

Duke Energy CORP
 Form 3
 November 05, 2007

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0104
 Expires: January 31, 2005
 Estimated average burden hours per response... 0.5

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
 Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person * Â DIMICCO DANIEL R (Last) (First) (Middle) 526 S. CHURCH STREET (Street) CHARLOTTE,Â NCÂ 28202 (City) (State) (Zip)	2. Date of Event Requiring Statement (Month/Day/Year) 10/25/2007	3. Issuer Name and Ticker or Trading Symbol Duke Energy CORP [DUK]	4. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input checked="" type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input type="checkbox"/> Officer <input type="checkbox"/> Other (give title below) (specify below)	5. If Amendment, Date Original Filed(Month/Day/Year)	6. Individual or Joint/Group Filing(Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
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Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
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Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year) Date Expiration Exercisable Date	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4) Title Amount or Number of Shares	4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DIMICCO DANIEL R 526 S. CHURCH STREET CHARLOTTE, NC 28202	X	^	^	^

Signatures

/s/ David S. Maltz, attorney-in-fact for Daniel R. DiMicco 11/05/2007

**Signature of Reporting Person Date

Explanation of Responses:

No securities are beneficially owned

- * If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ttom">

Total

(F=B+C+D+E) (325) 993 (24)

Total profit (loss) for the year

(A+F) (4,605) 4,568 1,572

Attributable to:

· *Owners of the Parent*

(4,825) 3,855 1,321

· *Non-controlling interests*

220 713 251

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Statements Of Changes In Equity

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**CHANGES IN EQUITY IN 2009 (see Note 14)**

	Share capital	Paid-in capital	Fair value adjustments on available-for-sale financial assets	Fair value adjustments on hedging instruments	Exchange differences on foreign operations	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent (h=a+b+c+d+e+f+g)	Equity attributable to Non-controlling interests (i)	Total equity (h+i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)		(i)	(h+i)
Balance at December 31, 2008	10,591	1,689	(22)	441	255	(39)	12,683	25,598	730	26,328
Changes in equity in the year ended December 31, 2009:										
· Dividends approved							(1,029)	(1,029)	(24)	(1,053)
· Changes in ownership interests in subsidiaries that do not result in a loss of control							(110)	(110)	110	
· Total comprehensive income (loss) for the year			18	(935)	728	(71)	1,581	1,321	251	1,572
· Grant of equity instruments							2	2		2
· Treasury shares	(6)						(5)	(11)		(11)
· Changes in the scope of consolidation							196	196	99	295
· Other changes							(15)	(15)	2	(13)
Balance at December 31, 2009	10,585	1,689	(4)	(494)	983	(110)	13,303	25,952	1,168	27,120

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Statements Of Changes In Equity

CHANGES IN EQUITY IN 2010 (see Note 14)

Share capital	Paid-in capital	Fair value adjustments available-for-sale assets	Fair value adjustments on hedging instruments	Exchange differences on translating foreign operations	Other gains (losses) of joint ventures using the equity method	Other reserves and retained earnings accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent (h=a+b+c+d+e+f+g)	Equity attributable to Non-controlling interests (i)	Total equity (h+i)
Balance at December 31, 2009									
10,585	1,689	(4)	(494)	983	(110)	13,303	25,952	1,168	27,120
Changes in equity in the year ended December 31, 2010:									
						(1,029)	(1,029)	(135)	(1,164)
		(3)	210	418	109	3,121	3,855	713	4,568
15	8					9	32		32
						3	3	44	47
								1,948	1,948
						6	6	(2)	4
Balance at December 31, 2010									
10,600	1,697	(7)	(284)	1,401	(1)	15,413	28,819	3,736	32,555

(*) Analyzed in Note 3.

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Statements Of Changes In Equity

CHANGES IN EQUITY IN 2011 (see Note 14)

	Share capital	Paid-in capital	Fair value adjustments on available-for-sale financial assets	Fair value hedging instruments	Exchange differences on translating foreign operations	Other gain (losses) of associates and joint ventures accounted for using the equity method	Other reserves and earnings (accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent (h=a+b+c+d+e+f+g)	Equity attributable to Non-controlling interests	Total equity
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(h+i)
Balance at December 31, 2010	10,600	1,697	(7)	(284)	1,401	(1)	15,413	28,819	3,736	32,555
Changes in equity in the year ended December 31, 2011:										
· Dividends approved							(1,184)	(1,184)	(118)	(1,302)
· Total comprehensive income (loss) for the year			3	210	(312)		(4,726)	(4,825)	220	(4,605)
· Grant of equity instruments	4	7					(4)	7		7
· Effect of increase in economic stake in Argentina Business Unit							(57)	(57)	(153)	(210)
· Effect of capital operations of Brazil Business Unit companies							19	19	221	240
· Other changes							12	12	(2)	10
Balance at December 31, 2011	10,604	1,704	(4)	(74)	1,089	(1)	9,473	22,791	3,904	26,695

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Statements Of Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Note	Year ended December 31, (millions of euros)		
		2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit (loss) from continuing operations		(4,267)	3,582	2,218
<i>Adjustments for:</i>				
Depreciation and amortization		5,494	5,542	5,551
Impairment losses (reversals) on non-current assets (including investments)		7,365	(116)	27
Net change in deferred tax assets and liabilities		189	(749)	(48)
Losses (gains) realized on disposals of non-current assets (including investments)		(18)	(41)	55
Share of losses (profits) of associates and joint ventures accounted for using the equity method		39	(99)	(67)
Change in employee benefits		(250)	73	(173)
Change in inventories		(36)	96	(30)
Change in trade receivables and net amounts due from customers on construction contracts		3	13	336
Change in trade payables		(164)	(278)	(995)
Net change in current income tax receivables/payables		90	(170)	(1,170)
Net change in miscellaneous receivables/payables and other assets/liabilities		67	(980)	(229)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		8,512	6,873	5,475
CASH FLOWS FROM INVESTING ACTIVITIES:				
<i>Purchase of intangible assets on an accrual basis</i>	5	(3,066)	(1,781)	(2,017)
<i>Purchase of tangible assets on an accrual basis</i>	6	(3,029)	(2,802)	(2,526)
Total purchase of intangible and tangible assets on an accrual basis		(6,095)	(4,583)	(4,543)
<i>Change in amounts due to fixed asset suppliers</i>		557	103	619
Total purchase of intangible and tangible assets on a cash basis		(5,538)	(4,480)	(3,924)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(668)	(4)	
Net cash and cash equivalents arising from the acquisition of control of the Sofora group Argentina	3		392	
Acquisitions/disposals of other investments	8	(1)	35	(6)
Change in financial receivables and other financial assets		(580)	502	(692)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		51	180	(13)
Proceeds from sale/repayments of intangible, tangible and other non-current assets		435	56	66
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		(6,301)	(3,319)	(4,569)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Change in current financial liabilities and other		1,351	957	(1,123)
Proceeds from non-current financial liabilities (including current portion)		4,523	2,007	5,563
Repayments of non-current financial liabilities (including current portion)		(5,290)	(5,842)	(4,260)
Consideration paid for equity instruments				(11)
Share capital proceeds/Reimbursements (including subsidiaries)		240	67	
Dividends paid		(1,326)	(1,093)	(1,050)
Changes in ownership interests in consolidated subsidiaries		(211)		
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		(713)	(3,904)	(881)

CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)			61
AGGREGATE CASH FLOWS (E=A+B+C+D)	1,498	(350)	86
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)	5,282	5,484	5,226
Net foreign exchange differences on net cash and cash equivalents (G)	(110)	148	172
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)	6,670	5,282	5,484

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements

Consolidated Statements Of Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Year ended December 31, 2011 2010 2009 (millions of euros)		
ADDITIONAL CASH FLOW INFORMATION:			
Income taxes (paid) received	(1,381)	(1,392)	(2,301)
Interest expense paid	(3,044)	(3,079)	(3,250)
Interest income received	1,332	1,176	1,025
Dividends received	2	3	4
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:			
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:			
· Cash and cash equivalents from continuing operations	5,526	5,504	5,396
· Bank overdrafts repayable on demand from continuing operations	(244)	(101)	(190)
· Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		81	20
· Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	5,282	5,484	5,226
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:			
· Cash and cash equivalents from continuing operations	6,714	5,526	5,504
· Bank overdrafts repayable on demand from continuing operations	(44)	(244)	(101)
· Cash and cash equivalents from Discontinued operations/Non-current assets held for sale			81
· Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	6,670	5,282	5,484

The accompanying notes are an integral part of these consolidated financial statements

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NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION

FORM AND CONTENT

Telecom Italia (the **Parent**) and its subsidiaries form the **Telecom Italia Group** or the **Group** . Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, Telecom Italia, are located in Milan at Piazza degli Affari 2, Italy.

The duration of the company, as stated in the company's Bylaws, extends until December 31, 2100.

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2011 have been prepared on a going concern basis (for further details see Note Accounting policies) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**).

In 2011, the Group applied the accounting policies on a basis consistent with those of the previous years and did not elect the early adoption of any IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In accordance with IAS 1 (*Presentation of Financial Statements*) comparative information included in the consolidated financial statements are, unless otherwise indicated, those of the preceding two years.

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The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2011 was approved by resolution of the board of directors meeting held on March 29, 2012.

FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to current and non-current criterion;
- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;
- the **consolidated statement of comprehensive income** includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;
- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7 (*Statement of Cash Flows*).

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SEGMENT REPORTING

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources (for Telecom Italia the Board of Directors) to be allocated to the segment and assess its performance; and
- (c) for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic, Brazil and Argentina) and according to the specific businesses for the other segments.

The term "operating segment" is considered synonymous with "Business Unit". The operating segments of the Telecom Italia Group are as follows:

- **Domestic:** includes operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the relative support activities in Italy;
- **Brazil:** includes mobile (TIM Celular) and fixed (Intelig, TIM Fiber SP and TIM Fiber RJ) telecommunications operations in Brazil;
- **Argentina:** includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;
- **Media:** includes television network operations and management;
- **Olivetti:** includes activities for the manufacture of digital printing systems and office products and Information Technology services;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

SCOPE OF CONSOLIDATION

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The changes in the scope of consolidation at December 31, 2011 compared to December 31, 2010 are listed below.

Entry of companies in the scope of consolidation:

Company		Business Unit	Month
ADVANCED CARING CENTER S.r.l.	new company	Olivetti	November 2011
TIM FIBER RJ S.A.	new acquisition	Brazil	October 2011
TIM FIBER SP Ltda	new acquisition	Brazil	October 2011
TIERRA ARGENTEA SA (formerly INVERSIONES MILANO)	new acquisition	Other operations	August 2011
4G HOLDING S.p.A.	new acquisition	Domestic	July 2011
4G RETAIL S.r.l.	new acquisition	Domestic	July 2011
FLAGSHIP STORE FIRENZE 1 S.r.l.	new company	Domestic	April 2011
FLAGSHIP STORE VERONA 1 S.r.l.	new company	Domestic	April 2011
FLAGSHIP STORE SANREMO 1 S.r.l.	new company	Domestic	January 2011

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Company		Business Unit	Month
ETI EURO TELECOM INTERNATIONAL N.V.	liquidated	Other operations	December 2011
ICH INTERNATIONAL COMMUNICATION HOLDING N.V.	liquidated	Other operations	December 2011
LOQUENDO S.p.A.	sold	Domestic	September 2011

Merger of companies:

Company		Business Unit	Month
TELECOM ITALIA SPARKLE LUXEMBOURG S.A.	merged in Telecom Italia Sparkle S.p.A.	Domestic	January 2011
TI UNITED KINGDOM Ltd	merged in Telecom Italia Sparkle S.p.A.	Domestic	January 2011

A breakdown by number of the subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2011 and December 31, 2010 is as follows:

	December 31, 2011		
	Italy	Abroad	Total
Companies			
subsidiaries consolidated line-by-line	45	67	112
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15		15
Total companies	61	67	128

	December 31, 2010		
	Italy	Abroad	Total
Companies			
subsidiaries consolidated line-by-line	40	68	108
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15	2	17
Total companies	56	70	126

Further details are provided in Note *List of companies of the Telecom Italia Group* .

NOTE 2 ACCOUNTING POLICIES

· **Going concern**

The consolidated financial statements for the year ended December 31, 2011 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate doubts as to the Group's ability to continue as a going concern:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
 - changes in the general macroeconomic condition in the Italian and South American markets;
 - variations in business conditions;
 - changes to laws and regulations (price and rate variations);
 - outcomes of disputes and litigations with regulatory authorities, competitors and other parties;

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· financial risks (interest rate and/or exchange rate trends);

· the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital, described in the paragraph Share capital information under the Note Equity ;

· the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

· **Accounting policies and principles of consolidation**

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries financial statements coincides with that of the Parent.

