lives. Such regular updating may entail a change of the depreciation period and consequently a change in the depreciation charged in future years.
- Deferred tax assets: the recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognize deferred tax assets depends on factors which may vary over time and which may lead to significant effects on the measurement of this item.
- Contingent liabilities and provisions: the accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimate process based upon the probability of an unfavorable outcome. The definition of such provisions entails making estimates based on currently known factors which may vary over time and which could actually turn out to be significantly different from those referred to in preparing the notes to these financial statements.

2.4 Risk management

Credit risk

The WIND's credit risk is principally associated with trade receivables which at December 31, 2012 amounted to €1,216,565 thousand. The Company minimizes credit risk through a preventive credit check process which ensures that all customers requesting new products and services or additions to existing services are reliable and solvent, also by using a preference for contracts which provide for the use of automatic payment methods with the aim of reducing the underlying credit risk. This check is carried out in the customer acceptance phase through the use of internal and external information.

The Company additionally exercises timely post-customer acquisition measures for the purpose of credit collection such as the following:

- sending reminders to customers;
- employing measures for the collection of overdue receivables, separated by strategy, portfolio and customer profiles;
- measuring and monitoring the debt status through reporting tools.

As a general rule, the Company has a limited level of credit concentration as the consequence of diversifying its product and services portfolio to its customers. In more detail, a small concentration of credit may be found in the business that WIND Telecomunicazioni SpA carries out with dealers and domestic and international operators.

WIND Telecomunicazioni SpA is also assisted by sureties issued by primary banks as collateral for the obligations resulting from supplies and receivables from dealers.

In relation to the management of the financial flows, related to the exposure of financial counterparties credit risk, Wind complies with Vimpelcom Group Treasury Policy, reviewing and amending, in accordance with the holding company, the Credit Limits set for each National and International Banking Group.

These Credit Limits take into consideration the sum of the following components (NFA or, Net Financial Assets):

1. Availability of balances in bank or postal current accounts;
2. Deposits or short term financial investments;
3. Positive Mark to Market arising on derivatives used for hedging;
4. Bank guarantees issued in favour of the company.

The Company had a positive net balance on its current accounts of €87,270 thousand at December 31, 2012. The WIND's credit risk exposure from derivative contracts is represented by their realizable value or fair value, if positive. The negative fair value of the entire portfolio at December 31, 2012 was €136,933 thousand (details of this may be found in note 14).

Liquidity risk

Liquidity risk arises mostly from the cash flows generated by debt servicing, in terms of both interest and principal, and from all of the WIND's payment obligations that result from business activities.

In respect of debt, on November 26, 2010 WIND Telecomunicazioni SpA entered a new floating rate long-term loan agreement - the Senior Facility Agreement - consisting of two tranches: tranche A, amortizing, and tranche B, bullet, denominated in euros. The total nominal amount of this agreement, net of repayments made, amounts to €2,930,000 thousand, to which €400 million of a revolving credit facility drawn down for €100 million at December 31, 2012, should be added.

The Luxembourg-based subsidiary Wind Acquisition Finance SA issued to WIND:

- the Loan Agreement 2017, dated July 13, 2009, amended on November 26, 2010, and maturity date June 15, 2017, with a nominal amount of €2,678,068 thousand and annual interest of 11.90% payable semi-annually;
- the Loan Agreement 2018, dated November 26, 2010, and maturity date January 15, 2018, with a nominal amount of €2,711,101 thousand and annual interest of 7.60% payable semi-annually;
- the Additional Loan Agreement 2018 , dated April 13, 2012 and maturity date January 15, 2018, with a nominal amount of €500,000 thousand and annual interest of 9.30%.
- the short-term Loan Agreements, dated November 16, 2012 and December 17, 2012 and maturity date January 10, 2013, with a nominal amount of €35,000 thousand and €170,000 thousand respectively.

In addition, WIND Telecomunicazioni SpA has amortizing loans in euros granted by:

- banks, against the repayment plan of the fair value of the derivatives extinguished since they were hedging loans repaid as part of the refinancing of the Company's debt, for a notional of €162,183 thousand at December 31, 2012;
- the Ministry of Economic Development, with a nominal amount of €324,043 thousand at December 31, 2012, following the awarding of the 800MHz and 2600MHz frequencies assigned to it on completion of the

competitive auction for fourth generation frequencies in Italy which was completed on September 29, 2011. Details of this may be found in notes 4, 13 and 19.

The repayment flows provided for in the above agreements, with exclusive reference to the amounts used, are as follows.

(millions of euro)	2013	2014	2015	2016	2017	2018	Total
Senior Facilities Agreement							
Term Loan A1	-	30	33	37	-	-	100
Term Loan A2	-	245	267	303	-	-	815
Term Loan B1	-	-	-	-	1334	-	1,334
Term Loan B2	-	-	-	-	681	-	681
Revolving	100	-	-	-	-	-	100
Annuity	73	52	20	17	-	-	162
Debt from Ministry	81	81	81	81	-	-	324
Loan agreement 2017	-	-	-	-	2,678	-	2,678
Loan agreement 2018	-	-	-	-	-	2,711	2,711
Intercompany Loan 2018 TAP	-	-	-	-	-	500	500
Intercompany Loan ST	205	-	-	-	-		205
Total	**459**	**408**	**401**	**438**	**4,693**	**3,211**	**9,610**

The Senior Facility Agreement includes covenants typical for agreements of this type and size, including Financial covenants and General covenants (eg, negative pledge and pari passu). Failure to comply with these covenants, in some cases, if not properly remedied, may result in an obligation of early repayment of the outstanding loans. At December 31, 2012 the Company is in compliance with its covenants.

The contractual due dates for financial liabilities, including those for interest payments, which are representative of the respective effects on profit or loss, are set out in the following tables, which provide the figures at December 31, 2012 and 2011.

(millions of euro)	Carrying amount at December 31, 2012	Total Contractual cash flows	2013	2014	2015	2016	2017	2018
Non-derivative financial liabilities								
Bank loans	2,945	(3,639)	(235)	(416)	(428)	(454)	(2,106)	-
Bonds	6,018	(8,872)	(795)	(571)	(571)	(571)	(3,090)	(3,274)
Loans from others	501	(547)	(176)	(148)	(110)	(103)	-	(10)
Net derivative financial liabilities	137							
Outflows		(162)	(64)	(46)	(23)	(23)	(6)	-
Inflows		16	4	5	3	3	1	-
Total	**9,601**	**(13,204)**	**(1,266)**	**(1,176)**	**(1,129)**	**(1,148)**	**(5,201)**	**(3,284)**

(millions of euro)	Carrying amount at December 31, 2011	Total Contractual cash flows	2012	2013	2014	2015	2016	2017	2018
Non-derivative financial liabilities									
Bank loans	3,294	(4,216)	(397)	(400)	(414)	(426)	(454)	(2,125)	-
Bonds	5,791	(8,442)	(536)	(525)	(525)	(525)	(525)	(3,043)	(2,763)
Loans from others	665	(764)	(208)	(183)	(154)	(114)	(105)	-	-
Net derivative financial liabilities	112								
Outflows		(234)	(62)	(73)	(47)	(23)	(23)	(6)	-
Inflows		142	35	48	30	13	13	3	-
Total	**9,862**	**(13,514)**	**(1,168)**	**(1,133)**	**(1,110)**	**(1,075)**	**(1,094)**	**(5,171)**	**(2,763)**

Market risk

The Company's strategy for managing interest rate and currency risks is aimed at both managing and controlling such financial risks. More specifically, this strategy is aimed at eliminating currency risk and optimizing debt cost wherever possible, taking into account the interests of the Company's stakeholders.

Managing market risk for WIND refers to financial liabilities from the time they actually arise or from when there is a high probability that they will arise.

More specifically, the following market risks are monitored and managed:

- Cash flow risk - this is the risk that movements in the yield curve could have an impact on profit or loss in terms of greater finance expense.
- Fair value risk - this is the risk that movements in the yield curve could have an impact on the fair value of debt.
- Currency risk - this is the risk that the fair value of financial instruments in currencies other than the euro or their cash flows, or the amounts payable or receivable generated by ordinary operations but not in euros, could undergo adverse effects caused by fluctuations in exchange rates.

The main objectives that the Company intends to reach are:

- ➢ to continue to defend the strategic plan scenario from the effects of exposure to currency, interest rate and inflation risks, identifying an optimum combination of the fixed rate, floating rate and inflation components for financial liabilities;
- ➢ to reduce the cost of debt;
- ➢ to manage derivatives in compliance with the Company's approved strategies, taking into consideration the different effects that derivative transactions could have on profit or loss and the statement of financial position.

After signing the medium/long-term loan contract with a banking syndicate, WIND Telecomunicazioni SpA, regarding interest rate risk, undertook to hedge, for the first three years, at least 50% of its exposure to the interest accruing on the total debt and to hedge 100% of its currency risk exposure on the Senior Secured Notes issued in foreign currency.

To meet these commitments the interest rate risk was hedged and, at the present time, this has reached a level of approximately 99%, with a maximum hedge term of less than five years. At December 31, 2012, outstanding derivative contracts hedging interest rate risk total €2,915,000 thousand.

Considering that the total of long-term loans and bonds outstanding at December 31, 2012 amounted to €8,819,169 thousand, the fixed to floating ratio was as follows at that date.

(millions of euro)	**Outstanding at 12.31.2012**	**Rate at 12.31.2012**
At fixed rate	8,804	99.83%
At floating rate	15	0.17%

All derivative agreements were entered into at market rates, without any up-front payments or receipts (a zero cost basis) and with a credit margin being applied.

It is estimated that an increase of 100 basis points in the euro interest rate yield curve (all other variables remaining constant) would lead to an increase in borrowing costs, with regard to the unhedged portion of floating rate debt and the ineffective portion of hedging instrument, of approximately €1,740 thousand and in the cash flow reserve of approximately €27,082 thousand.

Fair value hierarchy

IFRS 7 requires financial instruments recognised in the statement of financial position at fair value to be classified on the basis of a hierarchy that reflects the significance of the inputs used in determining fair value. The following levels are used in this hierarchy:

- Level 1 – quoted prices in active markets for the assets or liabilities being measured;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) on the market;
- Level 3 – inputs that are not based on observable market data.

The following table provides an analysis under this hierarchy of financial assets and liabilities measured at fair value at December 31, 2012.

(millions of euro)	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at *fair value*					
Derivative financial instruments	14	-	30	-	30
Total assets		**-**	**30**	**-**	**30**
Liabilities at *fair value*					
Derivative financial instruments	14	-	137	-	137
Total liabilities		**-**	**137**	**-**	**137**

In 2012 there were no transfers either from Level 1 to Level 2 or vice versa or from Level 3 to other levels or vice versa.

3 PROPERTY, PLANT AND EQUIPMENT

The following table sets out the changes in ***Property, Plant and Equipment*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Additions	Depreciation	Reversal of impairment losses/ Impairment losses	Disposals	Others	At December 31, 2012
Land and buildings	552	-	-	-	-	-	552
Plant and machinery	3,099,032	532,524	(681,304)	(18,717)	(31,622)	349,716	3,249,629
Equipment	23,038	9,516	(10,545)	(5)	-	3,715	25,719
Other	59,811	12,140	(23,898)	-	(80)	12,528	60,501
Assets under construction	464,951	161,915	-	-	(1,313)	(363,908)	261,645
Total	**3,647,384**	**716,095**	**(715,747)**	**(18,722)**	**(33,015)**	**2,051**	**3,598,046**

The cost, accumulated impairment losses and accumulated depreciation at December 31, 2012 can be summarized as follows.

(thousands of euro)	At December 31, 2012			
	Cost	Accumulated impairment losses	Accumulated depreciation	Carrying amount
Land and buildings	552	-	-	552
Plant and machinery	10,477,339	94,833	7,132,877	3,249,629
Equipment	140,662	5	114,938	25,719
Other	490,687	163	430,023	60,501
Assets under construction	261,645	-	-	261,645
Total	**11,370,885**	**95,001**	**7,677,838**	**3,598,046**

Plant and machinery increased by €150,597 thousand over the previous year. The main gross increases of the year regard purchases and operations of radio links and high frequency equipment for the expansion of the mobile access network and plant and machinery under construction (3G mobile technologies and ULL fixed technologies and the respective transport and support networks).