Control exists when the Parent, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Under IAS 27, the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated on consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the balance sheet date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or at the loss of

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control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

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In particular, under the equity method the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

The consolidated financial statements include the Group's share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstances cease. When the Group's share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group's statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

Under IAS 27, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Intangible assets

Goodwill

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

- a) the aggregate of:
 - the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);
 - the amount of any non-controlling interest in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets;
 - in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;
- b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

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IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;
- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (Business Combinations) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

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Other intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortized systematically. Instead, they undergo impairment testing at least annually.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process of new products and services and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;

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- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

- **Tangible assets**

- *Property plant and equipment owned*

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized when the obligation arises in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

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The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its, carrying amount. The excess if any, should be recorded immediately in separate consolidated income statement, conventionally under the line item Depreciation.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

Capitalized borrowing costs

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Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the `finance expense` line item to which they relate.

Impairment of intangible and tangible assets

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

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To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon of three years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with a finite useful life

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At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

· **Financial instruments**

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets;
- financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statement.

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Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

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When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported previously.

Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial

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amount and the maturity amount using the effective interest method.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) its effectiveness can be reliably measured;
- d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

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When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- **Fair value hedge** Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statement.
- **Cash flow hedge** Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate consolidated income statement.

- **Sales of receivables**

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

- **Amounts due from customers on construction contracts**

Amounts due from customers under construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statement when they become known.

- **Inventories**

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

· **Non-current assets held for sale/Discontinued operations**

Non-current assets or disposal groups whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately in the statement of financial position from other assets and liabilities. The corresponding amounts for the previous period are not reclassified.

An operating asset sold (Discontinued Operations) is a component of an entity that has been divested or classified as held for sale and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets or disposal groups classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets or disposal groups classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

Employee benefits

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations. As allowed by IAS 19, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the separate consolidated income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the separate consolidated income statement under Employee benefits expenses.

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan whereas the amounts recorded in the provision for employee severance indemnities retain the nature of a Defined benefit plan.

Equity compensation plans

The companies of the Group provide additional benefits to certain managers and employees of the Group through equity compensation plans (stock options, long-term incentive plans and broad-based employee share ownership plan). The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in *Employee benefits expenses* over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated *Other equity instruments*. Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from *Other equity instruments* with a contra-entry to *Employee benefits expenses*.

For the plans subject to vesting conditions, when such conditions are not met, the amount recognized in *Other equity instruments* must be reclassified to *Other reserves*.

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For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses ; at the end of each year such liability is measured at fair value.

Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses .

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

Revenues

Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

Revenues from services rendered

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

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Revenues from sales and bundled offerings

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

A small portion of the offerings in the mobile and broadband businesses are contracts with a minimum contractual period between 12 and 24 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

Revenues on construction contracts

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

· **Research costs and advertising expenses**

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.

· **Finance income and expenses**

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

· **Dividends**

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

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Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the Statement of comprehensive income the amount of income taxes relating to each item included as Other components of the Statement of comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary's retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the Balance sheet liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to

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investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

· **Earnings per share**

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

· **Use of estimates**

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

**Financial statement
line item/area**

Accounting estimates

Goodwill

The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .

Business combinations

The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.

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Bad debt provision

The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.

Depreciation and amortization expense

Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

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**Financial statement
line item/area**

**Accruals, contingent
liabilities and employee
benefits**

Accounting estimates

As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.

The accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.

Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.

Revenues

Revenue recognition is influenced by:

- the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs);

- the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

Income taxes

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

**Derivative instruments and
equity instruments**

The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

- **New Standards and Interpretations issued by IASB and in force from January 1, 2011**

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the following new principles and interpretations (amendments and improvements included), in force from January 1, 2011, govern situations that do not exist within the Group at the date of this consolidated annual report, but may affect the accounting for future transactions or agreements:

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- Amendments to IAS 32 (*Classification of Rights Issues*);
- IAS 24 (*Related Party Disclosures*);
- Amendments to IFRIC 14 (*Prepayments of a Minimum Funding Requirement*);
- IFRIC 19 (*Extinguishing Financial Liabilities with Equity Instruments*);
- Improvements to IFRSs (issued by IASB in 2010).

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At the date of preparation of the accompanying consolidated financial statements, the following IFRS, Amendments and IFRIC interpretations had been published, but their application was not mandatory:

	Mandatory application:
	annual periods
	beginning on or after
IASB/IFRIC documents	
Amendments to IFRS 7 (<i>Disclosures - Transfers of Financial Assets</i>)	January 1, 2012
Amendments to IAS 12 (<i>Income Taxes</i>)	January 1, 2012
Amendments to IAS 1 (<i>Presentation of Financial Statements</i>)	July 1, 2012
IFRS 9 (<i>Financial Instruments</i>)	January 1, 2015
IFRS 10 (<i>Consolidated financial statements</i>)	January 1, 2013
IFRS 11 (<i>Joint Arrangements</i>)	January 1, 2013
IFRS 12 (<i>Disclosure of interests in other entities</i>)	January 1, 2013
IFRS 13 (<i>Fair value measurement</i>)	January 1, 2013
IAS 27 revised (<i>Separate Financial Statements</i>)	January 1, 2013
IAS 28 revised (<i>Investments in associates and joint ventures</i>)	January 1, 2013
Amendments to IAS 19 (<i>Employee benefits</i>)	January 1, 2013
Amendments to IFRS 7 (<i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>)	January 1, 2013
Amendments to IAS 32 (<i>Offsetting Financial Assets and Financial Liabilities</i>)	January 1, 2014

The applications of Amendments to IFRS 7 (*Disclosures - Transfers of Financial Assets*) and IAS 12 (*Income taxes*) are not expected to have a material impact on the consolidated financial statements.

As regards to the remaining standards, amendments and interpretations reported above, the Group is currently assessing the impact of their application.

NOTE 3 BUSINESS COMBINATIONS**YEAR 2011*****Acquisition of the 4G Holding group (4GH)***

On July 27, 2011, Telecom Italia, after having received authorization from the Antitrust Authority, finalized the acquisition of a 71% interest in the company 4G Holding S.p.A., which in turn holds a 100% interest in 4G Retail S.r.l. The acquisition had a total impact on net financial debt of 27.4 million euros as a result of the outlay of about 8.6 million euros (including incidental expenses) and the consolidation of the financial debt of the acquired companies. The transaction was carried out through TLC Commercial Services S.r.l., a wholly-owned subsidiary of the Parent.

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The acquisition of the 4G Holding group, with its approximate 200 points-of-sale located in the most important shopping malls in Italy, will enable Telecom Italia to reinforce its position in the retail distribution market specialized in the sale of telephony equipment and broaden its nationwide presence.

In view of the reciprocal commitments undertaken by the Telecom Italia Group and the actual sole minority shareholder, Gir S.r.l., as regards the future transfer of the shares held by the latter, the accounting effects of the business combination have been calculated based on an economic interest of 100% in the 4GH group and as set forth in IFRS 3, which can be summarized as follows:

- the measurement of the interest acquired is equal to 16 million euros and is inclusive of the measurement of the future acquisition of the interest held by the minority shareholder;

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all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value. During the course of 2012 and in any case within 12 months of the acquisition the provisional amounts of the assets and liabilities recorded at the acquisition date could be adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts of the assets acquired and liabilities assumed, goodwill of 16 million euros, was recognized, calculated as illustrated in the following table:

		Fair Value amounts (millions of euros)
Measurement of consideration	(A)	16
Value of assets acquired	(B)	67
Value of liabilities assumed	(C)	(67)
Goodwill	(A-B-C)	16

The most important acquisition-date amounts of the assets and liabilities of the 4GH group are summarized as follows:

4GH group acquisition-date amounts

		Fair Value amounts (millions of euros)	Carrying amounts (millions of euros)
Goodwill deriving from business combinations		16	
Other non-current assets		22	29
Current assets		45	45
Total assets	(A)	83	74
Total non-current liabilities		12	5
Total current liabilities		55	55
Total liabilities	(B)	67	60
Net assets	(A-B)	16	14

Had the acquisition been finalized on January 1, 2011, higher revenues of about 30 million euros would have been recorded in the consolidated financial statements of the Telecom Italia Group without any significant effects on the net loss for the year.

Acquisition of Tim Fiber SP and Tim Fiber RJ

On October 31, 2011, through the subsidiary Tim Celular S.A., telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro were acquired from Companhia Brasileira de Energia and the companies were renamed Tim Fiber SP and Tim Fiber RJ. The acquisition had a total impact on net financial debt of 686 million euros as a result of the outlay of about 656 million euros (including transactions costs) and

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the consolidation of the financial debt of the acquired companies.

With this acquisition TIM Brasil is aiming, among other things, to i) reinforce the development of its mobile network also in order to extend and accelerate its mobile broadband services; ii) benefit from the synergies arising from the internalization of the AES access infrastructure.

As a result of this transaction, a 100% interest has been acquired in the company Tim Fiber SP and a 98.3% interest, subsequently increased to 99.1%, in the company Tim Fiber RJ. A tender offer was made to purchase the remaining 0.9% of the latter which was concluded at the end of February 2012 and brought the percentage interest to 99.7%. The accounting effects of the business combination have been calculated based on 100% ownership, quantified on a provisional basis, as set forth in IFRS 3, and can be summarized as follows:

- the measurement of the consideration for both companies is equal to 657 million euros and is inclusive of the non-controlling interest which is in the process of being acquired;

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all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value. During the course of 2012 and in any case within 12 months of acquisition the provisional amounts of the assets and liabilities recorded at the acquisition date could be adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts of the assets acquired and liabilities assumed, total goodwill of 556 million euros was recognized, calculated as illustrated in the following table:

		Tim Fiber SP Fair Value amounts	Tim Fiber RJ Fair Value amounts (millions of euros)	Total
Measurement of consideration	(A)	461	196	657
Value of net assets acquired	(B)	53	48	101
Goodwill	(A-B)	408	148	556

The most important acquisition-date amounts of the assets and liabilities of the companies Tim Fiber SP and Tim Fiber RJ are summarized as follows:

Tim Fiber SP and Tim Fiber RJ acquisition-date amounts

		Tim Fiber SP Fair Value amounts	Tim Fiber SP Carrying amounts	Tim Fiber RJ Fair Value amounts	Tim Fiber RJ Carrying amounts
(millions of euros)					
Goodwill arising from the business combinations		408		148	
Other non-current assets		77	77	54	54
Current assets		23	23	16	16
Total assets	(A)	508	100	218	70
Total non-current liabilities		32	32	10	10
Total current liabilities		15	15	12	12
Total liabilities	(B)	47	47	22	22
Net assets	(A-B)	461	53	196	48

Had the acquisition been finalized on January 1, 2011, higher revenues of about 60 million euros would have been recorded in the consolidated financial statements of the Telecom Italia Group without any significant effects on the net loss for the year.

YEAR 2010

Acquisition of control of Sofora Telecomunicaciones S.A.

On October 13, 2010, once the necessary government authorizations were obtained, an agreement was formalized for the transfer of an 8% interest in Sofora Telecomunicaciones S.A. (Sofora) the holding company which controls Telecom Argentina from the Werthein group to Telecom Italia International, as established in the agreements signed between the Telecom Italia Group and the Werthein group on August 5, 2010.

The accounting effects of the business combination, as set forth in IFRS 3, can be summarized as follows:

- the measurement of the interest acquired is equal to 130 million euros and corresponds to the fair value of the options relinquished by the Telecom Italia Group. Such measurement also includes the control premium;
- the interest held in the Sofora group before acquisition of control, previously accounted for using the equity method, was remeasured at fair value at the acquisition date of control and the value came to about 394 million euros. This remeasurement produced a positive impact on the 2010 separate consolidated income statement of 266 million euros, net of the reversal in the separate consolidated income statement of the reserve for negative exchange differences;

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all the assets acquired and liabilities assumed were measured for their recognition at fair value. During the course of 2011 the provisional amounts of the assets and liabilities recorded at the acquisition date were adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts allocated to the assets acquired and the liabilities assumed, goodwill was recognized for 177 million euros, calculated as illustrated in the following table:

	Final fair value amounts as determined in 2011	Provisional amounts (2010 Financial Statements) (millions of euros)	Change
Measurement of interest acquired	130	130	
Fair value of interest held in the Sofora group before acquisition of control	394	394	
Amounts of net assets allocated to the non-controlling interests	1,948	2,003	(55)
Total (a)	2,472	2,527	(55)
Net assets acquired (b)	2,295	2,361	(66)
Goodwill (a-b)	177	166	11

The most important acquisition-date amounts of the assets and liabilities of the Sofora group (Argentina) are summarized as follows:

Sofora group acquisition date amounts

	Final fair value amounts as determined in 2011	Provisional amounts (2010 Financial Statements) (millions of euros)	Carrying amounts
Goodwill	177	166	
Other non-current assets	3,546	3,648	1,483
<i>of which Other intangible assets</i>	<i>1,840</i>	<i>1,807</i>	<i>214</i>
<i>of which Tangible assets</i>	<i>1,688</i>	<i>1,823</i>	<i>1,251</i>
Current assets	887	887	873
<i>of which Cash and cash equivalents</i>	<i>392</i>	<i>392</i>	<i>392</i>
Total assets (A)	4,610	4,701	2,356
Total non-current liabilities	1,101	1,137	377
<i>of which Deferred tax liabilities</i>	<i>771</i>	<i>807</i>	<i>44</i>
<i>of which Provisions</i>	<i>100</i>	<i>100</i>	<i>100</i>
<i>of which Non-current financial liabilities</i>	<i>183</i>	<i>183</i>	<i>183</i>
Total current liabilities	1,037	1,037	1,035
<i>of which Current financial liabilities</i>	<i>216</i>	<i>216</i>	<i>216</i>
Total liabilities (B)	2,138	2,174	1,412

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Net assets (A-B)	2,472	2,527	944
Share of Non-controlling interests	1,948	2,003	814
Share of the Telecom Italia Group	524	524	130

Non-controlling interests have been measured in proportion to the share of the non-controlling interests in the net identifiable assets of the acquired company.

Final allocation of the consideration paid led to lower depreciation and amortization charges of 5 million euros and higher income taxes of 2 million euros in the 2010 separate consolidated income statement.

In 2011, the Telecom Italia Group increased its investment in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones), for a total outlay of 211 million euros (incidental costs included).

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In particular:

- on January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., purchased 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferred B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars (approximately 48 million euros). The ADSs in question represent 117,587.6 *Preferred B* shares (without voting rights). This share package was later transferred to the Argentina subsidiary Tierra Argentea S.A., a wholly-owned subsidiary of the Telecom Italia Group;
- on March 9, 2011, Telecom Italia, through its subsidiary Telecom Italia International N.V., purchased, for a total amount of approximately 104 million euros, a 10% stake in Sofora Telecomunicaciones S.A. from the local partner Werthein and by so doing increased its investment holding in Sofora from 58% to 68% of the company's share capital;
- on October 27, 2011, Tierra Argentea S.A., purchased 14.48 million Telecom Argentina Class B shares at the price of 20.50 Argentine pesos per share. In the following months of November and December, the company purchased another 1.1 million shares of the same class. The equivalent amount of the transactions was equal in total to 319 million Argentine pesos (about 56 million euros).

The transactions did not alter or modify either the governance rights of the Telecom Argentina group established by agreement between the shareholders signed by the Telecom Italia Group and Werthein, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

Following these acquisitions, the economic interest of the Telecom Italia Group in Telecom Argentina went from 16.2% at December 31, 2010 to 22.7% at December 31, 2011.

YEAR 2009

Acquisition of Intelig Telecomunicações Ltda

On December 30, 2009, Tim Participações finalized the acquisition of Intelig Telecomunicações Ltda, the domestic and international Brazilian telecommunications operator for long-distance and data transmission services; the company was consolidated in the Telecom Italia Group as from that date.

Specifically, the acquisition through the merger by incorporation of the parent, which owns 100% of Intelig (Holdco Participações, controlled by JVCO) in Tim Participações, had begun on April 16, 2009 when agreements were sealed between Tim Participações, its parent Tim Brasil and JVCO Participações (controlled by the Docas group and the indirect parent of Intelig Telecomunicações Ltda).

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The purchase, through the merger transaction, was finalized on December 30, 2009 by assuming a financial debt of Intelig equal to 68 million U.S. dollars. At the time of the merger, the seller JVCO received shares equal to 5.14% of Tim Participações ordinary and preferred share capital. Moreover, 3% of Docas ordinary shares were transferred to Tim Brasil to guarantee Intelig's financial situation to meet its contingent liabilities.

In the 2010 financial statements, the business combination led to the recognition of goodwill of 84 million euros. This amount was definitively determined during 2010, that is, within 12 months following the operation calculated as the difference between the market price of the shares issued on behalf of the seller as at December 30, 2009 (295 million euros) and the assets and liabilities acquired and recorded at their fair value at the acquisition date (211 million euros).

In the 2009 financial statements, the provisional amount of goodwill amounted to 96 million euros. As provided by IFRS 3, the amounts relating to this business combination had been recognized provisionally in those financial statements. During 2010, those provisional amounts of assets and liabilities recognized at the acquisition date were adjusted to take into account their fair value at the acquisition date with the consequent remeasurement of the initially recognized amount of goodwill.

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Intelig Telecomunicações Ltda acquisition date amounts

		Final fair value as determined in 2010	Provisional amounts (2009 financial statements) (millions of euros)	Carrying amount
Goodwill		84	96	
Other non-current assets		385	272	272
Total current assets		116	131	131
Total assets	(a)	585	499	403
Total non-current liabilities		147	62	62
Total current liabilities		143	142	142
Total liabilities	(b)	290	204	204
Net assets acquired	(a-b)	295	295	199

NOTE 4 GOODWILL

Goodwill shows the following breakdown and changes during 2010 and 2011:

	As of December 31, 2009	Increase	Decrease	Impairments (millions of euros)	Exchange differences	As of December 31, 2010
Domestic	41,953		(6)			41,947
<i>Core Domestic</i>	41,532					41,532
<i>International Wholesale</i>	421		(6)			415
Brazil	1,429				181	1,610
Argentina		177			7	184
Media	228			(46)		182
Other Operations	5		(5)			
Total	43,615	177	(11)	(46)	188	43,923

	As of December 31, 2010	Increase	Decrease	Impairments (millions of euros)	Exchange differences	As of December 31, 2011
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Domestic	41,947	16	(10)	(7,307)		34,646
<i>Core Domestic</i>	<i>41,532</i>	<i>16</i>	<i>(10)</i>	<i>(7,307)</i>		<i>34,231</i>
<i>International Wholesale</i>	<i>415</i>					<i>415</i>
Brazil	1,610	556			(156)	2,010
Argentina	184				(8)	176
Media	182			(57)		125
Other Operations						
Total	43,923	572	(10)	(7,364)	(164)	36,957

The decrease of 6,966 million euros in 2011 includes:

- the impairment charge in 2011 of 7,307 million euros on the goodwill of the Domestic Business Unit, due to the result of the impairment test conducted at June 30, 2011 (impairment loss of 3,182 million euros) and at December 31, 2011 (impairment loss of 4,125 million euros), using the same method adopted in previous impairment tests and particularly comparing the value in use of the Core Domestic Cash-Generating Unit (CGU) with its carrying amount at the same date;
- the goodwill impairment charge of 57 million euros in the Media Business Unit, due to the result of the impairment test at December 31, 2011;

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- the increase of 16 million euros in the Domestic Business Unit, relating to the recognition of provisional goodwill following the acquisition of control and subsequent consolidation of the company 4G Holding S.p.A. The decrease of 10 million euros instead refers to the sale of the subsidiary Loquendo S.p.A. on September 30, 2011;
- the increase of 556 million euros in the Brazil Business Unit, relating to the recognition of provisional goodwill following the acquisition of control and the subsequent consolidation of Tim Fiber RJ and Tim Fiber SP.

As mentioned previously, within the following 12 months, the above business combinations could be adjusted, as set forth in IFRS 3. Further details are provided in the Note *Business Combinations*.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units) to December 31, 2011 and 2010 can be summarized as follows:

	As of December 31, 2011			As of December 31, 2010		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
	(millions of euros)					
Domestic	42,245	(7,599)	34,646	42,239	(292)	41,947
Core Domestic	41,830	(7,599)	34,231	41,824	(292)	41,532
International Wholesale	415		415	415		415
Brazil	2,017	(7)	2,010	1,617	(7)	1,610
Argentina	176		176	184		184
Media	228	(103)	125	228	(46)	182
Olivetti	6	(6)		6	(6)	
Other Operations						
Total	44,672	(7,715)	36,957	44,274	(351)	43,923

Goodwill, under IAS 36, is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

The impairment test is carried out on two levels. At a first level, an estimate is made of the recoverable amount of the individual cash-generating units (or groups of units) to which goodwill is allocated and at a second level the group is considered as a whole. The cash-generating units (or groups of units) to which goodwill was allocated are the following:

Segment	Cash-generating units (or groups of units)
Domestic	Core Domestic
Brazil	International Wholesale Tim Brasil group
Argentina	Sofora group

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Media Telecom Italia Media group

The value used to determine the recoverable amount of the cash-generating units (or groups of units) to which goodwill has been allocated is the value in use for the CGUs of the Domestic, Brazil and Argentina segments; for the Media segment, in the current year, the recoverable amount was determined for each CGU in the segment (MTV, TIMB network operator and TI Media S.p.A.) on the basis of the impairment test applied by the subsidiary, thus fully taking up the impairment losses that arose, in order to better reflect the higher granularity used by Telecom Italia Media in the impairment test carried out in its financial statements.

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As for the four cash-generating units for which the recoverable amount has been estimated on the basis of the value in use, the basic assumptions to which the result is more sensitive are reported in the following table:

Core Domestic	International Wholesale	Brazil	Argentina
EBITDA margin	EBITDA margin	EBITDA margin	EBITDA margin
(EBITDA/revenues) during the period of the plan	(EBITDA/revenues)during the period of the plan	(EBITDA/revenues) during the period of the plan	(EBITDA/revenues) during the period of the plan
Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan
Capital expenditures rate	Capital expenditures rate	Capital expenditures rate	Capital expenditures rate
(capex/revenues)	(capex/revenues)	(capex/revenues) BRL/euro exchange rate	(capex/revenues) ARS/euro exchange rate
Cost of capital	Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate	Long-term growth rate

The value in use for all the CGUs (Core Domestic, International Wholesale, Brazil and Argentina) is based on the data in the three-year plan approved by the board of directors and communicated to the market.

The nominal growth rates used to estimate the terminal value are the following (the growth rates of Brazil and Argentina refer, respectively, to flows in Brazilian reais and Argentine pesos):

Core Domestic	International Wholesale	Brazil	Argentina
0%	0%	+3.13%	+9.33%

Such rates fall within the range of growth rates applied by the analysts who follow Telecom Italia stock (as can be seen in the reports published after the presentation of the Group's business plan 2012-2014 and up to March 1, 2012).

The cost of capital was estimated by considering the following:

- the criterion applied was the criterion for the estimate of CAPM Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);
- in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business; for the remaining CGUs, a Group target financial structure was assumed in line with the average

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of the European telephone incumbents, including Telecom Italia itself;

- the Beta coefficient for the Core Domestic CGU and the International Wholesale CGU was arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (Core Domestic CGU beta coefficient = 1.25; International Wholesale CGU = 0.74 (unlevered beta));
- the Beta coefficient for the Brazil CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 0.98);
- the Beta coefficient for the Argentina CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 1.06);
- for the principal operating segments of the Group, reference for comparison purposes was made to the weighted average cost of capital (WACC) identified by the analysts who follow Telecom Italia stock in their reports published after the presentation of the Group's business plan 2012-2014 and up to March 1, 2012.

Since there is a direct correlation between the cost of capital used by the analysts and the long-term growth rate (g) projected to estimate the terminal value, the comparison was also made on the capitalization rates (WACC-g). In particular, the capitalization rate (WACC-g) of the Core Domestic CGU was set equal to the median of the rate

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used by the analysts in the reports published after the presentation of the business plan 2012-2014 and up to March 1, 2012. Such rate expresses an implicit growth rate in the terminal value (g) equal to 0%. Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain such growth, for purposes of the estimate of the earnings flow to be capitalized a level of capital expenditures (capex/revenues) was considered in line with the medium of the analysts (equal to 16.30%). With regard to the Brazil CGU, the growth rate was increased over that of last year (from 1.80% to 3.13% in local currency) to reflect the further improvement in business prospects. For purposes of the estimate of the terminal value, an investment rate (capex/revenues) was used equal to 13.32%.

With regard to the Argentina CGU, the nominal growth rate was set equal to 9.33%, a value below current inflation, and for purposes of the estimate of the terminal value an investment rate (capex/revenues) was used equal to 14.85%.

On the basis of these elements, the post-tax and pre-tax weighted average cost of capital and the relative capitalization rates and discount rates (WACC g) have been estimated for each cash-generating unit (the values of Brazil refer to flows in reais and those of Argentina to flows in pesos) as follows:

	Core Domestic	International	Brazil	Argentina
	%	Wholesale	%	%
	%	%	%	%
WACC post-tax	8.90	9.36	11.87	22.60
WACC post-tax g	8.90	9.36	8.74	13.27
WACC pre-tax	12.91	13.77	16.07	29.14
WACC pre-tax g	12.91	13.77	12.94	19.81

It should be emphasized that the cost of capital of the Core Domestic CGU recorded a significant increase compared to December 31, 2010, principally driven by higher long-term rates of the sovereign securities of Italy, from 7.90% to 8.90%.