As part of the plan for the development of the Company's production structure, disposals have been made of equipment, infrastructure and transmission systems having a carrying amount of €31,622 thousand which are no longer usable; these relate mostly to radio links and high frequency equipment (€27,948 thousand) and leasehold improvements (€3,082 thousand). In connection with an operation to replace transmission equipment being carried out to render the network more efficient and to obtain benefits from synergies, the net carrying amount of replaced equipment of €23,261 thousand was written off, a loss form disposal of the equipment of €26,232 thousand was recognized and investments have been recognized by €85,375 thousand resulting from the recognition as an increase in the market value of the equipment received as a replacement. In this regard, the value of equipment received as a replacement offsets by €19,865 thousand the impairment loss on the equipment replaced and €20.444 thousand related to the loss from disposal of the equipment replaced, while the remaining €45,066 thousand was suspended in other non-current liabilities and will be released in profit or loss over the useful life of assets.

At December 31, 2012, transmission equipment, telephone systems and commutation switchboards owned by the Company and having a carrying amount of €140,552 thousand were with customers for use (€130,982 thousand at December 31, 2011), while transmission equipment for direct access through "unbundling of the local loop" having a carrying amount of €39,651 thousand (€64,241 thousand at December 31, 2011) was held on deposit by Telecom Italia SpA.

Plant and machinery additionally includes the expenditure incurred to acquire the exclusive rights for the use of cable ducts and optic fiber for a total of €90,800 thousand at December 31, 2012 (€75,632 thousand at December 31, 2011).

At December 31, 2012, *Equipment* increased over the balance at the end of the previous year by an amount of €2,681 thousand mainly as the result of the investments and the entry into use during the year of the commercial equipment. Commercial equipment having a carrying amount of €23,158 thousand at December 31, 2012, was with third parties, mostly authorized dealers, for use at that date (€19,193 thousand al December 31, 2011).

The net balance of *Other* increased over the balance at the end of the previous year by an amount of €690 thousand mainly as the result of the entry into use during the year of office machines and electronic equipment.

The balance of *Assets under construction* at December 31, 2012 consists mainly of plant and machinery being completed and tested.

4 INTANGIBLE ASSETS

The following table sets out the changes in ***Intangible assets*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Additions	Amortization	Reversal of impairment losses/ Impairment losses	Others	Assets sold	At December 31, 2012
Industrial patents and intellectual property rights	281,045	89,696	(112,888)	258	-	40,851	298,962
Concessions, licenses, trademarks and similar rights	3,091,726	158	(112,811)	-	-	-	2,979,073
Other intangible assets	634,956	138,452	(204,589)	-	(771)	(2,128)	565,920
Goodwill	3,579,943	-	-	-	-	-	3,579,943
Assets under development	1,191,332	149,849	-	-	-	(41,469)	1,299,712
Total	**8,779,002**	**378,155**	**(430,288)**	**258**	**(771)**	**(2,746)**	**8,723,610**

The cost, accumulated impairment losses and accumulated amortization at December 31, 2012 can be summarized as follows.

(thousands of euro))	At December 31, 2012			
	Cost	Accumulated impairment losses	Accumulated amortization	Carrying amount
Industrial patents and intellectual property rights	1,728,277	5,839	1,423,476	298,962
Concessions, licenses, trademarks and similar rights	4,404,877	1,000	1,424,804	2,979,073
Other intangible assets	1,562,319	-	996,399	565,920
Goodwill	3,579,943	-	-	3,579,943
Assets under development	1,299,712	-	-	1,299,712
Total	**12,575,128**	**6,839**	**3,844,679**	**8,723,610**

"Others" mainly includes industrial patents and intellectual property rights which entered into use during the year.

The capitalization of the borrowing costs (€104,186 thousand) relating to the purchase of the frequencies (not yet in use) at the end of 2011 is included among the investments in Assets under development. The capitalization of customer acquisition costs is included among the investments in Other intangibles assets.

Industrial patents and intellectual property rights consist of the cost for the outright purchase of application software licenses or the right to use such licenses for an unlimited period and the capitalized costs relating to the time spent by Company personnel in designing, developing and implementing information systems, which at December 31, 2012 amounted to €7,203 thousand (€6,202 thousand at December 31, 2011).

Concessions, licenses, trademarks and similar rights include individual licenses for the installation of networks and concessions to operate in the regulated activities of the telecommunications sector granted to the company by the relevant authorities, as detailed below.

Individual licenses or General Authorizations	Date of issue	Date of expiry (*)
WIND Telecomunicazioni SpA		
Installation of network and provision of voice telephony services on the Italian national territory (**)	February 1998	February 2018
Installation and provision of public telecommunications networks on the Italian national territory	April 1998	April 2018
Provision of public digital mobile communications services using DCS 1800 technology, including the possibility of operating in frequencies in the 900 MHz band using GSM technology pursuant to article 6, paragraph 6(c) of Presidential Decree no. 318 of September 19, 1997	June 1998	June 2018
Installation and provision of public telecommunications networks on the Italian national territory issued to Infostrada SpA now merged	April 1999	April 2019
Provision of third generation mobile communications services adopting the UMTS standard (IMT-2000 family) and the installation of the related network on the Italian national territory pursuant to article 6, paragraph 6(c) of Presidential Decree no. 318 of September 19, 1997	January 2001 (***)	December 2029
Use of frequencies for broadband point-multipoint radio networks in the 24.5-26.5 GHz band for the geographical area corresponding to the specified Italian region/autonomous province (****)	July 2002	July 2022

(*) Individual licenses are renewable in compliance with the regulations prevailing at the time of the renewal upon submission of an application at least 60 days prior to the expiry date (article 25, paragraph 6, of Decree no. 259/03)

(**) The Company has two licenses for network installation and the provision of fixed line telephony services following the merger of Infostrada SpA

(***) The term of the license came into effect on January 1, 2002

(****) A total of 21 individual point-multipoint licenses have been assigned

The frequencies for providing terrestrial publicly available broadband mobile services in the 800 and 2600 MHz bands were not yet in use at December 31, 2012.

Concessions, licenses, trademarks and similar rights for €1,300,235 thousand refer to trademarks which have an indefinite useful life.

Similar rights consist of rights of way and the right to use assets owned by third parties for a predetermined period of time and are initially recognized at their one-off purchase price, including any accessory costs. This item relates for the most part to the costs incurred by Infostrada SpA, now merged, for the purchase in 1998 of the right of way on the Italian railway network and the purchase of the right to use the existing optic fiber on the network.

Other intangible assets mainly relate to the fair value of the customer list, amounting to €437,741 thousand, identified on allocating the goodwill at December 31, 2006 arising from the merger of the former parent Wind Acquisition Finance SpA and to the customer acquisition costs amounting to €120,793 thousand.

Assets under development consist of the internal and external costs incurred for the purchase or development of intangible assets for which the respective ownership right has not yet been fully acquired at the end of the year or which relate to incomplete projects, and downpayments made to suppliers for the purchase of intangible assets. More specifically, intangible assets under development relate to the costs incurred for the design, development and implementation of information systems or specific modules thereof. At December 31, 2012 the item includes the rights to use frequencies awarded to the Company by tender on October 3, 2011 not yet in use and the capitalization of the borrowing costs (€104,186 thousand) relating to the purchase of these frequencies.

The carrying amount of goodwill recognized and of intangible assets with indefinite useful lives at December 31, 2012 was tested for impairment but no impairment losses were identified. The test was carried out by comparing the carrying amount with the value in use and recoverable amount. More specifically, the value in use was calculated on the basis of the discounted cash flows resulting from the 2012-2016 business plan. A growth rate of 1% was assumed for the years not covered by this plan. An interest rate of 8.24% was used to discount the cash flows being the weighted average cost of capital, net of the tax effect, calculated using the capital asset pricing model. Sensitivity was performed simulating, compared to the base assumptions, cash flows reduction by estimating a growth rate of 0.5% for the years not covered by the plan. In all cases the recoverable amount of the net assets continue to be higher than their book value.

5 FINANCIAL ASSETS

The following table sets out ***Financial assets*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012			At December 31, 2011		
	Non-current	Current	Total	Non-current	Current	Total
Financial assets measured at cost	109,250	-	**109,250**	109,250	-	**109,250**
Derivative financial instruments	29,634	-	**29,634**	20,192	-	**20,192**
Financial receivables	22,386	163,791	**186,177**	179,250	8,071	**187,321**
Total	**161,270**	**163,791**	**325,061**	**308,692**	**8,071**	**316,763**

Financial assets measured at cost consist of investments in subsidiaries and associates and non-controlling interests in consortia.During the year 2012 there are not changes in investments.

The following table sets out investments in subsidiaries at December 31, 2012.

(thousands of euro) Name	Registered office	Share/quota capital as of 12/31/2012	Share/quota holders' equity as of 12/31/2012(*)	Profit (loss) for the year ended 12/31/2012(*)	Holding % as of December 31, 2012	Carrying amount as of 12/31/2012
WIND Retail Srl	Roma - Via Cesare Giulio Viola, 48	1,027	31,433	4,230	100%	31,103
Wind Acquisition Finance SA	Lussemburgo - 125 Avenue du X September, L-2551	60,031	89,195	26,904	100%	61,797

(*) as per the financial statements prepared by the companies' directors for the approval of the Share/quotaholders meetings, changed, where needed, to be compliant with the Company's measurement criteria used for the preparation of these separate financial statements.

The Board believes that the difference between the equity of Wind Retail Srl and the actual carrying amount of the investment does not represent a permanent impairment in value, taking into account the favorable outlook for the maintenance of performance and financial situation of the subsidiary.

The following table sets out investments in associates at December 31, 2012.

(thousands of euro)

Name	Registered office	Share/quota capital as of 12/31/2012	Share/quota holders' equity as of 12/31/2012(*)	Profit (loss) for the year ended 12/31/2012(*)	Holding % as of December 31, 2012	Carrying amount as of 12/31/2012
Wind Acquisition Finance II SA	Lussemburgo - Boulevard Grande Duchesse Charlotte, 65	31	(54)	(23)	27.0%	8
WIND Finance SL S.A.	Lussemburgo - 125 Avenue du X September, L-2551	31	228	(101)	27.0%	8

(*) as per the financial statements prepared by the companies' directors for the approval of the Share/quotaholders meetings, changed, where needed, to be compliant with the Company's measurement criteria used for the preparation of these separate financial statements.

The following table sets out non-controling interests in companies and consortia at December 31, 2012.

(thousands of euro)

Name	Registered office	Share/quota capital as of 12/31/2012	Share/quota holders' equity as of 12/31/2012	Profit (loss) for the year ended 12/31/2012
Consel - Consorzio Elis per la formazione professionale superiore a r.l.	Roma - Via Sandro Sandri, 45	51	1%	1
QXN Società consortile per azioni	Roma - Via Bissolati n.76	500	10%	50
Consorzio Janna	Cagliari - Loc. Sa Illetta, Strada Statale 195 Km 2.3	13,717	17.0%	2,072
MIX srl	Milano - Via Caldera, 21	99	9.75%	10
Consorzio Wind Team	Roma - Via Cesare Giulio Viola, 48	5	33.3%	1
SPAL TLC SpA	Correggio (RE) - Via per Carpi n.26/B	3,000	33.00%	13,000
Consorzio Fibra per l'Italia	Roma - Via Leonida Bissolati 76	3,600	33.33%	1,200

Investments in Consorzio Wind Team, Consorzio Fibra per l'Italia and SPAL TLC SpA are not represented as associates because the Company does not have significant influence.

The item *Derivative financial instruments* includes the positive fair value of embedded derivatives on Loan Agreement 2017 e 2018 amounting to €29,634 thousand (€20,192 thousand at December 31, 2011).