The differences between the values in use and the carrying amounts at December 31, 2011 of the four CGUs before the impairment tests amount to:

	Core Domestic	International	Brazil	Argentina
		Wholesale		
		(millions of euros)		
Difference between values in use and carrying amounts	-4,125	+5	+5,151	+90

On preparation of the annual financial statements, the Telecom Italia Group repeated the impairment test that had been carried out in the first half of 2011 that led to the recognition in the half-year condensed consolidated financial statements at June 30, 2011 of an impairment loss of -3,182 million euros on the Core Domestic CGU; in light of the difference between the value in use and the carrying amount, indicated above, a further impairment loss was recognized for -4,125 million euros over and above the amount recorded in the first half of 2011.

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For purposes of the sensitivity analysis, four principal variables were considered for the three CGUs whose value in use is in excess of the carrying amount: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA in the years 2012-2014 (CAGR 2012-2014) and capital expenditures in proportion to revenues (capex/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

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	Core Domestic %	International Wholesale %	Brazil %	Argentina %
Pre -tax discount rate	12.91	13.77	16.07	29.14
Long-term growth rate (g)	0.0	0.0	3.13	9.33
Compound Annual Growth Rate (CAGR) of EBITDA 2012-2014	-0.66	-4.24	16.35	15.35
Capital expenditures rate (Capex/Revenues)	from 16.30 to 18.68	from 6.85 to 8.39	from 13.32 to 15.91	from 14.85 to 20.17

Changes in key variables needed to render the recoverable amount equal to the carrying amount

	International Wholesale %	Brazil %	Argentina %
Pre-tax discount rate	0.08	9.06	0.53
Long-term growth rate (g)	-0.10	-13.62	-0.73
Compound Annual Growth Rate (CAGR) of EBITDA 2012-2014	-0.80	-11.73	-0.62
Capital expenditures rate (Capex/Revenues)	0.05	7.70	0.41

A second level impairment test was then conducted to test for impairment at the level of the entire Group, in order to include the Central Functions and the financial cash-generating units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the cash-generating units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments post-impairment losses at the first level. No impairment losses resulted at this further level of testing.

NOTE 5 OTHER INTANGIBLE ASSETS

Other intangible assets increased 664 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2009	Change in scope of consolidation Argentina Business Unit	Additions	Amortization	Impairment losses/ Reversals	Disposals	Exchange differences	Other changes	As of December 31, 2010
Industrial patents and intellectual property rights	2,509		1,135	(1,507)		(1)	71	422	2,629
	2,999	843	29	(314)		(1)	134	10	3,700

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indefinite useful life*

		462						462	
Other intangible assets	240	997	325	(395)	(1)		47	(1)	1,212
Work in progress and advance payments	536		292		(5)	(1)	2	(429)	395
Total	6,284	1,840	1,781	(2,216)	(6)	(3)	254	2	7,936

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	As of December 31, 2010	Additions	Amortization	Impairment losses/ Reversals	Disposals (millions of euros)	Exchange differences	Capitalized borrowing costs	Other changes	As of December 31, 2011
Industrial patents and intellectual property rights	2,629	1,252	(1,425)		(1)	(69)		189	2,575
Concessions, licenses, trademarks and similar rights	3,700	60	(325)	9	(6)	(107)		5	3,336
<i>Of which licenses with an indefinite useful life</i>	<i>462</i>					<i>(21)</i>			<i>441</i>
Other intangible assets	1,212	331	(412)			(51)		17	1,097
Work in progress and advance payments	395	1,423			(3)	(2)	12	(233)	1,592
Total	7,936	3,066	(2,162)	9	(10)	(229)	12	(22)	8,600

The increase of 1,285 million euros in the additions column compared to 2010 (1,781 million euros) is principally connected with the acquisition of user rights for the 800, 1800 and 2600 MHz frequencies to be used for broadband mobile communication services, for a total amount of 1,223 million euros. This follows the participation in the auction for assignment of the frequencies by the Italian Ministry of Economic Development. The user rights, formally awarded on October 3, 2011, were assigned definitively in February 2012. Additions in 2011 also include 288 million euros of internally generated assets (287 million euros in 2010). Further details are provided in the Note Internally generated assets .

Other changes in 2011 include, among others, the effects of the change in the scope of consolidation due to the acquisition of the 4GH group for 15 million euros and the acquisition of Tim Fiber SP and Tim Fiber RJ in Brazil for 5 million euros.

Industrial patents and intellectual property rights at December 31, 2011 consist mainly of applications software purchased outright and user license rights acquired for an indefinite period of time, amortized over a period between 3 and 5 years. They mainly refer to Telecom Italia S.p.A. (1,602 million euros) and to Brazil Business Unit (873 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2011 mainly refer to:

- unamortized cost of telephone licenses/authorizations (1,433 million euros for Telecom Italia S.p.A., 703 million euros for the Brazil Business Unit and 462 million euros for the Argentina Business Unit);
- Indefeasible Rights of Use-IRU (227 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale), amortized over the period of the individual contracts;
- TV frequencies of the Media Business Unit (116 million euros). The user rights to the frequencies used for digital terrestrial transmission are amortized over 20 years;

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- unamortized cost of the trademarks of the Argentina Business Unit (329 million euros), amortized over 20 years.

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The net carrying amount of telephone licenses/authorization totaling 2,598 million euros refers to the following:

Type of license/authorization	Net carrying amount at December 31, 2011 (millions of euros)	Amortization period (years)	Amortization charges for 2011 (millions of euros)
Telecom Italia S.p.A.:			
UMTS	1,343	18	134
UMTS 2100 MHz	74	12	7
Wireless Local Loop	6	15	1
WiMax	10	15	1
Tim Brasil group:			
GSM and 3G (UMTS)	677	8-15	103
TDMA	26	14	24
Sofora group-Telecom Argentina:			
PCS of Nucleo S.A.	21	12	2
PCS of Telecom Personal S.A.	441	indefinite useful life	

Other intangible assets with a finite useful life at December 31, 2011 basically include:

- 788 million euros of customer relationships relating to the Argentina Business Unit, measured upon acquisition of control these are amortized over a period which varies between 5 and 12 years, according to the type of clientele and service;
- 246 million euros of capitalized subscriber acquisition costs referring to some sales campaigns of Telecom Italia S.p.A. (151 million euros) and the Argentina Business Unit (95 million euros). The subscriber acquisition costs are amortized over the underlying minimum contract period (between 12 and 24 months) and eliminated from the books after completion of the amortization process;
- 26 million euros of entry fees and charges as goodwill in connection with the Telecom Italia S.p.A. stores project amortized on a straight-line basis over a period of three years.

Work in progress and advance payments include the above user rights for the 800, 1800 and 2600 MHz mobile frequencies and capitalized borrowing costs for 12 million euros since they are directly chargeable to the acquisition and because the time period necessary to ready the asset for use is more than 12 months. The interest rate used for the capitalization of the borrowing costs is between 5.3% and 6%. Such costs are deducted directly from Other finance expenses .

Amortization and impairment losses are recorded in the consolidated separate income statement as components of the operating result.

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Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2011 and 2010 can be summarized as follows:

	Gross carrying amount	As of December 31, 2011		Net carrying amount
		Accumulated impairment losses (millions of euros)	Accumulated amortization	
Industrial patents and intellectual property rights	13,405	(7)	(10,823)	2,575
Concessions, licenses, trademarks and similar rights	5,623	(250)	(2,478)	2,895
Other intangible assets	1,742		(645)	1,097
Work in progress and advance payments	1,602	(10)		1,592
Total intangible assets with a finite useful life	22,372	(267)	(13,946)	8,159
Intangible assets with an indefinite useful life	441			441
Total Other intangible assets	22,813	(267)	(13,946)	8,600

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	Gross carrying amount	As of December 31, 2010		Net carrying amount
		Accumulated impairment losses	Accumulated amortization	
(millions of euros)				
Industrial patents and intellectual property rights	13,985	(7)	(11,349)	2,629
Concessions, licenses, trademarks and similar rights	5,757	(251)	(2,268)	3,238
Other intangible assets	1,668		(456)	1,212
Work in progress and advance payments	405	(10)		395
Total intangible assets with a finite useful life	21,815	(268)	(14,073)	7,474
Intangible assets with an indefinite useful life	462			462
Total Other intangible assets	22,277	(268)	(14,073)	7,936

Impairment losses on Concessions, licenses, trademarks and similar rights relates to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables for international connections acquired by the Lan Med group (the former Latin American Nautilus group).

Such impairments, principally relating to the years prior to 2004, were reversed in part in 2011 following improved prospects, particularly in the South American market. The amount of accumulated impairments shows a change from 251 million euros at December 31, 2010 to 250 million euros at December 31, 2011 due to the combined effect of the translation of the U.S. dollar financial statements to euro (8 million euros) countered by the cited impairment reversal of 9 million euros.

NOTE 6 TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)***Property, plant and equipment owned***

Property, plant and equipment owned decreased 384 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2009	Change in scope of consolidation Argentina Business Unit	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	As of December 31, 2010
Land	125	113					5		243
Buildings (civil and industrial)	495	336	4	(57)		(4)	20	50	844
Plant and equipment	11,586	867	1,847	(2,794)	(3)	(10)	259	267	12,019
	31		8	(13)				2	28

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Manufacturing and distribution equipment									
Ships	26			(4)	(20)		(2)		
Other	621	206	205	(343)	(16)	36	78	787	
Construction in progress and advance payments	833	166	679		(4)	(1)	50	(406)	1,317
Total	13,717	1,688	2,743	(3,211)	(7)	(51)	370	(11)	15,238

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	As of December 31, 2010	Additions	Depreciation	Impairment losses / Reversals (millions of euros)	Disposals	Exchange differences	Other changes	As of December 31, 2011
Land	243	4			(7)	(5)		235
Buildings (civil and industrial)	844	9	(73)		(2)	(19)	36	795
Plant and equipment	12,019	2,097	(2,795)	1	(25)	(213)	979	12,063
Manufacturing and distribution equipment	28	5	(15)				14	32
Other	787	236	(333)		(8)	(30)	72	724
Construction in progress and advance payments	1,317	634		(4)	(3)	(40)	(899)	1,005
Total	15,238	2,985	(3,216)	(3)	(45)	(307)	202	14,854

Land comprises both built-up land and available land and is not subject to depreciation. The balance at December 31, 2011 mainly refers to Telecom Italia S.p.A. (119 million euros) and the Argentina Business Unit (109 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use and light constructions. The balance at the end of 2011 is largely in reference to Telecom Italia S.p.A. (396 million euros) and the companies belonging to the Argentina Business Unit (326 million euros).

Plant and equipment includes the aggregate of all those structures used for operating telephone voice/data traffic. The balance at December 31, 2011 is principally attributable to Telecom Italia S.p.A. (8,442 million euros), the companies in the Brazil Business Unit (2,236 million euros) and the companies in the Argentina Business Unit (973 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the running and maintenance of plant and equipment; the amount is more or less unchanged compared to the end of the prior year and is primarily carried by Telecom Italia S.p.A.

Other is mostly made up of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

Construction in progress and advance payments refer to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Additions in 2011 increased by 242 million euros compared to the prior year, and include 281 million euros of internally generated assets (260 million euros in 2010). Further details are provided in the Note Internally generated assets .

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Other changes in 2011 are represented by 125 million euros following the entry of the Brazilian companies Tim Fiber RJ and Tim Fiber SP and also the Italian group 4GH in the scope of consolidation after their acquisition. The changes also include the reclassification from buildings under finance leases to owned buildings for a building that was purchased at the end of the finance lease by Telecom Italia S.p.A. for 12 million euros.

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2011 and 2010 is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	3.33%
Plant and equipment	3%-50%
Manufacturing and distribution equipment	20%
Other	11%-33%

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The Telecom Italia Sparkle group concluded, taking into consideration a study conducted by an expert, to extend the useful life of submarine cables from the previous 15 years to the current 20 years. This resulted in a benefit in terms of lower depreciation charges of about 15 million euros. Such benefit will amount to 15 million euros and 14 million euros respectively in 2012 and 2013.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2011 and 2010 can be summarized as follows:

	Gross carrying amount	As of December 31, 2011		Net carrying amount
		Accumulated impairment losses	Accumulated depreciation	
(millions of euros)				
Land	235			235
Buildings (civil and industrial)	2,099	(5)	(1,299)	795
Plant and equipment	63,868	(56)	(51,749)	12,063
Manufacturing and distribution equipment	248	(1)	(215)	32
Other	4,183	(4)	(3,455)	724
Construction in progress and advance payments	1,006	(1)		1,005
Total	71,639	(67)	(56,718)	14,854

	Gross carrying amount	As of December 31, 2010		Net carrying amount
		Accumulated impairment losses	Accumulated depreciation	
(millions of euros)				
Land	243			243
Buildings (civil and industrial)	1,789	(4)	(941)	844
Plant and equipment	62,595	(55)	(50,521)	12,019
Manufacturing and distribution equipment	300	(1)	(271)	28
Other	4,156	(2)	(3,367)	787
Construction in progress and advance payments	1,318	(1)		1,317
Total	70,401	(63)	(55,100)	15,238

Assets held under finance leases

Assets held under finance leases show a reduction of 83 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

Additions Depreciation

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	As of December 31, 2009		(millions of euros)	Other changes	As of December 31, 2010
Buildings (civil and industrial)	1,246	19	(109)	(32)	1,124
Other	7	10	(6)		11
Construction in progress and advance payments	43	30		(31)	42
Total	1,296	59	(115)	(63)	1,177

	As of December 31, 2010	Additions	Depreciation (millions of euros)	Other changes	As of December 31, 2011
Buildings (civil and industrial)	1,124	23	(110)	5	1,042
Other	11	11	(6)		16
Construction in progress and advance payments	42	10		(16)	36
Total	1,177	44	(116)	(11)	1,094

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Buildings (civil and industrial) includes those under long rent contracts and related building adaptations. They refer almost entirely to Telecom Italia S.p.A.

Other basically comprises the capitalization of finance leases of Data Center hardware.

Other changes refer to the previously mentioned reclassification from buildings under finance leases to owned buildings for a building that was purchased at the end of the finance lease in 2011 for 12 million euros.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2011 and 2010 can be summarized as follows:

	Gross carrying amount	As of December 31, 2011		Net carrying amount
		Accumulated impairment losses	Accumulated depreciation	
		(millions of euros)		
Buildings (civil and industrial)	2,042	(27)	(973)	1,042
Other	90		(74)	16
Construction in progress and advance payments	36			36
Total	2,168	(27)	(1,047)	1,094

	Gross carrying amount	As of December 31, 2010		Net carrying amount
		Accumulated impairment losses	Accumulated depreciation	
		(millions of euros)		
Buildings (civil and industrial)	2,039	(27)	(888)	1,124
Aircraft	30		(30)	
Other	79		(68)	11
Construction in progress and advance payments	42			42
Total	2,190	(27)	(986)	1,177

At December 31, 2011 and 2010, lease payments due in future years and their present value are as follows:

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	As of December 31,			
	2011	2011	2010	2010
	Minimum lease payments	Present value of minimum lease payments (millions of euros)	Minimum lease payments	Present value of minimum lease payments
Within 1 year	238	222	250	243
From 2 to 5 years	859	609	759	587
Beyond 5 years	1,049	450	1,099	573
Total	2,146	1,281	2,108	1,403

	As of December 31,	
	2011	2010
	(millions of euros)	
Future net minimum lease payments	2,146	2,108
Interest portion	(865)	(705)
Present value of lease payments	1,281	1,403
Finance lease liabilities	1,549	1,674
Financial receivables for lease contracts	(268)	(271)
Total net finance lease liabilities	1,281	1,403

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At December 31, 2011, the inflation adjustment to lease payments was about 28 million euros (about 25 million euros at December 31, 2010) and refers almost entirely to Telecom Italia S.p.A.

NOTE 7 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method decreased 38 million euros compared to December 31, 2010 and include:

	As of December 31, 2011	2010 (millions of euros)
Investments accounted for using the equity method:		
Associates	46	84
Joint ventures	1	1
Total	47	85

Investments in associates accounted for using the equity method are detailed as follows:

	As of December 31, 2009	Investments	Disposals and reimbursements of capital (millions of euros)	Valuation using equity method	Reclassifications and other changes	As of December 31, 2010
EtecSA (Cuba)	289			100	(389)	
Italtel group		35		3		38
Tiglio I	37			(14)		23
Tiglio II	1					1
Other	24	1	(2)		(1)	22
Total	351	36	(2)	89	(390)	84

	As of December 31, 2010	Investments	Disposals and reimbursements of capital (millions of euros)	Valuation using equity method	Reclassifications and other changes	As of December 31, 2011
Italtel group	38			(38)		
Tiglio I	23			(1)		22
Tiglio II	1					1
Other	22				1	23
Total	84			(39)	1	46

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The measurement of investments accounted for using the equity method includes the share of profits (losses) for the year and the exchange differences on translating foreign operations. With regard to the writedown in full of the entire investment in the Italtel group in which a 34.68% interest is held, the overall macroeconomic picture on the one hand and the specific prospects of future evolution of the company's business on the other have led to believe that the recovery of the entire amount of the associate is not probable.

Significant aggregate data for 2011 and 2010 relating to the principal associates, prepared in accordance with IFRS, based on the Telecom Italia Group's share, are reported below. The share of profits (losses) for the year refers, for consolidated groups, to the shares of the Parent and Non-controlling interests.

	As of December 31,	
	2011	2010
	(millions of euros)	
Total assets	418	463
Total liabilities	354	375
Revenues	130	251
Profits (losses) for the year	(18)	(21)

Investments in joint ventures include the 50% investment in Consorzio Tema Mobility.

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Aggregate data for 2011 and 2010 relating to joint ventures, prepared in accordance with IFRS, based on the Telecom Italia Group's share, is reported below.

	2011		2010	
	Consorzio Tema Mobility	Telecom Italia Group's share 50% (millions of euros)	Consorzio Tema Mobility	Telecom Italia Group's share 50%
Non-current assets	0.0	0.0	0.1	0.0
Current assets	1.4	0.7	1.3	0.7
Total assets	1.4	0.7	1.4	0.7
Non-current liabilities	0.0	0.0	0.5	0.3
Current liabilities	0.5	0.3	0.1	0.0
Total liabilities	0.5	0.3	0.6	0.3
Revenues	0.3	0.2	0.0	0.0

The list of companies accounted for using the equity method is presented in the Note List of companies of the Telecom Italia Group.

NOTE 8 OTHER INVESTMENTS

Other investments refer to the following:

	As of December 31, 2009	Investments	Disposals and reimbursements of capital (millions of euros)	Measurement at fair value	Reclassifications and other changes	As of December 31, 2010
Assicurazioni Generali	3					3
DAHLIA TV S.r.l.	5	3			(8)	
Fin. Priv.	18			(4)		14
Sia SSB	11					11
Other	16				(1)	15
Total	53	3		(4)	(9)	43

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	As of December 31, 2010	Investments	Disposals and reimbursements of capital (millions of euros)	Measurement at fair value	Reclassifications and other changes	As of December 31, 2011
Assicurazioni Generali	3			(1)		2
Fin. Priv..	14			(4)		10
Sia	11					11
Other	15					15
Total	43			(5)		38

In accordance with IAS 39, other investments represent Available-for-sale financial assets.

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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Financial assets (non-current and current) are composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Non-current financial assets		
Securities, financial receivables and other non-current financial assets:		
Securities other than investments	12	13
Financial receivables for lease contracts	153	199
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	2,701	1,524
Receivables from employees	41	45
Non-hedging derivatives	27	7
Other financial receivables	15	75
Total non-current financial assets (A)	2,949	1,863
Current financial assets		
Securities other than investments:		
Held for trading	1	
Held to maturity		
Available for sale	1,006	1,316
	1,007	1,316
Financial receivables and other current financial assets:		
Receivables from employees	9	16
Financial receivables for lease contracts	115	72
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	244	335
Non hedging derivatives	24	4
Other short-term financial receivables	70	11
	462	438
Cash and cash equivalents	6,714	5,526
Total current financial assets (B)	8,183	7,280
Total non-current and current financial assets (A+B)	11,132	9,143

Further details on Financial Instruments are provided in the Note [Supplementary disclosure on financial instruments](#) .

Financial receivables for lease contracts refer to:

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- Teleleasing lease contracts negotiated directly with customers and of which Telecom Italia is the guarantor;
- portion of rental contracts, with the rendering of accessory services under the full rent formula.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature refer to the mark-to-mark component, while those classified as current assets/liabilities of a financial nature mainly consist of accrued income on derivative contracts. Further details are provided in the Note Derivatives .

Securities other than investments (current assets) mainly refer to listed securities, classified as available- for-sale due beyond three months. They include 864 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. and 142 million euros of bonds with different maturities, but all with an active market, that is, readily convertible into cash. Such securities, which represent investments in sovereign debt securities , have been purchased in accordance with the Guideline policy for liquidity investments using financial instruments adopted by the Telecom Italia Group in July 2009.

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Cash and cash equivalents increased 1,188 million euros compared to December 31, 2010. The composition is as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Liquid assets with banks, financial institutions and post offices	5,173	4,264
Checks, cash and other receivables and deposits for cash flexibility	2	3
Securities other than investments (due within 3 months)	1,539	1,259
Total	6,714	5,526

The different technical forms used for the investment of liquidity as of December 31, 2011 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least A- with regard to Europe and with leading local counterparts relating to investments in South America;
- country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 220 million euros (215 million euros at December 31, 2010) of Euro Commercial Papers, with an A- rating of the issuer by S&P, and 1,312 million euros (1,028 million euros at December 31, 2010) of Brazilian bank certificates of deposit (*Certificado de Depósito Bancário*) from leading local banking and financial institutions.

NOTE 10 MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets increased 194 million euros compared to December 31, 2010. They include:

	As of December 31,			
	2011			2010
	<i>Of which Financial Instruments IAS 39</i>			<i>Of which Financial Instruments IAS 39</i>
	(millions of euros)			
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables	528	349	417	249
Medium/long-term prepaid expenses	600		517	

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Total	1,128	349	934	249
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Miscellaneous receivables and other non-current assets amount to 1,128 million euros (934 million euros at December 31, 2010). Miscellaneous receivables mainly relate to the Brazil Business Unit (438 million euros) and include judicial deposits of 250 million euros. Medium/long-term prepaid expenses total 600 million euros (517 million euros at December 31, 2010) and relate to the deferral of costs in connection with the activation of new contracts.

Further details on Financial Instruments are provided in the Note [Supplementary disclosure on financial instruments](#) .

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Current income tax receivables amount to 155 million euros (132 million euros at December 31, 2010) and mainly include short-term receivables of the Brazil Business Unit companies (147 million euros).

Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Deferred tax assets	1,637	1,863
Deferred tax liabilities	(1,056)	(991)
Total	581	872

Since the presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

	As of December 31,	
	2011	2010
	(millions of euros)	
Deferred tax assets	1,788	1,977
Deferred tax liabilities	(1,207)	(1,105)
Total	581	872

Upon presentation of the tax return for the year 2008, the Parent, Telecom Italia, took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the derivation regime and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 of November 29, 2008; this realignment which involves the reabsorption of the relative net deductible temporary differences in equal amounts over five years from 2009 to 2013 will result in an absorption of net deferred tax assets of approximately 60 million euros per year. At December 31, 2011, the related unused tax credit was 129 million euros (193 million euros at December 31, 2010).

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The temporary differences which make up this line item at December 31, 2011 and 2010 as well as the movements during 2011, are the following:

	At December 31, 2010	Recognized in profit or loss	Recognized in equity (millions of euros)	Change in scope of consolidation and other changes	At December 31, 2011
Deferred tax assets:					
· Tax loss carryforwards	659	(67)		(47)	545
· Derivatives	297		105	(2)	400
· Provision for bad debts	264	17		1	282
· Provisions for risks and charges	240	(5)		(4)	231
· Provision for pension fund integration Law No. 58/92	39	(20)			19
· Capital grants	13	(5)			8
· Taxed amortization and depreciation	147	(6)		(3)	138
· Unused tax credit (realignment, Leg. Decree 185/08)	193	(64)			129
· Other deferred tax assets	125	(83)		(6)	36
Total	1,977	(233)	105	(61)	1,788
Deferred tax liabilities:					
· Derivatives	(152)	(13)	(192)		(357)
· Business combinations-for step-up of net assets in excess of tax basis	(800)	61		34	(705)
· Deferred gains	(4)	2			(2)
· Accelerated depreciation	(28)	(6)			(34)
· Discounting of provision for employee severance indemnities	(29)	(3)			(32)
· Other deferred tax liabilities	(92)	14		1	(77)
Total	(1,105)	55	(192)	35	(1,207)
Total net deferred tax assets (liabilities)	872	(178)	(87)	(26)	581

The expirations of Deferred tax assets and Deferred tax liabilities at December 31, 2011 are as follows:

	Within 1 year	Beyond 1 year (millions of euros)	Total at December 31, 2011
Deferred tax assets (A)	537	1,251	1,788
Deferred tax liabilities (B)	(49)	(1,158)	(1,207)

Total net deferred tax assets (liabilities) (A+B)	488	93	581
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At December 31, 2011, the Group has unused tax loss carryforwards of 4,567 million euros mainly referring to the Brazil Business Unit, the Lan Med group and the companies Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

Year of expiration	(millions of euros)
2012	
2013	
2014	3
2015	15
2016	3
Expiration after 2016	126
Without expiration	4,420
Total unused tax loss carryforwards	4,567

Tax loss carryforwards considered in the calculation of deferred tax assets amount to 1,691 million euros at December 31, 2011 (2,025 million euros at December 31, 2010) and mainly refer to the Brazil Business Unit, to the Lan Med group and to the company Telecom Italia International.

Furthermore tax loss carryforwards of 2,876 million euros, representing deferred tax assets of 881 million euros (1,197 million euros at December 31, 2010) have not been recognized at this time, because their recoverability is not considered probable.

At December 31, 2011, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries, in that their distribution or utilization is not foreseen for purposes other than the absorption of losses.