The *Financial receivables,* amounting €186,177 thousand at December 31, 2012 mainly include:

- the loan of €156,333 thousand from Wind Telecom SpA as per the Intercompany Loan Agreement signed on November 29, 2010 following the exercising of the options on the shares in Hellas Telecommunications I Sàrl. The agreement provides for a single lump-sum repayment on December 30, 2013 with interest being capitalized and charged at an annual Euribor+2.625% rate. At December 31, 2012 the loan was reclassified from non-current assets to current assets;
- fees of €3,582 thousand (€5,496 thousand at December 31, 2011) of which €1,787 thousand in current assets (€1,870 thousand at December 31, 2011) recognized for hedging derivatives arranged in the current and previous years, which are being amortized over the terms of these instruments;

- the residual value of the transaction costs for the unused portion of bank loans (revolving tranches for which further details may be found in note 13) equal to €10,436 thousand (€13,178 thousand at December 31, 2011), which are charged to profit or loss on a straight-line basis over the term of the agreement.

The following table sets out the due dates for financial receivables.

(thousands of euro)	At December 31, 2012				At December 31, 2011			
Financial receivables	**<1 year**	**1<x<5 years**	**>5 years**	**Total**	**<1 year**	**1<x<5 years**	**>5 years**	**Total**
Guarantee deposits	677	2,514	845	**4,036**	614	2,159	2,047	**4,820**
Receivables due from parents	156,333	-	-	**156,333**	-	149,729	-	**149,729**
Receivables due from related parties	-	-	-	**-**	4	-	-	**4**
Others	6,781	19,027	-	**25,808**	7,453	23,620	1,695	**32,768**
Total	**163,791**	**21,541**	**845**	**186,177**	**8,071**	**175,508**	**3,742**	**187,321**

6 DEFERRED TAX ASSETS AND LIABILITIES

The following tables provide the variation of ***Deferred tax assets*** and ***Deferred tax liabilities*** by origin at December 31, 2012.

(thousands of euro)	**At December 31, 2011**	**Decrease**	**Increase**	**At December 31, 2012**
Provision for bad debts (taxed)	126,390	13,395	28,640	141,635
Provisions for risks (taxed)	55,400	35,643	9,688	29,445
Amortization and depreciation of non-current assets	28,884	21,217	37,410	45,077
Deferred tax assets	**210,674**	**70,255**	**75,738**	**216,157**
Employee benefits	679	-	1,498	2,177
Accelerated depreciation and amortization	22,180	8,658	-	13,522
Property, plant, and equipment at fair value	85,527	6,862	5,396	84,061
Depreciation of PPA	618,423	18,316	2,112	602,219
Deferred tax liabilities	**726,809**	**33,836**	**9,006**	**701,979**

The change shown in 2012 in *deferred tax assets* and in *deferred tax liabilities* is mainly due to the increase in *deferred tax assets* on provision for bad debts and in Amortization and depreciation of non-current assets and to the decrease in deferred tax liabilities relating to depreciations and amortizations.

Deferred tax assets at December 31, 2012 and 2011 which relate to items recognized directly in other components of profit or loss relate entirely to the transactions on derivatives hedging cash flows, as described in further detail in note 12.

Deferred tax have been recognized by considering the probability of their utilization and the extent to which the directors believe there is a reasonable certainty that sufficient profits will be generated in future years against which the losses may be used within the time limits imposed by prevailing tax laws and regulations.

Deferred tax assets were not recognized in respect of temporary differences carried forward indefinitely totalling €268,455 thousand (€196,022 thousand at December 31, 2011), arising from non-deductible finance expenses within the limits imposed by law, due to the lack of reasonable certainty of their recoverability. In addition, even if transferred to the tax consolidation, consistently with the terms of the agreement, no receivables due from the indirect parent Wind Telecom SpA have been recognized. In fact, on the basis of this agreement, if the excess interest expense is transferred to the national consolidation, the transferring company obtains the right to remuneration corresponding to the theoretical tax benefit transferred, only if, and to the extent to which, the company which has transferred this excess interest expense transfers to the consolidation the excess gross operating profit (GOP) not utilized in the tax period for the deduction of interest expense pursuant to article 96, paragraphs 1, 2 and 7 of the Consolidated Income Tax Law (TUIR).

7 INVENTORIES

The following table provides an analysis of ***Inventories*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Finished goods	20,732	17,067
Write-downs	(420)	(439)
Total	**20,312**	**16,628**

Finished goods consist principally of mobile phone handsets and the related accessories. The change taking place during the year is essentially due to an increase in the value of inventory of mobile telephone terminals, kits and related accessories, stocks consisting of products which are technologically advanced and higher unit value over previous year.

8 TRADE RECEIVABLES

The following table provides an analysis of ***Trade receivables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Due from final customers	1,086,249	1,163,235
Due from telephone operators	169,375	248,795
Due from authorized dealers	192,946	274,973
Due from subsidiaries	20,644	16,551
Due from associates	34,771	44,483
Due from related parties	1,042	26,609
Other trade receivables	49,659	44,338
(Provision for bad debts)	(338,121)	(452,114)
Total	**1,216,565**	**1,366,870**

Due from final customers arise principally from the supply of fixed and mobile telephony services to customers with subscription contracts, while *Due from telephone operators* mainly relate to interconnection and roaming services. *Due from authorized dealers* relate to sales of radio mobile and fixed-line handsets and related accessories, as well as rechargeable telephone cards and top-ups.

The balance of net trade receivables at December 31, 2012 over December 31, 2011 has decreased by a total of €150,305. This decrease is mainly due to i) the decrease in:receivables due from telephone operators by €79,420 thousand, and ii) the decrease in receivables due from authorized dealers by €82.027 thousand.

The balance at December 31, 2012 of *Receivables from subsidiaries* consists of the receivables due from WIND Retail while the receivables *due from associates* consist of the receivables due from SPAL TLC SpA.

The decrease in *Receivables from related parties* is mainly due to the reclassification of the receivables due from Libero Srl, WIS and It Net, to receivables due from third parties, following the change in the shareholding structure as a result of which, these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Company.

The following table provides an analysis, at December 31, 2012 and 2011 of trade receivables and the respective provision for bad debts, by due date.

(thousands of euro)	**At December 31, 2012**		**At December 31, 2011**	
	Gross amount	**(Provision)**	**Gross amount**	**(Provision)**
- unexpired	909,218	(12,091)	1,060,833	(9,981)
- expired from:				
- 0-30 days	72,210	(699)	67,974	(584)
- 31-120 days	43,159	(2,022)	90,097	(1,968)
- 121-150 days	20,297	(1,499)	21,190	(544)
- beyond 150 days	509,802	(321,810)	578,890	(439,037)
Total	**1,554,686**	**(338,121)**	**1,818,984**	**(452,114)**

The following table provides an analysis of trade receivables at December 31, 2012 and 2011, net of the provision for bad debts, between those falling due within 12 months and those falling due after 12 months.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
-within 12 months	1,166,836	1,213,989
-after 12 months	49,729	152,881
Total	**1,216,565**	**1,366,870**

The following table sets out changes in the provision for bad debts during the year ended December 31, 2012.

(thousands of euro)	**At December 31, 2011**	**Increases**	**(Utilizations)**	**At December 31, 2012**
Provision for bad debts	**452,114**	111,327	(225,319)	**338,122**

The Company, at December 31, 2012, following an analysis on recoveries activities on trade receivables up to 2010, was recognized a credit loss, fully covered by doubtful provision, for €201 million.

In order to guarantee the obligations assumed by the Company as a consequence of loans disbursed under the Senior Facility Agreement on November 24, 2010, for which further details may be found in note 13, and the obligations assumed by the subsidiary Wind Acquisition Finance SA ("WAF"), as a consequence of the Senior Notes, expiring in 2017, issued on July 13, 2009, the Senior Secured Notes, expiring in 2018, issued on November 26, 2010 and the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012, the Company established collateral by transferring trade receivables, receivables from intercompany loans and receivables relating to insurance contracts, both present and future, in favor of the lending banks and the other creditors specified in the supplemental deed related to the respective collateral contract and in favor of the subscribers to the Senior Secured Notes and the subscribers of the Additional Senior Secured Notes.

9 CURRENT TAX ASSETS

The balance on ***current tax assets*** of €8,031 thousand at December 31, 2012 (€6,447 thousand at December 31, 2011) mostly regards receivables for current tax assets arising from taxes paid in previous years. Advance payments of IRAP tax made during the year are classified as a deduction from tax payables.

10 OTHER RECEIVABLES

The following table sets out details of ***Other receivables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Trade prepayments	123,647	107,286
Other receivables due from third parties	84,017	32,151
Tax receivables	5,999	9,793
Advances to suppliers	19,145	32,107
Other receivables due from parents	20,541	17,683
Other receivables due from related parties	2,429	929
Other receivables due from subsidiaries	8,367	8,271
Other receivables due from associates	10	22
(Provision for bad debts)	(12,847)	(12,228)
Total	**251,308**	**196,014**

The following table provides an analysis, at December 31, 2012 and 2011, of other receivables and the respective provision for bad debts by due date.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Gross amount	(Provision)	Gross amount	(Provision)
- unexpired	216,807	(7,159)	170,760	(7,159)
- expired from:				
- 0-30 days	8,275	-	2,521	-
- 31-120 days	3,145	-	5,725	-
- 121-150 days	19,453	-	11,308	-
- beyond 150 days	16,475	(5,688)	17,928	(5,069)
Total	**264,155**	**(12,847)**	**208,242**	**(12,228)**

The following table provides an analysis of other receivables at December 31, 2012 and 2011, net of the provision for bad debts, between those falling due within 12 months and those falling due after 12 months.

(thousands of euro)	At December 31, 2012	At December 31, 2011
-within 12 months	190,135	151,151
-after 12 months	61,173	44,863
Total	**251,308**	**196,014**

Trade prepayments relate mainly to lease installments for civil and technical sites and lease installments for telephone network circuits.

Other receivables due from third parties relate mainly to receivables from non-commercial third parties. The change over December 31, 2011 is mainly arise from the closure at December 31, 2012 of disputes with suppliers amounting to €30 million and other changes in non-commercial receivables.

The following table provides an analysis of *Tax receivables* at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
VAT	3,550	7,931
Other tax receivables	2,449	1,862
Total	**5,999**	**9,793**

The following table sets out changes in the provision for bad debts for other receivables for the year ended December 31, 2012. This table refers solely to receivables which are due for payment after 12 months.

(thousands of euro)	At December 31, 2011	Increases	(Utilizations)	At December 31, 2012
Provision for bad debts	**12,228**	619	-	**12,847**

11 CASH AND CASH EQUIVALENTS

The following table sets out an analysis of ***Cash and cash equivalents*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Bank deposits and checks	109,097	177,402
Cash on hand and stamps	13	14
Total	**109,110**	**177,416**

The cash and cash equivalents represent the surplus of cash generated by operations, changed mainly due to the ordinary cash inflows and outflows occurred during the year. Further details may be found in note 36 to the cash flow statement.

12 EQUITY

The following table provides details of the changes in ***Equity*** during the years ended December 31, 2012 and 2011.

	Equity				
(thousands of euro)	Issued capital	Share premium reserve	Other reserves	Retained earnings/(losses carried forward)	**Equity**
Balances at December 31, 2010	**147,100**	**752,157**	**(105,327)**	**702,835**	**1,496,765**
Total comprehensive income for the year	**-**	**-**	**(53,439)**	**(182,993)**	**(236,432)**
- Loss for the year	-	-	-	(182,993)	**(182,993)**
- Cash flow hedges	-	-	(53,439)	-	**(53,439)**
Transactions with equity holders	**-**	**-**	**-**	**(8,225)**	**(8,225)**
- Sale of assets	-	-	-	(3,514)	**(3,514)**
- Dividends paid	-	-	-	(907)	**(907)**
- Other changes	-	-	-	(3,804)	**(3,804)**
Balances at December 31, 2011	**147,100**	**752,157**	**(158,766)**	**511,617**	**1,252,108**
Total comprehensive income for the year	**-**	**-**	**38,740**	**(145,320)**	**(106,580)**
- Loss for the year	-	-	-	(145,320)	**(145,320)**
- Cash flow hedges	-	-	38,740	-	**38,740**
Transactions with equity holders	-	-	**35,000**	**-**	**35,000**
- Contribution from shareholders			35,000		**35,000**
Balances at December 31, 2012	**147,100**	**752,157**	**(85,026)**	**366,297**	**1,180,528**

The share capital of WIND Telecomunicazioni SpA at December 31, 2012 consisted of 146,100,000 ordinary shares with no nominal value, fully subscribed and paid up by the sole shareholder WIND Acquisition Holdings Finance SpA.