Current income tax payables

Current income tax payables amount to 399 million euros (279 million euros at December 31, 2010). They are composed of the following:

	At December 31,	
	2011	2010
	(millions of euros)	
Income tax payables:		
Non-current	63	44
Current	336	235
Total	399	279

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Specifically, the non-current portion of 63 million euros refers principally to the Brazil Business Unit (49 million euros) and the Brazilian company TI Latam Participações e Gestão Administrativa Ltd (12 million euros). The entire amount of the latter and a part of that referring to the Brazil Business Unit comes from taking part in the Brazilian Federal authority's tax amnesty program *Programa de Recuperação Fiscal (REFIS)*.

The current portion of 336 million euros mainly regards the Brazil Business Unit (152 million euros), the Argentina Business Unit (109 million euros) and also the IRES payable on the Telecom Italia Group's income tax consolidation (60 million euros).

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Income taxes amount to 1,643 million euros and increased 1,093 million euros compared to 2010 (550 million euros).

Details are as follows:

	2011	2010
	(millions of euros)	
Current taxes for the year	1,563	1,347
Difference in prior years estimates	(98)	(89)
Total current taxes	1,465	1,258
Deferred taxes	178	(708)
Total taxes on continuing operations (A)	1,643	550
Total taxes on Discontinued operations/Non-current assets held for sale (B)		
Total income tax expense for the year (A+B)	1,643	550

Income taxes in 2010 included a benefit of more than 600 million euros which came from the recognition of deferred tax assets by the Brazil Business Unit in connection with the tax loss carryforwards recorded in prior years which became recoverable on the basis of the prospects of profits by the companies in the Business Unit.

In addition to this effect, the increase in taxes is attributable to the higher taxable base of the Parent, Telecom Italia, of the Brazil Business Unit and also the consolidation of the Argentina Business Unit for the full year 2011.

The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy (27.5%), and the effective tax rate for the years ended December 31, 2011 and 2010 is the following:

	2011	2010
	(millions of euros)	
Profit (loss) before tax		
From continuing operations	(2,624)	4,132
From Discontinuing operations/Non-current assets held for sale	(13)	(7)
Total profit (loss) before tax	(2,637)	4,125

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Income taxes on theoretical income (loss)	(725)	1,134
Income tax effect on increase (decrease) in variations:		
Tax losses of the year not considered recoverable	15	18
Tax losses not considered recoverable in prior years and recoverable in future years	(40)	(627)
Non-deductible costs	29	36
Non-deductible goodwill impairment charge, Domestic Business Unit/Media Business Unit	2,025	
Non-taxable Sofora revaluation		(73)
Other net differences	3	(294)
Effective income tax recognized in income statement, excluding IRAP	1,307	194
IRAP	336	356
Total effective income tax recognized in income statements	1,643	550

The impact of Regional Income Tax (**IRAP**) is not taken into consideration in order to avoid any distorting effect, since such tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

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Inventories increased 60 million euros compared to December 31, 2010. The composition is as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Raw materials and supplies	3	3
Work in progress and semifinished products	5	3
Finished goods	439	381
Total	447	387

Inventories particularly refer to Telecom Italia S.p.A. for 125 million euros (112 million euros at December 31, 2010), the companies in the Brazil Business Unit for 113 million euros (103 million euros at December 31, 2010) and the companies in the Argentina Business Unit for 96 million euros (88 million euros at December 31, 2010). They mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories.

Another 79 million euros (69 million euros at December 31, 2010) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

In 2011, inventories were written down for 12 million euros (5 million euros in 2010) mainly for the adjustment to estimated realizable value of fixed and mobile equipment and handsets for marketing.

No inventories are pledged as collateral.

NOTE 13 TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased 20 million euros compared to December 31, 2010 and are composed of the following:

	As of December 31,	
	2011	2010
	Of which	Of which
	Financial	Financial

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		Instruments IAS 39 (millions of euros)	Instruments IAS 39
Amounts due on construction contracts	49		36
Trade receivables:			
· Receivables from customers	4,576	4,576	4,536
· Receivables from other telecommunication operators	1,725	1,725	1,870
	6,301	6,301	6,406
Miscellaneous receivables and other current assets:			
· Other receivables	977	331	873
· Trade and miscellaneous prepaid expenses	443		475
	1,420	331	1,348
Total	7,770	6,632	7,790

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

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The ageing of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2011 and December 31, 2010 is as follows:

	As of December 31, 2011	Total Current	Total overdue	Overdue:			
				0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	6,632	4,663	1,969	852	207	226	684

	As of December 31, 2010	Total Current	Total overdue	Overdue:			
				0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	6,686	4,598	2,088	980	200	178	730

Overdue receivables at December 31, 2011 account for a lower percentage of total receivables compared to the end of the prior year. Receivables overdue less than 90 days or more than one year in particular are lower. The increase in overdue amounts from 181 to 365 days can be attributed to Telecom Italia S.p.A. and the companies in the Brazil Business Unit.

Trade receivables amount to 6,301 million euros (6,406 million euros at December 31, 2010) and are net of the provision for bad debts of 845 million euros (876 million euros at December 31, 2010).

Trade receivables specifically refer to Telecom Italia S.p.A. (4,004 million euros), the Brazil Business Unit (1,363 million euros) and the Sofora group Telecom Argentina (370 million euros).

Trade receivables include 88 million euros (29 million euros at December 31, 2010) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU.

Movements in the provision for bad debts are as follows:

	2011 (millions of euros)	2010
At January 1	876	989
Provision charges to the income statement	375	339

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Utilization and decreases	(393)	(509)
Change in the Sofora group area (Argentina)		29
Exchange differences and other changes	(13)	28
At December 31	845	876

The provision for bad debts refers to writedowns of individual receivables for 358 million euros (420 million euros at December 31, 2010) and overall writedowns for 487 million euros (456 million euros at December 31, 2010).

Provision charges for bad debts are recorded for specific credit positions that present an element of individual risk. On credit positions that do not present such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics.

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Other receivables amount to 977 million euros (873 million euros at December 31, 2010) and are net of a provision for bad debts of 132 million euros (84 million euros at December 31, 2010). Details are as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Advances to suppliers	36	46
Receivables from employees	25	27
Tax receivables	425	346
Sundry receivables	491	454
Total	977	873

Tax receivables mainly include 358 million euros relating to the Brazil Business Unit largely for local indirect taxes and 38 million euros to Telecom Italia S.p.A. for credits resulting from tax returns, other taxes and also VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables mainly include:

- receivables from factoring companies for 146 million euros, of which 62 million euros is from Mediofactoring (a company in the Intesa Sanpaolo group) and 84 million euros from other factoring companies;
- receivable for the Italian Universal Service (53 million euros);
- receivables from the Italian State and the European Union (23 million euros) for grants regarding research and training projects;
- receivables from Alternative Network Operators (ANOs) (120 million euros).

Trade and miscellaneous prepaid expenses mainly pertain to building leases, rentals and maintenance payments as well as the deferral of costs referring to the activation of new contracts. Trade prepaid expenses include 350 million euros of the Parent, Telecom Italia, (mainly the deferral of costs connected with the activation of new contracts for 228 million euros, building leases for 65 million euros, rent and maintenance payments for 25 million euros and insurance premiums for 9 million euros).

NOTE 14 EQUITY

Equity includes:

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	As of December 31,	
	2011	2010
	(millions of euros)	
Equity attributable to owners of the Parent	22,791	28,819
Equity attributable to Non-controlling interests	3,904	3,736
Total	26,695	32,555

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The composition of the **Equity attributable to owners of the Parent** is the following:

	As of December 31, 2011 2010 (millions of euros)	
Share capital of the Parent (net of treasury shares held by the Group)	10,604	10,600
Paid-in capital	1,704	1,697
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year(*)	10,483	16,522
Total	22,791	28,819

(*) of which:

<i>Reserve for available-for-sale financial assets</i>	(4)	(7)
<i>Reserve for cash flow hedges</i>	(74)	(284)
<i>Reserve for exchange differences on translating foreign operations</i>	1,089	1,401
<i>Other gains (losses) of associates and joint ventures accounted for using the equity method</i>	(1)	(1)
<i>Other reserves and retained earnings (accumulated losses), including profit (loss) for the year</i>	9,473	15,413

Movements in **share capital** during 2011, 2010 and 2009 are presented in the following tables:

Reconciliation between the number of outstanding shares at December 31, 2008 and December 31, 2009

	Shares as of December 31, 2008	Shares issued following bond conversion/ Purchase of treasury shares (number of shares of par value of 0.55 each)	Shares as of December 31, 2009	Percentage of Share Capital
Ordinary Shares issued (a)	13,380,795,473	111,466	13,380,906,939	68.95%
Less: Treasury Shares (b)	(150,816,387)	(11,400,000)	(162,216,387)	
Ordinary Shares Outstanding (c)	13,229,979,086	(11,288,534)	13,218,690,552	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	31.05%
Total Telecom Italia S.p.A. shares issued (a+d)	19,406,916,134	111,466	19,407,027,600	100.00%
Total Telecom Italia S.p.A. shares outstanding (c+d)	19,256,099,747	(11,288,534)	19,244,811,213	

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Reconciliation between the number of outstanding shares at December 31, 2009 and December 31, 2010

	Shares as of December 31, 2009	Shares issued for plans destined for employees (number of shares of par value of 0.55 each)	Shares as of December 31, 2010	Percentage of Share Capital
Ordinary Shares issued (a)	13,380,906,939	27,056,139	13,407,963,078	68.99%
Less: Treasury Shares (b)	(162,216,387)		(162,216,387)	
Ordinary Shares Outstanding (c)	13,218,690,552	27,056,139	13,245,746,691	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	31.01%
Total Telecom Italia S.p.A shares issued (a+d)	19,407,027,600	27,056,139	19,434,083,739	100.00%
Total Telecom Italia S.p.A. shares outstanding (c+d)	19,244,811,213	27,056,139	19,271,867,352	

Reconciliation between the number of outstanding shares at December 31, 2010 and December 31, 2011

	Shares as of December 31, 2010	Shares issued for plans destined for employees (number of shares of par value of 0.55 each)	Shares as of December 31, 2011	Percentage of Share Capital
Ordinary Shares issued (a)	13,407,963,078	8,876,296	13,416,839,374	69.01%
Less: Treasury Shares (b)	(162,216,387)		(162,216,387)	
Ordinary Shares Outstanding (c)	13,245,746,691	8,876,296	13,254,622,987	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	30.99%
Total Telecom Italia S.p.A. shares issued (a+d)	19,434,083,739	8,876,296	19,442,960,035	100.00%
Total Telecom Italia S.p.A. shares outstanding (c+d)	19,271,867,352	8,876,296	19,280,743,648	

Reconciliation between the value of the outstanding shares as of December 31, 2008 and December 31, 2009

	Share capital as of December 31, 2008	Change in share capital as a result of treasury share buybacks (millions of euros)	Share capital as of December 31, 2009
Ordinary Shares issued (a)	7,360		7,360
Less: Treasury Shares (b)	(83)	(6)	(89)

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Ordinary Shares Outstanding (c)	7,277	(6)	7,271
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	10,674		10,674
Total Telecom Italia S.p.A. share capital outstanding (c+d)	10,591	(6)	10,585

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	Share capital as of December 31, 2009	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2010
Ordinary Shares issued (a)	7,360	15	7,375
Less: Treasury Shares (b)	(89)		(89)
Ordinary Shares Outstanding (c)	7,271	15	7,286
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	10,674	15	10,689
Total Telecom Italia S.p.A. share capital outstanding (c+d)	10,585	15	10,600

Reconciliation between the value of the outstanding shares as of December 31, 2010 and December 31, 2011

	Share capital as of December 31, 2010	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2011
Ordinary Shares issued (a)	7,375	4	7,379
Less: Treasury Shares (b)	(89)		(89)
Ordinary Shares Outstanding (c)	7,286	4	7,290
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	10,689	4	10,693
Total Telecom Italia S.p.A. share capital outstanding (c+d)	10,600	4	10,604

In 2011, share capital increased 4 million euros due to the effect of the issue of bonus shares for the Broad-based Employee Share Ownership Plan 2010-2014, approved by the Telecom Italia S.p.A. shareholders meeting held on April 29, 2010.

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Further details are presented in the following paragraphs and in the Note Equity compensation plans .

The total amount of ordinary treasury shares at December 31, 2011 is 508 million euros and recorded as follows: the part relating to par value (89 million euros) is recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves.

SHARE CAPITAL INFORMATION

The Telecom Italia S.p.A. ordinary and savings shares are also listed on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit.

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The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of financing and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the euro, U.S. dollar and Pound sterling financial markets to minimize costs), taking care to reduce the refinancing risk.

The remuneration of risk capital is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

RIGHTS OF SAVINGS SHARES

The rights of the Telecom Italia S.p.A. savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;
- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;
- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;
- in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, the shareholders meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;
- the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;
- upon the wind-up of Telecom Italia S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital for the entire par value;

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- in the event of the cessation of trading in the Company's ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders meeting called for that purpose within two months of being excluded from trading.

Paid-in capital totals 1,704 million euros, increasing 7 million euros compared to December 31, 2010, following the capital increase to service the Broad-based Employee Share Ownership Plan 2010-2014, approved by the Telecom Italia S.p.A. shareholders meeting held on April 29, 2010.

Other reserves and retained earnings (accumulated losses), including profit (loss) for the year comprise:

- the **Reserve for available-for-sale financial assets** shows a negative balance of 4 million euros at December 31, 2011, changing 3 million euros compared to December 31, 2010. It includes unrealized losses relating to the investment in Assicurazioni Generali (-2 million euros) and the investment in

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Fin.Priv. (-6 million euros) by the Parent, Telecom Italia, as well as the unrealized losses on the securities portfolio of Telecom Italia Finance (-15 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (19 million euros). This reserve is expressed net of deferred tax liabilities of 7 million euros (at December 31, 2010, it was expressed net of deferred tax liabilities of 3 million euros);

- the **Reserve for cash flow hedges** shows a negative balance of 74 million euros at December 31, 2011, changing 210 million euros compared to December 31, 2010. This reserve is expressed net of deferred tax assets of 22 million euros (at December 31, 2010, it was expressed net of deferred tax assets of 106 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements;
- the **Reserve for exchange differences on translating foreign operations** shows a positive balance of 1,089 million euros at December 31, 2011, decreasing 312 million euros compared to December 31, 2010. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit and in the Argentina Business Unit;
- **Other gains (losses) of associates and joint ventures accounted for using the equity method** shows a negative balance of 1 million euros at December 31, 2011, unchanged compared to December 31, 2010;
- **Other reserves and retained earnings (accumulated losses), including profit (loss) for the year** that amounts to 9,473 million euros, decreasing 5,940 million euros compared to December 31, 2010. The change is mainly due to the sum of the following:

dividends of 1,184 million euros (1,029 million euros in 2010);

loss for the year attributable to owners of the Parent of 4,726 million euros (profit for the year of 3,121 million euros in 2010);

negative effect arising from the increase in the economic interest in the companies of the Argentina Business Unit for -57 million euros.

Equity attributable to Non-controlling interests amounts to 3,904 million euros, increasing 168 million euros compared to December 31, 2010. The change is principally represented by the sum of:

- dividends approved of 118 million euros;
- profit for the year attributable to Non-controlling interests of 446 million euros (454 million euros in 2010);
- negative change in the Reserve for exchange differences on translating foreign operations of -226 million euros;
- negative effect arising from the increase in the economic interest in the companies of the Argentina Business Unit of -153 million euros;

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· positive effect of capital operations by companies in the Brazil Business Unit of +221 million euros.

The line item consists principally of the equity attributable to the Non-controlling interests referring mainly to the companies in the Brazil Business Unit, the Argentina Business Unit and the Media Business Unit.

FUTURE POTENTIAL CHANGES IN SHARE CAPITAL

Details of Future potential changes in share capital are presented in the Note Earnings per share .

Authorizations for the issue of convertible bonds and the buyback of treasury shares

During 2011, the board of directors of Telecom Italia S.p.A. did not exercise the right to issue bonds convertible into ordinary shares, nor were there changes in the number of treasury shares held by the Telecom Italia Group.

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With respect to the authorization for the buyback of treasury shares, the ordinary shareholders meeting of Telecom Italia S.p.A. held on April 12, 2011, resolved on the following:

- to authorize, for a period of 18 months, starting from the date of the shareholders resolution, the buyback, on one or more occasions and at any time, of Telecom Italia S.p.A. savings shares, within the quantitative limits established by law and, in any case, within a maximum expenditure limit of 800,000,000 euros;

the purchase price must be in accordance with regulatory requirements or recognized market practices between a minimum and a maximum of the weighted average stock market prices of the savings shares recorded by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of the buyback or of fixing the price, respectively decreased or increased by 20%;

the buyback of treasury shares should nevertheless be within the limits of the available reserves shown in the most recent financial statements approved at the time of carrying out the transaction. The purchases should be carried out on regulated markets, in the manner set out by Borsa Italiana S.p.A., in accordance with art. 132 of Legislative Decree 58 of February 24, 1998 and art. 144 bis, paragraph 1, letter b) and c) of Consob Regulation 11971/99;

to authorize, for the same period of 18 months, starting from the date of this shareholders resolution, the disposal in whole or in part, on one or more occasions and at any time, of Telecom Italia S.p.A. savings shares in the Company's portfolio, with the right to proceed, in case of disposal, to subsequent buyback transactions up to the expiration date of the shareholders authorization, keeping in mind the limits established by law also with regard to the number of treasury shares that the Company can hold at any one time and also providing for compliance with the expenditure limit and the other conditions as established above by these resolutions;

the disposals may be carried out according to the manner permitted by the current law or regulation in force, at the discretion of the board of directors;

- to mandate the board of directors to take the necessary steps for account postings to be made following treasury share buyback and disposal transactions, in accordance with the provisions of the law and the accounting principles applicable at the time;
- to mandate the chairman of the board of directors and the chief executive officer, jointly and severally and through agents, to execute the transactions that are the subject of this resolution.

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Non-current and current financial liabilities (gross financial debt) are composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Financial payables (medium/long-term):		
· Bonds	24,478	24,589
· Amounts due to banks	6,687	5,501
· Other financial payables	837	503
	32,002	30,593
Finance lease liabilities (medium/long-term)	1,304	1,442
Other financial liabilities (medium/long-term):		
· Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	2,513	2,238
· Non-hedging derivatives	40	74
· Other liabilities	1	1
	2,554	2,313
Total non-current financial liabilities	(A) 35,860	34,348
Financial payables (short-term):		
· Bonds	3,895	4,989
· Amounts due to banks	1,192	873
· Other financial payables	527	517
	5,614	6,379
Finance lease liabilities (short-term)	245	232
Other financial liabilities (short-term):		
· Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	196	269
· Non-hedging derivatives	36	2
· Other liabilities		
	232	271
Total current financial liabilities	(B) 6,091	6,882
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	(C)	
Total financial liabilities (Gross financial debt)	(A+B+C) 41,951	41,230

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

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Gross financial debt according to the original currency of the transaction is as follows:

	As of December 31, 2011		As of December 31, 2010	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD	12,386	9,572	14,196	10,624
GBP	2,532	3,032	2,531	2,940
BRL	2,624	1,081	2,682	1,205
JPY	20,809	208	20,834	192
ARS	740	133	973	183
PYG	140,043	24	186,914	31
EURO		27,901		26,055
		41,951		41,230

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Up to 2.5%	6,517	6,520
From 2.5% to 5%	4,973	4,240
From 5% to 7.5%	20,310	20,306
From 7.5% to 10%	4,921	5,064
Over 10%	839	1,002
Accruals/deferrals, MTM and derivatives	4,391	4,098
	41,951	41,230

After giving effect to the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Up to 2.5%	10,259	11,714
From 2.5% to 5%	5,722	6,236
From 5% to 7.5%	18,502	15,969
From 7.5% to 10%	2,018	1,995
Over 10%	1,059	1,218
Accruals/deferrals, MTM and derivatives	4,391	4,098
	41,951	41,230

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The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Detail of the maturities of Financial liabilities nominal repayment amount:

	Maturing by December 31, of the year						Total
	2012	2013	2014	2015	2016	After 2016	
	(millions of euros)						
Bonds	3,131	3,449	2,912	1,801	2,250	13,432	26,975
Loans and other financial liabilities	789	1,606	3,008	1,029	548	1,696	8,676
Finance lease liabilities	230	115	176	151	135	727	1,534
Total	4,150	5,170	6,096	2,981	2,933	15,855	37,185
Current financial liabilities	870						870
Total	5,020	5,170	6,096	2,981	2,933	15,855	38,055

The main components of financial liabilities are set forth below.

Bonds are composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Non-current portion	24,478	24,589
Current portion	3,895	4,989
Total carrying amounts	28,373	29,578
Fair value adjustment and measurement at amortized cost	(1,398)	(1,249)
Total nominal repayment amount	26,975	28,329

The nominal repayment amount of bonds totals 26,975 million euros, decreasing 1,354 million euros compared to December 31, 2010 (28,329 million euros) following repayments/new issues that took place in 2011.

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The following table lists the bonds issued by companies of the Telecom Italia Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price as of December 31, 2011 (%)	Market value as of December 31, 2011 (millions of euros)
Bonds issued by Telecom Italia S.p.A.								
Euro	1,222.5	1,222.5	6.250%	02/01/2002	02/01/2012	98.952	100.277	1,226
Euro	1,000	1,000	3 month Euribor + 0.53%	12/06/2005	12/06/2012	100	96.459	965
Euro	645	645	6.750%	03/19/2009	03/21/2013	99.574	102.316	660
Euro	500	500	3 month Euribor + 0.63%	07/19/2007	07/19/2013	100	93.872	469
Euro	500	500	7.875%	01/22/2009	01/22/2014	99.728	104.671	523
Euro	673	673	4.750%	05/19/2006	05/19/2014	99.156	98.943	666
Euro	120	120	3 month Euribor + 0.66%	11/23/2004	11/23/2015	100	81.342	98
GBP	500	598.6	5.625%	06/29/2005	12/29/2015	99.878	95.708	573
Euro	1,000	1,000	5.125%	01/25/2011	01/25/2016	99.686	95.661	957
Euro	850	850	8.250%	03/19/2009	03/21/2016	99.740	105.072	893
Euro	400	400	3 month Euribor + 0.79%	06/07/2007	06/07/2016	100	80.167	321
Euro	1,000	1,000	7.000%	10/20/2011	01/20/2017	100.185(*)	100.073	1,001
GBP	750	897.9	7.375%	05/26/2009	12/15/2017	99.608	99.675	895
Euro	750	750	4.750%	05/25/2011	05/25/2018	99.889	87.340	655
Euro	1,250	1,250	5.375%	01/29/2004	01/29/2019	99.070	88.809	1,110
GBP	850	1,017.6	6.375%	06/24/2004	06/24/2019	98.850	91.565	932
Euro	265.8	265.8	6 month Euribor + (base 365)	01/01/2002	01/01/2022	100	100	266
Euro	1,250	1,250	5.25%	02/10/2010	02/10/2022	99.295	82.560	1,032
GBP	400	478.9	5.875%	05/19/2006	05/19/2023	99.622	82.013	393
Euro	670	670	5.250%	03/17/2005	03/17/2055	99.667	66.693	447
Sub-Total		15,089						14,082
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	107.7	107.7	3 month Euribor+1.30%	03/12/2010	03/14/2012	100	99.992	108
Euro	801.2	801.2	7.250%	04/24/2002	04/24/2012	101.651(*)	101.190	811
Euro	758.7	758.7	6.875%	01/24/2003	01/24/2013	99.332	103.045	782
JPY	20,000	199.6	3.550%	04/22/2002	05/14/2032	99.250	101.092	202
Euro	1,015	1,015	7.750%	01/24/2003	01/24/2033	109.646(*)	89.036	904
Sub-Total		2,882						2,807
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	2,000	1,545.7	5.250%	10/29/2003	11/15/2013	99.742	96.286	1,488
USD	1,000	772.9	6.175%	06/18/2009	06/18/2014	100	96.970	749
USD	1,250	966.1	4.950%	10/06/2004	09/30/2014	99.651	93.498	903
USD	1,400	1,082.0	5.250%	09/28/2005	10/01/2015	99.370	92.418	1,000
USD	1,000	772.9	6.999%	06/04/2008	06/04/2018	100	94.630	731
USD	1,000	772.9	7.175%	06/18/2009	06/18/2019	100	94.995	734
USD	1,000	772.9	6.375%	10/29/2003	11/15/2033	99.558	77.333	598
USD	1,000	772.9	6.000%	10/06/2004	09/30/2034	99.081	75.573	584
USD	1,000	772.9	7.200%	07/18/2006	07/18/2036	99.440	84.323	652
USD	1,000	772.9	7.721%	06/04/2008	06/04/2038	100	88.603	685
Sub-Total		9,004						8,124

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Total	26,975	25,013
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(*) Weighted average issue price for bonds issued with more than one tranche.

The regulations and/or Offering Circulars relating to the notes/bonds described above are available on the corporate website telecomitalia.com.

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The following table lists the changes in bonds during 2011:

New issues	Currency	Amount (millions of original currency)	Issue date
Telecom Italia S.p.A. 1,000 million euros 7% maturing 01/20/2017(*)	Euro	1,000	10/20/2011
Telecom Italia S.p.A. 750 million euros 4.75% maturing 05/25/2018	Euro	750	05/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 01/25/2016	Euro	1,000	01/25/2011

(*) On October 20, 2011, bonds were issued for 750 million euros; subsequently, on November 3, 2011, the issue was reopened and increased for another 250 million euros.