Despite the encumbrances on the pledged shares underlying the share capital of the Company held by WIND Acquisition Holdings Finance SpA, the voting rights at shareholders' meetings of the Company are retained by WIND Acquisition Holdings Finance SpA by express contractual agreement as an exception to the provisions of paragraph 1, article 2352 of the Italian Civil Code.

The resolution adopted by the company's shareholders on March 28, 2012 resolving the approval of the annual financial statements as of and for the year ended December 31, 2011 allocating the loss for the year of €182,993 thousand to retained earnings

Changes in equity attributable to the owners of the Company during the year ended December 31, 2012 were due mainly to:

- the loss for the year of the Company totaled €145,320 thousand;
- non-refundable equity contribution in the overall amount of €35,000 thousand made on October 12, 2012 by the parent WIND Acquisition Holdings Finance SpA;
- the increase in the cash flow hedge reserve as the effect of the income and the expense recognized among other components of the Separate Statement of Comprehensive Income for 2012 that relate entirely to the transactions on hedging derivatives on cash flows, as described in further detail in note 14. The following table shows the changes in the cash flow hedge reserve.

(thousands of euro)	Interst rate risk			Foreign currency risk			
	Gross reserve	Tax effect	Total	Gross reserve	Tax effect	Total	Cash Flow Hedge Reserve
At December 31, 2011	**(188,186)**	**0**	**(188,186)**	**-**	**-**	**-**	**(188,186)**
Changes in fair value	(70,729)	0	(70,729)	-	-	-	(70,729)
Reverse to income statement	109,469	-	109,469	-	-	-	109,469
At December 31, 2012	**(149,446)**	**-**	**(149,446)**	**-**	**-**	**-**	**(149,446)**

The following statement provides additional disclosure on equity and is prepared pursuant to article 2427, number 7-bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in prior years.

Nature/description	**Amount**	**Possibility of utilization**	**Amount available**	**Summary of the amounts utilized during the previous years (*)**	
(thousand of euro)				**for absorption of losses**	**for other reasons**
Share capital	**147,100**	B	-	**-**	**-**
Share premium	752,157	A-B-C	752,157	(752,281)	-
Reserves:					
Other reserves	64,420	A-B-C	-	-	-
Cash Flow Hedge Reserve	(149,446)	B	-	-	-
Retained earnings	511,617	A-B-C	214,479	-	-
Total	**1,325,848**		**966,636**		
Amount not distributable (**)			149,446 (**)		
Remaining amount distributable			**817,190**		

Key:
A: for share capital increases
B: to cover losses
C: for distribution to shareholders

* These amounts relate to utilizations made starting from 2007, after the reverse merger of the former parent Wind Acquisition Finance SpA

** Non-distributable amount relating to the negative CFH reserve (€149,446 thousand)

13 FINANCIAL LIABILITIES

The following table sets out an analysis of ***Financial liabilities*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012			At December 31, 2011		
	Non-current	Current	Total	Non-current	Current	Total
Financing from subsidiaries	5,728,685	289,615	**6,018,300**	5.710.803	80.254	**5.791.057**
Bank loans	2,820,444	124,271	**2,944,715**	3.041.415	252.853	**3.294.268**
Loans from others	342,011	159,444	**501,455**	486.244	179.140	**665.384**
Derivative financial instruments	132,736	4,197	**136,933**	110.265	1.907	**112.172**
Total financial liabilities	**9,023,876**	**577,527**	**9,601,403**	**9.348.727**	**514.154**	**9.862.881**

The change in the composition of the balances in financial liabilities results from the effect of the following transactions:

i) the early repayment of €500 million of the installments of tranches A1 and A2 of the Senior Facility Agreement falling due in 2012 and 2013, made on April 13, 2012;

ii) the disbursement to the Company of a new intercompany loan from the subsidiary Wind Acquisition Finance SA of €500 million in consequence the additional placement completed on April 13, 2012, of the Additional Senior Secured Notes 2018 of €200 million having a coupon of 7⅜% and USD400 million having a coupon of 7¼%;

iii) the repayment of €500 million relating to the principal of the Loan Spectrum 2018 issued from the subsidiary Wind Acquisition Finance SA in October 2011, performed in two different payments of €250 million, on October 20, 2012 and September 27, 2012;

iv) the repayment of €76.7 million relating to the principal of loan from other banks against the deferred repayment plan of the fair value of the derivative instruments that were repaid with the refinancing of the Company's debt of November 26, 2010;

v) the use of cash of €100 million from August 2012 of part of the revolving tranche of the Senior Facility Agreement;

vi) the disbursement to the Company of the new short-term intercompany loan from the subsidiary Wind Acquisition Finance SA of €205 million. The short-term Loan Agreements, dated November 16, 2012 and December 17, 2012 and maturity date January 10, 2013, have a nominal amount of €35,000 thousand and €170,000 thousand respectively;

vii) the repayment, on October 3, 2012, of €81 million relating to the principal of payable due to the Ministry of Economic Development.

The following table sets out an analysis of *Financial liabilities* at December, 2012 and 2011 by due date.

(thousands of euro)	At December 31, 2012				At December 31, 2011			
	<1 year	1<x<5 years	>5 years	Total	<1 year	1<x<5 years	>5 years	Total
Financing from subsidiaries	289,615	2,613,809	3,114,876	**6,018,300**	80,254	-	5,710,803	**5,791,057**
Bank loans	124,271	2,820,444	-	**2,944,715**	252,853	1,165,000	1,876,415	**3,294,268**
Loans from others	159,444	332,336	9,675	**501,455**	179,140	485,714	530	**665,384**
Derivative financial instruments	4,197	132,736	-	**136,933**	1,907	94,161	16,104	**112,172**
Total financial liabilities	**577,527**	**5,899,325**	**3,124,551**	**9,601,403**	**514,154**	**1,744,876**	**7,603,852**	**9,862,881**

The following table provides the breakdown of effective interest rates and lending currency, net of derivative financial instruments, of loans at December 31, 2012.

(thousands of euro)	At December 31, 2012						
	<5%	5%<x<7.5%	7.5%<x<10%	10%<x<12,5%	12.5%<x<15%	>15%	Total
Euro	651,313	2,993,980	2,696,376	495,713	2,627,088	2,627,088	9,464,470
US dollars	-	-	-	-	-	-	-
Total	**651,313**	**2,993,980**	**2,696,376**	**495,713**	**2,627,088**	**-**	**9,464,470**

The following table provides a comparison between the carrying amount and fair value of non-current *Financial liabilities* at December 31, 2012 and 2011. The fair value is approximately the same as the carrying amount for current *Financial liabilities*.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financing from subsidiaries	5,728,685	5,822,978	5,710,803	5,320,326
Bank loans	2,820,444	2,927,700	3,041,415	3,177,147
Loans from others	342,011	342,011	486,244	486,244
Derivative financial instruments	132,736	132,736	110,265	110,265
Total	**9,023,876**	**9,225,424**	**9,348,727**	**9,093,982**

Current *Financial liabilities* at December 31, 2012 consist exclusively of the portions of bank loans, financing from subsidiaries and loans from others for which payment is due by the end of the following financial year, referring to both principal and accrued interest.
An analysis of the *derivative financial instruments* balance and of the respective changes is found in note 14.

Bank loans

The following table sets out the main information relating to outstanding *Bank loans* at December 31, 2012.

(thousands of euro)	Carrying amount at December 31, 2012	Carrying amount at December 31, 2011	Nominal amount at December 31, 2012	Usable amount	Currency	Due date	Interest rate
Senior Facility Agreement							
- Tranche A1	97,118	149,277	100,329	100,329	EUR	11/26/2016	Euribor+4.00%
- Tranche A2	788,592	1,212,127	814,671	814,671	EUR	11/26/2016	Euribor+4.00%
- Tranche B1	1,281,804	1,278,680	1,333,882	1,333,882	EUR	11/26/2017	Euribor+4.25%
- Tranche B2	654,395	652,837	681,118	681,118	EUR	11/26/2017	Euribor+4.50%
- Revolving	99,994	-	100,000	400,000	EUR	11/26/2016	Euribor+4.00%
- Overdrafts	21,827	-					
- Other accrued interest	985	1,347	-				
Total	**2,944,715**	**3,294,268**	**3,030,000**	**3,330,000**			

The Senior Facility Agreement, disbursed on November 26, 2010 to WIND Telecomunicazioni SpA and denominated exclusively in euros, is made up of various tranches, each having its own specific repayment plan and interest rates which may be reviewed on the basis of the trend of specific equity ratios.
Details and the main features of the tranches are as follows:

- tranche A1 is repayable from May 26, 2011 to November 26, 2016. Interest is payable at Euribor plus a spread of 400 basis points. The maximum amount of the facility of €166 million was fully in use;

- tranche A2 is repayable from May 26, 2011 to November 26, 2016. Interest is payable at Euribor plus a spread of 400 basis points. The maximum amount of the facility of €1,349 million was fully in use;
- tranche B1 is repayable in a single lump sum on November 26, 2017. Interest is payable at Euribor plus a spread of 425 basis points. The maximum amount of the facility of €1,334 million was fully in use;
- tranche B2 is repayable in a single lump sum on November 26, 2017. Interest is payable at Euribor plus a spread of 450 basis points. The maximum amount of the facility of €681 million was fully in use;
- a revolving tranche having final repayment on November 26, 2016. This may be used either as a cash loan or a signature loan. If used as a cash loan interest is payable at Euribor plus a margin of 400 basis points and there is a non-use commission of 160 basis points. At December 31, 2012, the maximum usable amount of €400 million, was in use for €100 million.

With the aim of reducing its bank loan exposure to fluctuations in interest rates and foreign exchange rates, the Company has entered transactions which qualify as hedges for a notional amount of €2,915,000 thousand, whose fair value at December 31, 2012, including forward start transactions, is negative for €136,993 thousand. The hedges extend to September 2017 and consist of *plain vanilla interest rate swaps* and p*lain vanilla forward start interest rate swaps*.

Financing from subsidiaries

The following table sets out the main information relating to outstanding *Financing from subsidiaries* at December 31, 2012.

(thousands of euro)	**Carrying amount at December 31, 2012**	**Carrying amount at December 31, 2011**	**Nominal amount at December 31, 2012**	**Residual Commitment**	**Currency**	**Due date**	**Interest rate**
Loan Agreement 2017	2,627,088	2,616,180	2,678,068	2,678,068	EUR	06/15/2017	11.90%
Loan Agreement 2018	2,671,777	2,658,871	2,711,101	2,711,101	EUR	01/15/2018	7.60%
Additional Loan Agreement 2018	495,713	-	500,000	500,000	EUR	01/15/2018	9.30%
Loan Spectrum 2018	-	504,595			EUR	09/27/2018	14.00%
ICL 2012 Depo I	35,150	-	35,000	35,000	EUR	01/10/2013	3.42%
ICL 2012 Depo II	170.150	-	170.000	170.000	EUR	01/10/2013	2,27%
Totale	**5.999.877**	**5.779.646**	**6.094.169**	**6.094.169**			

The Loan Spectrum 2018, issued to the Company on October 24, 2011 from the subsidiary Wind Acquisition Finance SA, was fully repaid on September 27, 2012. The loan had maturity date September 27, 2018, annual interest of 14% and a nominal amount of €500 million.

On April 13, 2012 the subsidiary Wind Acquisition Finance SA issued the Additional Loan Agreement 2018 of €500 million to the Company, following the issuance, completed on April 13, 2012, of the Additional Senior Secured Notes 2018 of €200 million having a coupon of 7⅜ and USD400 million having a coupon of 7¼%.

An amount of €18,423 thousand at December 31, 2012 refers to the sight current accounts with subsidiaries on which interest is charged on a quarterly basis at market rates.

The current portion of financing from subsidiaries at December 31, 2012 also includes €205,300 thousand related to the short-term deposits from the subsidiary Wind Acquisition Finance SA, (The short-term Loan Agreements, dated November 16, 2012 and December 17, 2012 and maturity date January 10, 2013, with a nominal amount of €35,000 thousand and €170,000 thousand respectively).

Loans from others

This item, having a balance of €501,455 thousand (€665,384 thousand at December 31, 2011), mainly consists of:

- payable due to the Ministry of Economic Development for an amount of €324 million, as the result of the allocation of the mobile frequency use rights (for which details may be found in note 4). This balance is repayable over a five year period from October 3, 2012 (a payment of €81 million was performed on October 3, 2012) at a floating interest rate calculated by adding a spread of 1% to the average rate at which treasury bonds are issued during the previous year as published by the Ministry in the 30 days preceding the due date of each installment;
- payable to banks of €164,095 thousand (of which €74,790 is the current portion) against the deferred repayment plan of the fair value of the derivative instruments hedging loans that were repaid with the refinancing of the Company's debt.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The following table provides details of the outstanding ***Derivative financial instruments*** at December 31, 2012 and 2011, analyzed by the type of risk hedged .

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Fair Value (+)	**Fair Value (-)**	**Fair Value (+)**	**Fair Value (-)**
- Exchange rate risk	-	-	-	-
- Interest rate risk	-	136,933	-	112,172
Total cash flow hedges	**-**	**136,933**	**-**	**112,172**
- Embedded derivatives on Loan Agreement 2017 and 2018	29,634	-	20,192	-
Total Derivatives Non Hedge Accounting	**29,634**	**-**	**20,192**	**-**
Total	**29,634**	**136,933**	**20,192**	**112,172**

The following table shows the detail of current and non-current derivative instruments.

(thousands of euro)	At December 31, 2012		At December 31, 2011	
	Fair Value (+)	**Fair Value (-)**	**Fair Value (+)**	**Fair Value (-)**
Current	-	4,197	-	1,907
Non current	29,634	132,736	20,192	110,265
Total derivatives	**29,634**	**136,933**	**20,192**	**112,172**

The fair value of financial instruments listed on active markets was determined as the market quotation at the reporting date. In the absence of an active market, fair value was determined by referring to prices provided by external operators and using valuation models based mostly on objective financial variables, as well as by taking into account, where possible, the prices used in recent transactions and the quotations of similar financial instruments.
There were no currency risk hedges outstanding at December 31, 2012 as the Company no had any debt in currencies other than the euro at that date.
The following were outstanding at December 31, 2012:

- plain vanilla interest rate swaps and plain vanilla forward start interest rate swaps hedging the interest rate risk of bank loans, having a notional amount of €2,915,000 thousand (€3,380,000 thousand at December 31, 2011) and a negative fair value of €136,933 thousand and nil positive fair value (negative fair value of €112,172 thousand and nil positive fair value at December 31, 2011);
- embedded derivatives of €29,634 thousand (€20,192 thousand at December 31, 2011) relating to the fair value of the early repayment options on the Loan Agreement 2017 and 2018 (€24,835 thousand and €4,799 thousand on the loans expiring in 2017 and 2018, respectively), for which details may be found in note 13.

15 EMPLOYEE BENEFITS

The following table sets out the changes in ***Employee benefits*** at December 31, 2012.

(thousands of euro)	At December 31, 2011	Accrual	(Utilization)	Other changes	At December 31, 2012
Post-employment benefits	**57,598**	20,888	(1,904)	(18,802)	**57,780**

Other changes during the year consist mostly of the transfer of the post-employment benefits accrued during the year to supplementary pension funds or to the Treasury fund held by the Italian social security organization INPS (€17,525 thousand).

The main actuarial assumptions underlying the calculation of the post-employment benefits are the following.

Average inflation rate	Discount rate	Increase in wages and salaries	Employee turnover rate
2.00%	4.20%	N/A	1.00%– 2.00%

The effects recognized in profit or loss are as follows.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Current service costs	18,939	19,555
Finance expense	1,949	2,075
Total	**20,888**	**21,630**
Actual return on plan assets	N/A	N/A

16 PROVISIONS

The following table sets out changes in ***Provisions*** during the year ended December 31, 2012.

(thousands of euro)	At December 31, 2011	Increases	(Decreases)	At December 31, 2012
Litigation	41,013	6,368	(12,902)	34,479
Restructuring	4,306	4,101	(4,306)	4,101
Universal service contribution (Presidential Decree no. 318/1997)	17,500	2,500	(3,318)	16,682
Product assistance	2,952	1,154	(2,038)	2,068
Dismantling and removal	38,713	1,701	(2,429)	37,985
Other provisions	56,847	18,340	(22,077)	53,110
Total	**161,331**	**34,164**	**(47,070)**	**148,425**

Litigation

The provision at the respective dates is based on estimates using the best information available of the total charge that the Company expects to incur upon settlement of all outstanding legal proceedings (for details on the main proceedings in progress, please refers to paragraph on main pending legal proceedings in note 37).

Restructuring

The provision consists of the costs which the Company expects to incur in future years as a consequence of implementing restructuring and reorganization plans resulting from the identification of areas of efficiency in certain business areas. The utilization of the restructuring provision in the amount of €4,306 thousand and the accrual of €4,101 are mainly due to leaving incentives.

Universal service contribution

Article 3, paragraph 6, of Presidential Decree no. 318 of September 19, 1997 regarding the "Implementation of European Union Directives" establishes a mechanism designed to distribute the net cost of providing universal service throughout the country whenever the related obligations represent an unfair cost for the entity or entities assigned the responsibility for supplying the service.

The utilization of the provision in the amount of €3,318 thousand relates to the universal service for 2005, while the accrual in the amount of €2,500 thousand relates to the estimate of the universal service for 2012.

Dismantling and removal

The item consists of the estimate of the dismantling and removal costs which may be incurred as a result of contractual obligations which require the asset to be returned to its original state and condition.

Other provisions

This item consists of the measurement of certain liabilities arising from obligations assumed by the Company for which an estimate is made at the date of these financial statements of the amount to be settled upon due date. The balance includes €31,997 thousand for liabilities for termination benefits arising from agency contracts in existence at the reporting date and €6,807 thousand accrued in 2011 relating to compensation plan for the long-term retention and incentive of management.

17 OTHER LIABILITIES

Other non-current liabilities at December 31, 2012 and 2011 amount to €142,800 thousand and €115,869 thousand, respectively. At December 31, 2012 this item mainly includes:

- an amount of €100,268 thousand relating to the deferral of the positive economic effect resulting from the operation for the replacement of transmission apparatus in 2012 and 2011 (for which details may be found in note 3), which will be recognized in profit or loss over the useful life of the assets;
- an amount of €33,598 thousand relating to a capital contribution recognized on the allocation of the frequencies (for which details may be found in note 3) as a discount of 3% on the total amount of the tender for the

commitment made to produce over 50% of the new networks using apparatus having environmental eco-sustainable features. The amount will be released to profit or loss when there is the reasonable certainty that the envisaged conditions will be met, and is consistent with the depreciation of the apparatus having eco-sustainable features which will be purchased and put into use for the development of the network.

18 TRADE PAYABLES

The following table provides details of ***Trade payables*** at December 31, 2012 and 2011.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
Due to telephone operators	418,195	407,984
Due to agents	41,586	50,682
Due to authorized dealers	47,571	40,541
Due to parents	6,172	692
Due to associates	9,231	8,798
Due to related companies	7,799	5,266
Construction contracts	4,190	65,068
Other trade payables	1,261,868	1,198,598
Total	**1,796,612**	**1,777,629**

The change in this item over the year is principally due to the effect of normal settlements during the course of the year.

Trade payables *due to telephone operators* mainly relate to interconnection and roaming services.

Payables *due to agents* and *due to authorized dealers* relate to commissions to agents and authorized dealers.

Trade payables *due to parents* are the consequence of the agreement between the indirect parent Wind Telecom SpA and the WIND Telecomunicazioni SpA relating to the provision of services for which further details may be found in note 34.

Due from associates consist of the trade payables due to SPAL TLC SpA, following the acquisition made on June 15, 2011.

Trade payables *due to related companies* mainly relate to transactions with telephone operators belonging to the Company for which further details may be found in note 34. The item decreased at December 31, 2011 due to the reclassification of the payables due to Libero Srl, WIS and It Net, to payables due to third parties, following the change in the shareholding structure as a result of which, these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Company.

Other trade payables mainly relate to payables to suppliers for the purchase of goods and services.

The following table provides an analysis of trade payables by due date.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
-within 12 months	1,733,530	1,720,678
-after 12 months	63,082	56,951
Total	**1,796,612**	**1,777,629**

19 OTHER PAYABLES

The following table provides an analysis of ***Other payables*** at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Payables to social security organizations	28,325	33,191
Tax payables	168,806	148,622
Payables to personnel	33,338	48,032
Payables to government bodies by grants	9,475	27,239
Other amounts payable to parents	315,594	225,640
Other amounts payable to subsidiaries	305	283
Prepaid traffic to be used	208,262	216,351
Deferred income	25,611	29,384
Other payables	48,957	32,149
Total	**838,673**	**760,891**

The following table provides an analysis by due date.

(thousands of euro)	At December 31, 2012	At December 31, 2011
-within 12 months	810,873	700,270
-after 12 months	27,800	60,621
Total	**838,673**	**760,891**

Payables to social security organizations relate principally to the employer's and employees' portions of social security contributions for December and the employer's portion accrued on deferred remuneration (mostly accrued vacation and other permitted leaves that have been accrued but not yet taken). This item also includes the amounts payable to the Italian social security organization INPS for the accrued post-employment benefits (TFR) yet to be paid which employees had elected to transfer to the Treasury fund in accordance with Law no. 296 of December 27, 2006, the "2007 Finance Act", and subsequent decrees and regulations.

The following table sets out details of *Tax payables* at December 31, 2012 and 2011.

(thousands of euro)	At December 31, 2012	At December 31, 2011
Government license fee	25,298	33,882
Withholding tax	9,928	13,313
VAT	67,513	-
Other	66,067	101,427
Total	**168,806**	**148,622**

The increase in VAT payables as of December 31, 2012 in comparison with December 31, 2011 is in accordance with the net flow of billing.

The increase in *Tax payables* is mainly due to the recognition of €67,513 thousand at December 31, 2012 relating to VAT payables partially offset by the decrease in other tax payables.

Other tax payables include €64,982 thousand at December 31, 2012 and €100,537 thousand at December 31, 2011 relating the closing of the audit on withholdings on the interest paid by the Parent to Wind Finance SL SA and Wind Acquisition Finance SA in prior years. This tax debt is payable in twelve quarterly installments from December 2, 2011 to September 2, 2014, with interest charged at a rate of 1.5%.

Payables to personnel consist mostly of liabilities for accrued vacation and other accrued leaves still to be taken at the end of the year. *Payables to personnel* decreased compared to December 31, 2011 mainly due a decrease in deferred compensations following the agreement with trade unions, reached on October 10, 2012, to revise the main economic and legislative schemes in personnel costs in the period from 2013 to 2017.

Payables to government bodies for grants represent amounts due for licenses and concessions provided by the relevant bodies. The decrease, compared to December 31, 2011, is mainly due to the payment of €15,397 thousand to the Ministry of Economic Development, performed on February 29, 2012 and related to 2002-2004 annual contributions for the operation of radio network for private use.

Out of *Other payables to parents*, €315,081 thousand (€222,723 thousand at December 31, 2011) refers to a payable to the indirect parent Wind Telecom SpA following the transfer of IRES tax payables by the Company as part of the national tax consolidation procedure.

Prepaid traffic to be used consists of the unused portion of prepaid traffic, sold by the Company via rechargeable telephone cards and top-ups, which had not yet been utilized at the end of the year.

Deferred income refers to income for billings made contractually in advance in prior years and in 2012 for lease and installation fees relating to the utilization of broadband capacity ('initial capacity'), which will be recognized in later periods.