Repayments	Currency	Amount (millions of original currency)	Repayment date
Telecom Italia Capital S.A., Floating Rate Notes 850 million USD, 3 month USD Libor +0.61%	USD	850	07/18/2011
Telecom Italia Capital S.A. 750 million USD 6.2%	USD	750	07/18/2011
Telecom Italia Finance S.A. 7.50% 1,791 million euros(1)	Euro	1,791	04/20/2011
Telecom Italia Capital S.A. Floating Rates Notes 400 million USD, 3 month USD Libor + 0.48%,.	USD	400	02/01/2011
Telecom Italia S.p.A. 4.5% 750 million euros	Euro	750	01/28/2011

(1) Net of repayments by the company for 209 million euros during the years 2009-2011.

Buybacks	Currency	Amount (millions of original currency)	Buyback period
Telecom Italia Finance S.A., 1,791 million euros 7.50%, maturing April 2011(*)	Euro	93	January March 2011
Telecom Italia Finance S.A. 801 million euros 7.25%, maturing April 2012	Euro	199	January September 2011
Telecom Italia Finance S.A. 759 million euros 6.875%, maturing January 2013	Euro	91	November December 2011
Telecom Italia S.p.A. 1,222.5 million euros 6.25%, maturing February 2012	Euro	27.5	December 2011
Telecom Italia S.p.A. 645 million euros 6.75%, maturing March 2013	Euro	5	December 2011

(*) During the years 2009 and 2010, bonds had already been bought back for 116 million euros. Therefore the total amount bought back is 209 million euros.

Medium/long-term **amounts due to banks** total 6,687 million euros (5,501 million euros at December 31, 2010), increasing 1,186 million euros partly as a result of 750 million euros drawn down from the revolving credit facility to partially cover the cash requirements for the acquisition of the LTE frequencies.

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Short-term **amounts due to banks** total 1,192 million euros, increasing 319 million euros (873 million euros at December 31, 2010). Short-term amounts due to banks include 670 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term **other financial payables** amount to 837 million euros (503 million euros at December 31, 2010). They include 375 million euros of debt owed by Telecom Italia S.p.A. on the purchase of the user rights for the 800 MHz and 2600 MHz frequencies due in October 2016, 201 million euros by Telecom Italia Finance S.A. on the loan for 20,000 million Japanese yen due in 2029 and 249 million euros on the debt certificates regulated by German law denominated *Schuldschein* issued by Telecom Italia Finance S.A., maturing 2013.

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Short-term **other financial payables** amount to 527 million euros (517 million euros at December 31, 2010) and include 178 million euros of the current portion of medium/long-term other financial payables, of which 88 million euros refers to the amount owed by Telecom Italia S.p.A. on the purchase of the user rights for the 800 MHz and 2600 MHz frequencies and 76 million euros relating to Nortel Inversora S.A. Preferred Serie A Shares (these are preferred shares regulated by Argentine law, without voting rights except for specific cases stated in the relative issue conditions, repayable at pre-determined maturities according to a pre-established repayment plan. The shares are remunerated and have the right, among other things, to a base annual cumulative yield, regardless of the results for the year reported by Nortel Inversora S.A. and are therefore considered liabilities of a financial nature pursuant to IFRS adopted by the Telecom Italia Group).

Medium/long-term **finance lease liabilities** total 1,304 million euros (1,442 million euros at December 31, 2010) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 245 million euros (232 million euros at December 31, 2010).

Hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 2,513 million euros (2,238 million euros at December 31, 2010). Hedging derivatives relating to items classified as current liabilities of a financial nature total 196 million euros (269 million euros at December 31, 2010). Further details are provided in the Note **Derivatives** .

Non-hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 40 million euros (74 million euros at December 31, 2010). **Non-hedging derivatives** relating to items classified as current liabilities of a financial nature amount to 36 million euros (2 million euros at December 31, 2010). These refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS. Further details are provided in the Note **Derivatives** .

Covenants , Negative pledges and other contract clauses in effect at December 31, 2011

The bonds issued by the Telecom Italia Group do not contain financial covenants (e.g. ratios such a Debt/EBITDA, EBITDA/Interest etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

None of the bonds issued by the Telecom Italia Group carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which govern the bonds are in line with market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company's assets as collateral for loans (**negative pledges**).

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,053 million euros (out of a total of 2,960 million euros at December 31, 2011) is not secured by bank guarantees but there are covenants which cover the following:

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- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- in the event the company commits to uphold in other loan contracts, among other things, financial parameters, cross default clauses, commitments restricting the sale of goods or restrictions which are not present or are more stringent or more favorable than those granted to the EIB, then the EIB will have the

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right to request whenever it deems that this might have negative consequences on the financial capability of Telecom Italia S.p.A. the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question (Clause for Inclusion) contemplated only on the loan extended on August 5, 2011 for an amount of 100 million euros does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

· for all loans not secured by collateral, if the Company's credit rating of unsecured and unsecured medium/long-term debt is lower than BBB for Standard & Poor's, Baa2 for Moody's and BBB for Fitch Ratings, the company shall immediately inform the EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia S.p.A. fails to provide the guarantees, the EIB shall have the right to demand immediate repayment of the amount disbursed. The current ratings (BBB and Baa2) did not require new guarantees or repayments of loans.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread added to Euribor of between a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.

The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company's assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in the export credit loan agreement.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control.

Such obligation, required by national legislation in matters governing qualifying rights, is firstly contained in the general authorization rights granted to Telecom Italia for the operation and the provision of the electronic communication network and for the offer of electronic communication services, besides the concession/general authorization rights granted to the subsidiary TI Media for the network operator and content supplier activities. A similar obligation is governed on the basis of the local legislation and content in the authorization/license rights of the telecommunications services in favor of the foreign subsidiaries of the Group.

Telecom Italia is also a party to agreements in which the occurrence of a change in control involves a change in or the termination of the relationship. Some non-financial agreements also contain confidentiality provisions and disclosure of the existence of a change of control clause would breach these agreements and potentially harm the Company. As a consequence, Telecom Italia avails itself of the right not to disclose these agreements, pursuant to art. 123-bis of the Italian Consolidated Financial Act, paragraph 1, letter h), second part. In other cases, the significance of the agreement is excluded.

There remain the following types of agreements, all regarding financing relationships:

· *Multi-currency revolving credit facility* (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within

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five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and Telecom Italia shall be held to repay any sum disbursed (currently equal to 2,000,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;

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- *Revolving credit facility* (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and contemplates a structure similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders' agreement. Therefore, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining unchanged. The amount disbursed is currently 250,000,000 euros;
- *Revolving credit facility* (200,000,000 euros). The agreement was signed between Telecom Italia and Unicredit S.p.A. on December 20, 2010 and contemplates a discipline basically identical to that of the February 12, 2010 credit facility. The amount disbursed is currently 200,000,000 euros;
- *Bonds*. The regulations covering the bonds issued under the EMTN Programme by both Olivetti and Telecom Italia and bonds denominated in U.S. dollars typically provide that, in the event of mergers or transfer of all or substantially all of the assets of the issuing company or of the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default;
- *Contracts with the European Investment Bank (EIB)*. The total nominal amount is 2.95 billion euros. The contracts signed by Telecom Italia with the EIB, for an amount of 2.65 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract. Specifically:

the loan contract signed by Telecom Italia with EIB on August 5, 2011, for an amount of 100 million euros, and the three contracts covered, respectively, by bank guarantees and guarantees provided by Sace S.p.A. signed on September 26, 2011, for a total amount of 200 million euros, carry the obligation, for Telecom Italia, of promptly informing the bank about changes regarding the bylaws or its shareholders. Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the four contracts in question, a change of control is generated if a subject or group of subjects acting in concert acquires control of Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder which at the date of the contract holds, directly or indirectly, at least 13% of the voting rights in the shareholders' meeting, or (ii) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. or Mediobanca S.p.A. or their subsidiaries. Under the assumption that there is a change in control, the bank has the right to ask for the early repayment of the loan;

furthermore, the contracts covered by guarantees, signed on September 26, 2011, for a total amount of 200 million euros, envisage the clause for inclusion according to which in the event Telecom Italia commits to uphold in other loan contracts, among other things, financial parameters which are not present or are more stringent or more favorable than those granted to the EIB, then the EIB will have the right to request whenever it deems that this might have negative consequences on the financial ability of Telecom Italia S.p.A. the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

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- *Export Credit Agreement* (residual nominal amount of 37,573,952 euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change in control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due;
- *Senior Secured Syndicated Facility* (residual nominal amount of 312,464,000 Argentine pesos, equal to about 56 million euros). The contract was signed in October 2011 between BBVA Banco Francés and Tierra Argentea S.A (a wholly-owned subsidiary of the Telecom Italia Group) and provides for the repayment of the loan in 2016. The loan is guaranteed by two pledges of (i) 15,374,858 Telecom Argentina shares and (ii) 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares. The covenants established by contract, in the form of negative covenants or financial covenants, are consistent with those of syndicated loans and with local practice; there is also a change of control clause which requires the full early repayment of the loan should the Telecom Italia Group hold less than a 100% interest in Tierra Argentea S.A. or loss control of the other Argentine subsidiaries.

Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, subject to a request for the early repayment of the loan.

Finally, as of December 31, 2011, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

Revolving Credit Facility

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2011:

	As of December 31,			
	2011 Agreed	2011 Drawn down	2010 Agreed	2010 Drawn down
Revolving Credit Facility expiring February 2013	1.25	0.25	1.25	
Revolving Credit Facility expiring August 2014	8.0	2.0	8.0	1.5
Revolving Credit Facility expiring June 2012 (renewable to December 2013)	0.2	0.2	0.2	0.12
Total	9.45	2.45	9.45	1.62

Telecom Italia s ratings

During the course of 2011, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings changed their outlook on Telecom Italia.

S&P s		Moody s		Fitch Ratings	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB	Negative	Baa2	Negative	BBB	Negative

NOTE 16 FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies of the Telecom Italia Group

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterparty with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

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These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activity of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Telecom Italia Group are described below.

Identification of risks and analyses

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group's operating activities, the optimum combination of (medium/long-term) non-current financial liabilities has been established, on the basis of the nominal amount, in the range 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risk, the Group adopted a Guideline policy for debt management using derivative instruments and mainly uses the following:

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- Interest Rate Swaps (IRS): used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or variable;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than euro principally in U.S. dollars and British pounds to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than euro and for the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high credit rating.

The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- the sensitivity analyses were performed by applying reasonably possible variations in the relevant risk variables to the amounts in the financial statements at December 31, 2011, assuming that such amounts are representative of the entire year;

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- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39, they are accounted for at their fair value. All fixed-rate instruments which are accounted for at amortized cost are not subject to interest rate risk as defined by IFRS7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, compensate each other almost entirely in the separate consolidated income statement for the year. Therefore, these financial instruments are not exposed to interest rate risk;
- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis;
- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

Exchange rate risk Sensitivity analysis

At December 31, 2011 and 2010, the exchange risk of the Group's loans denominated in currencies other than the functional currency of the consolidated financial statements was hedged in full. For this reason, a sensitivity analysis has not been performed on the exchange risk.

Interest rate risk Sensitivity analysis

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific undistributable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2011 the interest rates in the various markets in which the Telecom Italia Group operates had been 100 basis points higher/lower compared to that actually realized, then higher/lower finance expenses, before the tax effect, would have been recognized in the separate consolidated income statement for 42 million euros (75 million euros in 2010).

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As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, Euro Commercial Paper and receivables on sales of securities), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

	As of December 31, 2011			As of December 31, 2010		
	Fixed rate	Floating rate	Total (millions of euros)	Fixed rate	Floating rate	Total
Bonds	20,156	6,819	26,975	17,632	10,697	28,329
Loans and other financial liabilities	5,789	4,421	10,210	6,166	3,015	9,181
Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	25,945	11,240	37,185	23,798	13,712	37,510
Total current financial liabilities(*)	57	813	870	31	694	725
Total	26,002	12,053	38,055	23,829	14,406	38,235

(*) At December 31, 2011, variable-rate current liabilities include 276 million euros of payables to other lenders for installments paid in advance which are conventionally classified in this line item even though they are not correlated to a definite rate parameter (313 million euros at December 31, 2010).

Total Financial assets (at the nominal investment amount)

	As of December 31, 2011			As of December 31, 2010		
	Fixed rate	Floating rate	Total (millions of euros)	Fixed rate	Floating rate	Total
Cash and cash equivalents		5,167	5,167		4,264	4,264
Euro Commercial Papers		219	219		214	214
Securities	125	2,233	2,358	103	2,262	2,365
Other receivables	777	215	992	584	133	717
Total	902	7,834	8,736	687	6,873	7,560

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

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As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

Total Financial liabilities

	As of December 31, 2011		As of December 31, 2010	
	Adjusted carrying amount (millions of euros)	Effective interest rate (%)	Adjusted carrying amount (millions of euros)	Effective interest rate (%)
Bonds	26,874	6.00	28,131	5.88
Loans and other financial liabilities	10,686	4.12	9,001	4.35