Other payables mainly consist of amounts due to supplementary pension funds, amounts payable for bank commissions and guarantee deposits received from customers and an advance received from the Region of Puglia as part of the Company's participation in the Region of Puglia's project to carry out investments supporting local development.

20 TAX PAYABLES

The balances at December 31, 2012 and 2011 of €0 thousand and €2,082 thousand, respectively, represent the amounts due by the company for income tax for the year (IRAP), net of advance payments for the corresponding tax periods.

Receivable and payable items for IRES are included in receivables and payables from and to the parent, as Company have elected to take part in the national tax consolidation procedure of Wind Telecom SpA.

21 REVENUE

The following table provides an analysis of ***Revenue*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Revenue from sales	**196,754**	**145,102**	**51,652**	**35.6%**
- Telephone services	4,281,077	4,306,762	(25,685)	(0.6)%
- Interconnection traffic	611,356	807,628	(196,272)	(24.3)%
- International roaming	44,699	54,734	(10,035)	(18.3)%
- Judicial authority services	6,392	7,053	(661)	(9.4)%
- Other revenue from services	120,584	107,915	12,669	11.7%
Revenue from services	**5,064,108**	**5,284,092**	**(219,984)**	**(4.2)%**
Total	**5,260,862**	**5,429,194**	**(168,332)**	**(3.1)%**

The item shows a decrease of 3.1% for the twelve months of 2012 compared to the corresponding period in 2011. This effect is due to a decrease in revenue from *interconnection traffic* and from *international roaming*, which the effect was partially offset by the increase in the *revenue from sales* due to a shift of sales towards high-range terminals. Despite the difficult macroeconomic situation and the contraction of the market *telephone services* managed to hold up, due mainly to an increase in the customer base and the development of offers for mobile internet browsing.

The *interconnection traffic* revenue decrease mainly due to the combined effect of the following factors:

- a fall in revenue from domestic interconnection on the mobile network and the fixed network and from international interconnection due to the reduction of unit tariffs, only partially offset by an increase in traffic volumes;
- a decrease in narrowband internet traffic mainly following a general shift towards broadband technology;
- higher interconnection traffic revenue from VAS Not Voice due to an increase in traffic volumes.

International roaming revenue fell mainly as the effect of the general reduction in tariffs for both voice and internet, only partially offset by an increase in international roaming volume in internet.

22 OTHER REVENUE

Other revenue amounts in total to €167,218 thousand in the twelve months of 2012 (an increase of €24,741 thousand over the year 2011) and refers principally to the revisions of estimates made in previous years and to the closure of settlement with some vendors.

23 PURCHASES AND SERVICES

The following table provides an analysis of ***Purchases and services*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	 %
Interconnection traffic	842,636	974,015	(131,379)	(13.5)%
Customer acquisition costs	270,948	286,389	(15,441)	(5.4)%
Lease of civil and technical sites	237,454	236,812	642	0.3%
Purchases of raw materials, consumables, supplies and goods	238,859	189,208	49,651	26.2%
Lease of telecommunication circuits	83,928	86,972	(3,044)	(3.5)%
Advertising and promotional services	196,856	227,662	(30,806)	(13.5)%
Outsourced services	138,932	137,624	1,308	1.0%
Other services	101,249	84,267	16,982	20.2%
Lease of local access network	422,445	407,420	15,025	3.7%
Maintenance and repair	106,278	94,516	11,762	12.4%
Utilities	114,723	99,572	15,151	15.2%
National and international roaming	35,089	34,273	816	2.4%
Consultancies and professional services	41,829	51,452	(9,623)	(18.7)%
Change in inventories	(3,684)	173	(3,857)	n.m.
Other leases and use of third party assets	13,498	13,178	320	2.4%
Bank and postal charges	11,013	10,319	694	6.7%
Transport and logistics	17,325	17,214	111	0.6%
Total purchases and services	**2,869,378**	**2,951,066**	**(81,688)**	**(2.8)%**

The change in this item is essentially due to the combined effect of the following increases and decreases compared to the year ended December 31, 2011:

- a decrease of €131,379 thousand in *Interconnection traffic* costs mainly due to a general fall in termination tariffs, only partially offset by an increase in the volume of traffic directed to the mobile network, to the international and in VAS traffic;
- a decrease of €30,806 thousand in the cost of *Advertising and promotional services* mainly due to the improvement in advertising strategy and in the efficiency/effectiveness ratio;
- a decrease of €15,441 thousand in *Customer acquisition cost,* mainly due to a reduction in costs related to fixed line acquisition costs;
- net increase of €45,794 thousand in *Purchases of raw materials, consumables, supplies and goods and Change in inventories* mainly due to an increase in the unit purchase prices charged by suppliers compared to the previous period as the result of a shift of sales towards high-range terminals;
- an increase of €15,025 thousand in *Lease of local access network* costs mainly as the result of an increase in the LLU tariffs and customer bases;
- an increase of 15,151 thousand in *Utilities* costs mainly due to the increase in the price of electricity over the previous year;
- an increase of 11,762 thousand in *Maintenance and repair costs* mainly due to the increase in volumes of acquisitions.

The item *consultancies and professional services* includes remuneration for statutory auditors of Company, equal to €176 thousand, and the remuneration for the external audit activities on financial statements, equal to €1,209 thousand (total compensation for the audit to separate and consolidate financial statements at December 31, 2012 is equal to €473 thousand). The ordinary shareholders' meeting of March 28, 2012 did not resolve compensations to the Directors of the Company.

24 OTHER OPERATING COSTS

The following table provides an analysis of ***Other operating costs*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Impairment losses on trade receivables and current assets	111,858	91,367	20,491	22.4%
Accruals for costs	5,984	1,364	4,620	338.7%
Annual license fees	31,225	29,121	2,104	7.2%
Other operating costs	16,505	15,910	595	3.7%
Accruals for risks	6,368	14,428	(8,060)	(55.9)%
Gifts	591	723	(132)	(18.3)%
Total other operating costs	**172,531**	**152,913**	**19,618**	**12.8%**

The increase over 2011 is due to i) the rise in impairment losses on trade receivables due to the negative collection performance, and ii) an increase in annual license fees arising mainly from the increase in the fees payable to AGCOM for 2011, partially offset by a decrease in accruals for risks.

25 PERSONNEL EXPENSES

The following table provides an analysis of ***Personnel expenses*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Wages and salaries	268,347	287,774	(19,427)	(6.8)%
Social security charges	73,410	78,363	(4,953)	(6.3)%
Other personnel expenses	17,390	13,617	3,773	27.7%
Post-employment benefits	19,285	18,900	385	2.0%
(Costs capitalized for internal works)	(47,415)	(47,505)	90	(0.2)%
Total personnel expenses	**331,017**	**351,149**	**(20,132)**	**(5.7)%**

The noted decrease over 2011 is essentially due to: i) a decrease in the item *Wages and salaries*, principally resulting from the decrease in the average number of employees of the Company by 103 units, ii) the decrease in allowances and incentives, mainly due to the agreement with trade unions, reached on October 10, 2012, to revise the main economic and legislative schemes in personnel costs in the period from 2013 to 2017.

Other personnel expenses include for 2012 the provision for restructuring for €4,110 thousand.

The number of employees at year end was as follows.

	At December 31, 2012	At December 31, 2011
Senior management	142	150
Middle management	594	572
Employees	5,492	5.556
Total	**6,228**	**6.278**

The average number of employees during the year was as follows.

	2012 12 months	2011 12 months
Senior management	147	150
Middle management	584	572
Employees	5,533	5.645
Total	**6,264**	**6.367**

26 DEPRECIATION AND AMORTIZATION

The following table provides an analysis of ***Depreciation and amortization*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Depreciation of property, plant and equipment				
- Plant and machinery	681,324	634,629	46,695	7.4%
- Industrial and commercial equipment	10,525	9,322	1,203	12.9%
- Other assets	23,898	23,326	572	2.5%
Amortization of intangible assets with finite lives				
- Industrial patents and similar rights	112,888	108,860	4,028	3.7%
- Concessions, licenses, trademarks and similar rights	112,811	113,354	(543)	(0.5)%
- Other intangible assets	204,589	165,737	38,852	23.4%
Total depreciation and amortization	**1,146,035**	**1,055,228**	**90,807**	**8.6%**

Depreciation and amortization rose by €90,807 thousand over the twelve months of 2011, of which €48,470 thousand being the depreciation of property, plant and equipment as result of higher investments network for the expansion of the access networks made in the last years and €42,337 thousand being the amortization of intangible assets due to higher customer acquisition costs as a result of increase in the customer base.

27 REVERSAL OF IMPAIRMENT LOSSES / (IMPAIRMENT LOSSES) ON NON-CURRENT ASSETS

The following table provides an analysis of ***Reversal of impairment losses / (impairment losses) on non-current assets*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Reversal of impairment losses / (Impairment losses) on property, plant and equipment	4,791	(13,319)	18,110	(136.0)%
Reversal of impairment losses / (Impairment losses) on intangible assets	(14)	(5)	(9)	180.0%
Total	**4,777**	**(13,324)**	**18,101**	**(135.9)%**

The balance for the twelve months of 2012 includes the effect of the operation to replace transmission equipment for which more details may be found in the note 3.

28 GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS

The following table provides an analysis of ***Gains/(losses) on disposal of non-current assets*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Gains on disposal of property, plant and equipment	6,599	3,875	2,724	70.3%
Losses on disposal of property, plant and equipment	(10,582)	(2,289)	(8,293)	362.3%
Total	**(3,983)**	**1,586**	**(5,569)**	**n.m.**

The change over the previous year is due to the high losses recorded in 2012 on the disposal and/or sale of property, plant and equipment as part of the normal renewal process for these assets for which more details may be found in the note 3.

29 FINANCE INCOME

The following table provides an analysis of ***Finance income*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Interest on bank deposits	1,402	6,630	(5,228)	(78.9)%
Income from subsidiaries	1	5	(4)	(80.0)%
Fair value measurement of derivatives	9,408	-	9,408	n.m.
Other	7,588	7,262	326	4.5%.
Total finance income	**18,399**	**13,897**	**4,502**	**32.4%**

The item shows an increase mainly due to the financial income arising from the measurement of non-hedging derivates at fair value by €9,408 thousand at December 31, 2012. The increase is partially offset by the decrease in *Interest on bank deposits*.

Other financial income, also include €6,604 thousand in 2012 of interest arising on the receivable from the parent Wind Telecom SpA under the agreement entered in November 2010, for which details may be found in note 5.

30 FINANCE EXPENSE

The following table provides an analysis of ***Finance expense*** for 2012 and 2011.

(thousands of euro)	2012 12 months	2011 12 months	Change Amount	%
Interest expense on:				
Bank loans	(222,999)	(253,925)	30,926	(12.2)%
Financing from subsidiaries	(630,869)	(557,609)	(73,260)	13.1%
Discounted provisions	(3,650)	(3,518)	(132)	3.8%
Cash flow hedges, reversed from equity	(111,899)	(89,785)	(22,114)	24.6%
Fair value measurement of derivatives	-	(72,703)	72,703	(100.0)%
Other	(58,085)	(135,954)	77,869	(57.3)%
(Finance expense capitalized)	104,186	24,590	79,596	n.m.
Total finance expense	**(923,316)**	**(1,088,904)**	**165,588**	**(15.2)%**

Finance expense at December 31, 2012 consists mostly of accrued interest on financial liabilities outstanding at December 31, 2012, for which further details may be found in note 13, and the effects of the hedge accounting for derivatives under which a portion of the cash flow hedge reserve was reclassified to the income statement by €111,899 thousand (€89,785 thousand at December 31, 2011).

The change in the item at December 31, 2012 over December 31, 2011 is essentially due to the combined effect of the following factors:

- the *other* finance expense consisting at December 31, 2011 of the finance expense relating to withholding not applied in prior years to the associate Wind Finance SL SA and to the subsidiary Wind Acquisition Finance SA by an amount equal 100,537 thousand.
- Lower interest expense on bank loans due to the repayment of €500 million, made on April 13, 2012, for which details may be found in notes 13.

In addition, as result of fair value valuation of derivatives embedded in loans at December 31, 2012, finance income amounting to €9,169 thousands was recognized (as described in note 29) in respect of finance expense amounting to €72,703 thousands at December 31, 2011.

The change in the item Other of Finance expense relates to finance expenses on Loans from others, for which details can be found in note 13.

31 FOREIGN EXCHANGE GAINS/(LOSSES), NET

The following table provides an analysis of ***Foreign exchange gains (losses) - net*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Realized gains	629	930	(301)	(32.4)%
Unrealized gains	292	241	51	21.2%
Foreign exchange gains	**921**	**1,171**	**(250)**	**(21.3)%**
Realized losses	1,387	1,032	355	34.4%
Unrealized losses	48	465	(417)	(89.7)%
Foreign exchange losses	**1,435**	**1,497**	**(62)**	**(4.1)%**
Total	**(514)**	**(326)**	**(188)**	**57.7%**

32 INCOME TAX

The following table provides an analysis of ***Income tax*** for 2012 and 2011.

(thousands of euro)	2012	2011	Change	
	12 months	12 months	Amount	%
Current tax	(190,939)	(224,830)	33,891	(15.07)%
Previous years income taxes	10,825	(4,517)	15,342	n.m.
Deferred tax	30,312	68,955	(38,643)	(56.0)%
Total income tax	**(149,802)**	**(160,392)**	**10,590**	**(6.6)%**

The net charge for the year is made up of the following:

- current income taxes expense of €190,939 thousand (of which €124,488 thousand for IRES tax and €66,451 thousand for IRAP tax) charged on the taxable income for 2012. The decrease compared to 2011, despite the increase in the result before tax, is due to the interest expense, which is partially non-deductible recognized in 2011;

- previous years income taxes of €10,825 thousand. At December 31, 2012, €12,155 thousand refer to the claim for previous years IRES as a result of the deductible IRAP related to personnel expenses in accordance with article 2 of Legislative Decree no. 201 of December 6, 2011 and , according to the national tax consolidation agreement, the receivable was accounted as a reduction of payables due to parent Wind Telecom SpA;
- net deferred tax income of €30,312 thousand, arising from changes of €5,482 thousand in deferred tax assets mainly relating to the changes in temporary differences arising from provisions and non-current assets and from the release of deferred tax liabilities of €24,830 thousand, mainly relating to the changes in temporary differences arising from non-current assets.

The following table provides a reconciliation between the theoretical tax rate and the effective tax rate for 2012 and 2011.

(thousands of euro)		**2012**		**2011**
Theoretical tax rate	27,50%		27.50%	
Profit/(Loss) before tax	**4,482**		**(25,756)**	
Theoretical tax assets relating to IRES		1,233		(7,083)
Non-deductible costs/non-taxable revenue		92,943		90,205
Non-recognized deferred tax assets				-
Adjustments to previous years taxes		(10,825)		4,517
Actual IRES tax (current and deferred)		83,351		87,639
Effective IRES tax rate	1859.7%		(340.3)%	
IRAP tax		66,451		72,753
Actual tax expense recognized in profit or loss		149,802		160,392
Overall tax rate	3342.3%		(622.7)%	

The above reconciliation between the theoretical and effective tax rates has been performed solely for IRES tax (corporate income tax) purposes. The IRAP tax charge is included to reconcile with the overall income tax expense in the financial statements.

33 PROFIT/LOSS FROM DISCONTINUED OPERATIONS

At December 31, 2012 the item comprises the income, net of related tax effect, attributable to the assets ("Libero" web portal, the subsidiaries WIND International Services SpA and Itnet Srl and the branch referring to the operation of the submarine cable between Italy and Greece), sold as part of the combination agreement between the indirect parent Wind Telecom SpA and VimpelCom Ltd.

34 RELATED PARTY TRANSACTIONS

Transactions with related parties

Related party transactions are part of normal operations which are conducted on an arm's length basis from an economic standpoint and formalized in agreements, and mainly relate to transactions with telephone operators.

In refer to transactions with the indirect parent Wind Telecom SpA, WIND Telecomunicazioni SpA receives services relating to IT, marketing, personnel, purchasing, etc; moreover, on November 29, 2010 the Company granted Wind Telecom SpA a loan of €156,333, for which details may be found in note 5.

Following a change in the shareholding structure of VimpelCom in the third quarter of 2012, payables and receivables arising from transactions with Libero Srl, Itnet Srl and WIS SpA have been reclassified as third party balances since these companies, together with all the companies controlled by Weather Investments II S.à.r.l., are no longer related to the Company..

At December 31, 2012 and during the year, the Company did not hold treasury shares or shares, either directly or through trustees, or shares of the parent WIND Acquisition Holdings Finance SpA, or of the indirect parent Wind Telecom SpA.

The table below provides a summary of the main effects on the income statement and statement of financial position of related party transactions during the year.

(thousands of euro)	Year ended December 31, 2012								
	Revenue	**Finance income/ expense**	**Expenses**	**Trade receiv.**	**Other receiv.es**	**Financial receiv.**	**Financial payables**	**Trade payables**	**Other payables**
Armenija Telefon Kompani	9	-	3	4	-	-	-	11	-
Consorzio Wind Team	-	-	2	-	2	-	-	-	-
DiGi (Malaysia)	24	-	10	9	-	-	-	5	-
DTAC/UCOM (Thailand)	9	-	51	-	-	-	-	11	-
Globalive Wireless Management	1,745	-	-	25	2,265	-	-	5	-
Golden Telecom Ukraine	1	-	1	-	-	-	-	-	-
GrameenPhone (Bangladesh)	145	-	63	127	-	-	-	58	-
KaR-Tel	51	-	3	2	-	-	-	20	-
Kievstar	474	-	375	118	-	-	-	64	-
Maritim Communication Partner AS (Norway)	-	-	232	-	-	-	-	62	-
Mobitel LLC Georgia	-	-	12	-	-	-	-	10	-
Summit Technology Solutions (STS)	-	-	146	-	-	-	-	6	-
Orascom Telecom Algeria SpA	348	-	104	304	-	-	-	39	-
Orascom Telecom Bangladesh Ltd. (Banglalink)	5	-	19	54	-	-	-	4	-
Orascom Telecom Holding SAE	-	-	975	23	-	-	-	1,744	-
Orascom Telecom Services Europe Company	-	-	-	183	-	-	-	-	-
Pakistan Mobile Communications Ltd.	74	-	5	22	-	-	-	4	-
Powercom (Pty) Ltd T/A leo	-	-	1	-	-	-	-	-	-
SKY MOBILE LLC	-	-	1	2	-	-	-	1	-
Sotelco Ltd.	-	-	1	1	-	-	-	-	-
Telenor Magyarorszag KFT (Hungary)	257	-	204	-	-	-	-	35	-
Telenor Mobile Communications AS (Norway)	97	-	29	-	-	-	-	40	-
Telenor Pakistan (Pakistan)	8	-	7	1	-	-	-	6	-
Telenor Serbia (Serbia)	256	-	136	343	-	-	-	1,063	-
Unitel	2	-	2	-	-	-	-	7	-
Vimpelcom ltd	815	-	0	-	827	-	-	-	-
VimpelCom Lao Co, Ltd	-	-	5	-	-	-	-	4	-
Vympel-Kommunikacii	969	-	193	8	-	-	-	1,064	-
WIND Acquisition Holdings Finance SpA	44	-	-	-	1,567	-	-	273	-
Wind Telecom SpA*	461	6,604	13,223	-	18,147	156,333	-	5,898	315,594
Wind Acquisition Finance SA	-	(630,847)	-	-	2,618	-	5,999,877	815	-
Wind Acquisition Finance II SA	-	-	27	-	-	-	-	72	-
Wind Finance SL SA					8	-	-	-	-
WIND Retail Srl	43,227	(21)	30,714	20,644	5,749	-	18,423	8,418	434
Wind Acquisition Holdings Finance II SA	-	-	-	-	-	-	-	-	-
Wind Acquisition Holdings Finance SA	-	-	-	-	-	-	-	-	-
SPAL TLC S.p.A. **	389,027	-	37,371	34,771	-	-	-	7,726	-
Vimpelcom International services	-	-	210	-	165	-	-	109	-
Total	**438,048**	**(624,264)**	**84,125**	**56,641**	**31,348**	**156,333**	**6,018,300**	**27,574**	**316,028**

*payables to Wind Telecom SpA relate in the amount of €315.081 thousand to the transfer by WIND Telecomunicazioni SpA of its corporate income tax (IRES) payables to Wind Telecom SpA following the choice to take part in the national tax consolidation procedure with Wind Telecom SpA.

** revenue to SPAL TLC SpA include the revenue of WIND Telecomunicazioni SpA from the sale of phone cards (€370,679 thousand).

Directors

The Directors of the Company, identified as "Key Management Personnel", did not receive compensations for 2012, as it was not resolved by the ordinary shareholders' meeting of March 28, 2012. There were no transactions with directors in 2012.

35 NET FINANCIAL DEBT

The following statement shows the Company's net financial debt broken down into its principal components, as already described in notes 5, 13 and 14 to the financial components of the statement of financial position.

(thousands of euro)	**At December 31, 2012**	**At December 31, 2011**
Financing from subsidiaries	5,728,685	5,710,803
Bank loans	2,820,444	3,041,415
Loans from other	342,011	486,244
Derivative financial instruments	132,736	110,265
Non-current financial liabilities	**9,023,876**	**9,348,727**
Financing from subsidiaries	289,615	80,254
Bank loans	124,271	252,853
Loans from others	159,444	179,140
Derivative financial instruments	4,197	1,907
Current financial liabilities	**577,527**	**514,154**
TOTAL GROSS FINANCIAL DEBT	**9,601,403**	**9,862,881**
Cash and cash equivalents	**(109,110)**	**(177,416)**
Financial receivables	(163,115)	(7,457)
Current financial assets	**(163,115)**	**(7,457)**
Derivative financial instruments	(29,634)	(20,192)
Financial receivables	(19,027)	(175,044)
Non-current financial assets	**(48,661)**	**(195,236)**
NET FINANCIAL DEBT	**9,280,517**	**9,482,772**

The net financial debt does not include the guarantee deposits for an amount of €4,036 thousand and €4,820 thousand at December 31, 2012 and at December 31, 2011, respectively.

36 CASH FLOW STATEMENT

For the purposes of the Cash Flow Statement, net cash and cash equivalents at December 31, 2012 comprise cash and cash equivalent net of bank overdraft (€21,827 thousands at December 31, 2012 and zero in the previous year).

Cash flows from operating activities, amounting to €1,255,124 thousand in 2012, decreased of €31,907 thousand over 2011, mostly as an effect of the changes in working capital relating to the settlement of current assets and liabilities.

Investing activities used cash during 2012 of a total of €999,516 thousand mainly due to the spending on 3G mobile technologies, to the capitalization of customer acquisition costs and to the capitalization of the borrowing costs relating to the purchase of the frequencies at the end of 2011. The cash flow from investing activities decrease of €953,216 thousand over 2011 mainly due to the decrease in investment in fixed assets of €1,131,667 thousand mainly due to the investment made in 2011 relating to the purchase of frequencies by €1,145,699 thousand.

During the year 2011 investing activities also included proceeds from sale of investment, net of the cash disposed, of €198,136 thousand related to the sale of the set of activities consisting of the "Libero" internet portal, the subsidiaries WIND International Services SpA and ItNet Srl and the business relating to operating the underwater cable between Italy and Greece to VimpelCom Ltd.

During the year 2012, financing activities used cash of €345,743 thousand as the effect of:

- the early repayment of €500 million of the installments of tranches A1 and A2 of the Senior Facility Agreement falling due in 2012 and 2013, made on April 13, 2012;
- the disbursement to the Company of a new intercompany loan from the subsidiary Wind Acquisition Finance SA of €500 million in consequence the additional placement completed on April 13, 2012, of the Additional Senior Secured Notes 2018 of €200 million having a coupon of 7⅜% and USD400 million having a coupon of 7¼%;
- the repayment of €500 million relating to the principal of the Loan Spectrum 2018 issued from the subsidiary Wind Acquisition Finance SA in October 2011, performed in two different payments of €250 million, on October 20, 2012 and September 27, 2012;
- the repayment of €76.7 million relating to the principal of loan from other banks against the deferred repayment plan of the fair value of the derivative instruments that were repaid with the refinancing of the Company's debt of November 26, 2010;
- the use of cash of €100 million from August 2012 of part of the revolving tranche of the Senior Facility Agreement;
- the repayment, on October 3, 2012, of €81 million relating to the principal of payable due to the Ministry of Economic Development;
- the disbursement to the Company of the new short-term intercompany loan from the subsidiary Wind Acquisition Finance SA of €205 million;
- the payment of €35,000 thousand made by WIND Acquisition Holdings Finance S.p.A. to the Company at October 12, 2012.

During the year 2011 financing activities generated cash of €698,892 thousand mainly as the effect arising from the Loan Spectrum issued to the Company on October 24, 2011 from the subsidiary Wind Acquisition Finance SA, for a notional of €500,000 thousand, and the loan from the Ministry of Economic Development of €405,053 thousand as the result of the allocation of the mobile frequency use rights.

37 OTHER INFORMATION

Main pending legal proceedings

WIND is subject to various legal proceedings arising in the ordinary course of business. Below is a description of all material pending legal proceedings at December 31, 2012, excluding those situations in which the cost arising from a negative outcome of the proceedings cannot be estimated or for which a negative outcome is not considered probable.

Proceedings with agents

Certain proceedings are still pending at different judicial stages relating to the termination of agency agreements, in which the agents seek payment from WIND of certain indemnities provided for by Italian legislation; these include the termination indemnity, the collection indemnity, the indemnity in lieu of notice and the indemnities pursuant to article 1751 of the Italian Civil Code.

WIND/ITALGO SPA

Italgo SpA (formerly Delta SpA), initiated proceedings against WIND based upon an alleged breach by WIND of certain provisions of an agreement signed with Delta SpA for the provision of goods and services (the "Commercial Agreement"). Italgo SpA sought the termination of the Commercial Agreement and other related agreements, as well as the payment by WIND of a penalty of €3.3 million, a refund of €23 million (the price paid for Delta SpA shares) and additional damages (to be quantified during the proceedings) for the costs which Italgo SpA alleges to have incurred as a result of WIND's alleged breache of contract. Italgo SpA alternatively sought a reduction in the purchase price agreed by the parties to be settled by offsetting this amount against an amount of €9 million payable by Italgo SpA to WIND. On March 19, 2010, an injunction was issued by the Court in Rome ordering WIND to pay a total of €3 million. WIND has appealed this decision. At the present, a negative result with respect to the March 19, 2010 injunction is considered probable by this amount.

Proceedings concerning Misleading Advertising and Unfair Commercial Practices

Under Legislative decree no. 146/2007, the Italian Antitrust Authority has the power to initiate proceedings concerning unfair commercial practices and misleading advertising and issue fines of up to €5 million for each proceeding (amount redefined by Law no. 135/12 August 2012). To date, in 2011 received a single fine of €90 thousand connected to a case initiated in 2009; during 2011, AGCM initiated other five actions against WIND in this regard (three of which already have been settled through agreed non-monetary undertakings, one has been closed with a fine of €200 thousand and one closed without any fine). In 2012 AGCM initiated three new proceedings (one settled with a fine of €70 thousand, one closed without any fine and one still pending).

Contingent assets and liabilities

WIND had the following contingent liabilities at December 31, 2012.

Proceedings Concerning Electromagnetic Radiation

Proceedings are still pending, in particular before the administrative courts, regarding the installation of base radio stations. These are mainly the result of current concerns about electromagnetic radiation. The claims are of an undeterminable monetary amount.

Audit on dealers' fees

In 2001 WIND received a dispute notice from the tax authorities regarding the tax treatment adopted in 1999, 2000 and 2001 for certain fees paid to dealers. The court of the second instance found in favour of WIND for 1999 and 2001 while it found against WIND for 2000. These cases currently remain pending before the supreme court. The dispute can be quantified in approximately €6 million plus penalties and interest.

WIND/Crest One SpA

Crest One SpA ("Crest One") has initiated proceedings against WIND for: (i) the refund of an amount of approximately €16 million, previously paid to WIND by Crest One as value added tax under a distribution agreement entered into between Crest One and WIND, and (ii) the compensation of damages alleged to have been suffered by Crest One (the amount of which damages is to be determined following the trial) pursuant to the payment of such value added tax by Crest One to WIND.

On March 22, 2012 the Court in Rome declared Crest One' bankruptcy, WIND has claims before the bankruptcy court against Crest One for contractual breach for non-payment and for an incorrect application of the VAT regime by Crest One.

WIND-Antitrust Authority (Proceeding no. A/357)

With a decision dated August 3, 2007, the Antitrust Authority closed proceeding no. A/357 by condemning WIND and Telecom Italia for abuse of their dominant positions in the wholesale termination market due to the discriminatory application of economic and technical conditions for fixed-to-mobile on net (fixed-mobile calls originating and terminating on the WIND network) and intercom calls (the calls on the internal telephone lines of a business customer) in favor of their respective internal divisions and to the detriment of fixed-line competitors. WIND was fined a sum of €2 million and ordered to cease the discriminatory behaviour. WIND appealed against the decision by seeking the annulment before the Administrative Court of Lazio (the Lazio TAR). The Lazio TAR rejected WIND's appeal on January 29, 2008 and the related decision was published on April 7, 2008. On September 17, 2008, WIND filed an appeal before the State Council, seeking the annulment of the above Lazio TAR's decision, the hearing for which, following various delays, occurred on March 15, 2011. On April 20, 2011, the State Council published the final ruling by rejecting the WIND's appeal. On June 4, 2012, WIND filed an appeal before the Court of Cassazione for the annulment of the above State Council's ruling.

WIND-Antitrust Authority (Proceeding no. I/757)

On September 13, 2012, the Italian Competition Authority (or the "ICA") opened an anti-trust investigation in respect of three Italian MNOs (Telecom Italia, Vodafone and WIND) and carried out dawn raids on their premises. The investigation was started following a claim by an Italian MVNO, Bip Mobile. Bip Mobile claimed an alleged agreement between Telecom Italia, Vodafone and WIND which was aimed to prevent the entry of Bip Mobile into the Italian mobile market through collusive pressure on the multi-brand point of sales starting as of June, 2012. WIND is currently defending its conduct against Bip's Mobile's allegations and cooperating with ICA in accordance with usual legal and procedural steps. The investigation will be completed by the end of September 2013, with an ICA decision of condemnation and fine of the MNOs or the dismissal of BIP's claim.

Terna/Enel.Net/WIND

On June 11, 2010, Terna -Rete Elettrica Nazionale S.p.A ("Terna") and Terna Linee Alta Tensione S.r.l. ("Telat") sued WIND and Enel.Net before the Court of Rome requesting the termination of three contracts executed by Terna, Enel.Net and Telat, alleging abreach by Enel.Net under article 1453 of the Italian Civil Code, relating to good faith obligations to renew contractually set prices for hospitality and maintenance services by Terna and Telat. It should be noted that the parties have reached an out of court settlement for closing the case.

Guarantees

The company has not pledged any guarantees, either directly or indirectly, in favor of parents or companies controlled by the latter.

The collateral pledged by the Company at December 31, 2012 as a guarantee for liabilities may be summarized as follows:

- a special lien pursuant to article 46 of the Consolidated Banking Law on certain assets, present and future, belonging to the Company as specified in the relevant deed, in favor of the banking syndicate party to the Senior Facility Agreement and other creditors specified in the relevant deed;
- a lien exists on the Company's trademarks and intellectual property rights, as specified in the relevant deed, pledged in favor of the banking syndicate party to the Senior Facility Agreement and other creditors specified in the relevant deed;
- pledge over 6,200 shares representing 100% of the corporate capital of the subsidiary Wind Acquisition Finance SA owned by WIND Telecomunicazioni SpA and in favor of a pool of banks pursuant the related share pledge agreement.

Finally, in order to provide a guarantee for its obligations, the Company has pledged as security its trade receivables, receivables arising from intercompany loans and receivables relating to insurance policies, present and future, as described in the specific instrument, to the banking syndicate in accordance with the Senior Facility Agreement and the other lending parties specified in the supplemental deed related to the respective contract as a guarantee for and in favor of the subscribers to the Senior Notes, expiring in 2017, issued on July 13, 2009 by Wind Acquisition Finance SA and in favor of the subscribers to the Senior Secured Notes, expiring in 2018, issued on November 26, 2010 by Wind Acquisition Finance SA and to the lending parties specified in the deed of confirmation and extension of the deed of assignment of receivables by way of security as a guarantee for and in favor of the subscribers to the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012 by Wind Acquisition Finance SA. Moreover, the Parent has pledged as security its receivables arising from the Put and Call option dated May 26, 2005 as described in the relevant deed, to the banking syndicate in the Senior Facility Agreement and the other lending parties specified therein as a guarantee for and in favor of the subscribers to the Senior Secured Notes expiring in 2017 issued by Wind Acquisition Finance SA on July 13, 2009 and the Senior Secured Notes expiring in 2018 issued by Wind Acquisition Finance SA on November 26, 2010 and to the lending parties specified in the deed of confirmation and extension of the deed of assignment of receivables by way of security as a guarantee for and in favor of the subscribers to the Additional Senior Secured Notes expiring in 2018 issued on April 13, 2012 by Wind Acquisition Finance SA.

A description is provided below of personal guarantees (sureties) issued mainly by banks and insurance companies on behalf of the Company and in favor of third parties in respect of commitments of various kinds. The total of these, amounting to €521,180 thousand at December 31, 2012 includes:

- sureties totaling €22,102 thousand issued by insurance companies, of which €14,459 thousand in favor of the Rome Tax Revenue Office as security against the Company's excess VAT receivable which was offset in 2009 as part of the special procedure envisaged by Presidential Decree no. 633 of October 26, 1972 and subsequent amendments;

- sureties totaling €499,078 thousand issued by banks, relating to participation in tenders, of which €438,651 thousand in favor of the Minister for Economic Development for the participation in the tender procedure it had been awarded the frequency use rights in the 800, 1800, 2000 and 2600 MHz bands, to sponsorships, property leases, operations regarding prize competitions, events and excavation licenses.

The Company has been under the management and coordination of Wind Telecom SpA since July 2007. In this respect, a summary is provided below of the key data from the latest approved set of financial statements of Wind Telecom SpA, being those as of and for the year ended December 31, 2011 prepared in accordance with the provisions of the Italian Civil Code governing financial statements (articles 2423 et seq.).

(thousands of euro) **BALANCE SHEET**	**At December 31, 2011**
ASSETS	
A) UNPAID CALLED-UP SHARE CAPITAL	-
B) FIXED ASSETS	5,934,822
C) CURRENT ASSETS	251,121
D) ACCRUED INCOME AND PREPAID EXPENSES	13
TOTAL ASSETS	**6,185,956**
EQUITY AND LIABILITIES	
A) EQUITY	4,818,320
B) ALLOWANCES FOR RISKS AND CHARGES	153,268
C) EMPLOYEES' LEAVING ENTITLEMENT	103
D) PAYABLES	1,013,260
E) ACCRUED EXPENSES AND DEFERRED INCOME	201,005
TOTAL EQUITY AND LIABILITIES	**6,185,956**
MEMORANDUM ACCOUNTS	**-**
INCOME STATEMENT	
A) VALUE OF PRODUCTION	16,263
B) OPERATING COSTS	(32,435)
C) FINANCE INCOME AND EXPENSES	(89,325)
D) ADJUSTMENTS TO FINANCIAL ASSETS VALUES	(1,929)
E) EXTRAORDINARY INCOME AND EXPENSES	15,766
Income taxes for the year	17,734
NET RESULT FOR THE YEAR	**(73,926)**

38 SUBSEQUENT EVENTS

No significant events took place after the balance sheet date that would require adjustments or additional disclosures in the separate financial statements.